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R2017-0221/1

October 16, 2017

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**For meeting of**
**Board: Tuesday, November 7, 2017**

FROM: Vice President and Corporate Secretary

# Gabon – Fiscal Consolidation and Inclusive Growth Development Policy Financing

## Project Document

Attached is the Project Document regarding a proposed development policy loan to Gabon for a Fiscal Consolidation and Inclusive Growth Development Policy Financing (R2017-0221/1), which will be discussed at a meeting of the Executive Directors.

Distribution:
- Executive Directors and Alternates
- President
- Bank Group Senior Management
- Vice Presidents, Bank, IFC and MIGA
- Directors and Department Heads, Bank, IFC and MIGA
- Secretary, IMF

**Document of**

# The World Bank

FOR OFFICIAL USE ONLY

Report No. 118558-GA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT DOCUMENT

ON A PROPOSED DEVELOPMENT POLICY LOAN

IN THE AMOUNT OF EURO 168.7 MILLION
(EQUIVALENT TO US$200 MILLION)

TO

THE REPUBLIC OF GABON

FOR THE

FISCAL CONSOLIDATION AND INCLUSIVE GROWTH DEVELOPMENT POLICY LOAN

October 10, 2017

Health, Nutrition and Population Global Practice
Macroeconomics and Fiscal Management Global Practice
Africa Region

**GABON - GOVERNMENT FISCAL YEAR**
January 1 – December 31

**CURRENCY EQUIVALENTS**
(Exchange Rate Effective as of August 31, 2017)

Currency Unit
US$1.00 = CFAF 559.00659
US$1 = EURO 0.84309923

**ABBREVIATIONS AND ACRONYMS**

| | |
|---|---|
| AFD | French Development Agency *(Agence Française de Développement)* |
| AfDB | African Development Bank (*Banque Africaine de Développement*) |
| ANPI | Investment Promotion National Agency (*Agence Nationale pour la Promotion des Investissements)* |
| ARMP | Public Procurement Regulatory Agency (*Agence de Régulation des Marchés Publics*) |
| BEAC | Bank of Central African States (*Banque des Etats de l'Afrique Centrale*) |
| CEMAC | Economic and Monetary Community of Central Africa (*Communauté Économique et Monétaire de l'Afrique Centrale*) |
| CFA | African Financial Cooperation (*Coopération Financière en Afrique*) |
| CFAF | African Financial Cooperation Franc *(Franc de la Coopération Financière en Afrique)* |
| CNAMGS | National Fund for Health Insurance and Social Warranty (*Caisse Nationale d'Assurance Maladie et de Garantie Sociale*) |
| COBAC | Central Africa Banking Commission *(Commission Bancaire de l'Afrique Centrale)* |
| CPI | Care Performance Initiative |
| CPS | Country Partnership Strategy |
| CSS | Social Solidarity Contribution (*Contribution Sociale Solidaire*) |
| DB | Doing Business |
| DGEPN | General Directorate of the Environment and Nature Protection (*Direction Générale pour la Protection de l'Environnement et la Nature*) |
| DGMP | General Directorate for Public Procurement *(Direction Générale des Marchés Publics)* |
| DHS | Demographic and Health Survey |
| DPF | Development Policy Financing |
| DSA | Debt Sustainability Analysis |
| EFF | Extended Fund Facility |
| ESIA | Environmental and Social Impact Assessment |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GEF | Economically Weak Gabonese (*Gabonais Économiquement Faible*) |
| HCI | High Council for Investment |
| HR | Human Resources |
| HRMIS | Human Resources Management Information System |
| IBRD | International Bank for Reconstruction and Development |
| ICT | Information and Communication Technology |
| IFC | International Finance Corporation |

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|---|---|
| IMF | International Monetary Fund |
| ISP | Internet Service Provider |
| LOLFEB | Legal Framework for the Management of Public Finances in Gabon *(Loi Organique Relative aux Finances et à l'Exécution du Budget de l'Etat)* |
| MSH | Management Sciences for Health |
| OSS | One-Stop-Shop |
| PBF | Performance-based Financing |
| PEFA | Public Expenditure and Financial Accountability |
| PER | Public Expenditure Review |
| PFM | Public Financial Management |
| PHC | Primary Health Care |
| PLR | Program Learning Review |
| PNDS | National Health Development Plan (*Plan National de Développement de la Santé)* |
| PPD | Public-private Dialogue |
| PPP | Public-private Partnership |
| PRE | Economic Recovery Plan *(Plan de Relance Économique)* |
| PREF | Economic and Financial Reforms Program |
| PSGE | Strategic Plan for an Emerging Gabon (*Plan Stratégique Gabon Émergent*) |
| RAS | Reimbursable Advisory Service |
| RCCM | Enterprise and Collateral Registry (*Registre du Commerce et du Credit Mobilier*) |
| SME | Small and Medium Enterprise |
| SOE | State-owned Enterprise |
| TA | Technical Assistance |
| TVET | Technical and Vocational Education and Training |
| US$ | United States Dollar |
| VAT | Value Added Tax |

| | |
|---|---|
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**REPUBLIC OF GABON**
**FISCAL CONSOLIDATION AND INCLUSIVE GROWTH DEVELOPMENT POLICY LOAN**

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**SUMMARY OF PROPOSED LOAN AND PROGRAM**
***REPUBLIC OF GABON***
***FISCAL CONSOLIDATION AND INCLUSIVE GROWTH DEVELOPMENT POLICY LOAN***

| | |
|---|---|
| Borrower | Republic of Gabon |
| Implementation Agency | Ministry of Economy, Prospective, and Sustainable Development |
| Financing Data | IBRD Loan Terms: Fixed spread loan with a final maturity of 20 years including a grace period of 5 years. Amount: EURO 168.7 million (equivalent toUS$200 million) |
| Operation Type | First of two programmatic development policy operations, single tranche |
| Pillars of the Operation and Program Development Objective(s) | 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 strengthening ICT services to enhance competitiveness; and (iii) improving the efficiency of health care delivery and social protection services to protect the poor. There are three main pillars: 1) Strengthening Fiscal Balance; 2) Enhancing Competitiveness; and 3) Protecting the Poor. |
| Results | **Result Indicator #1:** Non-oil revenue (as a percentage of non-oil GDP). Baseline (2016): 17.0%; Target (2019): At least 17.8%.<br>**Result Indicator #2:** Percentage of recruitments complying with the three-year staffing plans. Baseline (2016): 0%; Target (2019): 80%.<br>**Result Indicator #3:** Wage bill increase in real terms. Baseline (2012–2015): 12%; Target (2016–2019): 0%.<br>**Result Indicator #4:** Percentage of contracts (in value, above CFAF 100 million) allocated through competitive process. Baseline (2015): An estimated 29% of contracts; Target (2019): 85% of contracts.<br>**Result Indicator #5**: Number of days necessary for business registration. Baseline (2016): 50; Target (2019): 30.<br>**Result Indicator #6**: i) Share of enterprise and collateral registry digitized; ii) Share of land titles digitized. Baseline (2016): i) 0%, ii) 0%; Target (2019): i) 25%, ii) 25%<br>**Result Indicator #7:** i) Access to Internet Services (number of Internet subscribers - fixed plus mobile - per 100 people); ii) Access to Telephony Services (number of telephony subscribers - fixed plus mobile - per 100 people) *(NB: by number of lines, not by unique subscriber).* Baseline (2016): i) 98%, ii) 175%; Target (2019): i) 120%, ii) 185%.<br>**Result Indicator #8:** Share of PHC facilities in selected health regions receiving performance payments. Baseline (2016): 0%; Target (2019): 80%.<br>**Result Indicator #9:** Share of primary care facilities offering essential health services by qualified health workers (*measured by prenatal consultations in regions Central (Moyen Ogooue) and West (Estuaire)).* Baseline (2017): 11%; Target (2019): 40%.<br>**Result Indicator #10**: Inclusion errors in the targeting system for social protection services. Baseline (2016): High inclusion error (estimate: more than 30%); Target (2019): 30% or less inclusion error.<br>**Result Indicator #11**: Share of GEF registered in the database receiving cash transfers at least twice a year. Baseline (2016): less than 10%; Target (2019): 30%. |
| Overall Risk Rating | High |
| Climate and Disaster Risk | There are no short- and long-term climate and disaster risks to this operation. |
| Operation ID | P159508 |

**IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE REPUBLIC OF GABON**

## 1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **The proposed operation aims to support Gabon's urgent need for fiscal consolidation while creating the foundations for inclusive growth.** It is designed as a programmatic series of two Development Policy Financing (DPF) operations, the first operation in the amount of Euro 168.7 (equivalent to US$200 million). 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 Économique,* PRE), as well as with the 2016 Program Learning Review (PLR) which extends the Country Partnership Strategy (CPS) fiscal year (FY)12-FY18 by two years. The series complements a three-year Extended Fund Facility (EFF) program supported by the International Monetary Fund (IMF), as well as budgetary support from the African Development Bank (*Banque Africaine de Développement*, AfDB) and the French Development Agency (*Agence Française de Développement*, AFD), within the context of a coordinated response of Economic and Monetary Community of Central Africa (*Communauté Économique et Monétaire de l'Afrique Centrale*, CEMAC) countries to the recent crisis.

2. **CEMAC countries[1] experienced an economic crisis caused by a decline in oil prices in 2014, which threatens exchange rate stability and, more generally, the development prospects of the region.** 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, thus making fiscal policy as the main tool for adjustment and sharp fiscal adjustments a necessity.

3. **CEMAC member countries have agreed on a concerted response supported by development partners. This approach has started to show results.** 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. Gabon has spearheaded the regional effort, and was the first member without an IMF program to engage in program negotiations with the IMF, while developing its national reform plan. EFFs were approved for Cameroon and Gabon in June 2017, while Chad and the Central African Republic have existing programs that are on track. Equatorial Guinea and the Republic of Congo have all officially requested the support of the IMF and discussions are ongoing. The regional institutions (Bank of Central African States (*Banque des Etats de l'Afrique Centrale)*-BEAC, Central Africa Banking Commission *(Commission Bancaire de l'Afrique Centrale)* -COBAC and the CEMAC Commission) have started implementing policy measures to support member countries' adjustment programs and restore external sustainability of the monetary union. As of August 2017, the decline of regional reserves appeared to have been halted, and reserves stood at their December 2016 level, Euro 4.7 billion.

4. **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 29 percent of the GDP and 70 percent of exports). The population stands at about 1.8 million, with a GDP per capita estimated at US$7,927 in 2016. The demographic profile of Gabon is young, with approximately half of the population

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

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. Gabon is also vulnerable to climate change.

5. **Presidential elections held in August 2016 were contested and social tensions continue.** In April and May 2017, President Ali Bongo organized a citizen dialogue, followed by a national political dialogue, which led to some political reforms. On August 21, 2017, the President announced a new Government more inclusive of opposition parties. The principal opposition party has boycotted the political dialogue and is not represented in the new Government. Gabon scores quite poorly, in the lowest 25 percent globally, on the Government effectiveness and regulation quality dimensions of the Worldwide Governance Indicators.

6. **Although no recent data are available, estimates suggest that poverty rates have barely decreased over the past 10 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 (US$3.1 per day purchasing power parity) of 24.4 percent. 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. The country, which is 58th in the world in terms of GDP per capita, ranks 110th in the 2015 United Nations Human Development Index. Health indicators are well short of international targets and stagnating. Since the mid-nineties, mortality rates have stagnated at around 65 per 1,000 live births for under-five mortality and between 230 and 316 per 100,000 live births for maternal mortality. With a literacy rate of about 85 percent and a net primary enrollment rate estimated at about 96 percent, Gabon has achieved relatively better education outcomes for its income level, but quality remains an issue, as illustrated by the high repetition rate, as well as ensuring access to relevant post-basic skills. Efforts are under way to revamp the technical and vocational education and training (TVET) system to address those needs.

7. **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 in 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.

8. **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. Given that public spending is also driving imports, fiscal consolidation will help restore external balance. The Government is planning to bring the fiscal deficit down to 0.1 percent of GDP by 2020. 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. The authorities have grasped the magnitude of the challenge and have

[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.

[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.

responded, including by producing a revised 2017 Finance Law encompassing the necessary adjustments.

9. **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, especially 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, owing notably to some large investment projects supported by the state. Additionally, Gabon 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 (PPD), the creation of an Investment Promotion National Agency (*Agence Nationale pour la Promotion des Investissements*, ANPI), and improvements in its TVET system, notably better governance and the introduction of dual-training programs in partnership with the private sector. 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 the Government to business services. Gabon's overall private sector potential is also constrained by an outdated information and communication technology (ICT) enabling environment, which penalizes competition and innovation and translates into an under-utilization of ICT applications and services.

10. **Finally, fiscal consolidation will also need to factor in the human development and poverty context with a view to safeguard and improve the efficiency of public social services for the poor.** Public spending on health and safety nets is low,[4] and further expenditure cuts could happen 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 noncontributory 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.[5] 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 (PHC). The crisis context offers a unique opportunity for action which the Government would like to capitalize on.

11. **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 under way, ensuring that it is implemented on time and effectively, while not excessively hindering growth nor increasing poverty. It will also ensure that this adjustment is sustainable and has lasting results beyond the time frame of the

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[4] At about 1.5 percent of GDP in 2017 (budget data without health insurance), public health spending is already lower than the average actual spending for upper-middle-income countries or even Sub-Saharan Africa (at 3.5 percent and 2.5 percent of GDP, respectively). Similarly, Gabon only budgeted about 0.6 percent of GDP on safety net programs (excluding pensions, allowances for formal employees' and noncontributory health insurance. The noncontributory health insurance (health insurance for vulnerable Gabonese) budget represented about 0.3 percent in 2017, well below the average for middle-income countries (at about 1.6 percent of GDP).

[5] 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).

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. The current operation will focus on health and social protection because these are the social sector areas where Gabon is further behind and additional impetus for reform is needed. By the same token, education is not included at this stage because Gabon fares relatively better in this sector and TVET/skills related reforms are already under way. These reforms are complementary to the IMF EFF program approved in June 2017.

12. **The development objective of the operation 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 strengthening 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.

13. **The overall risk rating for this operation is High.** This level of risk reflects high political and governance, macroeconomic, and institutional capacity country risks, as well as high regional macroeconomic and governance risks related to the CEMAC crisis. Strong mitigation measures at the country and regional level are in place to address those risks.

## 2. MACROECONOMIC POLICY FRAMEWORK

### 2.1 RECENT ECONOMIC DEVELOPMENTS

#### The CEMAC Context

14. **CEMAC countries have been hard hit by the oil price shock.** Oil budget revenue fell by two-thirds from 2014 to 2016. Member countries made significant cuts to their budgets, which in turn, had an impact on non-oil growth. Thus, regional growth in 2016 was its lowest in 20 years, at −1 percent. However, this adjustment was not sufficient to match the decline in revenue, and regional deficits and public debt stocks increased between 2014 and 2016. Monetary policy became accommodative as governments started facing liquidity constraints and growing financing needs. The regional central bank, the BEAC, notably started granting large statutory advances to member countries. The crisis, largely through its impact on Government revenue has also affected the financial sector as evidenced by an increased level of nonperforming loans across the region.

15. **These policies resulted in the depletion of regional international reserves which reached two months of imports in December 2016 and threatened the currency peg to the euro.** Since then, the decline has been stemmed but not yet reversed. The worsening of Gabon's external position contributed significantly to the loss of international reserves, from US$1,694 million at end-December 2015 to US$588 million at end-December 2016, and threatened the monetary stability of the region. Other CEMAC commodity exporters have been facing similar challenges and pooled international reserves in the BEAC dwindled rapidly and threatened monetary stability, notably the CFA franc peg to the euro.

16. **In a December 2016 meeting, CEMAC heads of state agreed to protect the currency peg and undertake adjustment mainly through fiscal policy; they defined the key tenets of the support they expected from development partners.** The union has had a long-standing policy of a fixed exchange rate

with the euro, with the support of France's treasury which ultimately guarantees the peg. The 1994 devaluation of the CFA Franc is perceived by regional policymakers as having had negative socioeconomic consequences. A strategy was adopted with a focus on (a) significant fiscal adjustment; (b) a return to sound monetary policy; (c) initiation of substantial structural reforms to support economic diversification; and (d) strengthening of the financial sector. This engagement was subsequently formalized in a regional policy compact, the CEMAC Economic and Financial Reforms Program (PREF-CEMAC).

17. **Policy developments at the regional and country level bode well for broader regional stability.** The regional institutions (BEAC, COBAC, and the CEMAC Commission) have implemented policy measures to support member countries' adjustment programs and restore the monetary union's external sustainability. These measures include (a) the elimination of statutory advances; (b) the reduction of the refinancing ceilings by the BEAC; and (c) the implementation of regulatory compliance by commercial banks by COBAC and the enhancement of the regional surveillance framework by the CEMAC Commission. Specifically, the BEAC has frozen the ceilings of statutory advances based on 2014 fiscal revenue and plans to agree with each member country on a schedule for gradual reduction in statutory advances ceilings until full elimination by 2027. The BEAC has also committed to the strict compliance of prudential ceilings on refinancing supported by Government securities used as collateral. The new regional surveillance framework includes four multilateral surveillance criteria (a floor on the overall budget balance augmented by oil revenue savings and ceilings on average annual inflation, total public and publicly guaranteed debt, and arrears accumulation). The common policy platform is supported in a coordinated fashion in each CEMAC country by the IMF, World Bank, AfDB, and AFD around broadly consistent reform pillars (fiscal consolidation, competitiveness/diversification, protection of the poor).

**Gabon's Context**

18. **Gabon's economy suffered considerably from the recent oil price shock.** Gabon is the second largest economy of CEMAC (19 percent of the total regional GDP), after Cameroon. Economic growth in Gabon has traditionally been driven by the oil sector, translating into a large public sector fueling the non-oil economy. This growth model is unsustainable. At the time of the terms of trade shock in 2014, oil represented 84 percent of total exports and oil revenue constituted 49 percent of total fiscal revenue. As oil prices fell from US$100 per barrel in 2014 to an average of US$45 in 2016, growth slowed significantly and twin deficits emerged. Persisting low commodity prices have continued to test Gabon's macroeconomic resilience in 2015 and 2016. The terms of trade shock was transmitted from the oil to the non-oil sector mostly through demand linkages, with lower public demand as well as lower demand for intermediate goods and services.

19. **GDP growth slowed to 2.1 percent in 2016 with lower commodities prices (oil and manganese) and production** (see Table 1). Oil producers' efforts to optimize the output of existing fields did not compensate for a lack of investment, and oil sector growth deteriorated to −2.7 percent from 4.0 percent in 2015. The sharp decrease in the manganese price compelled several producers to halt or reduce production. Non-extractive industries contracted because public spending, its traditional driver, was curtailed. The industrial sector overall stagnated in 2016. The decline in public spending combined with significant arrears from the public sector weighed on services sector growth, which slowed from 5.2 percent in 2015 to 3.2 percent in 2016. Agriculture, a relatively small sector, was the only bright spot; its growth reached 11.9 percent in 2016 from 8.2 percent in 2015Inflation increased to 2 percent (year-on-year) in 2016 from 1 percent in 2015, remaining below the CEMAC target threshold of 3 percent; inflation in December 2016 was 4.1 percent due to rising fuel prices resulting from the elimination of most subsidies.

20. **In the wake of the oil price decline, Gabon is facing a deep fiscal crisis with a growing deficit and an increasing debt stock (see Table 5.1) as well as an external balance crisis with a growing current account deficit.** In 2016, the overall fiscal deficit (on a commitment basis) was 5.0 percent of GDP, up from a surplus of 6.0 percent in 2014, and public debt reached 64.2 percent of GDP. The non-oil primary balance was approximately −11 percent of GDP in 2016. This deficit stems primarily from a decline in revenue which fell from 29.7 percent of GDP in 2014 to an estimated 17.1 percent of GDP in 2016. Oil revenue accounts for 80 percent of the decline. Non-oil revenue, from an already low base, also fell over the period. In the meantime, the Government did not reduce expenditures, with a wage bill continuously on the rise, which caused the deficit to surge. The current account reached a deficit of 10.1 percent in 2016, while it was still in surplus, at 7.3 percent of GDP, in 2014 (see Table 1). While low oil prices weakened the external position, the public sector did not adjust but maintained the level of public spending, notably public investment with a high import content; this prevented the current account from adjusting.

21. **The lack of appropriate fiscal buffers and other countercyclical fiscal institutions caused Gabon to experience the full extent of the crisis.** Gabon had limited fiscal savings at the beginning of the crisis; they stood at 7.2 percent of GDP in 2014 and had fallen to 2.4 percent by 2016. Of this balance, 1.7 percentage points of GDP were in the Fund for Future Generations and not to be used to finance the deficit. However, since the effective creation of the fund, the oil price has started to decline and remained low so that, in practice, spending has not been capped and little resources have been accumulated.

**Table 1. Key Macroeconomic Indicators, 2012–2019**

| | 2012 | 2013 | 2014 | 2015 | 2016e | 2017p | 2018p | 2019p | 2020p |
|---|---|---|---|---|---|---|---|---|---|
| **National Accounts and Prices** | | (Annual percentage change, unless otherwise indicated) | | | | | | | |
| Nominal GDP (CFAF, billion) | 8,766 | 8,691 | 8,988 | 8,503 | 8,311 | 8,598 | 8,880 | 9,378 | 9,910 |
| Real GDP | 5.3 | 5.6 | 4.4 | 3.9 | 2.1 | 1.0 | 2.7 | 4.1 | 4.6 |
| Oil sector | −0.8 | −2.2 | 1.8 | 4.0 | −2.7 | −2.4 | -0.4 | 0.0 | 0.2 |
| Non-oil sector | 7.1 | 7.8 | 5.1 | 3.8 | 3.3 | 1.7 | 3.3 | 5.0 | 5.5 |
| GDP deflator | −2.9 | −6.2 | −1.0 | −8.9 | −4.3 | 2.5 | 0.6 | 1.5 | 1.0 |
| Imports of goods and services | 53.9 | 1.2 | −6.7 | −0.9 | −21.4 | 20.7 | −2.7 | 2.4 | −0.2 |
| Exports of goods and services | 8.6 | −7.0 | −8.5 | −26.8 | −19.2 | 23.3 | 1.5 | 3.1 | 10.6 |
| **Fiscal Accounts** | | (As a percentage of GDP) | | | | | | | |
| Total revenue | 30.1 | 30.2 | 29.7 | 21.1 | 17.1 | 18.8 | 18.9 | 19.1 | 19.1 |
| Total expenditure | 27.6 | 28.4 | 23.8 | 22.1 | 22.1 | 22.0 | 20.1 | 19.7 | 19.4 |
| Non-oil primary balance | −14.0 | −12.0 | −11.5 | −9.0 | -11.0 | −8.9 | −6.0 | −4.3 | −3.6 |
| Overall balance (commitment basis) | 2.5 | 1.8 | 6.0 | −1.0 | −5.0 | −3.3 | −1.2 | −0.6 | −0.3 |
| Overall balance (cash basis)[a] | 2.2 | 0.2 | 2.3 | −4.0 | −6.6 | −4.6 | −2.3 | −0.6 | −0.1 |
| Total public debt | 19.7 | 29.2 | 34.1 | 44.7 | 64.2 | 64.6 | 63.8 | 61.5 | 57.1 |
| **Selected monetary accounts** | | (Annual percentage change, unless otherwise indicated) | | | | | | | |
| Credit to the economy | n.a. | 23.6 | −2.0 | −9.8 | −10.0 | −2.9 | 4.5 | 10.5 | 9.1 |
| Broad money | n.a. | 6.1 | 1.6 | −0.5 | −10.1 | 14.7 | 6.1 | 7.3 | 10.6 |
| **External accounts** | | *(*As a percentage of GDP, unless otherwise indicated) | | | | | | | |
| Current account balance | 14.4 | 9.8 | 7.3 | -5.6 | −10.1 | −9.2 | −7.3 | −6.6 | −2.8 |
| Imports of goods and services | −39.1 | −39.9 | −41.6 | −39.0 | −34.5 | −38.9 | −36.6 | −35.9 | −34.4 |
| Exports of goods and services | 65.1 | 61.1 | 54.5 | 43.5 | 36.2 | 42.2 | 41.3 | 40.4 | 41.9 |
| Foreign direct investment | 3.6 | 4.4 | 6.0 | 6.9 | 9.0 | 10.1 | 10.3 | 10.8 | 8.8 |
| Gross official reserves imputed to Gabon (US$, billions) | n.a. | n.a. | 13.7 | 11.8 | 4.2 | 6.0 | 7.6 | 9.7 | 11.3 |

*Source:* National Authorities, IMF

*Note:* e = estimate, p = projection

a. Despite a larger deficit on a cash basis than on a commitment basis, Gabon has further accumulated arrears in 2015 and 2016 when it was repaying arrears from previous exercises, while accumulating new ones.

22. **Considerable payment arrears worsen the deficit on a cash basis.** Over previous budgetary exercises, the Government has failed to pay some obligations to suppliers, taxpayers, and other agents. It now needs to repay these arrears on top of its current expenditures. Thus, the fiscal deficit on a cash basis has been larger than the deficit on a commitment basis, due to partial arrears clearance. In 2016, on a commitment basis, the fiscal deficit was 5.0 percent of GDP, but on a cash basis it was 6.6 percent of GDP. Arrears now constitute a major problem and latest estimates placed their stock at 9.5 percent of GDP for the end of 2016 (see Table 2); their inclusion into public debt explains a large part of the increase in the debt stock observed in 2016. Banks have also experienced a significant rise in nonperforming loans. Timely arrears clearance is imperative but will weigh on the deficit and increase financing needs.

**Table 2. Gabon: Total Arrears (end 2016)**

| | (CFA francs, billions) | (% of Revenue) | (% of GDP) |
|---|---|---|---|
| **Total arrears** | 803.2 | 55.6 | 9.5 |
| ***External arrears*** | 164.6 | 11.4 | 1.9 |
| *Interest payments* | 18.0 | 1.2 | 0.2 |
| *Amortization* | 146.6 | 10.1 | 1.7 |
| ***Domestic arrears*** | 638.6 | 44.2 | 7.5 |
| *Interest* | 0.1 | 0.0 | 0.0 |
| *Amortization* | 41.9 | 2.9 | 0.5 |
| *Treasury arrears* | 248.8 | 17.2 | 2.9 |
| *VAT arrears* | 347.8 | 24.1 | 4.1 |

*Source:* Gabonese authorities and IMF.

23. **The financial sector has proven vulnerable to macroeconomic shocks, mainly through the Government channel; it remains broadly sound despite signs of stress.** Over the last two years, the 10 banks in operation in Gabon have been affected by the downturn in economic activity and the financial difficulties of their clients, especially those affected by Government arrears. The worsening of banks' prudential ratios reduced their ability to provide medium- and long-term domestic lending to the Government and other actors. The main signs of stress include a drop of deposits in the second half of 2016 (8 percent year-on-year), an increasing recourse to refinancing from the central bank, a fall in credit to the private sector of about 10 percent in 2016, and an increase in nonperforming loans held by banks from 5.3 percent of total credit in mid-2014 to 9.7 percent in December 2016. Private banks remain solvent, with a solvency ratio of 13.1 percent at the end of December 2016, largely above the 8 percent prudential level, which is expected to be raised progressively to 10.5 percent. By contrast, public banks are largely insolvent, with a solvency ratio that over the last three years has deteriorated from −5.6 percent to −219 percent. The situation of the three public banks in distress will also require close monitoring, because the cost of their combined recapitalization could amount to 1.2–1.7 percent of GDP, per IMF estimates; the cost of their orderly liquidation would be lower, at 0.4–0.7 percent of GDP. However, those banks are not systemically important and pose no significant threat to financial sector stability.

## 2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

24. **The domestic imbalance is expected to narrow through fiscal contraction and the external deficit will be reduced mostly from a reduction in aggregate spending. Successful implementation of the fiscal adjustment program will also require significant financing, to avoid negative growth.** The fiscal adjustment should generate enough savings to compensate for the permanent loss in fiscal revenue due to the collapse in oil prices. This loss is of the order of 4.5 percent of GDP. The adjustment program agreed with the IMF currently shows a financing gap in the Government's accounts of 7.2 percent of GDP for 2017, which will be financed with support from the IMF, budget support operations from multilateral and bilateral

donors, and market resources (see Table 3). The external borrowing is also expected to close the external financing gap, estimated at around US$1.0 billion, sufficient to reaccumulate international reserves and rebuild external buffers. More specifically, this US$1.0 billion will come from the IMF, World Bank, AfDB, and AFD. Additional financing will be required over 2018–2019, amounting to approximately US$1.2 billion. This programmatic DPF series will help contribute to these financing needs.

**Table 3. Gabon Financing Gap and Exceptional Financing Estimates, 2014–2020**

| **(Bn CFAF)** | **2014** | **2015** | **2016e** | **2017p** | **2018p** | **2019p** | **2020p** |
|---|---|---|---|---|---|---|---|
| **Financing gap** | -235 | -59 | -43 | 617 | 420 | 289 | 29 |
| **IMF financing** | 0 | 0 | 0 | 118 | 118 | 118 | 29 |
| **Other international partners, o/w** | 0 | 0 | 0 | 499 | *303* | *171* | 0 |
| World Bank | 0 | 0 | 0 | 123 | *tbd* | *tbd* | 0 |
| AfDB | 0 | 0 | 0 | 327 | *tbd* | *tbd* | 0 |
| France / AFD | 0 | 0 | 0 | 49 | *tbd* | *tbd* | 0 |
| **(Mn US$)** | | | | | | | |
| **Financing gap** | -476 | -100 | -73 | 1004 | 684 | 473 | 48 |
| **IMF financing** | 0 | 0 | 0 | 193.3 | 193.1 | 193.1 | 48.3 |
| **Other international partners, o/w** | 0 | 0 | 0 | 810.9 | *491.2* | *279.4* | 0.0 |
| World Bank | 0 | 0 | 0 | 200.0 | *tbd* | *tbd* | 0.0 |
| AfDB | 0 | 0 | 0 | 531.2 | *tbd* | *tbd* | 0.0 |
| France / AFD | 0 | 0 | 0 | 79.7 | *tbd* | *tbd* | 0.0 |

*Source:* IMF and World Bank.
*Note:* e = estimate, p = projection, tbd = to be determined. Financing amounts are commitments; for 2018-2019 amounts presented in italic are based on tentative commitments.

25. **In view of the large arrears, the PRE, supported by an EFF proposes a sharp, fiscal adjustment which will dampen growth in the short term through a significant multiplier effect.** This programmatic DPF series will support these efforts in 2017 and ensure their sustainability in the medium term. The fiscal deficit, on a cash basis, will be reduced by 2 percentage points of GDP in 2017 and to 0.6 percent of GDP by 2019. Fiscal adjustment beyond the 2 percentage points of GDP in 2017 would be extremely difficult, given political economy constraints (discussed below) and low growth prospects (1 percent, assuming an oil price of US$55 per barrel). Two-thirds of the 2017 fiscal adjustment will come from expenditure measures and the rest from non-oil revenue increases. For expenditure, the main savings will come from rationalizing goods and services (26 percent of total savings), reducing transfers and subsidies (22 percent), and limiting wage bill growth by enacting the retirement of 1,200 civil servants who are above the age limit while limiting new hiring (19 percent). Most of the revenue increase will come from a reduction in tax expenditure (19 percent). Should the baseline consolidation measures not materialize, contingency measures could be considered, potentially involving assets sales from the Government's national holding company, which includes mostly minority stakes and amounts to at least CFAF 550 billion. Gross investment should increase in 2018, notably driven by dynamic agricultural and mining sectors as manganese production is expected to accelerate because of recovering international prices. Overall growth is expected to recover to 2.7 percent by 2018, even if oil sector growth is expected to remain low. In August 2017, preliminary data indicated that imports were declining, likely due to a reduction in public spending.

26. **In addition to the proposed fiscal consolidation, the PRE, supported by the EFF, will also tackle the arrears and the structural causes behind their accumulation.** The program has an explicit repayment strategy to clear accumulated arrears over five years. This will help contain the need for fiscal tightening

and limit the financing needs, while allowing time to audit the stock of arrears and ensure all claims are legitimate. The profile of arrears repayment prioritizes arrears that have the strongest macro-fiscal linkages, such as the budgetary float (payment to Government suppliers). Beyond the repayment of the arrears, the IMF program supports several Public Financial Management (PFM) reforms drawn from the 2017 Public Expenditure and Financial Accountability (PEFA) assessment and aimed at increasing budget discipline.

27. **Medium-term growth prospects in the non-oil sector are encouraging owing to large investment projects supported by the state; structural reforms will help to further reduce dependency on oil and support increased competitiveness and economic diversification.** From 2017 to 2020, a rebalancing from public to private sector led growth is expected to take place. This will limit the adverse impact of the fiscal multiplier in the medium-term. The PSGE relies extensively on Public-Private Partnerships (PPPs), and one of its main partners is Singapore-based agribusiness firm Olam International. Under various PPP agreements, Olam has been developing several projects: two large-scale plantations (rubber and palm), a special economic zone, a fertilizer factory, two shipping terminals, and a smallholder farmer program. The total investment by 2022 is expected to reach US$5.8 billion, of which US$2.1 billion has been executed since 2010. Non-oil GDP growth is thus expected to recover to 5.0 percent by 2019.

28. **Lower imports and higher commodity prices are expected to reduce the external imbalance from CFAF 842 billion (US$1.4 billion) in 2016 to around CFAF 623 billion (US$1.1 billion) in 2019 (see Table 4).** The overall balance is expected to be negative, but the financing expected through the stabilization program agreed with the IMF and other donors would bring financing for the deficit and allow to rebuild international reserves. As of July 2017, the program seemed to be showing early results, with Gabon's reserves having stabilized around CFAF 400 billion.

**Table 4. Balance of Payments**

| (CFAF, billions) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|
| Current account | 658 | −475 | −842 | −790 | −648 | −623 |
| Financial account | −746 | 248 | 190 | 843 | 687 | 741 |
| Overall balance | −88 | −227 | −652 | 53 | 39 | 118 |
| Gross official reserves imputed to Gabon | 1227.6 | 1001.1 | 348.6 | 518.6 | 675.6 | 911.4 |
| Change in reserves | n.a. | −227 | −653 | 170 | 157 | 236 |

*Source:* IMF and World Bank.

29. **The 2017 Debt Sustainability Analysis (DSA) suggests that debt levels are sustainable but Gabon may be facing short-term liquidity constraints (see Annex 5 for detailed DSA figures).** While total public debt remains below the CEMAC ceiling of 70 percent of GDP, it has considerably increased since the 2015 DSA and reached 64 percent of GDP at the end of 2016 (see Table 1). This increase results mostly from the inclusion of domestic arrears and of statutory advances from the BEAC. With the proposed fiscal adjustment, the debt level should decline to 57 percent of GDP by 2020. However, the Government will face high gross financing needs, averaging approximately 10 percent of GDP per year, and may continue to face short-term liquidity constraints. The debt remains sustainable under most standard scenarios, except when assessed against a combined macro-fiscal shock that includes higher primary balance deficits, lower growth and inflation, and an interest rate shock, as well as under a real exchange rate shock.

30. **Despite downside risks, the macro-framework is considered adequate for the proposed development policy lending operation.** 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 Finance 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 Service (RAS), and a planned constant level of expenditure (as a share of GDP), notably through 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, owing 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 (see Table 3).

31. **The main risk Gabon is facing is a tense political environment which has the potential to threaten the ability to implement fiscal adjustment.** The tense sociopolitical climate may prevent the implementation of the reforms needed to restore internal and external balance, potentially prolonging the current crisis. Other risks include a lack of policy coordination between the six CEMAC countries and a larger than expected spillover from the oil sector to the rest of the economy (see Section 6).

### 2.3 IMF RELATIONS

32. **The IMF approved a three-year EFF for Gabon on June 19, 2017.** The IMF program would run over four years, 2017–2020, and provides total financing in the amount of US$628 million. The program focuses on reestablishing fiscal and external balances as highlighted in Section 2.2 (for more details see Box 5.1 in Annex 5).

33. **The program includes structural benchmarks[6] in the areas of (a) the financial sector; (b) public expenditure management; (c) tax policy administration; and (d) business climate and diversification.** Some structural benchmarks complement this operation's prior actions. Notably, a structural benchmark on the publication of an annex to the Finance Law covering derogations from the existing tax exemption regime (including details on their economic, budgetary, and social impact) will contribute to strengthen the management of tax expenditure. Moreover, various structural benchmarks support transparency in PFM and should help improve expenditure quality, such as: (a) the publication of an executive order of the Prime Minister implementing the general accounting regulation on procedures for expenditure execution and (b) the publication of a cost-benefit analysis for investment projects authorized by the Finance Law and with budgets exceeding CFAF 20 billion. The program also supports higher transparency in PPPs through the creation of dedicated bodies for their oversight in the Ministry of Economy.

34. **The World Bank and IMF teams have conducted joint consultations with the authorities to coordinate policy actions.** The World Bank has been associated to the IMF program discussions with the authorities and has provided inputs to the program design on macro-fiscal policy, social sectors, and business climate reforms. The reforms proposed under the fiscal adjustment pillar of the proposed operation support the implementation of the fiscal framework agreed to with the authorities and the ones under the competitiveness pillar further strengthen business climate and other private sector development enabling reforms. During program discussions, the World Bank team supported the authorities and the IMF in defining floors for social spending to ensure that the key social services would not be adversely affected by the fiscal adjustment.

[6] A list of structural benchmarks agreed upon by the National Authorities and the IMF is presented in Annex 5.

## 3. THE GOVERNMENT'S PROGRAM

35. **The centerpiece of the Government's policy platform is the 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'emergence*): (a) Industrial Gabon (*Gabon Industriel*); (b) Green Gabon (*Gabon Vert*); and (c) Service-oriented Gabon (*Gabon des Services*). Finally, shared growth involves increasing the population's access to health care, social protection, jobs, water and sanitation, housing, and culture.

36. **More recently, the Government has launched the 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 a PRE. Its strategic orientations revolve around the viability and sustainability of public finances; improved economic governance, notably through an improvement of the business environment and support to strategic sectors; and the realization of productive structural and infrastructural investments. With this plan, the Government expects to place the fiscal and external accounts back on a sustainable path and to support growth.

37. **The Government has also commissioned or adopted strategic plans for its social sectors which are particularly timely to help protect the poor and improve social services.** Following national consultations, the Government has adopted a social policy strategy in 2013,[7] whose relevance has further increased in the context of the macroeconomic downturn. The strategy aims to assist the most vulnerable population groups through an integrated mix of social programs and income-generating activities. The Government also commissioned a five-year strategic framework for the health system in 2013,[8] to improve health care, with a focus on reducing perinatal and child mortality and on stronger health governance and financing.

## 4. THE PROPOSED OPERATION

### 4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

#### Link to Government Program

38. **The proposed operation will support the implementation of the PSGE, PRE, and related sector plans, while supporting further thrust for reforms under implementation.** The first pillar, strengthening fiscal balance, will support policy areas and reforms closely aligned with the PRE, including a strong focus on mobilizing non-oil revenues for about CFAF 50 billion in additional revenues. The second pillar, enhancing competitiveness, has a focus on the ICT sector that is fully aligned with the second pillar of the PSGE and current efforts to modernize the ICT-enabling framework. At the same time, business climate reforms build on the improved platform for PPD and investment promotion. Finally, the third pillar, protecting the poor, is well-aligned with the shared prosperity pillar of the PSGE, the new sector plans, and ministries' efforts to support better access to quality health care and more effective safety nets.

[7] Stratégie d'Investissement Humain au Gabon (2013).
[8] MSH, Plan Stratégique Santé : Pour un système de santé performant et de qualité au Gabon (2013).

**Operation Description**

39. **This proposed operation is designed as the first in a programmatic series, which will include two DPF operations over the FY18–FY19 period.** A third operation may be envisaged provided timely implementation of the reforms in the first operation, on which it would build, is completed.

40. **The development objective of the operation is to support Government's efforts in (i) increasing revenue mobilization, stabilizing the wage bill, and improving the efficiency and transparency in procurement practices to strengthen fiscal balance; (ii) improving the business climate and strengthening 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, 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 improve workers' performance; and (c) improve efficiency and transparency in procurement practices.
- **Pillar 2: Enhancing Competitiveness:** Policy areas: (a) Improve the business climate and (b) strengthen ICT 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.

41. **The policy areas, actions and triggers under each of the pillars were carefully selected based on several criteria**. These criteria are (a) criticality and robustness; (b) Government ownership; (c) feasibility in the time frame 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, including through complementary investment operations and technical assistance (TA). As fiscal consolidation progresses and Gabon's program develops, the team may look for ways to further strengthen Pillar 2, in complementarity with the other donors.

**Lessons Learned**

42. **The World Bank's portfolio in Gabon is growing rapidly but after a long period of minimal activity. This limits country-specific operational lessons although a few key challenges stand out from a prior DPF.** An environment sector DPF (Natural Resources Management [NRM] DPF (P070196), US$15.0 million, approved by the World Bank Board of Executive Director in 2005, closed in 2011) is the only previous experience of Gabon with DPF type of instruments. Insufficient coordination and shared understanding across sectors, as well as the limited political ownership for the proposed reforms, were key challenges identified in the Implementation Completion and Results Report of the NRM DPF[9]. The instrument is not yet well-understood and the capacity to select and monitor policy actions is limited.

43. **Based on these lessons, the team took several steps to facilitate the design of this operation.** This included organizing a two-day workshop to explain the instrument, offering best practice examples from other countries, and discussing reforms that the operation could support. The workshop elicited great interest and was very well-attended, helping significantly to raise awareness and ownership for both the instrument and the preparation process. Following the workshop, the team established a strongly participatory process to prepare the operation, including through a Multisectoral Steering Committee led

[9] Report No. ICR00001627, approved 27/12/2011

by the Chief of Staff of the Ministry of Economy to propose, validate, and monitor robust policy reforms. This facilitated the coordination among sectors, generated a shared understanding of the program, and strengthened political ownership of the reforms. Shared understanding was further strengthened by dedicated discussions of the analytical underpinnings for the reforms.

### 4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

#### Pillar 1: Strengthening Fiscal Balance

44. **Stabilizing the economy is the 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 increasing revenue mobilization and improving transparency, stabilizing the wage bill, and improving the efficiency and transparency of procurement practices. The choice of these areas and related reforms is rooted in the key issues and constraints of Gabon's fiscal and PFM context.

***Main Issues and Potential for Action***

45. **Stabilizing the economy while mitigating negative effects on social and other priority economic spending will require strong focus on increasing and better managing revenues, in particular, tax revenues.** This is at the very core of Gabon's fiscal consolidation efforts, and the PRE projects the mobilization of an additional CFAF 493 billion of non-oil revenues between 2016 and 2019, equivalent to 3.8 percentage points of GDP. While tax-to-GDP increased in Sub-Saharan Africa by approximately 5 percent on average over 2000–2014,[10] the tax-to-GDP remained almost unchanged in Gabon, making it one of the poorest tax revenue performers in Sub-Saharan Africa. In the group of oil exporters, only Nigeria has a similar, poor tax-to-GDP performance.

46. **Sustainable enhanced tax revenue collection will require combined efforts of decreasing tax expenditures and improving their fiscal governance, while mobilizing new sources of tax revenues.** The tax bases have been eroded through extensive use of exemptions and other tax expenditures, without a broader assessment of the value added of these exemptions toward national development objectives and/or equity concerns. Tax expenditures currently stand at 4 percent of GDP (6.4 percent of non-oil GDP). Approximately 60 percent of the loss of revenue occurred in border taxes (customs, import value added tax [VAT], and import-related excises), while domestic VAT accounts for about 28 percent of revenues forgone and the remaining 12 percent comes from corporate income tax. While the immediate aim is to seek a reduction in selected areas of tax expenditures, there is also a strong need to improve the fiscal management framework and oversight in several areas to ensure more efficient management over time. Additionally, there is scope for increasing revenues through higher tax bases or rates, including through revamping excise taxes. Excise taxation such as alcohol, tobacco, and fuel taxation, currently yields less than 0.5 percent of GDP, which is low compared to peers, the average for Sub-Saharan Africa being 1.7 percent of GDP. As an example, taxation of cigarettes is around 12–14 percent lower in Gabon than in Sub-Saharan Africa on average.[11]

47. **At the same time, sustaining the fiscal consolidation process will require improvement in the management of the oversized and growing wage bill.** The nonadherence to employment ceilings defined in the Finance Law highlights the immediate need to strengthen hiring controls and recruitment

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[10] IMF (International Monetary Fund). 2015. *Regional Economic Outlook*.

[11] The share of cigarette excise tax is about 20 percent of the retail price of the most popular brand. This is very low compared to the 70 percent level recommended by the Framework Convention on Tobacco Control (which Gabon ratified in 2009).

procedures. In the context where the number of civil servants almost doubled from 49,141 in 2006 to 87,141 in 2015, Gabon started a program budgeting reform in 2010 Finance Law in line with the 2011 directives of CEMAC, introducing an employment ceiling for each ministry. However, the wage bill grew further by 70 percent between 2010 and 2015 and surpassed the authorized budget, mainly due to a 30 percent increase in the number of public servants, the conversion of temporary workers to permanent status, and the introduction of an ill-designed performance incentive system in 2014 that was converted into base pay in 2015. The nonadherence to employment ceilings defined in the Finance Law called for an immediate action to strengthen hiring controls and recruitment procedures. The Government has therefore established Human Resources (HR) Management Directorates in all ministries and initiated reforms to strengthen hiring control and improve HR processes.

48. **Going forward, the performance-based promotion system needs to be applied for longer-term gains in public sector performance.** In 2014, the Government introduced a new remuneration policy including a bonus system for performance. Because the prerequisites, including a solid evaluation mechanism, were not in place, the initial reform resulted in an unintended inflation of bonus payment, which accounted for more than CFAF 100 billion in 2015, or a 14 percent increase of the total wage bill. The Government is currently developing a new performance evaluation system that will link a civil servant's career progression to performance, to enhance performance of public service while containing the wage bill. The new measure is also expected to address retention of competent staff, and complement other HR reforms including early retirement with an adequate severance package.

49. **Finally, the reduced capital budget resulting from the sharp decline in oil revenue and the growing wage bill requires more effective management backed up by a transparent and efficient procurement system.** The current procurement system faces inconsistencies between the public procurement code, recent institutional changes in public procurement management, and the new program budgeting approach. The Procurement Code adopted in 2012 clarified a separation of duties between the regulatory function (by the Public Procurement Regulatory Agency [*Agence de Régulation des Marchés Publics*, ARMP]) and the control function (by the *Direction Générale des Marchés Publics*, DGMP); and introduced new tools/instruments to improve the efficiency and transparency of public procurement. However, the General Directorate of Budget and Public Finances (*Direction Générale du Budget et des Finances Publiques*) created in 2015 replaced the DGMP. This change in the institutional arrangement, in contradiction with the procurement code, has created a potential conflict of interest and overlapping responsibilities with contracting authorities hence undermining the transparency and efficiency of the procurement process. Furthermore, the implementation of the program budgeting approach is not aligned with the procurement code, because it gives the program managers an authority as the budget holders, which is not defined in the code. The 2016 PEFA and 2016 World Bank diagnostic report on the procurement system also highlighted a serious lack of transparency. Waivers to the provisions of the Procurement Code are common and the use of direct contracting frequent. The external audit reports have never been disclosed to the public. In such a context, the second PFM RAS (closed in December 2016) has supported the Government to improve its procurement systems.[12]

### *Reform Program Supported by the Operation and Expected Results*

50. The proposed operation supports three policy areas under the Pillar 1, strengthening fiscal balance,

[12] The RAS has helped to: (a) update the procurement code, (b) develop the program budgeting approach with a value for money approach in compliance with international standards, (c) develop Standard Bidding Documents and a standard Procurement Plan, and (d) develop a 5-year operational strategy for the ARMP and a detailed Operational Manual, consistent with ensuring enhanced enforcement of the new code.

including several reforms on the critical path to achieve fiscal improvements.

*Increase Revenue Mobilization and Improve Transparency*

51. **The proposed operation supports revenue mobilization through the reduction of tax expenditures.** The '*la vie chère*' initiative provides a list of commodities which are exempted from consumption taxes, to reduce living costs for the poorest. However, over the years, the number of items on the list has grown, including items not consumed by the poorest, without a firm assessment of needs and relevance. Additionally, other tax expenditures include the '*franchises discrétionnaires*' which are awarded by administrative discretion, without explicit reference to mandate and criteria for tax expenditures, as set in the tax or investment codes. The prior action for the first year provides for a reduction by 150 items in the list of 192 products benefitting from the full cost-of-living customs exemption. In other words, a full exemption of custom duties and taxes will henceforth apply only to 42 (basic necessity) products, with an additional 116 products taxed at a rate of 5 percent and, by subtraction, 34 goods (considered luxury goods) taxed at a normal rate. The prior action also provides for the suppression of access to discretionary administrative decisions, and the clarification that all exemptions in border taxation require authorization in the Finance Law and must be accompanied by estimates of revenue forgone (Prior Action #1).

52. **The operation will also support an improvement of the fiscal management and oversight of tax expenditures across the taxation system to improve transparency and lead to further rationalization and streamlining of tax expenditures.** To improve fiscal management and ensure that institutional mechanisms are put in place to monitor and assess tax expenditures on a continuous basis, the Government will establish a Coordination Committee to oversee the level, composition, and use of tax expenditures. The Government will also develop an Action Plan, based on the 2016 Tax Expenditure Report, toward ensuring the needed tax administrative improvements on tax expenditures monitoring. These activities have been supported by the Tax RAS. *The Government will establish ceilings on tax expenditures in the 2018 Finance Law,*[13] *amounting to an average reduction of 10 percent over FY16 in the total tax expenditures on customs, VAT at the border, excises at the border and domestic VAT. The specific reductions will be based on recommendations of the Coordination Committee (DPF2 Trigger #1).* The committee will also prepare an annual report on revenues forgone due to tax expenditures for the main tax areas.

53. **In the context of the second operation, the Government will also support additional revenue mobilization through higher rates on alcohol and tobacco excises.** Introducing specific excise taxes for tobacco products in Gabon is recommended to allow for a reduction of tobacco consumption and increase in government revenues, while keeping the current rates of other tobacco taxes and duties. More specifically, *the Government intends to increase revenue from tobacco and alcohol excises in the 2018 Finance Law, through rate increases for alcohol and via the adoption of a tobacco tax reform, which, inter alia, establishes (a) a mixed excise system with the introduction of a specific excise tax of CFAF 100 per pack of 20 cigarettes, both imported and domestic, keeping all other tobacco taxes and duties unchanged; and (b) that the specific excise tax will be adjusted by the CPI per year (DPF2 Trigger #2)*. Further assessments, supported by a World Bank TA, are on-going to refine initial targets/figures introduced in the draft 2018 Finance Law.

54. **Expected results.** Tax revenue-to-GDP is expected to increase by at least 0.6 percentage points in

[13] This process is under way, starting by the integration of initial targets in the draft 2018 Finance Law to be further refined.

2018 and onward (or 0.8 percentage points of tax revenue-to-non-oil GDP), as the combined outcome of the measures reducing tax expenditures, and increasing alcohol and tobacco taxation.[14] These estimated revenue gains will help achieve the EFF-supported gross non-oil revenue increases by 1.1 percent of GDP in 2018. The tax expenditures reporting in the 2018 Finance Law will also lead to enhanced accountability and transparency in public revenues. By supporting governance reforms in fiscal management and transparency as well as improved tax administration, the operation also helps ensure the sustainability of the fiscal consolidation efforts.

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| **Prior Action #1**: To reduce the amount of tax expenditures, the Minister of Economy has (i) issued regulations *(*Arrêtés*),* within the framework of the Fight against La Vie Chere Program, which apply (a) a full exemption of custom duties and taxes to only 42 products from the list of basic goods; (b) a rate of 5 percent on 116 additional products from the list of basic goods; and (ii) revised the 2017 Finance Law to specify that (a) all exemptions from taxation on cross-border transactions require authorization in the Finance Law and must be accompanied by estimates of revenue forgone, and (b) discretionary administrative exemptions have been suppressed. |

*Stabilize the Wage Bill*

55. **The first reform under this policy area aims at freezing recruitments in the short-run while establishing procedures to strengthen hiring controls.** The first operation supports the implementation of a recruitment freeze over 12 months through the issuance of a circular to all Government members (Prior Action #2). The proposed measure aims to stabilize the wage bill in the short term while strengthening hiring control based on the Finance Law and established positions defined by the HR institutional framework (*cadres organiques*) to help contain the wage bill. All categories of employment including in the state-owned enterprises (SOEs) are subject to the hiring freeze, except for education, health, and defense where recruitments are allowed on a case-by-case basis as defined in the Finance Law.[15] All recruitments will be verified in the HR management records, to avoid fictitious hiring and further increases in the wage bill, and replacements of retirees will not be permitted. Building on explicit ceilings in the 2018 Finance Law for the number of authorized budgetary positions for each constitutional body and ministry, the second operation will support the *rollout of new recruitment control procedures as evidenced by the preparation and submission by ministries that jointly account for at least 80 percent of civil servants of a strategic staffing plan including (a) a detailed description of current employment against missions, including all forms and status of employment ('cadres organiques'); and (b) a three-year projection of staffing needs ('staffing plans') (DPF2 Trigger #3)*. The strategic staffing plan represents a detailed diagnostic of employment needs by sector based on a rigorous assessment of manpower needs. It will support the enforcement of the staffing ceilings and address structural inefficiencies in the current HR management framework. The circular regulating the recruitment freeze will establish that recruitment can resume only after the strategic staffing plan will have been adopted.

[14] This estimate is based on the following: '*vie chère*' measures (CFAF 1 billion, estimated by authorities), suppression of discretionary administrative exemptions (CFAF 14 billion, estimate of full year impact, based on information from February 2016, implies a revenue improvement of 28 billion; due to lag in implementation, only half of the revenue improvement, 14 billion, is deemed realistic in the initial year), 10 percent reduction of tax exemptions (CFAF 31 billion, based on a 2014 World Bank estimate of tax exemptions losses), tobacco excise and alcohol excise taxes (CFAF 3.5 billion, based on World Bank estimates).

[15] The exemption to the hiring freeze constitutes an important measure to avoid any negative impacts on significant employment needs in the country and urgent needs for improvement in social services for which 368 vacant positions (teachers, health workers) were identified as necessary manpower.

56. **The second reform, which will be supported through the second operation, aims at ending automatic promotions and replacing them with a performance-based promotion system.** This new system, to be rolled out in 2017 and 2018, will introduce grade-to-grade promotions in a transparent manner and based on performance criteria. The second operation will support it through *(a) the amendment of the civil service code (Law l-2005) to link the advancement/promotion system to performance evaluation, and (b) the issuance of a decree (décret d'application) detailing the methodology and implementation procedures of individual performance evaluation in the civil service (DPF2 Trigger#4).* The enforcement of performance evaluation will be supported by the revised civil service code and verified in the HR management records system and the administrative documents. Its design and implementation procedures will be supported by a World Bank RAS.[16] The combination of short-term wage bill measures to create fiscal space, and longer-term structural reforms addressing the efficiency of the public sector, will support fiscal sustainability and, over time, improve incentives for public servants. This approach has been successfully applied in other countries in a similar situation such as Portugal after the financial crisis in 2009[17], South Africa in 2015, and the Philippines in 2012, which all implemented gradual decreases in the wage bill while improving public sector performance.

57. **Expected results.** It is expected that the reforms in recruitment and promotion will lead to a more fiscally viable wage bill and more efficient and transparent payroll management, which will ultimately also be conducive to improving workers' performance. While the 12-month hiring freeze will help prevent a wage bill increase in the immediate term, HR management and control based on the established positions defined by the HR institutional framework *(cadres organiques)* also addresses structural inefficiencies in HR management. The expected result will be measured by the level of compliance with the three-year strategic staffing plan. In addition, the introduction of the individual performance evaluation system with a limited quota for staff promotions will have a gradual impact on the wage bill over time. The combined effect of a hiring freeze, strengthened recruitment control, and the new promotion system is expected to keep the wage bill constant in real terms over 2016–2019 (versus a 12 percent real increase from 2012 to 2015). This is consistent with the IMF EFF wage bill projections and structural benchmarks which assume no growth in the wage bill up to 2020.

**Prior Action #2:** To stabilize the wage bill in the short-term, the Prime Minister has issued a circular to all its ministries prohibiting all recruitments across administrations, including agencies, departments and state owned enterprises, for a period of 12 months, excepting only its ministries responsible for health, national education, and defense for which hiring will be on a case-by-case basis.

*Improve the Efficiency and Transparency of Procurement Practices*

58. **The operation will support the Government's efforts to improve its public procurement system.** This will entail the adoption by the Council of Ministers of a draft law on public procurement in line with the PFM framework, which, inter alia, clarifies stakeholders' responsibilities and better enforces the provisions on the use of single sourcing (Prior Action #3). The related operational tools (standard bidding

[16] Technical assistance (TA) includes (a) development of the Human Resources Management Information System (HRMIS); (b) development of the strategic staffing plans; (c) capacity building of the HR management directorates; and (d) design and implementation of the new performance evaluation and promotion system.

[17] In Portugal for example, the fiscal crisis in 2009 required the Government to address the wage bill through a combination of short-term wage bill measures (for example, wage cuts, freezes on promotion, non-replacement of retirees) and long-term structural reforms (for example, introduction of an integrated HRMIS). The combination of reforms resulted in a reduction of the wage bill by 2 percentage points, and the HRMIS has become an important tool to help the Government identify redundancies, inefficiencies, and overstaffing in the public sector.

documents and application texts) to the law will be adopted by the Government subsequently. The law (de-facto approving a revised procurement code) and its operational tools will support a clearer role for ARMP and greater transparency in procurement practices. The second operation will support the operationalization of ARMP's new role *as evidenced by the issuance and publication of its first annual report including the audit of the public procurement system and public contracts, statistics on the procurement contracts highlighting the level of use of the single sourcing, the decisions made on the complaints and disputes logged by the stakeholders, and the sanctions toward non-compliant stakeholders (DPF2 Trigger #5)*. This trigger will strengthen the regulatory function of ARMP, while making information related to public procurement available to the public. A stronger ARMP will also help enforce the procurement code.

59. **Expected results.** The expected outcome is an improvement in the efficiency of procurement practices by decreasing the use of single-source contracting, which is expected to lead to higher value for money in public investment. The combination of the proposed measures is expected to have a significant impact on the reduction of single source contracting, aiming at increasing the contracts above CFAF 100 million awarded through competitive and transparent procurement processes to 85 percent (in value), from 29 percent in 2015.

**Prior Action #3:** To improve the efficiency of procurement practices, the Council of Ministers has adopted a draft law on public procurement in line with its PFM framework, which *inter alia* clarifies stakeholders' responsibilities and better enforces the provisions on the use of single sourcing.

**Pillar 2: Enhancing Competitiveness**

60. **The drop in oil prices and its negative impact on the economy have highlighted the importance of enhancing competitiveness and accelerating economic diversification.** This second pillar supports enhanced competitiveness by focusing on improving the business climate and strengthening ICT services. The choice of these two areas is dictated by their importance as constraints to competitiveness. These two areas are highly strategic because of their transversal nature and the role they play in creating an enabling framework for private sector engagement.

***Main Issues and Potential for Action***

61. **Addressing the poor business climate is a first imperative to enhance competitiveness and private sector-led economic diversification.** Gabon ranks 164 out of 190 economies in the DB report 2017. The report highlights multiple constraints in the investment climate, with at the core a PPD which is weak and unstructured and thus fails to jointly identify critical reforms for private sector development and monitor their implementation. To address these deficiencies, and based on international experience, the HCI, chaired by the President of Gabon, with the ANPI acting as the permanent secretary, was established and met for the first time in March 2017 to commit to several reforms included in the DB action plan.[18] Building on this platform, Gabon needs to urgently address key constraints to business creation and growth. While Gabon ranks 152 out of 190 economies in starting a business, this is generally considered as one of the top three most critical DB areas, and, worryingly, the area where Gabon's relative position has worsened the most since 2016 (from 144 to 152), demanding urgent action. Gabon also ranks extremely low on registering property (at 175 out of 190, its second worst ranked area) and it does not have any electronic records on collaterals. Noticeably, while Gabon has witnessed an increase in the number of new

[18] Prepared in February 2016 by a working group of various private and public institutions led by the ANPI and including the revision of the PPP and public procurement framework and other reforms to improve Government-to-business services. The PPP framework will be supported by the IMF EFF program including the creation of dedicated bodies for the oversight of PPPs.

small and medium enterprises (SMEs) created annually, reaching about 16,000 in 2016, lending to SMEs remains very risky, with default rates running around 35 percent. Ensuring that SMEs can leverage collateral and that banks have access to the information on collaterals would allow banks to lend with more confidence helping SMEs to create jobs.

62. **The ICT sector continues to be penalized by relatively high prices and limited coverage (especially internet services), which are limiting its impact on a broader portion of the population and constraining its transformative potential on other sectors of the economy.** For Gabon to improve its competitiveness in digital products, retail prices would need to decrease more rapidly and the coverage of the ICT networks would need to expand to a larger population. The comparison between Gabon and East African coastal countries indicates that a combination of vibrant competition at retail level and a substantial fall in wholesale prices are required to decrease retail prices sufficiently to stimulate uptake by a broader portion of the population and SMEs. This could lead to much higher coverage of ICT services as well as many new ICT-related jobs, while spurring private sector growth. With the adoption of its strategic plan for the ICT sector called 'Digital Gabon,' the Government is committed to improving its overall policy as well as the regulatory and legal environment for the ICT sector. This will significantly contribute to promoting a competitive environment for telecommunications operators and Internet service providers (ISPs).

63. **Addressing these challenges requires accompanying and fostering the entry of new entrants through an update of the legal and regulatory environment.**[19] Such update would focus on an appropriate licensing regime ensuring fair market conditions, the interconnection regime that defines how new entrants can access essential infrastructures of existing operators (for example, fiber optic backbone), and more efficient infrastructure sharing rules. The proposed improvements would further include: (a) the modernization of the framework to consider market changes and trends (for example, market dominance, infrastructure sharing, and spectrum needs), and technological developments (for example, e-commerce requiring rules on electronic transactions and e-health requiring rules on privacy protection) and (b) the harmonization of the national framework with regional and international guidelines and best practices.

***Reform Program Supported by the Operation and Expected Results***

64. The proposed operation supports two policy areas under Pillar 2, enhancing competitiveness, including doing business reforms to address critical bottlenecks to business creation and growth and the adoption of a regulatory and legal framework to stimulate a more competitive ICT sector.

*Improve the Business Climate*

65. **The first operation will support the establishment of a One-Stop-Shop (OSS) for business**

[19] The mobile telephony market is dominated by the incumbent, Gabon Telecom, competing with two other operators. This market is dynamic, and competition led to retail price decreases in recent years. On the Internet segment, access today is mostly provided by mobile operators, complemented by 'fixed line' operators and alternative ISPs. The retail internet market has experienced significant growth in the past five years, with the establishment of a PPP to supply additional international connectivity to the country, through a new landing station for international submarine cables, operating under an open access regime. Owing to this new facility, national telecoms operators and ISPs gained access to cheaper international connectivity, allowing them to compete in the retail market. This facility also allowed new players to enter the market; for instance, Groupe Vivendi Africa is currently deploying a fiber-to-the-home network in Libreville, later to be expanded in other cities, using the international capacity provided through this facility. However, a strong need for investment remains in the 'access' part of the networks, that is, the last mile of the network branching out to the final users, which is typically left to individual operators to provide. The adoption of fast internet broadband in Gabon will rely on the ability and willingness of ISPs to invest in this 'access' part. The operations of ISPs are currently hindered by the operating licenses regime which prevents them from rolling over certain technologies (such as fiber-to-the-home, giving fast and ultra-fast broadband access to Internet users).

**registration.** This will allow for much faster business registration by integrating all the different services involved in business registration into one single process, while saving money and making procedural requirements more transparent and easier to access. The operation would support the formal establishment of the OSS under the ANPI as well as its operationalization with the transfer of staff to the OSS from at least three public entities (ANPI business registration unit, the RCCM, and a tax revenue representative) (Prior Action #4). The concept of integrated services will thus be introduced and applied in the first year of the operation. In the second year, *the OSS will be staffed by transfer of representatives of all relevant agencies* (*(including, inter alia, the Centre de Propriete Industrielle, the RCCM, taxes, Caisse Nationale de Securite Sociale, and the General Directorate of the Environment and Nature Protection (DGEPN)) and the online registration process will have started (DPF2 Trigger #6)*. The OSS is supported by the Investment and Competitiveness Project.

66. **During the second year, there will be one additional trigger including the implementation of two interrelated Government-to-business services to support business growth.** *More specifically, this will include the start of the digitization of the RCCM and of land titles (DPF2 Trigger#7).* Before accepting collateral, creditors need an effective way to find out whether the potential borrower has already granted a security interest in the collateral and, if so, what priority those rights have, which is currently not possible in Gabon. At the same time, borrowers, including SMEs, also need to be able to leverage collateral through an easily accessible land registry. To address those needs, the Government will establish a digitized collateral and enterprise registry (RCCM) at the Ministry of Justice and a digitized land registry at Property Registry (*Conservation Foncière*). The digitization of land titles is a first step toward having a modern property registry that can be linked to other registries including the RCCM.[20] The positive impact of these reforms tends to be larger for smaller firms. Both reforms are technically feasible.

67. **Expected results.** It is expected that the above reforms will decrease the time needed for business registration and facilitate access to credit leading to an improved business climate for private-sector engagement and competitiveness. It is expected that by 2019/20 the OSS will lead to a decrease of business registration time from 50 to a maximum of 30 days, and 25 percent of the collateral in the RCCM and land titles will be digitized.

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| **Prior Action #4:** To streamline business registration and spur business creation, the Minister of Investment Promotion has issued a regulation (*Arrêté)* establishing a One Stop Shop for business registration under its *Agence nationale pour la promotion des investissements* (ANPI) and said One Stop Shop has been staffed by transfer of representatives of the ANPI, enterprise and collateral registry (RCCM) and tax administration to said One Stop Shop. |

*Strengthen ICT Services*

68. **In the short term, the authorities aim at adopting two new laws that will be the central pieces of the new competition-enhancing ICT regulatory and legal framework.**[21] The electronic communications and transaction laws are at the very core of the new ICT regulatory and legal framework to stimulate a more competitive ICT sector and higher protection of electronic transactions. The first law regulates the licensing regime for telecommunications operators and includes provisions for infrastructure sharing, interconnection and access to telecommunications networks, national roaming arrangements, obligations

[20] Studies show that in economies undertaking such reforms, access to bank finance increases by about 8 percentage points on average, while interest rates decline by about 3 percentage points and the terms of loans increase by about six months.
[21] A law on cybersecurity and a law on the protection of personal data are also in preparation and will ultimately complete the ICT legal and regulatory framework.

of operators with significant market power, spectrum management, numbering and number portability, universal service, rights of way, consumer rights and privacy protection, and quality of service obligations, among other aspects. The second law regulates electronic communications rights and obligations, e-commerce contracts, security of e-commerce transactions, electronic signatures and certificates, electronic archives, cryptography, among other aspects. The prior action of the first operation is the approval by the Council of Ministers of these two draft ICT laws (Prior Action #5). Both laws have been developed with the support of the E-Gabon and CAB4 projects.

69. **The second operation in the series will support the harmonization and enhancement of the current operating licenses of ISPs to establish a level-playing field among ISPs and encourage innovation.** As implementing technology-neutral licenses would unlock the potential for ISPs to invest in the 'access' part of the networks and ultimately benefit internet users with more widely accessible and faster internet service, building on the revised regulatory and legal framework, including the electronic communication law, *existing operating licenses of ISPs will be harmonized and enhanced and technology-neutral licenses implemented (DPF2 Trigger #8)*, with the objective of establishing a level-playing field between ISPs, facilitating the market entry of new ISPs and encouraging investments in modern technologies.

70. **Expected results.** The proposed reforms will contribute to stimulate competition, encourage investments and market entry of new players to foster innovation and contribute to reduce prices of ICT services and increase their usage. Direct beneficiaries of the reforms include all users who are connected to the communications network. Significant increases, of 20 percentage points and 10 percentage points, respectively, are expected in the access to: (a) Internet services and (b) telephony services.

**Prior Action #5**: To strengthen ICT services, the Council of Ministers has approved (i) the draft law on the regulation of electronic communications and (ii) the draft law on electronic transactions, including, inter alia, provisions for a more competitive ICT sector and for more secured electronic transactions.

**Pillar 3: Protecting the Poor**

71. **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, but also that it is accompanied by reforms to improve value for money in these sectors.** The objective of Pillar 3 is to protect the poor by improving the 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.

***Main Issues and Potential for Action***

72. **Gabon faces important constraints in financing and managing health care.** Financing of primary care and preventive health services remains extremely low as budget allocations give priority to hospital care. Hospitals receive 58 percent of funds, with the bulk going to secondary regional hospitals and 20 percent to tertiary hospitals. Primary care receives only 16 percent of the budget and public health only 13 percent (with the ratio of primary care decreasing to 11 percent for the executed budget). Gabon ranks near the bottom when comparing it to countries in the region: its primary care's share of the health budget compares to 34 percent of primary care's share of the health budget on average across SSA, 56 percent in

Cote d'Ivoire, and 47 percent in Ghana.[22] Also, 80 percent of the budget goes for curative care and only 20 percent for preventive care. As a result, patients are bypassing primary care clinics in favor of hospitals in search of quality care. Primary care clinics are under-resourced in funding, staffing, and equipment offering limited services. Health districts (*départments sanitaires*) have recently been created but are not operational. Finally, not only financing for PHC is low but there is also an absence of mechanisms to hold service providers accountable for results to the Government and the population**.** This further contributes to the poor health outcomes and low system performance.

73. **A strengthened primary care system would lead to an overall increase in patient flow and lower costs for the health system and patients, while effectively protecting the poorer segments of society**. Under the new National Program for Health Development (*Programme National de Développement Sanitaire*, PNDS) 2016–2021, validated in late 2016, the Ministry of Health plans to invest substantially in operationalizing the health districts and regions as well as the PHC system. This reform, if implemented and accompanied by a Performance-based Financing (PBF) reform, is expected to catalyze investments toward the periphery levels of the health system, contributing significantly to a greater focus on the financing of (cost-effective) primary, preventive, promotional, and community health services, with gains, particularly in terms of productive efficiency, expected to also extend to hospitals.

74. **Constraints are equally pronounced in the efficiency of social protection services. First, there is a need to redefine poverty and vulnerability in Gabon to better capture eligible beneficiaries.** The term Economically Weak Gabonese (*Gabonais Économiquement Faible*, GEF) is used by the Government to designate the poor and vulnerable, and therefore to target noncontributory services. According to the Human Investment Strategy, any individual with an income below CFAF 80,000 per month is considered GEF but this threshold does not appear to be related to a consumption basket and does not take into consideration key variables such as total household revenues, size and composition. As a result, using this definition to determine eligibility to noncontributory services inevitably leads to errors of inclusion and exclusion, with predictable negative impacts on the effectiveness, efficiency, and the overall fiscal burden of safety nets. The Government is working toward updating this definition.

75. **Additionally, Gabon's social protection system, consisting of a set of contributory and noncontributory mechanisms designed to help households manage socioeconomic risks, has limited coverage and sustainability, and the system of social safety nets envisaged in the Human Investment Strategy is excessively fragmented.** Approximately 934,000 Gabonese are currently covered, including 417,000 formal sector workers with access to contributory mechanisms and 517,000 persons (presumably GEF) covered by noncontributory mechanisms. Excluding noncontributory health insurance, the total number of individuals who benefitted from any type of social transfer in 2015 does not reach 50,000, representing a coverage rate of less than 10 percent of the 30 percent Gabonese believed to have incomes below the poverty line.[23] The National Fund for Health Insurance and Social Warranty (*Caisse Nationale d'Assurance Maladie et de Garantie Sociale* – CNAMGS) has the mandate to provide health insurance to all Gabonese. It has recently been tasked with extending health insurance to all those who are unable to pay contributions and with providing cash transfers to the GEF. These new responsibilities are stretching CNAMGS finances and represent an important risk to the long-term sustainability and effectiveness of the institution. In particular, funding for GEF services is both inadequate and irregular, thus making coverage for the poor limited and unpredictable. Importantly, with 19 separate programs, existing safety nets are

[22] Primary Health Care Performance Initiative, 2017.
[23] Some 800,000 people remain excluded from any social protection program, partly because a social insurance scheme for informal sector workers is not yet in place even though they represent more than half of the workforce. An actuarial study to develop this scheme is under preparation.

also excessively fragmented. Establishing a sustainable financial setup and improving coverage will require a comprehensive effort to identify new sources of funding, restructure safety nets programs and improve their delivery.

***Reform Program Supported by the Operation and Expected Results***

76. The proposed operation supports two policy areas under Pillar 3, protecting the poor, including reforms to profoundly change the way the health sector is financed and social protection services are targeted and delivered.

*Improve the Efficiency of Health Care Delivery*

77. **The operation supports the adoption of PBF to provide the incentives for more and higher quality PHC.** PBF has proved to be an effective approach in many African countries to rapidly increase prioritization of primary and preventive care, while improving the efficiency of the health care delivery at the periphery levels. By implementing PBF, primary care facilities and district hospitals will receive budget transfers (payments) based on the quantity and quality of health services provided, focusing attention on outcomes rather than inputs and thus leading to significant behavioral changes and efficiency gains.[24] Given the extremely low levels of public financing for primary care, implementing PBF will also lead to a reorientation of the public budget from tertiary services to primary and, some extent, secondary care.[25] To consider the limited knowledge and experience on PBF, while helping provide impetus for the far-reaching reform, significant investments have been made in PBF training and a PBF feasibility and design study, supported by the E-Gabon project, was conducted. The results of the study, including the key design elements of the pilot, were presented and validated at a national forum in February 2017. This study will lead to the issuance of a regulation (*Arrêté*) by the Ministry of Health specifying the key design characteristics of the PBF reform to be applied in selected health regions[26] (Prior Action #6). In combination with the finalization of the recruitment of the health regions' directors this will lay the ground for implementation.

78. **At the same time, the feasibility study has already indicated the need for key policy and institutional actions to support an effective PBF reform and ensure its sustainability.** Many countries' experiences with PBF have underlined the need to lay the ground for financial sustainability and autonomy very early in the reform process. To that extent, a regulation (*Arrêté*) has been adopted by the Minister of Budget that establishes a dedicated PBF account for annual allocations and provides greater autonomy to service providers (Prior Action #7). Specifically, as detailed in the Letter of Development Policy, this includes (a) the creation of a dedicated PBF account for central-level budgetary allocations at the beginning of each calendar year and (b) 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.

79. **For the second operation, emphasis will be laid on the full implementation and funding of the reform**. The triggers related to the PBF prior actions *will be the implementation of the PBF reform in the defined health regions, as evidenced by the signing of the performance contracts with at least 80 percent*

[24] The design of the PBF program is based on best practices from 20+ PBF programs across the region, and include verification, community verification and counter-verification mechanisms.

[25] The PBF program also strengthens the referral system between primary, secondary, and tertiary levels of care. Referrals and counter-referrals between these levels are incentivized, contributing to a reorientation toward PHC delivery.

[26] The selected areas will include the west, central, south central and south health regions and two health departments (Libreville 1 and Libreville 2) within the Libreville-Owendo health region (which cover about 45% of the country's population).

*of the health providers of the selected health regions* (DPF2 Trigger #9), *and securing funding in the PBF dedicated account in the 2018 Finance Law* (DPF2 Trigger #10). Discussions have taken place to make sure a PBF allocation is included in the 2018 Finance Law, in full coherence with the allocation for health care spending floor included in the IMF EFF program (see the following section) and Gabon's PFM framework. Any additional support to the reform will also continue to be provided notably through the E-Gabon project.

80. **Expected results.** It is expected that the adoption of PBF will lead to a substantial reallocation of health care resources to PHC and to more and better services. By 2019, it is expected that 80 percent of PHC providers in the PBF reform zone will be paid based on performance, with an increasing share of public executed spending for PHC (with funding coming from within the health care budget through a reorientation away from tertiary care toward primary care).[27] As a result of this increased PHC spending share and a performance approach, it is expected that there will be an increase in the share of primary care facilities offering cost-effective services,[28] including antenatal care, vaccinations, and family planning. More specifically, it is expected that there will be an increase in the share of primary care facilities offering prenatal consultations from 11 percent in 2017 to 40 percent in 2019 in two regions of the pilot zone (Central [Moyen Ogooue] and West [Estuaire]).[29] A higher share of primary care facilities offering prenatal consultations is expected to lead to lower maternal and child mortality in the longer-run. The reallocation of the health budget toward PHC and PBF is consistent with the health care spending floor established in the IMF EFF program (at least CFAF 26.6 billion with almost half for transfers to PHC facilities in 2017).

**Prior Action #6**: To prioritize primary health care and make its delivery more efficient, the Minister of Health has issued a regulation (*Arrêté*) specifying the key design characteristics of the PBF reform to be applied in selected health regions.

**Prior Action #7:** To ensure that PBF is effective, the Minister of Budget has issued a regulation (*Arrêté*) that establishes a dedicated PBF account for annual allocations and provides greater autonomy to service providers.

*Increase the Efficiency of Social Protection Services*

81. **The operation's first proposed reform of the social protection system aims at replacing the targeting system based on the present definition of GEF with a new, more accurate system, while at the same time simplifying the existing social safety net system by reducing the complexity and the number of programs.** A new targeting system would be based on a more accurate definition of poverty and use a proxy means test.[30] While not perfect, proxy means testing is appropriate to the Gabon context and has the advantage of being flexible, which makes it possible to adapt the definition and relax or tighten

[27] The costing and price structure of the PBF program has been designed in a way that favors primary and secondary care services. As such, execution of the PBF budget will lead to both an increase in the resources allocated to the periphery level and a change in the way the budget is executed as financing will be based on achieved results and not planned investments or recurrent operational costs. The PBF reform, particularly since it is financed purely from the public budget, addresses not only quality and accountability concerns as payments are made based on verified results linked to the quantity and quality of health services provided, but also allocative efficiency and PFM concerns.

[28] Services provided at the primary care level are always less costly than when they are provided at the hospital level, and preventive services, which are usually provided at the primary care level, are more efficient than curative care. Hence payments made based on production at the primary care level and services offered at that level are in fact a measure linked to efficiency.

[29] As the program will include district and regional hospitals during the pilot phase and be scaled-up nationwide later, the PBF reform will also explicitly lead to efficiency and accountability gains at the hospital level.

[30] The term 'proxy means test' is used to describe a situation where information on household or individual characteristics correlated with welfare levels is used in a formal algorithm to proxy household income, welfare or need.

eligibility criteria in response to changing circumstances (for example, variations in the cost of living, availability of public funds, and economic shocks). Such a targeting approach would reduce inclusion and exclusion errors, thus contributing to the effectiveness, efficiency, and ultimate sustainability of programs aimed at supporting the poor and vulnerable. Since there is no relevant in-country experience, the World Bank has been providing TA to the Government including analytical work. The final definition of poverty and vulnerability will be the product of a participatory process to ensure ownership and buy-in, and adoption of the new methodology will be made official by a new law and related application decrees. A new targeting approach will be complemented by the streamlining of the safety net system by gradually reducing the number and complexity of programs. The social protection chapter of the ongoing Public Expenditure Review (PER) provides key elements for the rationalization of safety nets. The prior action for the first-year operation supports this first reform by adopting a new operational definition of GEF through a new law while starting the process of simplification by supporting the issuance of a decree specifying priority target groups for transfers and fee exemptions as well as the amounts and modalities for such transfers and exemptions (Prior Action #8).

82. **The second operation will deepen the reform by supporting the actual application of the new definition and targeting approach while further streamlining the safety net system with the launch of a unified cash transfer program.** In terms of targeting, this will include the production of a detailed Operating Manual including the questionnaires for the means survey, the data to be included in the unique social register, and the process to verify and monitor information. This process will build on the data of the 2017 household survey, to become available by January/February of 2018. The *CNAMGS must then use the new operational definition for identifying GEFs, as outlined in the manual, for at least 20 percent of the households included in the GEF database [DPF2 Trigger #11]).* At the same time, the streamlining and modernization of safety net programs will require careful consensus building and a good communication strategy to continue the process beyond the most obvious simplifications. The second operation will support streamlining with *the delivery of the first wave of cash transfers under a unified monetary transfer program* (*DPF2 Trigger #11).* The final goal is to have in place an effective and fair targeting system for services destined to the GEF, whereby inclusion and exclusion errors are considerably reduced, complemented by a simplified and more reliable safety net system.

83. **Two additional interrelated measures are supported in the first year to help improve the delivery of services for the GEF: the first aims at improving accountability for delivery and the second aims at securing additional funds, with the overall aim of achieving greater financial autonomy under increased oversight of the CNAMGS.** The prior action for the first operation supports the first measure by having the Government (the Ministry of Social and Family Development, Social Security and National Solidarity) establish a performance agreement with the CNAMGS in accordance with Decree No. 510/PR/MTEPS (Prior Action #9). This agreement should specify yearly objectives in terms of funding, efficiency, and sustainability, thus encouraging appropriate budgeting, optimal use of available resources through better planning, efficient and timely transfer payments, and stronger monitoring of CNAMGS activities. The second measure will be supported by the introduction of a new tax mechanism, the Social Solidarity Contribution (*Contribution Sociale Solidaire,* CSS), to replace the tax on mobile telephony (Prior Action #9). The new CSS tax, which would correspond to an increase of 1 percent of VAT, would target all sectors except export sectors (for example, oil and wood) and mobilize additional funds to finance health services for the GEF. It should also help improve the CNAMGS cash flow because CSS revenues would be deposited directly into a CNAMGS account rather than transiting through a Treasury account.

84. **The trigger for the second-year operation would deepen the accountability measure introduced the first year to ensure even better services for the GEF.** *The yearly performance contract between the*

*Government (Ministry in charge of social security) and the CNAMGS should build on the findings of the audit commissioned by the Court of Auditors (just released) to include specific provisions to improve CNAMGS' efficiency and transparency, as well as measures to revitalize the grievance system for GEF services* (*DPF2 Trigger #12).* A key objective to be included in the performance contract must focus on the cash transfers program to ensure that benefits are delivered at least twice a year (see the section above).

85. **Expected results.** Because of the proposed reforms under this policy area, the targeting, design, and delivery of safety nets and noncontributory health insurance will improve, leading to more and better services for more accurately defined GEF. The targeting accuracy for services destined to the GEF (noncontributory health insurance, safety nets, and graduation programs) will increase by at least 30 percent, and it is expected that 30 percent of the GEF registered in the database will receive cash transfers at least twice a year (versus 10 percent currently). The consistency of funding for safety nets will be ensured through the social protection spending floor included in the IMF EFF program (at least CFAF 48 billion of which about half is for social transfers such as safety nets and graduation programs in 2017, with higher amounts expected in 2018 and 2019). These floors have already been included in the revised 2017 Finance Law and will be included in the 2018 Finance Law in full consistency with the fiscal consolidation efforts.

**Prior Action #8:** To make social protection services better targeted and more streamlined, the Council of Ministers has adopted: (i) a draft law to change the operational definition of Poor Gabonese (GEF) taking into consideration, among other things, household composition and the poverty line, and (ii) 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.

**Prior Action #9**: To increase the financial autonomy and accountability for the delivery of safety nets and non-contributory health insurance, (i) the Minister responsible for Social Development has signed with the CNAMGS an annual performance contract specifying objectives in terms of results and resources, and (ii) the parliament has introduced a Special Solidarity Contribution to finance the health insurance for the GEF.

86. The reforms proposed in this DPF are informed by several studies, policy notes, and TA activities carried out by or with the assistance of the World Bank in recent years, as well as the Government's strategic and analytical work.

**Table 5. DPF Prior Actions and Analytical Underpinnings**

| Prior Actions | Analytical Underpinnings |
|---|---|
| **Operation Pillar 1: Strengthening Fiscal Balance** | |
| **Prior Action #1:** To reduce the amount of tax expenditures: (i) the Minister of Economy has (i) issued regulations *(Arrêtés)*, within the framework of the Fight against La Vie Chere Program, which apply (a) a full exemption of custom duties and taxes to only 42 products from the list of basic goods; (b) a rate of 5 percent on 116 additional products from the list of basic goods; and (ii) revised the 2017 Finance Law to specify that (a) all exemptions from taxation on cross-border transactions require authorization in the Finance Law and must be accompanied by estimates of revenue forgone, and (b) discretionary administrative exemptions have been suppressed. | IMF staff visit report (December 2016, March 2017); World Bank Tax RAS (final report to the Government of Gabon submitted February 2017); Gabon CEMAC Policy Note (2017). The RAS has provided the analytical underpinnings, in support of actions under Measure #1 – Tax Expenditures. This includes the assessments of revenue forgone for all tax sources, as well as a review of areas for institutional improvements and technical capacity to sustain the database on tax expenditures. |

| Prior Actions | Analytical Underpinnings |
|---|---|
| **Prior Action #2:** To stabilize the wage bill in the short-term, the Prime Minister has issued a circular to all its ministries prohibiting all recruitments across administrations, including agencies, departments and state owned enterprises, for a period of 12 months, excepting only its ministries responsible for health, national education, and defense for which hiring will be on a case-by-case basis. | World Bank Wage bill study (final report submitted to Government of Gabon in 2016); World Bank PER (to be finalized in 2017); Gabon CEMAC Policy Note (2017). The wage bill study documents in detail the drivers of wage bill growth in Gabon, including the need for revamped recruitment and promotion control. |
| **Prior Action #3:** To improve the efficiency of procurement practices, the Council of Ministers has adopted a draft law on public procurement in line with its PFM framework, which inter alia clarifies stakeholders' responsibilities and better enforces the provisions on the use of single sourcing. | 2013 PEFA and 2016 PEFA; IMF report on the audit of expenditure chain (September 2015); World Bank PFM RAS Aide Memoires (April 2015, September 2015, April 2016); Gabon CEMAC Policy Note (2017). All these documents detail in depth PFM constraints, including the need for a clearer and better enforced procurement framework. |
| **Operation Pillar 2: Enhancing Competitiveness** | |
| **Prior Action #4:** To streamline business registration and spur business creation, the Minister of Investment Promotion has issued a regulation (*Arrêté*) establishing a One Stop Shop for business registration under its *Agence nationale pour la promotion des investissements* (ANPI) and said One Stop Shop has been staffed by transfer of representatives of the ANPI, enterprise and collateral registry (RCCM) and tax administration to said One Stop Shop. | World Bank Report on the Diversification and Competitiveness of Exports (September 2014); Gabon CEMAC Policy Note (2017). To promote export diversification and enhance competitiveness, the competitiveness report recommends to develop the national production capacity and a transparent and attractive investment climate, including by creating an environment of fair business. |
| **Prior Action #5:** To strengthen ICT services, the Council of Ministers has approved (i) the draft law on the regulation of electronic communications and (ii) the draft law on electronic transactions, including, inter alia, provisions for a more competitive ICT sector and for more secured electronic transactions. | TA to implement a new ICT regulatory and legal framework (2016–17), carried out through the CAB4 project financed by the World Bank; Gabon CEMAC Policy Note (2017). The TA has highlighted the urgent need for aligning the ICT framework for electronic communications with that of other countries. |
| **Operation Pillar 3: Protecting the Poor** | |
| **Prior Action #6:** To prioritize primary health care and make its delivery more efficient, the Ministry of Health has issued a regulation (*Arrêté*) specifying the key design characteristics of the PBF reform to be applied in selected health regions. | (a) Economic Update (2016), Evaluation of the 2011–2015 National Health Sector Plan (2016), Health Financing in Gabon (2014), Gabon CEMAC Policy Note (2017): All sources point to the urgent need of improving the allocative efficiency of health care spending by reorienting health financing away from tertiary curative care and toward primary and secondary care; (b) PER/health chapter (ongoing). |
| **Prior Action #7:** To ensure that PBF is effective, the Minister of Budget has issued a regulation (Arrêté) that establishes a dedicated PBF account for annual allocations and provides greater autonomy to service providers. | (a) As above; (b) PER/health chapter (on-going); (c) PBF feasibility study: The study points to critical elements for the success of PBF, included in the prior action. |

| Prior Actions | Analytical Underpinnings |
|---|---|
| **Prior Action #8:** To make social protection services better targeted and more streamlined, the Council of Ministers has adopted: (i) 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) 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. | Human Investment Strategy (2014), Concept Note for Social Protection RAS (draft, 2014), Economic Update (2015), Economic Update (2016), Vulnerability Note (ongoing), PER/Social Protection Chapter(on-going), Gabon CEMAC Policy Note (2017). The Vulnerability Note highlights the urgent need for a redefinition of vulnerability and the PER for a more efficient integrated cash transfer system. |
| **Prior Action #9:** To increase the financial autonomy and accountability for the delivery of safety nets and non-contributory health insurance, (i) the Minister responsible for Social Development has signed with the CNAMGS an annual performance contract specifying objectives in terms of results and resources, and (ii) the parliament has introduced a Special Solidarity Contribution to finance the health insurance for the GEF. | Human Investment Strategy (2014), Economic Update (2015), Economic Update (2016), PER/Social Protection and health Chapters(ongoing), CNAMGS audit by the *Court des Comptes* (draft, 2016), CNAMGS Actuarial Evaluation 2015-2030 (draft, 2016). These documents detail the main institutional and financial weaknesses of the CNAMGS calling for urgent reforms. |

### 4.3 LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

87. **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[31], which has been extended by two years (up to FY18) with the recently completed PLR[32]. 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.

88. **The proposed DPF is complemented by other operations and TA activities to help achieve its objectives.** The fiscal consolidation pillar is fully aligned with, and in part the result of, TA activities, such as the PFM, tax and more recent wage bill RASes. The PFM RAS (P146379) has for instance been highly instrumental in the development of the new Procurement Code and the wage bill RAS (P163632) will help design and/or implement the new recruitment and performance evaluation procedures. The competitiveness pillar is building on and is supported by the Investment Promotion and Competitiveness Project (P129267), IFC CEMAC Investment Climate Program (June 29, 2017), E-Gabon Project (P132824), and CAB4 project (P158299). For instance, the Investment Promotion and Competitiveness Project has helped design the OSS concept and is also supporting its online platform and the CAB4 has helped design the new legal and regulatory framework on electronic communications, which it will also help implement. Finally, the protecting the poor pillar is supported by the E-Gabon Project for the PBF reform, and by

[31] Report No. 67343, discussed 03/12/2012

[32] Report No. 95842, dated 03/09/2016

ongoing TA and analytical work on social protection to assess vulnerability.

### 4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

89. **The preparation of this operation has followed a participative process.** The two-day workshop to support the design of the operation elicited great interest and was very well attended by a variety of stakeholders. Following the workshop, the Government established a coordinated and participatory process to continue preparation, including through a strong Multi-sectoral Steering Committee inclusive of all key ministries and departments. Broader consultations are continuing through consultative mechanisms set in place to prepare the PSGE and the PRE; including with the private sector and civil society. Stakeholders' consultations are also being undertaken through ad hoc mechanisms in the context of specific reforms, such as the performance evaluation reform through a participatory process to build consensus, and social sector reforms through consultations on the sector strategies and action plans.

90. **This operation is part of a coordinated and complementary approach designed with the IMF, AfDB, and AFD.** In full consistency with the coordinated operational response by development partners in each CEMAC country around broadly consistent reform pillars, this operation was designed in close coordination with the IMF, AfDB, and AFD around consistent priority areas and overall targets, while ensuring complementarity of specific policy areas and/or actions building on each other strengths. Details on the IMF EFF program have already been provided above. The economic outlook, fiscal and PFM strategy, and social spending targets have been aligned between this operation and the IMF program, while focusing the operation more squarely on areas such as business climate and ICT reform, management of the wage bill, and social sector policies where the World Bank has strong technical and policy knowledge and expertise. The first AfDB operation was approved in January 2017 for about US$531.0 million and will be followed by a second in 2018 for a tentative US$211.0 million. The AfDB operation focuses on reforms in (a) revenue programming and collection; (b) public expenditure efficiency; (c) business climate; (d) access to finance; and (e) agricultural sector competitiveness. There are complementarities across operations as the AfDB targets specific sectors that are not the focus of the World Bank operation, such as agriculture, while the reforms proposed to improve the overall business climate in the World Bank would facilitate the more specific sectoral reforms supported by the AfDB. The AFD has committed to provide budget support of about US$79 million in 2017, followed by tentative similar amounts for 2018 and 2019. The AFD's budgetary support is focused on reducing arrears in complement to the IMF program, while its targeted interventions are focused on forestry and the environment, agriculture, private sector, and health. These interventions support well the policies supported by the World Bank operation, in particular in the business climate and health sector.

## 5. OTHER DESIGN AND APPRAISAL ISSUES

### 5.1 POVERTY AND SOCIAL IMPACT

91. **The prior actions under the fiscal consolidation pillar are not expected to have significant overall social, poverty, and distributional effects.** The Government undertook a fiscal and poverty analysis[33] to identify the basic products widely consumed by the poor in relation to the products not widely or barely consumed by the poor to help refocus the '*La Vie Chère*' program. This led to a proposal to (i) maintain the

[33] Based on note 'Evaluation de l'impact fiscal de la révision de la liste des produits de première nécessité', Government of Gabon, April 3, 2017.

full exemption for 42 basic needs products widely consumed by the poor [34]; (ii) tax at 5 percent an additional 115 products moderately consumed by the poor; and (ii) restore the full tax for the remaining 34 products (considered to be luxury items barely consumed by the poor[35]). With the last household survey conducted in 2005, comprehensive data on the consumption basket of the poor are not available, but the data and analyses from the 2006 poverty assessment[36] confirm that the reduced exemptions do not affect in a significant way goods more widely consumed by the poor. All the (imported) goods included in the 2005 basic goods consumption basket will either remain fully exempt (including the core ones such as rice and corn), or will be taxed at 5 percent. The same poverty assessment also recommends differentiated taxation per type of products to strike a balance between higher revenues and protection of the poor.[37] The Government has established within the Ministry of Economy a '*Cellule Vie Chere*' to closely monitor the implementation of the program. Its implementation capacity, including of the differentiated exemptions, will be strengthened by the creation of the new Fiscal Coordination Committee to oversee the level, composition, and use of tax expenditures.

92. **Additionally, the prior action to stabilize the wage bill is not expected to have significant overall social and distributional effects**. This is due to several factors. First, the proposed measure will not affect public sector wages or involve lay-offs as it only affects new recruitments (including for the replacement of retirees). Second, it will not affect the education and health ministries, maintaining their capacity to deploy teachers and medical personnel where they are most needed. Third, it builds on the results of a wage bill study which provide clear evidence that the current workforce is oversized in many sectors, pointing to room for downsizing.[38] Moreover an improved policy and regulatory framework and improved human resource systems, with HR management directorates and a developing HR information system, will help oversee and monitor the impact of labor market reforms. Possible negative perceptions about the reform will also be mitigated through the ongoing communication campaigns and stepped-up consultations with representatives of civil society and the trade unions.

93. **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 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. Detailed analysis undertaken for the E-Gabon project points to (i) significant spillovers of ICT applications in many domains including youth entrepreneurship and social service delivery (including e-health services); and (ii) to increased uptake of ICT services by the bottom 40 percent of the population.[39] Several factors will help Gabon realize the full promise of ICT reform as per the aspirations of its Strategic Plan " Digital Gabon": (i) a developing policy and regulatory environment conducive to promoting a competitive environment for telecommunications operators and ISPs; and (ii) an

[34] These products include rice, pastas, vegetables like tomatoes and onions, corn, milk, basic meats and fish.

[35] These products include luxury fish (salmon, tuna…) and imported nuts.

[36] The World Bank: "Gabon: poverty assessment", June 2006.

[37] 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, and only after the 2017 household survey data become available to update consumption baskets.

[38] The World Bank: "Gabon: Wage Bill Study", 2016.

[39] Currently, Gabon's poorest 40 percent would need to spend 10 percent of their disposable income to purchase 1Mbit/s of broadband services.

excellent track record of implementing reforms in the ICT sector[40] led by the Ministry in charge of Digital Economy (MENP) and the well-established National Agency for Digital Infrastructure and Frequencies. The DB reforms supported by the operation are expected to support the creation and growth of SMEs leading to new jobs, including through self-employment. These jobs, like the ones in the ICT sector, have strong potential to decrease poverty, particularly to the extent that over 60 percent of the poor mention job creation as the first public policy to improve living conditions and self-employed workers in the formal private sector fare particularly well in Gabon. [41] The unemployment rate for women is at least double that for men and they have lower monthly salaries. It is therefore expected that they could significantly benefit from new employment opportunities. To achieve this result, the Government will step up campaigns to encourage women entrepreneurship. A well-established ANPI which can now rely on an operational HCI should be in a strong position to oversee and implement the DB action plan, and, in combination with the national office for employment, spur and monitor jobs creation.

94. **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 and of better quality**. Since multi-dimensional poverty, as measured through a multi-dimensional poverty index (including health and nutrition indicators), is much higher in rural than urban areas, increased accessibility to health services in rural areas will have a positive effect on poverty.[42] The probability of visiting a health center is significantly lower for the poorest than the richest income quintile (8 percent versus 16 percent). The lack of medicines and high cost of care are mentioned as the key determinants of this lower utilization rate[43], pointing to both economic and quality constraints. The PBF health care reform will address all those constraints by supporting higher quality and cheaper[44], primary health care services.

95. **Actions to improve health care delivery will be complemented by the reforms intended to make health insurance and safety nets 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.[45] On the one hand, the threshold of CFAF 80,000 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)[46] in the access to transfers and services. Similarly,

[40] As also internationally recognized with the 2015 "ICT for Sustainable Development Award."
[41] The World Bank: "Gabon: poverty assessment", June 2006.
[42] A multi-dimensional poverty index, including health and nutrition indicators, was calculated using the DHS 2012 showing that about 17 percent of Gabonese are multi-dimensionally poor, with this ratio increasing to an astonishing 47 percent in rural areas.
[43] The World Bank: "Gabon: poverty assessment", June 2006; The World Bank: "Health Chapter" of Gabon PER, 2017.
[44] In the PBF program service providers have the autonomy to set their own prices for services, yet the inherent incentives in the price structures of the results-based payments incentivize service providers with contracts at all levels to reduce user fees. As such it is anticipated that fees will be reduced, particularly at the primary care level where the relative contribution of PBF payments out of total revenue will be higher than in hospitals.
[45]The World Bank: "Gabon Vulnerability Note", 2017; The World Bank: "Social Protection Chapter" of Gabon PER, 2017.
[46] More specific figures for inclusion errors and estimates for exclusion errors will be possible with the 2017 household survey.

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 monetary transfers (delivered twice a year) from 10 percent to 30 percent of the GEF. The 2017 household survey will help define, among other things, the new vulnerability threshold and the size of transfers and assess the full distributional impact of the reform. Evidence from the 2006 poverty assessment highlighted that a perfectly targeted monetary transfer of about 9 percent of the poverty line for urban areas and 16 percent for rural areas could bring all households above the poverty line. The proposed social protection reform thus has the potential to lift all Gabonese out of poverty in a foreseeable future. The Government's strategic health and social protection sector plans in combination with a stronger role of the CNAMGS provide a solid framework for maximizing the impact of health and social protection reforms. This will be enhanced by extensive consultations, by the end of 2017, with concerned stakeholders and civil society on the application of the new GEF definition, measures to strengthen the accountability of the CNAMGS to achieving results, and the availability of the 2017 household survey data by January/February of 2018. Moving forward, the Government has engaged itself, including through the Letter of Development Policy, to undertaking regular household surveys to ensure better targeting and monitoring of its social policies.

### 5.2 ENVIRONMENTAL ASPECTS

96. **The actions and reforms supported by this operation are likely to have no adverse environmental impacts.** Gabon has established a clear legal and institutional framework for environmental management. Law no. 007/2014 on the protection of the environment in the Republic of Gabon ('Environment Law'), and Decree No. 000539/PR/MEFEPEPN of July 15, 2005 regulating Environmental and Social Impact Assessment (ESIA), require prior environmental assessment (including public consultations) for business projects that could affect the environment. In addition, Decree 000543/PR/MEFEPEPN of July 15, 2005 lays down the legal regime of classified installations and associated risks. In Gabon, depending on activities, size, level of damage or pollution to the environment and products, among others, investors are required to include an environmental assessment report in their investment business plan or as part of their feasibility study. The Ministry of Water, Forestry, Environment, and Sustainable Development, through the DGEPN, is the principal agency responsible for the management of the environment and coordinates, monitors, and supervises all activities in this field. The DGEPN is represented at the grassroots by provincial services comprising provincial brigades grouped zonally. However, the DGEPN has limited resources to track, undertake, and ensure consistent environmental compliance, enforcement, and monitoring. In the context of Prior Action #4, to ensure that environmental and social due diligence and associated permitting requirements are met even as business registration is streamlined, the following measures will be incorporated into the design and the operation of the One-Stop-Shop (OSS) automated platform: (i) before issuing a business certificate and before commencing implementation of business projects, investors will be required to cross-check whether their projects require an ESIA or an authorization/permit from the ministry in charge of the environment; (ii) the DGEPN will be among the agencies participating/contributing to the OSS-automated platform services; (iii) the final step of the OSS process will be focused on environmental compliance requirements (project environmental and social checklist, site visit, and issuance of ESIA certificate); and (iv) in addition, the OSS platform will incorporate in its services non-fiscal incentives, which, among other things, will include the list of authorized environmental impact assessment firms/experts in Gabon.

97. **Waste management, including for health care waste is regulated in Gabon by Decree No. 000541/PR/MEFEPEPN of July 15, 2005.** According to this decree, it is the responsibility of the waste generator to ensure that waste is packaged, transported, treated, and disposed of conform with legal requirements and that there is an auditable record of the steps involved in storing, collecting, and

transporting the waste. Compliance with the general requirements for the storage of waste is monitored by environmental management inspectors called '*agents verbalisateurs*' at the local and provincial level. Health care institutions are waste generators but not all hospitals in Gabon have waste treatment facilities. Since Prior Actions #6 and #7 under the third pillar of the operation are intended to increase the use of health services—which could lead to an increase in volumes of medical waste—the following measures are mainstreamed into the PBF reform design and implementation: (i) each participating health facility will nominate a waste management focal point, and those health care institutions that do not have a health care waste treatment facility, such as an incinerator, will sign an agreement with a provincial hospital that hosts an environmentally friendly incinerator. They will then handle, label, contain, store, and periodically transport their waste to this hospital for elimination; (ii) the health teams will be trained in health care waste management and safety measures; and (iii) the health information system to be established will also include data on health care waste. The quarterly quality evaluation for the PBF payments uses a standardized checklist that measures waste management, implying continuous monitoring, supervision, and coaching on waste management.

### 5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

98. **Fiduciary risk is Substantial.** The BEAC safeguards framework, accounting systems, and auditing arrangements are currently being improved through institutional reform, though the status of Gabon's PFM system still needs improvements, especially in budget execution and procurement. The Government of Gabon is committed to address weaknesses in the PFM system identified in the 2016 PEFA, supported by several donors including the World Bank, the IMF program, and others.

99. **The Gabon 2016 PEFA concluded that the PFM system is being modernized with the implementation of the program budgeting approach which lays the groundwork for greater fiscal discipline and transparency.** Since 2015, the new PFM Act (*Loi Organique relative aux Finances et à l'Exécution du Budget de l'Etat*, LOLFEB), the legal framework for the management of public finances in Gabon, has been revised in alignment with the CEMAC PFM directives. In particular, a program budgeting approach has been introduced, with the allocation of budgets by missions and programs together with performance monitoring indicators.

100. **Fiscal discipline and budget transparency have been enforced, albeit with slow progress.** A yearly calendar for the formulation of the budget is well-defined from timely discussions between the Ministry of Budget and the sectoral ministries to the submission to the Parliament of the Finance Bill for its adoption. Budget conferences to set clear medium-term expenditure ceilings also take place at the beginning of the preparation of the budget and forecasts. The execution of the program budgeting approach from 2015 onward has enabled authorities to frame strategic programs and to create a framework setting targets and results indicators to measure service delivery performance. The budget is published as any other law in the Official Journal (*Journal Officiel*). However, the budget control and execution systems remain weak and leads to exceptional procedures, poor arrears management, and insufficient transparency in the management of public procurement and investments. The shortcomings of the control function over the budget execution and the absence of fiscal risk management often create deviations of funds from the original budget line to another and promote the frequent use of extra budgetary practices. Furthermore, there is limited upstream accountability in budget management to the public because its participation is limited to the dissemination stage. Citizens are somewhat involved in PFM processes, by using information available on the public website or in the press, but access to information generally remains challenging. The budget performance is not well-presented in the Report on Annual Performance.

101. **In 2013, the IMF staff carried out an on-site safeguards assessment of the BEAC.** Although the assessment was conducted during a period of significant institutional changes, it found that progress had been made in strengthening the regional central bank's safeguards framework since 2009, when the previous safeguard assessment was undertaken. The assessment concluded that the BEAC's reserves appeared to be broadly adequate, though it noted the need for a more active reserves management strategy. The BEAC has initiated measures aimed at reinforcing its governance and control environment. Furthermore, a new organizational structure was established for the Internal Audit Department. A risk-based auditing approach was implemented, and the scope of the external audit was widened to include the activities of the national directorates and other agencies. The BEAC now publishes a full set of audited financial statements. The external auditors concluded that the 2012 to 2016 financial statements are unqualified ('clean').[47] An update of the safeguard assessment completed in June 2016 confirmed the adequate implementation of the BEAC institutional reform and modernization plan. Two key actions were agreed with BEAC: the revision of its article of agreement to reinforce its independence and the move toward the International Financial Reporting Standards.

102. **Disbursement and accounting.** The recipient is the Government of Gabon, represented by the Ministry of Budget. The loan will be released in a single tranche equivalent to US$200 million upon effectiveness and provided that the World Bank is satisfied with (a) the program being carried out by the recipient; and (b) the adequacy of the recipient's macroeconomic policy framework. The proposed operation will follow International Bank for Reconstruction and Development (IBRD) standard disbursement procedures for development policy operations. Upon approval of the operation and effectiveness of the Financing Agreement, the proceeds of the loan will be disbursed by the World Bank into a Designated Account designated by the Government of Gabon for budget support at the central bank (the BEAC), which will form part of the country's foreign exchange reserves. The proceeds of the loan will not be used to finance expenditures excluded under the Financing Agreement. The recipient shall ensure that upon the deposit of the loan into said account, an equivalent amount is credited in the recipient's budget management system in a manner acceptable to the World Bank. Based on previous experience, the execution of such transactions between the BEAC and the Ministry of Budget do not require more than four days. The recipient will report to the World Bank on the amounts deposited in the foreign currency account and credited in local currency (CFAF) to the budget management system. If the withdrawal request is in foreign currency, the equivalent amount in local currency reported in the budgetary system will be based on the market rate effective on the date of the transfer. The recipient will promptly notify the World Bank within 30 days of the transfer by fax or email that the transfer has taken place and that proceeds have been credited in a manner satisfactory to the World Bank.

103. **Audit.** The recipient shall (a) report the exact sum received into the Designated Account; and (b) ensure that all withdrawals from the Designated Account are for budgeted public expenditures, except for purposes such as military expenditures or for other items on IBRD's negative list (items excluded under the financing agreement). IBRD reserves the right to require an audit of the Designated Account by

[47] The reviews of the audit reports and the IMF 2013 quadrennial safeguards assessment report found that since 2013, the BEAC has launched a series of reforms to enhance the capacity of its accounting system, including (a) upgrading its practices to conform with international financial reporting standards; (b) strengthening its computerized accounting system (SYSCOBEAC) to improve information management; and (c) implementing a computerized system for integrated risk management (SIRISBEAC) to better manage risks arising from the diversification of its activities and the integration of new technology. The recommendations of the 2013 assessment included revising the BEAC Charter, accelerating the implementation of the reform and modernization plan, and strengthening safeguards in accounting, information technology, reserves management, and currency operations. The implementation of these recommendations is being monitored by the IMF as part of its 'rolling measures' approach. Following the update of the safeguard assessment completed in June 2016, a new full safeguard assessment is being undertaken in 2017.

independent auditors acceptable to IBRD. If, after being deposited in the Designated Account, the proceeds are used for ineligible expenditures as defined in the Financing Agreement, the World Bank will require the recipient to refund directly to IBRD an amount equal to the amount of that payment promptly upon notice. Amounts refunded to the World Bank upon such a request will be credited to the loan account and cancelled.

### 5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

104. **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 established for this operation, it will coordinate actions under the DPF program and report progress to all relevant stakeholders.

105. **The Results Framework includes indicators that can easily be monitored.** 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.

106. **Grievance redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

## 6. SUMMARY OF RISKS AND MITIGATION

107. **The overall risk rating for this operation is High.** The main risks are presented below:

- **The political and governance risk is rated as High.** 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 sociopolitical climate remains tense and may hamper the administration's ability to implement reforms, particularly the ones related to fiscal consolidation, including wage bill containment and reduction of tax exemptions. Governance risks also exist at the regional level if CEMAC member countries do not coordinate their policy and fiscal actions. The project team will closely monitor upcoming political developments in Gabon, and the regionally coordinated effort to maintain CEMAC's external stability and the integrity of its monetary arrangement mitigates the risk of uncoordinated efforts.
- **The macroeconomic risk is rated as High.** The main risks are (a) 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; (b) the

potential for a larger spillover of the oil sector slowdown to the non-oil economy; and (c) the risk of poorly coordinated fiscal consolidation efforts by the six CEMAC countries, as this intervention is part of a regional initiative which may be only as strong as its weakest link, and some member countries have progressed slowly in their negotiations with the IMF. Strong mitigation measures have been established 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 within the context of the broader CEMAC regionally coordinated response effort.

- **The institutional capacity for implementation and sustainability risk is rated as High.** 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 and the country's low score on the Government effectiveness dimensions of the Worldwide Governance Indicators, 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 and 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.[48] In addition, through the PFM RAS, the World Bank supported an improvement in the procurement system, which will be further enforced through the new procurement code and the operationalization of the ARMP. Other PFM measures, notably on addressing extra budgetary spending and arrears accumulation, are supported through the IMF program.

**Table 6. Summary Risk Ratings**

| Risk Categories | Rating |
|---|---|
| 1. Political and governance | High |
| 2. Macroeconomic | High |
| 3. Sector strategies and policies | Moderate |
| 4. Technical design of project or program | Moderate |
| 5. Institutional capacity for implementation and sustainability | High |
| 6. Fiduciary | Substantial |
| 7. Environment and social | Moderate |
| 8. Stakeholders | Moderate |
| **Overall** | **High** |

[48] With the transposition of the six CEMAC directives, in particular the new LOLFEB, the foundations of a renewed system have been posed and areas like the budget classification and budget preparation processes are in line with international standards.

## ANNEX 1: POLICY AND RESULTS MATRIX

<table>
<tr><th colspan="2">Prior Actions and Triggers</th><th rowspan="2">Results</th></tr>
<tr><th>Prior Actions for DPF 1</th><th>Triggers for DPF 2</th></tr>
<tr><td colspan="3">PILLAR 1: STRENGTHENING FISCAL BALANCE</td></tr>
<tr><td colspan="3">Policy Area 1(a): Increase revenues mobilization and improve transparency</td></tr>
<tr><td colspan="3">Enhancing revenue generation, through elimination and improved coordination and oversight of tax expenditures</td></tr>
<tr><td><u>Prior Action #1</u>: To reduce the amount of tax expenditures, the Minister of Economy has (i) issued regulations (Arrêtés), within the framework of the Fight against La Vie Chere Program, which apply (a) a full exemption of custom duties and taxes to only 42 products from the list of basic goods; (b) a rate of 5 percent on 116 additional products from the list of basic goods; and (ii) revised the 2017 Finance Law to specify that (a) all exemptions from taxation on cross-border transactions require authorization in the Finance Law and must be accompanied by estimates of revenue forgone, and (b) discretionary administrative exemptions have been suppressed.</td><td><u>Trigger #1</u>: To reduce the amount of tax expenditures, the Minister of Finance establishes ceilings on tax expenditures in the 2018 Finance Law, amounting to an average reduction of 10% over FY16 in the total tax expenditures on customs, VAT at the border, Excises at the border and domestic VAT. The identification of the specific reductions will be prepared by the Coordination Committee on tax expenditure, attached to the “Inter-ministerial Committee for Macroeconomic Adjustment and Budget”, by laying out focused awarding criteria and modalities of tax expenditures.</td><td rowspan="3"><u>Result Indicator#1</u>:<br>Non-oil revenue (as a percentage of non-oil GDP)<br>Baseline (2016): 17.0%<br>Target (2019): At least 17.8%<br><br>Indicative figures for reference<br><br>Non-oil revenue (as percentage of total GDP):<br>Baseline (2016): 12.0%<br>Target (2019): 12.6%<br><br>Impact by reform (as a percentage of total GDP):<br>Policy Aarea#1: 0.17%<br>Trigger#1: 0.35%<br>Trigger#2: 0.04%</td></tr>
<tr><td colspan="2">Enhancing revenue mobilization, through increased alcohol and tobacco excises</td></tr>
<tr><td></td><td><u>Trigger #2</u>: With a view to improve revenue performance and health outcomes, the 2018 Finance Law includes a revenue increase from tobacco and alcohol excises solely achieved through rate increases for alcohol and via the adoption of a tobacco tax reform, which, inter alia, establishes (i) a mixed excise system with the introduction of a specific excise tax of CFAF 100 per pack of 20 cigarettes, both imported and domestic, keeping all other tobacco taxes and duties unchanged; and (ii) that the specific excise tax will be adjusted by the CPI per year.</td></tr>
<tr><td colspan="3">Policy Area 1(b): Stabilize the wage bill and improve workers’ performance</td></tr>
<tr><td colspan="3">Strengthening the recruitment control system</td></tr>
</table>

| | | |
|---|---|---|
| **Prior Action #2:** To stabilize the wage bill in the short-term, the Prime Minister has issued a circular to all its ministries prohibiting all recruitments across administrations, including agencies, departments and state owned enterprises, for a period of 12 months, excepting only its ministries responsible for health, national education, and defense for which hiring will be on a case-by-case basis. | **Trigger #3:** To strengthen the recruitment control system, the 2018 Finance Law has introduced explicit ceilings on the number of authorized budgetary positions for each constitutional body and ministry, and ministries accounting for at least 80 percent of civil servants have prepared and submitted a strategic staffing plan including (a) a detailed description of current employment against missions, including all forms and status of employment (‘*Cadres organiques*’); and (b) a three-year projection of staffing needs (‘staffing plans’). | **Result Indicator#2:** Percentage of recruitments complying with the three-year staffing plans<br>Baseline (2016): 0%<br>Target (2019): 80%<br><br>**Result Indicator#3:** Wage bill increase in real terms<br>Baseline (2012 - 2015): 12%<br>Target (2016-2019): 0% |
| ***Making promotions more merit-based*** | | |
| | **Trigger #4:** To move from automatic to merit based promotions, (i) the civil service code (Law 1-2005) has been amended to link the advancement/promotion system to performance evaluation; and (ii) the President has issued a decree detailing the methodology and implementation procedures of individual performance evaluation in the civil service. | |
| **Policy Area 1(c): Improve efficiency and transparency in procurement practices** | | |
| **Prior Action #3:** To improve the efficiency of procurement practices, the Council of Ministers has adopted a draft law on public procurement in line with its PFM framework, which inter alia clarifies stakeholders’ responsibilities and better enforces the provisions on the use of single sourcing. | **Trigger #5:** To improve the efficiency and transparency of procurement practices and in line with the new procurement law, ARMP (*Agence de Regulation des Marchés Publics*) has issued and published its first annual report including the audit of the public procurement system and public contracts, statistics on the procurement contracts highlighting the level of use of the single sourcing , the decisions made on the complaints and disputes logged by the stakeholders, and the sanctions toward non-compliant stakeholders. | **Result Indicator#4:** Percentage of contracts (in value, for contracts above CFAF 100 million allocated through competitive process<br>Baseline (2015): an estimated 29% of contracts<br>Target (2019): 85% of contracts |
| **PILLAR 2: ENHANCING COMPETITIVENESS** | | |
| **Policy Area 2(a): Improve the business climate** | | |

| | | |
|---|---|---|
| **<u>Prior Action #4</u>:** To streamline business registration and spur business creation, the Minister of Investment Promotion has issued a regulation (*Arrêté*) establishing a One Stop Shop for business registration under its *Agence nationale pour la promotion des investissements* (ANPI) and said One Stop Shop has been staffed by transfer of representatives of the ANPI, enterprise and collateral registry (RCCM) and tax administration to said One Stop Shop. | **<u>Trigger #6:</u>** To streamline business registration and spur business creation, the One Stop Shop has been staffed by transfer of representatives of all relevant agencies and the online registration process has started. | **<u>Result Indicator #5</u>:**<br>Number of days necessary for business registration<br>Baseline (2016): 50<br>Target (2019): 30 |
| | **<u>Trigger #7:</u>** To facilitate access to credit and spur business growth, the digitization of the enterprise and collateral registry (RCCM) and of land titles has started, with the digitized titles ready to be linked to the RCCM. | **<u>Result Indicator #6</u>:**<br>i) Share of enterprise and collateral registry digitized; ii) Share of land titles digitized<br>Baseline (2016): i) 0%; ii) 0%<br>Target (2019): i) 25%; ii) *25%* |
| **Policy Area 2(b): Strengthen ICT services** | | |
| **<u>Prior Action #5</u>:** To strengthen ICT services, the Council of Ministers has approved (i) the draft law on the regulation of electronic communications and (ii) the draft law on electronic transactions, including, inter alia, provisions for a more competitive ICT sector and for more secured electronic transactions. | **<u>Trigger #8:</u>** To increase access to fast internet broadband service, operating licenses for Internet Service Providers have been harmonized and enhanced and technology-neutral licenses have been implemented. | **<u>Result Indicator #7:</u>**<br>i) Access to Internet Services* (number of Internet subscribers - fixed plus mobile - per 100 people); ii) Access to Telephony Services* (number of Telephony subscribers – fixed plus mobile - per 100 people)<br>Baseline (2016): i) 98%, ii) 175%<br>Target (2019): i) 120%, ii) 185%<br><br>*(*) By number of lines/subscriptions, not by unique subscriber* |
| **PILLAR 3: PROTECTING THE POOR** | | |
| **Policy Area 3(a): Improve the efficiency of health care delivery** | | |
| ***Adopting Performance Based Financing (PBF) in health care*** | | |

| | | |
|---|---|---|
| **<u>Prior Action #6</u>:** To prioritize Primary Health Care (PHC) and make its delivery more efficient, the Minister of Health has issued a regulation (*Arrêté*) specifying the key design characteristics of the Performance Based Financing (PBF) PHC reform to be applied in selected (*) health regions.<br><br>(*) West, central, south central and south health regions and two health departments (Libreville 1 and Libreville 2) within the Libreville-Owendo health region. | **<u>Trigger #9</u>*:*** To prioritize PHC and make its delivery more efficient, the Government has implemented the PBF reform in the selected health regions, as evidenced by the signing of the performance contracts with at least 80 percent of the health providers of the selected health regions. | **<u>Result Indicator #8:</u>**<br>Share of PHC facilities in selected health regions receiving performance payments<br>Baseline (2016): 0%<br>Target (2019): 80%<br><br>**<u>Result Indicator#9</u>:**<br>Share of primary care facilities offering essential health services by qualified health workers (*measured by prenatal consultations in regions Central (Moyen Ogooue) and West (Estuaire)*)<br>Baseline (2017): 11%<br>Target (2019): 40% |
| **<u>Prior Action #7:</u>** To ensure that PBF is effective, the Minister of Budget has issued a regulation (*Arrêté*) that establishes a dedicated PBF account for annual allocations and provides greater autonomy to service providers. | **<u>Trigger # 10:</u>** To ensure that PBF is effective, funding for PBF is secured in the PBF dedicated account in the 2018 Finance Law. | |
| **Policy Area 3(b): Increase the efficiency of social protection services** | | |
| ***Redefining poverty and vulnerability in Gabon and simplifying safety nets*** | | |
| **<u>Prior Action #8</u>:** To make social protection services better targeted and more streamlined, the Council of Ministers has adopted: (i) 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) 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. | **<u>Trigger #11</u>*:*** The CNAMGS uses the new operational definition for identifying GEFs, as outlined in an Operating Manual, for at least 20 percent of the households included in the GEF database, and has distributed the first wave of cash transfers under a unified monetary transfer program. | **<u>Result Indicator #10</u>**:<br>Inclusion errors in the targeting system available for social protection services<br>Baseline (2016): High inclusion error (estimated to be higher than 30%, to be confirmed with 2017 household survey)<br>Target (2019): 30% or less inclusion error<br><br>**<u>Result Indicator #11</u>**:<br>Share of GEF registered in the database receiving cash transfers at least twice a year<br>Baseline (2016): less than 10%<br>Target (2019): 30% |
| ***Improving the delivery of safety nets and health insurance for the GEF*** | | |
| **<u>Prior Action #9</u>:** To increase the financial autonomy and accountability for the delivery of safety nets and non-contributory health insurance, (i) the Minister responsible for Social Development has signed with the CNAMGS an annual performance contract specifying objectives in terms of results and resources, and (ii) the parliament has introduced a Special Solidarity Contribution to finance the health insurance for the GEF. | **<u>Trigger #12:</u>** To increase the accountability for the delivery of safety nets and non-contributory health insurance, the CNAMGS annual performance contract integrates measures to (a) improve the efficiency and transparency of the CNAMGS in accordance with the final results of the audit of the Court of Auditors; (b) revitalize the complaints and redress system for GEFs; and (c) ensure the payment of cash transfers to all GEFs at least twice a year throughout the country. | |

## ANNEX 2: LETTER OF DEVELOPMENT POLICY

MINISTERE DE L'ECONOMIE, DE LA PROSPECTIVE ET DE LA PROGRAMMATION DU DEVELOPPEMENT DURABLE

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Cabinet du Ministre

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N° 002409 /MEPPDD

Libreville, le 19 SEP. 2017

**Le Ministre**

**A**

**Monsieur le Président**
**Du Groupe de la Banque Mondiale**

**Washington D C**

**Objet : Lettre de politique de développement relative à l'appui budgétaire au profit de la République gabonaise**

*Monsieur le Président du Groupe de la Banque Mondiale,*

Depuis 2010, la politique de développement économique du Gabon repose sur la mise en œuvre du Plan Stratégique Gabon Emergent (PSGE). Le PSGE est un ambitieux programme de transformation économique et sociale axé principalement sur la diversification des sources de croissance et le développement des infrastructures. Ainsi, suite aux efforts d'investissement sans précédent dans un contexte de niveau élevé des prix du pétrole, l'économie gabonaise a connu une croissance soutenue sur cinq ans. Le taux de croissance réel annuel moyen a été d'environ 6% sur la période 2010-2014, résultant essentiellement des performances du secteur hors pétrole (+6,6% de croissance moyenne). La balance des opérations courantes est restée excédentaire et le Gouvernement a accumulé des surplus budgétaires importants sur la période.

Cependant, depuis le second semestre 2014, les prix du pétrole ont enregistré de fortes baisses sur le marché international (-50% en 2015 et -18% en 2016 pour le prix brut gabonais), engendrant la baisse des recettes budgétaires, un recul des investissements publics et privés (notamment dans le secteur pétrolier) et un ralentissement de la croissance, une dégradation du solde de la balance des paiements, une érosion des réserves de change ainsi qu'un déséquilibre macroéconomique.

Plus généralement, après une décennie de croissance substantielle avec une croissance économique supérieure à 4% en moyenne par an sur la période 2010-2014, la région CEMAC a plongé dans une crise profonde suite à l'effondrement des prix internationaux du pétrole. Cette croissance étant essentiellement attribuable à l'augmentation des recettes pétrolières et aux investissements publics réalisables grâce audites recettes, la croissance régionale a ralenti à 2% en 2015 pour atteindre -1% en 2016. En effet, le pétrole est la principale source de recettes publiques et de change dans 5 des 6 pays de la CEMAC, ces derniers étant exportateurs de pétrole et, en 2014, le pétrole représentait 82% des exportations dans la région, 55% des recettes publiques et près de 30% du PIB.

Consécutivement à la chute du prix du pétrole, les revenus pétroliers ont diminué de près de la moitié entre 2014 et 2016. En réaction, les pays membres ont considérablement réduit leurs budgets cependant, les ajustements budgétaires réalisés n'ont pas été suffisants pour compenser la baisse des revenus. Le solde global (y compris les subventions) est ainsi passé de -4% en 2014 à -7,1% du PIB en 2016. Dans le même temps, la dette publique régionale a progressé de 28,6% en 2012 à 46,5% en 2016. La baisse des prix du pétrole associée aux politiques budgétaires expansionnistes ont entraîné une détérioration des soldes extérieurs. Le déficit du compte courant régional s'est élargi passant de 3,9% en 2014 à 12,2% en 2015 du fait du maintien à un niveau élevé des investissements publics sachant que ces derniers ont une forte composante en importations. Le solde du compte courant s'est, quant à lui, rétréci à 9,3% en 2016.

Face aux contraintes de liquidité et aux besoins de financement croissants rencontrés par les gouvernements, la politique monétaire menée par la banque centrale régionale, la BEAC, est devenue plus accommodante. Cette dernière a ainsi eu recours aux outils monétaires directs et indirects afin de soutenir les dépenses publiques dans les Etats membres en: (i) revenant à partir du mois d'août 2015 sur sa politique antérieure visant à éliminer de façon progressive les avances statutaires; (ii) en approuvant des avances supplémentaires exceptionnelles à la République de Centrafrique et au Tchad; (iii) en abaissant son taux de refinancement plusieurs fois et en levant les plafonds de refinancement pour les banques commerciales; et (iv) en réduisant de moitié les réserves obligatoires en avril 2016, libérant ainsi l'équivalent d'un cinquième des avances statutaires en circulation sous la forme de liquidités bancaires supplémentaires.

La dégradation de la situation extérieure a contribué à l'épuisement des réserves internationales régionales. Le taux de couverture des importations par les réserves a diminué d'environ 5 mois d'importation à la fin de 2015 (9,51 milliards d'euros) à environ 2 mois en juin 2017 (4 milliards d'euros). La crise de la région CEMAC a aussi eu une incidence sur le secteur financier. Ainsi, le taux des crédits en souffrance a considérablement augmenté, passant de 10,4% du montant total des crédits en janvier 2014 à 15,2% en décembre 2016.

Pour faire face à la crise, en décembre 2016, les chefs d'État de la CEMAC ont convenu de protéger la parité de la monnaie locale vis-à-vis du francs CFA et se sont engagés à avoir recours à la politique budgétaire comme principal outil d'ajustement. Ils ont par ailleurs défini les principes clés du soutien attendu des partenaires de développement. Le gouvernement gabonais a dans cette dynamique joué le rôle de leader dans la zone CEMAC en étant le premier pays à officiellement s'engager dans un programme d'ajustement budgétaire avec le FMI.

Dans l'optique d'inverser la tendance baissière de l'économie tout en réaffirmant les objectifs de progrès économique et social à l'échéance 2025, le Gouvernement gabonais a également entrepris d'impulser une nouvelle dynamique avec le concours des partenaires économiques et financiers (FMI, BM, BAD, AFD), en adoptant un Plan de Relance de l'Economie (PRE). Ce programme de relance est axé sur l'ajustement budgétaire, le développement des infrastructures, le renforcement de la compétitivité des filières, l'amélioration du cadre des affaires et la promotion de l'initiative privée, tout en veillant sur la protection sociale.

**Performances récentes de l'économie**

L'activité économique nationale a décéléré à 2,1% en 2016 contre 3,9% en 2015. Sur le plan sectoriel, cette évolution est imputable essentiellement à la performance du secteur tertiaire (+5,0%), au regain de dynamisme dans le secteur secondaire (+3,2%) dans un contexte de baisse d'activité du secteur primaire (-0,2%). Les hausses de l'activité agricole (+13,9%), de l'exploitation forestière (+8,5%), ainsi que le dynamisme des branches Transports et communications (+5,9%), Banques et assurances (+6,7%) et autres Services (+3,4%) ont permis d'atténuer la baisse de l'activité des secteurs des mines (-14,2%), du pétrole (-3,7%), des BTP (-1,1%) et de la Recherche-Services pétroliers (-1,1%).

En 2016, l'inflation mesurée par l'Indice Harmonisé des Prix à la Consommation (IHPC) s'est située à 2,1% en moyenne annuelle, contre -0,1% en 2015. Cette progression s'explique principalement par le renchérissement des prix des postes « Logement, eau, gaz, électricité… » (+1,4%), « Transports » (+10,5%) et « Biens et services divers » (+35,5%). En revanche, la poursuite de la politique de lutte contre la vie chère pour certains produits de base et des offres promotionnelles des opérateurs téléphoniques ont conduit à une maîtrise des prix des produits alimentaires et boissons non alcoolisées ainsi que des prix des Communications (-23,3%).

La balance des paiements s'est davantage détériorée en 2016, affichant un solde global déficitaire de 630,0 milliards de FCFA, suite à la dégradation du solde courant, malgré l'amélioration du solde des mouvements de capitaux. En pourcentage du PIB, le déficit de la balance globale est passé à 7,9% en 2016, en liaison avec la dégradation de la totalité de comptes. La faiblesse des cours des principales matières premières enregistrée en 2016 a impacté considérablement la balance courante qui s'est fortement dégradée pour atteindre -842,0 milliards de FCFA contre -475,0 milliards de FCFA en 2015.

Au niveau des finances publiques, sur la période 2014-2016, le Gouvernement a connu un déficit public de -3,8% du PIB en moyenne, avec en 2016, un solde déficitaire qui représentait 6,6% du PIB en base caisse. Cette situation se justifie d'une part par la baisse des recettes en lien avec la chute de 31,5% en moyenne des recettes pétrolières et la régression des recettes hors-pétrole de 6,7% en moyenne, du fait notamment de la contre-performance enregistrée dans la collecte des recettes fiscales. D'autre part, la baisse des dépenses hors paiement des intérêts de la dette publique de 12,5% en moyenne a permis d'atténuer la dégradation du déficit public.

Le taux d'endettement en 2016 s'est situé à 64,2% contre 44,7% en 2015. Cet accroissement du ratio d'endettement découle principalement d'un repli du PIB nominal de 2,3%. Bien qu'au-dessus du seuil stratégique de 35% du PIB fixé par le Gouvernement, ce niveau reste contenu en deçà de la norme communautaire (<70% du PIB).

En lien avec l'évolution du secteur réel, des finances publiques et du commerce extérieur, la situation monétaire au sens large s'est caractérisée par une diminution de la masse monétaire (-7,0%) en 2016, une baisse du crédit intérieur (-10,0%), une dépréciation des avoirs extérieurs nets et une détérioration de la Position Nette du Gouvernement. La forte baisse des avoirs extérieurs nets est consécutive au repli des recettes d'exportation, dans un contexte de baisse des cours des matières premières, notamment le pétrole et le manganèse. En pourcentage du PIB, les avoirs extérieurs nets sont passés de 13,2% en 2015 à 5,5% en 2016.

**Réformes structurelles et Politiques sectorielles**

Dans l'optique d'améliorer les performances de l'économie gabonaise, la période 2017-2019 sera marquée par la mise en œuvre du PRE et la poursuite des chantiers du PSGE. Ainsi, l'amélioration de la compétitivité de l'économie passerait par le renforcement de la productivité du secteur agricole, la modernisation du secteur forestier, la valorisation de l'activité minière, la promotion des autres industries de transformations, l'accroissement de l'offre énergétique et le renforcement du cadre des partenariats publics privés (PPP). La mise en œuvre de toutes ces politiques vise le renforcement de la contribution du secteur hors pétrole dans le produit intérieur brut.

Les objectifs visés sur la période 2017 – 2019 sont les suivants :

**Rétablir durablement l'équilibre des finances publiques**, en :

- ramenant le déficit budgétaire à un niveau inférieur à 3% du PIB dans les trois ans ;
- sortant progressivement d'une dépendance trop importante des finances publiques aux recettes pétrolières, en faisant passer les recettes non pétrolières de 12% du PIB en 2016 à au moins 13,8% en 2019 ;

**Maîtriser le niveau d'endettement public du pays, en le ramenant à l'issue de la période 2017 – 2019 à 40% du PIB et redynamiser la création de richesses et d'emplois, en :**

- ramenant le taux de croissance du PIB au niveau cible de 5% d'ici à 2019 ;

- créant au moins 30 000 emplois dans le secteur privé en trois ans ;
- renouant avec un solde positif de la balance des paiements ;
- renforçant durablement la compétitivité des filières motrices de croissance, dans le cadre d'une relation partenariale accentuée entre le secteur privé et le secteur public.

**Réduire la pauvreté et améliorer le bien-être des populations**, en :
- réduisant de 100 000 le nombre de Gabonais Economiquement Faibles;
- améliorant les conditions d'apprentissage d'au moins 8000 élèves, en construisant plus de 160 salles de classe ;
- améliorant les conditions d'apprentissage de 15 000 étudiants en enseignement supérieur et formation professionnelle, à travers la réhabilitation des 3 universités et la mise en service ou réhabilitation de près d'une dizaine de centres de formation professionnelle ;
- améliorant les soins de santé via la réforme de la gouvernance du dispositif national de santé ;
- optimisant l'ensemble des services administratifs aux citoyens et le pilotage des politiques publiques, par la mise en place de l'identifiant numérique unique des personnes physiques, morales et du patrimoine ;
- Garantissant la continuité de l'approvisionnement en eau et en électricité des grands centres urbains.

Pour atteindre ces objectifs, le Gouvernement va mettre en place les réformes structurelles suivantes :

**Optimisation des recettes et le financement de l'économie**

Le Gouvernement travaille au renforcement du recouvrement des recettes qui vise à mobiliser davantage de recettes propres. Ainsi, le poids des recettes non pétrolières passera de 12% du PIB en 2016 à au moins 13,8% en 2019 (le PRE fixe un objectif plus ambitieux de 16,3%). En effet, le Gouvernement va mettre en œuvre des actions qui vont porter sur: (i) l'élargissement de l'assiette fiscale et la lutte contre la fraude, (ii) l'amélioration et la réorganisation des services de collecte des recettes, (iii) l'amélioration de l'action en recouvrement, (iv) le renforcement du contrôle interne et (v) la cession des participations de l'Etat au capital de certaines sociétés.

Concernant l'élargissement de l'assiette fiscale, le recouvrement amélioré et durable va nécessiter un effort combiné de diminution des dépenses fiscales et amélioration de la gouvernance fiscale, tout en mobilisant de nouvelles sources de revenus fiscaux. Pour réduire le montant des dépenses fiscales, le Ministre de l'Economie a notamment émis deux *Arrêtés* concernant le programme lié à '*la vie chère*', en réduisant la liste de produits qui bénéficient des exonérations à 100% de la douane. Ces *Arrêtés* stipulent que seulement 42 produits de consommation dans le cadre du programme de lutte contre la vie chère bénéficient d'exonérations fiscales totales (produits de première nécessité) et qu'un taux de 5% sera appliqué à d'autres 116 produits de ce programme. Les autres produits sont soumis aux tarifs douaniers normaux. Il est également important de souligner que la Loi de Finances Rectificative 2017 indique que toutes les exonérations de droits de douane requièrent une autorisation dans la Loi de Finances et doivent être accompagnées d'une estimation du manque à gagner en termes de revenus y étant relatif, et que les exonérations administratives discrétionnaires sont supprimées.

Basé sur le cadre fiscal amélioré, le Gouvernement prévoit également d'établir des plafonds de dépenses fiscales dans la loi des finances de 2018, en arrivant à une réduction moyenne de 10% sur l'année fiscale de 2016 pour le total des dépenses fiscales, y compris la TVA à la frontière, la Taxe d'Accise à la frontière et la TVA dans le marché intérieur, en appliquant les recommandations du nouveau Comité de Coordination Fiscal. Finalement, le Gouvernement soutiendra aussi la mobilisation de revenus supplémentaires en imposant des taxes d'accise plus élevées sur l'alcool et le tabac à partir de 2018.

Le Gouvernement entend ramener le niveau d'endettement autour du seuil de 40% du PIB, même si ce dernier s'est dégradé depuis 2011, passant de 16,9% du PIB à 49% du PIB en 2016. Dans ce cadre, la politique d'endettement sera orientée vers des emprunts à maturité longue et à taux concessionnel. Les ressources mobilisées dans ce cadre seront essentiellement orientées au profit des secteurs sociaux, de la Santé, de l'Agriculture, des routes et des infrastructures d'énergie.

Le Gouvernement entend lever un emprunt public et solliciter des partenaires financiers privés pour apporter une solution durable à la situation critique connue par trois banques publiques : la Banque Postale, la Banque de l'Habitat du Gabon et la Banque Gabonaise de Développement. Le Gouvernement veillera à la reconstitution des avoirs des épargnants de ces trois banques, ainsi qu'à la mise en place d'une structure publique unique dédiée au financement du développement.

**Maîtrise des dépenses publiques**

La réduction des déséquilibres des comptes publics sera obtenue par des efforts de maîtrise et de compression des dépenses courantes, tout en limitant celles des investissements à un niveau compatible avec les ressources et la capacité d'absorption de notre économie. Toutefois, le Gouvernement, veillera à préserver les dépenses sociales, tout en renforçant leur efficacité.

L'objectif du Gouvernement est de ramener le niveau des dépenses liées à la rémunération des agents publics à moins de 40% des recettes fiscales d'ici au début de la décennie 2020. Pour ce faire, le Gouvernement devra procéder sur la période 2017 – 2019 à une série de réformes permettant d'améliorer la maîtrise de cette dépense (gel des recrutements des fonctionnaires, y compris tout recrutement dans les agences et les opérateurs, pour une durée de 12 mois, mise à la retraite systématique des 1,200 agents et des contractuels ayant atteint l'âge limite, et la mise en œuvre du dispositif de l'évaluation des performances des agents publics et l'intégration des outils de gestion prévisionnels des effectifs, des compétences et des emplois, dont la mise en place, dans un ensemble de ministères représentant au moins 80 pourcent des fonctionnaires, d' un plan de recrutement stratégique comportant une description détaillée du nombre d'employés actuels par mission, incluant toutes les formes et statuts d'emplois ('Cadres organiques'); et une projection sur un horizon de trois ans des besoins en personnels ('plans de recrutement')). Il est prévu que l'effet combiné du gel de l'embauche, des mesures de contrôle renforcées du recrutement, ensemble avec le nouveau système des promotions, produira une stabilisation de la masse salariale, qui doit être constante en termes réels pendant la période qui va de 2016 à 2019.

Le Gouvernement procédera à la rationalisation des Services Publics Personnalisés qui n'ont pas prouvé leur efficacité ou leur capacité à avoir un modèle économique qui leur garantisse un minimum d'autonomie de financement.

Les contraintes de trésorerie inhérentes à la baisse des recettes publiques se sont traduites par l'accumulation des arriérés aussi bien sur la dette intérieure que sur la dette extérieure. Le Gouvernement s'engage à apurer les arriérés extérieurs sur l'année 2017. Concernant la dette publique intérieure, il est prévu un nouvel audit des instances du Trésor et un dialogue renforcé avec les opérateurs privés, afin d'arrêter un calendrier concerté d'apurement progressif de ces dettes.

Au titre des dépenses d'investissement, le Gouvernement a élaboré concomitamment au Plan de Relance de l'Economie, une programmation triennale des dépenses d'investissement public sur la période 2017-2019. Par ailleurs, pour obtenir une amélioration dans l'efficience des pratiques de passation des marchés publics et produire des transactions ayant plus de valeur pour l'argent dépensé dans le programme d'investissement public, le Gouvernement s'est également engagé à adopter sous forme de Loi un code révisé de passation des marchés publics, et ses outils opérationnels y afférant (les documents standards d'appels d'offres), lequel, inter alia, clarifie les obligations des parties prenantes et impose des dispositions sur le recours aux marchés de gré à gré. En combinaison avec le renforcement de l'Agence de Régulation des Marchés Publics (ARMP) ces mesures doivent porter à une a réduction très significative des transactions ayant recours aux marchés de gré à gré.

En ce qui concerne la sécurité sociale, l'objectif est de rétablir l'équilibre des comptes sociaux afin d'accroître la soutenabilité de l'assistance sociale pour diversifier les droits sociaux accordés par l'Etat. Plusieurs actions vont être mises en œuvre (garantir le reversement par l'Etat des cotisations sociales des agents publics et la contribution employeur, procéder à un apurement de la dette de l'Etat vis-à-vis des organismes de sécurité sociale).

**Amélioration du cadre des affaires et appui au développement du secteur privé**

En 2017, le Gouvernement va mettre en œuvre une réforme du dispositif national d'enseignement technique et de formation professionnelle. Par ailleurs, le Gouvernement entend mener des réformes qui conduiront à la facilitation de l'initiative privée par exemple l'opérationnalisation effective du guichet unique des entreprises afin de réduire les formalités de création et de demandes d'agréments des entreprises et l'animation du Haut Conseil pour l'Investissement. Le Guichet Unique est placé sous l'autorité de l'ANPI-Gabon et regroupera toutes les administrations auprès desquelles les entreprises effectuent les formalités et démarches nécessaires en vue de la délivrance des autorisations administratives de toutes sortes, nécessaires à leur installation ou à leur maintien. Il est prévu qu'au moins trois entités publiques soient représentées sur le site en 2017 (l'ANPI, le Registre du Commerce et de Crédit Mobilier (RCCM) et des représentants des impôts) avec une opérationnalisation complète_qui aura lieu en 2018, définie comme ayant la représentation des toutes les entités publiques concernées. En 2018 la mise en œuvre de deux services interconnectés du Gouvernement offerts au secteur privé pour soutenir leur croissance est également prévue : l'établissement du RCCM numérique et la numérisation de titres fonciers. Il est prévu que les réformes suscitées diminuent le temps nécessaire pour l'enregistrement d'une société et facilitent l'accès au crédit, ce qui pourra améliorer d'une façon significative le climat des affaires pour l'engagement et la compétitivité du secteur privé. Il est notamment prévu qu'en 2019/2020, le guichet unique produira un gain en temps lors de l'enregistrement d'une société d'un maximum de 50 jours à un minimum de 30 jours, le RCCM sera numérisé jusqu'à 25 pourcent, et une proportion importante des titres fonciers seront numérisés.

Les efforts d'amélioration du cadre de l'investissement vont également porter sur la modernisation du cadre juridique au travers de plusieurs mesures : (i) actualisation de la charte nationale des investissements, (ii) réforme du système judiciaire afin de sécuriser d'avantage les investissements, (iii) renforcement de la lutte contre le blanchiment d'argent, (iv) et mise en place d'une politique d'immigration du développement. Finalement, dans le contexte de son plan stratégique le « Gabon Numérique », les autorités visent à améliorer le cadre régulateur et juridique du secteur des technologies de la communication (TIC) avec l'accent mis sur les règlements des communications électroniques et les transactions électroniques, et l'harmonisation et l'amélioration des licences d'exploitation actuelles des fournisseurs de Service Internet, pour stipuler la compétitivité, encourager les investissements, favoriser l'innovation et obtenir les baisses des tarifs des services TIC et une augmentation conséquente de l'usage des services TIC et des applications dans le pays. Cet effort s'est déjà traduit dans l'adoption de deux projets de loi sur la réglementation des communications électroniques et les transactions électroniques qui devront être appliqués par la suite.

**Politiques sectorielles dans le domaine des infrastructures, agriculture et énergie**

Les ambitions affichées par le Gouvernement dès 2010 dans le but de combler le déficit en infrastructures (routes, production d'énergie, ports et aéroports, télécommunications) et en capacité d'accueil en structures sociales (écoles, collèges, lycées et hôpitaux) ont été contrariées depuis 2014 par la crise pétrolière.

Dans ce contexte, la mise en place du PRE par le Gouvernement avec l'appui des bailleurs de fonds, sur la période 2017-2019, va permettre de corriger les déséquilibres macroéconomiques. Ainsi, la mise en œuvre de ce plan permettra au Gouvernement de dynamiser le processus visant à élargir la base productive tout en améliorant la compétitivité globale de l'économie afin de diversifier les sources de croissance.

Le Gouvernement continuera d'exécuter le Plan National d'Investissements Agricoles et de Sécurités Alimentaires et Nutritionnelles (PNIASAN). Le palmier à huile, le caoutchouc et les cultures vivrières développées dans le cadre du programme GRAINE constitueraient les piliers de développement de cette branche. En 2020, la production d'huile palme devrait atteindre 225 000 tonnes.

Par ailleurs, le secteur bénéficiera d'un don pour le financement de : (1) la stratégie de transformation de l'agriculture, de la promotion de l'entreprenariat dans les secteurs de l'agriculture et de l'agrobusiness ; (2) l'initiative Gabon Vert à travers la préparation d'un projet d'appui au programme GRAINE phase 2.

Dans le même temps, la caisse de stabilisation et de péréquation (CAISTAB) a initié un plan d'action visant à produire 750 tonnes de café et de cacao par an au cours des trois prochaines années, contre 100 tonnes actuellement produites. L'ensemble de ces facteurs stimuleraient l'activité du secteur et porteraient la croissance à +13,2% en moyenne sur la période contre une estimation de 11% en moyenne sur la période 2015-2017.

Ainsi, cette dynamique s'intensifiera sur la période 2018-2020, à travers la poursuite des mesures visant à garantir la sécurité alimentaire. Il s'agit entre autres de la promotion en zone périurbaine de la culture de produits vivriers et maraichers (tubercules, fruits et légumes), du développement de la production industrielle d'huile de palme ainsi que de l'intensification de l'élevage (poulets de chair, porcs).

Le Gouvernement devrait poursuivre les efforts de modernisation du secteur, conformément au PSGE. Il s'agit en l'occurrence de la promotion de mesures incitatives à la transformation (2ème et 3ème transformation du bois, etc.). La production du secteur devrait progresser de 6% en moyenne sur la période 2017-2020.

La politique de transformation locale de manganèse et de promotion de l'investissement dans l'exploitation de l'or alluvionnaire se poursuivra sur la période. Avec la reprise des activités de CICMHZ en 2017, le début de la production de Nouvelle Gabon Mining et la montée des performances de COMILOG dans le cadre du projet Comilog 2020, permettrait d'atteindre un niveau de production nationale de manganèse supérieure à 6,4 millions de tonnes à l'horizon 2020 contre 3,6 millions en 2016.

La branche serait favorisée par la montée en puissance de la nouvelle usine de production de farine de l'opérateur Foberd. Aussi l'entrée en production des usines d'huile de palme d'Awala et celle de Mouila soutiendrait de façon substantielle la production du secteur. Ainsi, l'activité progresserait de 18,3% sur la période 2018-2020.

La montée en puissance de la production de nouvelle usine de ciment à Owendo va porter la production nationale à 500 000 tonnes par an (avec la possibilité de doubler cette capacité installée) pour faire face à la demande locale, suite à la mesure d'interdiction d'importer du ciment. De même, l'installation à Nkok des usines dans les industries diverses comme la production des batteries pour automobile et la production de fer à béton, permettrait de renforcer le tissu industriel. Par ailleurs, l'activité de transformation de manganèse se renforcerait. La production passerait de 19 300 tonnes en 2016 à 63 000 tonnes à l'horizon 2020.

Le gouvernement maintiendra son objectif d'exploiter de façon optimale le potentiel hydroélectrique du Gabon, afin de satisfaire la forte demande croissante issue des projets du PSGE et de la consommation des ménages.

La poursuite des chantiers du Schéma Directeur National des Infrastructures (SDNI) viendrait soutenir la production du secteur. Sur la période 2017-2019, le Gouvernement entend poursuivre la connexion des quatre corridors de développement (réseau routier et ferroviaire), les travaux de construction de nouveaux barrages hydroélectriques (Chutes de l'Impératrice, Fe II, Ngoulmendjim et Dibwangui) et des lignes de transport d'énergie, l'aménagement des bassins versants à Libreville et Port Gentil, la réalisation des tronçons routiers et des autres infrastructures, l'augmentation de l'offre en eau potable et en énergie électrique ainsi que la poursuite des programmes d'électrification et d'adduction en eau potable en zones rurales.

Le développement du secteur touristique demeure l'une des priorités du Gouvernement au regard des potentialités dont regorge notre pays. A ce jour, le renforcement des compétences dans les métiers du tourisme et des infrastructures touristiques a permis la formation de plus de cent dix (110) opérateurs et acteurs du secteur dans les domaines de la valorisation, la promotion et la commercialisation des produits touristiques.

En conséquence, entre 2017 et 2019, les défis du Gouvernement dans ce secteur consistent à mieux promouvoir la destination Gabon à travers le renforcement des compétences dans les métiers du tourisme et des infrastructures touristiques.

Le gouvernement accorde une large place à la baisse des couts de facteurs. Il poursuivra à cet effet les efforts de mise à niveau des infrastructures de base (transport, énergie, télécommunications) afin de favoriser l'émergence sur l'ensemble du territoire de pôles économiques dynamiques, reliés par des infrastructures de qualité.

**Qualité et efficacité des services aux citoyens**

L'objectif du Gouvernement est d'apporter une réponse structurante pour améliorer la qualité de service de l'école publique républicaine, en agissant sur quatre dimensions: (i) améliorer la qualité de l'enseignement pour l'intégralité des élèves du Gabon, (ii) résorber le déficit en enseignants, en recrutant plus de mille professeurs, notamment dans les matières scientifiques, (iii) accélérer les constructions de classe et le renforcement des équipements en mobilier scolaire, et (iv) optimiser les statistiques sur le système éducatif pour en améliorer le pilotage.

La politique nationale de santé du Gouvernement vise à doter le Gabon d'un système de santé performant, accessible à tous et reposant sur la stratégie des soins de santé primaire sous l'action de plusieurs mesures (révision de l'organisation du Ministère de la Santé, mise en place de contrats PPP de gestion en concession d'hôpitaux publics et appel d'offre international pour le recrutement de sociétés concessionnaires, financement base sur la performance (FBP)).

Le FBP, notamment, est un instrument de la réforme du système de santé, axé sur les résultats. Il vise à rendre les formations sanitaires publiques et privées autonomes et performantes pour l'amélioration des indicateurs sanitaires du pays dans le but d'atteindre les Objectifs du Développement Durable. Les structures seront contractualisées et soumises à une régulation et à des vérifications tant par des services spécialisés que par la communauté. Les résultats attendus sont des prestations sanitaires de qualité, accessibles aux populations, avec une maîtrise des coûts et un équilibre budgétaire des formations sanitaires. La mise en œuvre du FBP commencera par une phase pilote évolutive de 3 ans. Les caractéristiques clés de la conception de la réforme FBP à appliquer dans les régions sanitaires sélectionnées sont inclues dans un Arrêté signé par le Ministre de la Santé. Par ailleurs, un Arrêté a également été adopté par le Ministre du Budget qui établit un compte FBP et fournit plus d'autonomie aux formations sanitaires. Plus précisément, cela inclura (i) la création d'un compte FBP dédié pour recevoir les affectations budgétaires au niveau central au début de chaque année civile, et (ii) l'autonomie financière renforcée pour les structures de santé par la création des comptes bancaires pour chaque structure qui seront gérés par le personnel de cette structure pour qu'ils puissent gérer les paiements de leurs clients, la subvention du FBP et les paiements de la CNAMGS. L'accent sera mis par la suite sur la mise en œuvre du pilote, ce qui inclue des financements prévus pour le FBP sécurisés dans le compte dédié au FBP. Il est prévu que l'adoption du FBP créera une réaffectation substantielle de ressources affectées aux soins de santé vers les soins primaires avec de meilleurs services.

La politique nationale du Gabon cible également une réduction important de la pauvreté. Dans ce contexte, plusieurs réformes du système de protection sociale sont visées. La première réforme vise à remplacer le système de ciblage basé sur la définition actuelle de GEF par un nouveau système plus précis. Cette nouvelle approche de ciblage, détaillée dans un projet de loi et mise en œuvre à travers des décrets d'application, réduirait les erreurs d'inclusion et d'exclusion, et ainsi contribuerait à l'efficacité, l'efficience et la durabilité des programmes dirigés à soutenir les plus démunis et vulnérables. En même temps, il est également prévu de simplifier le système actuel de filets sociaux en réduisant la complexité et le nombre de programmes. Pour démarrer ce processus de simplification, un décret spécifie les groupes ciblés prioritaires qui doivent recevoir les transferts et les exonérations, aussi bien que les montants et les modalités de ces transferts et ces exonérations. Cette rationalisation portera ensuite au lancement d'un programme unifié de transfert de fonds en 2018. Finalement, des mesures ont également été prises pour renforcer la performance et le financement de la CNAMGS, acteur centrale du système de protection sociale au Gabon, à travers la mise en place d'un contrat de performance (qui évoluera dans le temps) précisant les objectifs en termes de résultats et de ressources, et l'introduction de la Contribution Sociale Solidaire (CSS) pour financer l'assurance maladie des GEF. En conséquence des réformes proposées, le ciblage, la conception et livraison des filets sociaux et l'assurance maladie doivent s'améliorer et produire de meilleurs services pour les GEF. Il est prévu notamment qu'au moins 30 pourcent des GEF inscrits dans la base de données recevront des transferts de fonds au moins deux fois par an (comparé à 10 pourcent actuellement), ce qui contribuera largement à la réduction de 100.000 personnes du nombre de GEF.

Pour être en mesure de lutter efficacement contre la pauvreté, le gouvernement a lancé une nouvelle enquête des ménages en 2017 avec le soutien de la Banque mondiale afin de combler le déficit en données sur les conditions de vie des ménages gabonais. En effet, la dernière enquête des ménages réalisée à ce jour au Gabon datait de 2005. Après deux phases pilote, l'enquête des ménages prévue cette année a effectivement commencé au mois de juillet. Ses résultats sont quant à eux attendus au mois de janvier 2018. Egalement conscients de l'importance de disposer d'informations sur les ménages de façon régulière pour un meilleur ciblage des politiques de lutte contre la pauvreté, le gouvernement s'est également engagé à dorénavant procéder à ces enquêtes de façon régulière. Le mauvais ciblage des politiques sociales a en effet, ces dernières années, eu un impact négatif sur leur efficacité aussi bien en termes de résultats qu'en termes de coûts.

Finalement, des mesures d'urgence seront menées sur la période 2017 – 2019 afin de garantir que l'agglomération de Libreville ne connaisse pas de pénurie majeure d'approvisionnement en eau. Elles incluent la réparation du réseau vétuste et inefficient de distribution d'eau à Libreville. De nouveaux forages à Ntoum et à proximité de Libreville seront également réalisés. Le Gouvernement suivra de très près l'évolution des indices de production, de distribution et de consommation d'eau pour prévenir toute situation préjudiciable.

**Le Ministre de l'Economie, de la Prospective**
**et de la Promotion du Développement Durable,**

MINISTÈRE DE L'ECONOMIE, DE LA PROSPECTIVE ET DE LA PROGRAMMATION DU DÉVELOPPEMENT
LE MINISTRE

**Régis IMMONGAULT**

*Informal English Translation*

MINISTRY OF THE ECONOMY,
PROSPECTIVE AND PROGRAMMING
OF SUSTAINABLE DEVELOPMENT
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PRIVATE OFFICE OF THE MINISTER
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**N°002409** /MEPPDD

GABONESE REPUBLIC
Union – Work - Justice
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Libreville, **September 19th, 2017**

**The Minister**

**to**

**The President of the World Bank Group**

**Washington D.C.**

Subject: **Development Policy Letter on the Budgetary Support for the Gabonese Republic**

To the President of the World Bank Group,

Since 2010, economic development policy of Gabon rests on the implementation of the Strategic Plan for an Emerging Gabon (PSGE). The PSGE is an ambitious program of economic and social transformation centered mainly on the diversification of sources of growth and the development of infrastructure. Therefore, following the unprecedented investment effort within a context of a high level of oil prices, the Gabonese economy experienced constant growth over a five-year period. The real average annual growth rate was around 6% over the period from 2010 to 2014, resulting essentially from the performance of the non-oil sector (+6.6% average growth). The current account balance remained in surplus and the Government accumulated large budgetary surpluses during this period.

However, during the second semester of 2014, oil prices underwent a significant drop on the international markets (-50% in 2015 and -18% in 2016 for the price of Gabonese crude oil), thereby creating a drop in budgetary revenue, a decrease in public and private investments (especially in the oil sector), and a growth slowdown, a degradation of the balance of payments, an erosion in the foreign exchange reserves, as well as an overall macroeconomic imbalance.

More generally, after a decade of strong growth, with economic growth averaging more than 4% per year over the period 2010 to 2014, the CEMAC region went into a deep crisis following the drop in international oil prices. Since that growth was essentially based on the increase in oil revenue and public investments realized with these revenues, regional growth slowed down from 2% in 2015 to -1% in 2016. In fact, oil is the main source of public revenue and foreign exchange receipts in five out of the six countries of CEMAC since these countries are oil exporters and in 2014, oil represented 82% of the region's exports, 55% of public revenue and almost 30% of GDP.

Following the drop in oil prices, oil revenue decreased by almost 50% between 2014 and 2016. In response, the CEMAC member countries have considerably curtailed their budgets, although budgetary adjustments were not sufficient to compensate for the drop in revenue. The overall balance (including subsidies) therefore went from -4% of the GDP in

2014 to -7.1% of GDP in 2016. At the same time, regional public debt increased from 28.6% in 2012 to 46.5% in 2016. The drop in oil prices which had been at the source of expansionary budgetary policies, led to the deterioration of the external balance. The regional current account deficit went up from 3.9% in 2014 to 12.2% in 2015, given the sustained high level of public investment, given that these investments have a high imports component. The current account balance went down to 9.3% in 2016.

Faced with liquidity constraints and increasing governments financing needs, the monetary policy led by the regional central bank, the BEAC, became more accommodating. The BEAC resorted to direct and indirect monetary tools in order to meet public expenditure needs from Member countries by (i) reconsidering their previous policy aiming to progressively eliminate statutory advances beginning in the month of August 2015; (ii) by approving additional exceptional advances to the Central African Republic and to Chad; (iii) by lowering their refinancing rate several times, and by raising the refinancing ceiling for commercial banks; and (iv) by reducing by half mandatory reserves requirements in April 2016, thereby freeing up the equivalent of one fifth of the statutory advances in circulation in the form of additional banking liquidity.

The degradation of the external situation contributed to the exhausting of the regional international reserves. The international reserves imports coverage rate decreased from around five months of imports by the end of 2015 (9.51 Billion Euros) to two months by June 2017 (4 Billion Euros). The crisis in the CEMAC region also had an impact on the financial sector. The share of non-performing loans increased considerably, going from 10.4% of the total amount of credit in January 2014 to 15.2% in December 2016.

In order to address the crisis, in December 2016, the Heads of State of CEMAC decided to protect the parity of the local currency, the CFA Franc, and committed to rely on budgetary policy as the main adjustment tool. They also defined the main principles for the support expected from development partners. The Gabonese Government played a leadership role among its CEMAC peers and was the first among them to conclude an IMF adjustment program.

With the view of reversing the negative trend of the economy and, at the same time, to reaffirm the objectives of economic and social progress by the year 2025, the Gabonese Government also intends to impulse a new economic dynamic with the support of its economic and financial partners (the IMF, the World Bank, the African Development Bank, the French Development Agency), by adopting an Economic Recovery Plan (PRE). This program is focused on budgetary adjustment, infrastructure development, competitiveness of economic sectors, improvement of the business climate in Gabon, and the promotion of private sector led growth, while at the same time ensuring effective social protection.

**Recent Performance of the Economy**

National economic growth has gone down to 2.1% in 2016 from 3.9% in 2015. At the sectoral level, this evolution is essentially due to the performance of the tertiary sector (+5.0%), increased dynamism of the secondary sector (+3.2%) within a context of a drop in activities of the primary sector (-0.2%). The increase in agricultural activity (+13.9%), forestry production (+8.5%), as well as the dynamism in transportation and communication (+5.9%), banks and insurance companies (+6.7%) and other Services (+3.4%) have allowed for a mitigation of the drop in the activities of the mining sector (-14.2%), oil (-3.7%), the building sector (-1.1%) and Oil Exploration Services (-1.1%).

In 2016, inflation measured by the Harmonized Consumer Price Index was at an annual average of 2.1%, as opposed to 0.1% in 2015. This increase can be explained mainly by the increase in “Housing, water, gas, electricity…” (+1.4%), “Transportation” (+10.5%) and “Miscellaneous goods and services” (+35.5%). However, the continuation of the policy against the high cost of living for certain basic commodities and promotional offers made by mobile telephone operators, have led to a stabilization in the prices of food products and non-alcoholic drinks, as well as communication prices (-23.2%).

The balance of payments continued to deteriorate in 2016, coming to an overall negative balance of 630 Billion Cfa Francs, following the degradation of the current balance, despite improvements in the capital balance. As a percentage of GDP, the deficit of the overall balance increased to 7.9% in 2016, in relation to the degradation in the overall accounts. The weak international prices of the main raw materials seen in 2016, considerably impacted the current balance which underwent a big drop going down to -842 Billion Cfa Francs, as opposed to -475.0 Billion Cfa Francs in 2015.

With respect to public finances over the period 2014 to 2016, the Government recorded a public deficit of 3.8% of GDP, a deficit which represented 6.6% of GDP on a cash basis. This situation can be understood, on the one hand, by the drop in revenue related to the 31.5% average decrease in oil revenue and the decline of non-oil revenue at an average of 6.7% based on the poor performance recorded in tax collection. On the other hand, the average 12.5% decrease in expenses not related to interest payments on the public debt has allowed for mitigation of the degradation of the public deficit.

The ratio of indebtedness in 2016 is at 64.2% as opposed to 44.7% in 2015. This increase in the indebtedness ratio is mainly due to a decrease in the nominal GDP of 2.3%. Although it is above the strategic threshold of 35% of the GDP set by the Government, this level remains far below the CEMAC benchmark of (<70% of GDP).

With respect to the evolution of the real sector, public finance and foreign trade, the monetary situation is in general characterized by a decrease of the monetary mass (-7.0%) in 2016, a drop in internal domestic credit (-10.0%), depreciation of net foreign assets and a deterioration in the Net Position of the Government. The strong decline in net foreign assets was a consequence of the drop in export revenue, within a context of the decrease of raw materials' international prices; notably, oil and manganese. As a percentage of GDP, net foreign assets went from 13.2% in 2015 to 5.5% in 2016.

**Structural Reforms and Sector Policies**

With a view to improve the performance of the Gabonese economy, the period 2017 to 2019 will be defined as the PRE implementation period and the continuation of the PSGE projects. Therefore, the improvement in the competitiveness of the economy will come through the reinforcement of productivity in the agricultural sector, the modernization of the forestry sector, the upgrading of mining activities, the promotion of other industries dealing in the transformation of raw materials, the increase in the electricity supply and the reinforcement of the public private partnership (PPP) framework. The implementation of all these policies aims to reinforce the contribution of the non-oil sector to Gross Domestic Product (GDP).

The objectives aimed at during the period from 2017 to 2019 are as follows:

**Sustainably reestablish the equilibrium of public finances**: by

- Bringing the budget deficit back to a level under 3% of GDP within three years;
- Progressively getting away from too much dependency of public finance on oil revenues, by increasing non-oil revenues from 12% of the GDP in 2016 to at least 13.8% of GDP in 2019;

**Control the level of the country's public debt**: by

- Bringing it back down to 40% of GDP by the end of the period from 2017 to 2019, and by reactivating the creation of wealth and jobs, and by
- Bringing the GDP growth rate back up to the level of 5% from now until 2019;
- Creating at least 30,000 jobs in the private sector within the next three years;
- Returning to a surplus in the trade balance;

- Sustainably reinforcing the competitiveness of the sectors serving as an engine of economic growth within the context of increased partnerships between the private and the public sector.

**Reduce Poverty and Improve the Well-being of the Population**: by

- Reducing by 100,000 the number of economically weak Gabonese;
- Improving the learning conditions of at least 8,000 pupils by building over 160 classrooms;
- Improving learning conditions of 15,000 students in higher education and vocational training through the rehabilitation of three universities and the activation or renovation of around ten vocational training centers;
- Improving healthcare through the reform of the governance of the national health system;
- Optimizing all administrative services for the citizens and the piloting of public policies through the setting up of a single digital identifier for individuals, companies and patrimony;
- Guaranteeing the continuity of the provision of water and electricity to the major urban centers.

In order to attain these objectives, the Government shall pursue the following structural reforms:

**Optimization of Tax Revenues and the Financing of the Economy**

The Government is working towards the reinforcement of tax collection, thereby mobilizing more income through its internal processes. Therefore, the weight of non-oil revenues will go from 12% of GDP to at least 13.8% of GDP by 2019 (the PRE has set a more ambitious objective of 16.3%). In fact, the Government will set up actions which will involve: (i) the broadening of the tax base and the fight against fraud, (ii) the improvement and reorganization of the tax collection services, (iii) the improvement of tax collection actions, (iv) the reinforcement of internal control, and (v) the transfer of State participation in the capital of certain companies.

Concerning the broadening of the tax base, improved and sustainable tax collection shall require a combined effort of decreasing tax expenditure and the improvement of fiscal governance, at the same time as there is a need to mobilize new sources of tax revenue. In order to reduce the amount of tax expenditures, the Minister of the Economy has in fact issued two Decisions (*Arretes*) concerning the program related to the "High Cost of Living", by reducing the list of products benefiting from 100% customs exemptions. These decisions stipulate that only 42 products within the framework of the program fighting against the "High Cost of Living" shall continue to benefit from total tax exemptions (staple products), and a 5% rate shall apply to another 116 products in this program. All other products shall pay normal customs duties. It is also important to underline the fact that the revised 2017 Finance Law has indicated that all customs duties exemptions shall require an authorization included in the Finance Law, and must be accompanied by an estimation of the revenues that will not be received by the Government (revenue forgone), and discretionary administrative exemptions are henceforth forbidden.

Based on the improved fiscal framework, the Government has also planned to define ceilings for tax expenditure in the 2018 Finance Law, amounting to an average reduction of 10% over the 2016 tax year for all fiscal expenditure, including therein the VAT at the border, the excise tax at the border and the VAT in the domestic market, by applying the recommendations of the new Tax Coordination Committee. Finally, the Government shall also support the mobilization of additional revenue by imposing higher excise taxes on alcohol and tobacco beginning in 2018.

The Government intends to bring the level of the debt back down to the threshold of 40% of the GDP, even if the debt ratio has been increasing since 2011, from 16.9% of GDP to 49% of GDP in 2016. Within this context, the debt policy shall be oriented towards loans with a long maturity period and a concessional rate. Resources mobilized within this framework shall essentially be oriented to the benefit of the social sectors, health, agriculture, roads and electric energy infrastructure.

The Government intends to issue a public loan and is soliciting private financial partners in order to find a sustainable solution to the critical situation of three public banks: the Postal Bank, the Habitat Bank of Gabon and the Gabonese Development Bank. The Government will make sure that the clientele receives their deposits from these three banks, as well as setting up a single public structure dedicated to financing for development.

**Rationalizing Public Expenditure**

The reduction in the disequilibrium of the public accounts shall be obtained through an effort to rationalize and compress current expenses, and at the same time, by limiting investments to a level that is compatible with the resources available and the capacity of the economy to absorb these investments. Nevertheless, the Government shall be careful to preserve social expenditure programs and also reinforce their effectiveness.

The objective of the Government is to decrease expenditure related to the payment of civil servants to less than 40% of the tax revenues from now until the year 2020. In order to do so, the Government shall proceed during the 2017 to 2019 period, to carry out a series of reforms that will allow for an improvement in the rationalization of this expenditure (freeze of all recruitment activities of civil servants, including therein all recruitment done for agencies and operators, including SOEs, during a 12-month period; early retirement of all those who are to retire because of their age (1,200 agents and contract holders), and establishment of a performance evaluation mechanism for public agents and the integration of provisional personnel management, competency and jobs tools, including, in a group of ministries representing at least 80% of civil servants, setting up a strategic staffing plan with a detailed description of the number of employees against missions, including all employment forms and situations (*Cadres organiques*), and a projection over the next three years of needs in personnel ("staffing plans"). We are anticipating that the combined effect of the freeze of new jobs, reinforced recruitment control measures, together with the new system of promotions, will lead to a stabilization of the payroll, which should be constant in real terms during the period from 2016 to 2019.

The Government shall proceed to the rationalization of the Personalized Public Services which have not proven their effectiveness or their capacity to have an economic model which would guarantee for them a minimum of financial autonomy.

The constraints of the treasury, that are inherent in the drop in public revenues, are seen in the accumulation of arrears payments in the internal debt as well as the external debt. The Government is committed to paying off the external arrears during the year 2017. Concerning the internal public debt, we are planning on a new audit of the float in the Treasury and reinforced dialogue with the private operators in order to set up a calendar agreed upon mutually, wherein we will progressively pay off these debts.

In terms of investments expenditure, the Government has prepared, concomitantly with the Plan to Relaunch the Economy (PRE), a three-year program of public investment expenses over the period from 2017 to 2019. Moreover, in order to obtain an improvement in the efficiency of procurement practices, and to produce transactions that have higher value for money in the public investment program, the Government has also committed itself to adopting in the form of a Law, a revised procurement code, and the operational tools related thereto (the standard bidding documents), which, among other things, shall clarify the obligations of the stakeholders and better enforces the provisions on the use of single sourcing. Together with the reinforcement of the Governmental Contracting Regulation Agency (*Agence de Regulation des Marches Publics,* ARMP), these measures should lead to a quite significant reduction in transactions using single sourcing.

Concerning social security, the objective is to reestablish the equilibrium of the social accounts in order to increase the sustainability of social assistance to diversify social rights granted by the State. Several actions shall be implemented (guarantee of State payments to the social security contributions of civil servants and contributions of employers, and proceed to paying off the State debt to the social security agencies).

**Improvement in Doing Business Activities and Support of the Private Sector**

In 2017, the Government shall implement a reform concerning the national technical teaching and vocational training structures. Moreover, the Government intends to carry out reforms which should lead to the facilitation of private initiative, for example, the effective operations of the one-stop shop for companies, in order to reduce the administrative formalities of creating and applying for a company registration, together with the involvement and activation of the High Council for Investments. The one-stop shop shall come under the authority of the ANPI in Gabon and shall bring together all administrations wherein companies shall be able to carry out all formalities and required steps in order to obtain the administrative authorizations required for them to set up business or to maintain their business activities. We are planning on at least three public entities that will be represented on site in 2017 (the ANPI, the Enterprise and Collateral Registry (RCCM) and tax office representatives), with full operationalization by 2018 defined as having the representation of all concerned public entities. In 2018, we are also planning on the implementation of two interconnected services of the Government to be offered to the private sector to support their growth: the establishment of the digital RCCM and the digitalization of land titles. We are anticipating that the reforms mentioned above should significantly decrease the time required for registering a company and should facilitate access to credit, and this will significantly improve the business climate to enhance the competitiveness of the private sector. We anticipate that by 2019/ 2020, the one-stop shop should allow for a gain in time to register a company of anywhere between a maximum of 50 days and a minimum of 30 days, the RCCM shall be digitized up to 25%, and a large share of the land titles shall also be digitized.

Efforts toward the improvement of the investment climate shall also concern the modernization of the legal framework through several measures: (i) the updating of the National Investment Charter, (ii) the reform of the legal system in order to better secure investments, (iii) the reinforcement of the fight against money laundering, (iv) and the setting up of an immigration policy to encourage development. Finally, within the context of their strategic plan "Digitized Gabon", the authorities aim to improve the regulatory and legal framework of ICT services, putting an accent on the regulations of electronic communications and electronic transactions, and the harmonization and improvement of the operating licenses of Internet Service providers, in order to stimulate competitiveness, encourage investments, favor innovation and obtain a decrease in ICT service rates, and the consequent increase in the use of ICT services and applications in the country. This effort has already been translated into the adoption of the two draft laws on the regulation of electronic communications and electronic transactions which shall soon be applicable.

**Sector Policies in the areas of Infrastructure, Agriculture and Electricity**

The ambitions announced by the Government beginning in 2010 with the objective of addressing the deficit in infrastructure (roads, electricity production, ports and airports, telecommunications) and in the capacity of social services (primary and secondary schools and hospitals) have been dampened since 2014 because of the oil crisis.

Within this context, the setting up of the PRE by the Government with the support of donors, over the period 2017 to 2019, shall facilitate the correction of macroeconomic imbalances. Therefore, the implementation of this plan shall allow the Government to activate the process aiming to broaden the productive base and also to improve the overall competitiveness of the economy in order to diversify the sources of growth.

The Government shall continue to apply the National Agricultural and Food and Nutritional Security Investment Plan (PNIASAN). Palm oil, rubber and subsistence food crops developed within the framework of the GRAINE program, shall constitute the pillars of development of this branch. In 2020, palm oil production should reach 225,000 tons.

Moreover, the sector shall benefit from a grant for the financing of (1) the strategy of transformation of agriculture, and promotion of entrepreneurship in the agriculture and agribusiness sectors; (2) the initiative of Green Gabon through the preparation of a project to support the GRAINE program – phase 2.

At the same time, the Stabilization and Equalization Fund (CAISTAB) initiated an action plan aiming to produce 750 tons of coffee and cocoa per year during the next three years, as opposed to 100 tons presently being produced. All of these factors will stimulate the activity of the sector and lead to an average growth rate of +13.2% over the period 2015 to 2017, as opposed to an estimation of an average growth rate of 11%.

Therefore, this dynamic shall intensify over the period 2018 to 2020 through the continuation of measures aiming to ensure food security. Among other factors, this involves the promotion in the urban peripheral zone of subsistence and truck farming (tubers, fruits and vegetables), the development of the industrial production of palm oil as well as the intensification of livestock raising (chickens raised for meat, pork).

The Government should continue the effort to modernize the wood sector, in compliance with the PSGE. This involves the promotion of measures motivating the transformation (2nd and 3rd level transformation of wood, etc.). The production in this sector should increase by an average of 6% over the period 2017 to 2020.

The local transformation policy of manganese and the promotion of investments in the development of river gold shall also continue during the period. The improvement in business activities of CICMHZ in 2017, the beginning of the production of Nouvelle Gabon Mining, and the increase in the performance of COMILOG within the context of the Comilog 2020 project, shall allow us to attain a level of national production of manganese above 6.4 Million tons by 2020 as opposed to 3.6 million tons in 2016.

The branch will also be improved by the building-up of the new flour mill production of the operator Foberd. In addition, the start of the production of the Awala and Mouila palm oil factories will substantially increase production in the agricultural sector. We are anticipating an increase in activity of 18.3% over the period from 2018 to 2020.

The building-up of the production of the new cement factory in Owendo will bring the national cement production up to 500,000 tons per year (with the possibility of doubling this capacity already installed) in order to meet local demand, following the prohibition of importing cement. In the same way, the installation at Nkok of factories in various industries, such as the production of car batteries and the production of steel reinforcement bars, will allow for the reinforcement of industrial production. Moreover, the transformational activities of manganese are being reinforced, and the production should go from 19,300 tons in 2016 to 63,000 tons by 2020.

The Government shall maintain their objective of developing the hydroelectric potential of Gabon in an optimal way in order to meet the strong increasing demand coming from the PSGE projects and household consumption.

The continuation of the worksites of the National Master Plan for Infrastructure (SDNI) shall support production in the sector. Over the period from 2017 to 2019, the Government intends to pursue the connection of the four development corridors (the road and rail networks), the work on the building of the new hydroelectric dams (the Empress Falls, the Water Falls of Fe II, Ngoulmendjim and Dibwangui) and the power transmission lines, the management of watershed zones in Libreville and Port-Gentil, the realization of road sections and other infrastructure, the increase in the supply of drinking water and electrical energy, as well as the continuation of the electrification and delivery of drinking water to the rural zones.

The development of the tourism sector remains one of the priorities of the Government concerning the potential of our country. Up to the present, the reinforcement of competencies in the tourism trade and tourism infrastructure has allowed for the training of one hundred and ten (110) operators and participants in the area enhancing, promoting and commercializing tourism products.

Consequently, between 2017 and 2019 the challenges for the Government in this sector consist in better promoting the Gabon as a touristic destination through capacity-building in the tourism and tourist infrastructure.

The government pays a lot of attention to decreasing the cost of certain factors of production. It will continue in this effort by improving the quality of the basic infrastructure (transportation, electricity, telecommunications) in order to favor the emergence throughout the national territory of dynamic economic centers tied together through good quality infrastructure.

**Quality and Effectiveness of Basic Services**

The objective of the Government is to bring a structural response in order to improve the quality of service in the Republican Public School System, through a four-part program: (i) improve the quality of teaching for all pupils in Gabon, (ii) make up for the lack of teachers by recruiting over one thousand teachers, notably, in the scientific area, (iii) accelerate the building of classrooms and refurbish classrooms, and (iv) optimize the statistics on the educational system in order to improve its management.

The Government's national health policy aims to endow Gabon with a highly performing health system accessible to all and relying upon a stronger primary healthcare strategy including the application of several measures (the review of the organization of the Health Ministry, the setting up of PPP management contracts for the concession of public hospitals and international tender for the recruitment of concessionary companies, and performance-based financing (PBF)).

The PBF is an instrument for reforming the healthcare system which is based on results. It aims to make public and private healthcare structures autonomous and highly performing in order to improve the health indicators of the country for the purpose of attaining the objectives of sustainable development. Health structures are contracted (managed by performance contracts) and are submitted to regulations and controls by specialized services as well as by the community. The expected results are quality healthcare services that are accessible to the population, with a rationalization of the costs and a budgetary equilibrium of the healthcare structure. The implementation of the PBF reform will begin with a pilot phase evolving over a three-year period. The key characteristics of the conception of the PBF reform to be applied in the selected healthcare regions are included in a Decision (*Arrete*) signed by the Minister of Health. Moreover, a Decision (*Arrete*) was also adopted by the Minister of Budget which provides for a PBF account to be set up, thereby giving more autonomy to healthcare structures. More specifically, this will include (i) the creation of a dedicated PBF account to receive budgetary allocations on a central level at the beginning of each calendar year, and (ii) reinforced financial autonomy for healthcare structures through the creation of bank accounts for each structure which will be managed by the personnel of that structure so that they can manage the payments of their clients, the PBF subsidies and the CNAMGS payments. The accent shall be put on the implementation of the pilot, including the financing provided for the PBF secured in a dedicated PBF bank account. It is anticipated that the adoption of the PBF will create a substantial reallocation of healthcare resources towards primary healthcare with better service.

The national policy of Gabon also targets a major reduction in poverty. Within this context, several reforms of the social protection system have been introduced. The first reform aims to replace the system of targeting based on the present definition of the Gabonese who are Economically Weak (GEF), by a new more detailed system. This new targeting approach, wherein the detail is included in a draft law to be implemented through a decree, should reduce the errors of inclusion and exclusion, and therefore contribute to the effectiveness, efficiency and sustainability of the programs directed toward the support of the poorest and most vulnerable Gabonese. At the same time, we also intend to simplify the present system of social safety nets by reducing the complexity and number of programs. In order to begin this simplification process, a decree specifies the priority target groups who are to receive fund transfers and exemptions, as well as the amounts and terms of these transfers and exemptions. This rationalization shall then lead to the launch of a unified cash transfer program in 2018. Finally, measures have also been taken to reinforce the performance and financing of the CNAMGS, the central stakeholder in the social protection system of Gabon, through the establishment of a performance contract (which will evolve in time) specifying the objectives in terms of results and resources, and the introduction of the Social Solidarity Contribution (CSS) in order to finance the health insurance of the GEF. As a consequence of the reforms proposed, the targeting, the conception and delivery of social safety nets and health insurance will be improved and produce better services for the GEF. We are anticipating that at least 30% of the GEF enrolled in the data base shall receive cash transfers at least twice a year (compared to 10% today), and this will bring on a major contribution to the reduction of 100,000 GEF.

In order to be able to fight effectively against poverty, the Government launched a new household survey in 2017 with the support of the World Bank in order to fill the gaps in the deficit of data on Gabonese household living conditions. In fact, the last household survey carried out in Gabon dates back to 2005. After two pilot phases, the household survey planned for this year began in July. As for the results, we are expecting them in the month of January, 2018. The Government is also conscious of the importance of having good information on households on a regular basis, in order to better target policies in the fight against poverty, and shall henceforth proceed regularly to these surveys. Faulty targeting of social policies during these past few years has had a negative impact on their effectiveness in terms of results, and also in terms of costs.

Finally, emergency measures shall be carried out between 2017 and 2019 in order to guarantee that the Commune of Libreville should not have any major shortages in water supplies. These measures include the repairing of the old and inefficient water distribution network in Libreville. There will also be new water wells drilled in Ntoum and near Libreville. The Government shall follow very closely the evolution of the indexes of production, distribution and consumption of water in order to avoid any prejudicial situation.

The Minister of the Economy, Prospective and
Sustainable Development

(signed & stamped)

Régis IMMONGAULT

**ANNEX 3: FUND RELATIONS ANNEX**

**IMF Executive Board Approves US$642 Million Extended Arrangement Under the Extended Fund Facility (EFF) for Gabon**

June 20, 2017

- The program will help Gabon ensure macroeconomic stability and lay the basis for sustainable and equitable growth.

- The three-year extended arrangement will help anchor prudent fiscal policies and a sustainable balance of payments position.

- Fiscal consolidation will help ensure debt sustainability and support the stabilization of the regional international reserve pool.

On June 19, 2017, the IMF approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Gabon for SDR 464.4 million (about US$642 million), or 215 percent of Gabon's quota, in support of the authorities' medium-term recovery program.

The EFF-supported program will help Gabon ensure macroeconomic stability and lay the basis for sustainable and equitable growth. It seeks to attain debt sustainability at the national level and help contribute to restoring and preserving external stability for the Central African Economic and Monetary Union (CEMAC).

Yesterday's Executive Board's decision enables an immediate disbursement of SDR71.43 million, about US$98.8 million. The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

Following the Executive Board discussion on Gabon, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair stated:

"Gabon is facing significant macroeconomic challenges due to a sharp decline in oil prices. Growth has declined, fiscal and external buffers have diminished, and public debt levels have increased. The authorities' Fund-supported economic program appropriately focuses on addressing these large fiscal and external imbalances, as well as structural fiscal reforms to improve the efficiency and transparency of public spending, and policies to enhance financial sector stability and economic diversification.

"The three-year extended arrangement under the Extended Fund Facility will help anchor prudent fiscal policies and a sustainable balance of payments position. While downside risks in the short term are high, the authorities have presented an adequate policy package to manage risks. Over the medium term, the economic outlook remains positive, provided policies envisaged under the Fund-supported arrangement are rigorously implemented.

"Fiscal consolidation will help ensure debt sustainability and support the stabilization of the regional international reserve pool. The authorities' plan to contain current spending, while protecting critical social programs, and pursue non-oil revenue mobilization efforts through improvements in tax administration and streamlining of tax exemptions. Prudent financial management will help improve the efficiency and transparency of public spending, especially to prevent recurring problems of extra budgetary spending and arrears accumulation. Efforts to improve oil revenue management are also expected to play an important role.

“Safeguarding financial sector stability and promoting financial inclusion will ensure that the financial sector supports economic objectives. An expeditious resolution of the three distressed public banks and strengthening of the supervisory framework for commercial banks would also support financial intermediation and contribute to private-sector led economic growth.

“Further improvements to the business climate—particularly in the areas of starting a business, dealing with construction permits, registering property, paying taxes and enforcing contracts—would help diversify the economy. Improvements in the production and dissemination of economic statistics are also needed.

“The success of Gabon’s program will also depend on the implementation of supportive policies and reforms by the regional institutions.”

**Program Summary**

The three-year EFF-supported program builds on the strategy set out by the CEMAC heads of state at their December 2016 summit in Yaoundé. Recognizing the potentially serious economic and political disruptions that could result from a change in the exchange rate regime, they agreed on a strategy based on maintaining the current peg, while putting in place substantial fiscal adjustments in each country, all supported by tightening monetary policy at the regional level. In that context, Gabon’s EFF-supported program will buttress the broad objectives of the country’s economic recovery program. The EFF-supported program is built on three key pillars: well-balanced fiscal consolidation that minimizes the impact on growth and protects vulnerable groups; structural reforms to improve the efficiency and transparency of public spending; and policies to enhance financial sector stability and economic diversification.

As part of the IMF-supported program, the authorities are committed to protecting social sector expenditure and to redirecting a portion of the budget resources to those sectors. The main objective is to ensure that expenditure in priority sectors—healthcare, education, and social protection—continues to promote the development of human capital, and protects the most vulnerable groups from the impact of the required fiscal adjustment.

The program’s fiscal policy aims at reducing the overall deficit (on a cash basis) to 4.6 percent of GDP in 2017 from 6.6 percent in 2016; and the non-oil primary deficit to 8.9 percent of non-oil GDP from 11 percent. Additionally, the Government is taking steps to improve non-oil revenue mobilization, boost tax compliance and combat tax evasion; modernize tax filing and payment procedures; broaden the tax base through the reduction of special tax regimes and exemptions, particularly on VAT; and create a revenue authority.

A strategy for the full repayment of arrears will also be implemented over the EFF-supported program period and the Gwill accelerate public finance management reforms , including toward implementing CEMAC directives, improving budget transparency and public investment management as well as strengthening of the financial oversight of public companies and government agencies.

**Background**

Gabon, which became a member of the IMF on September 10, 1963, has an IMF quota of SDR 216 million.

IMF Communications Department

MEDIA RELATIONS

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## ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

| Prior Actions | Significant Positive or Negative Environment Effects (Yes/No/To be Determined) | Significant Poverty, Social, or Distributional Effects Positive or Negative (Yes/No/To Be Determined) |
|---|---|---|
| **Pillar I: Strengthening Fiscal Balance** | | |
| **Prior Action #1:** To reduce the amount of tax expenditures, the Minister of Economy has (i) issued regulations *(Arrêtés)*, within the framework of the Fight against La Vie Chere Program, which apply (a) a full exemption of custom duties and taxes to only 42 products from the list of basic goods (b) a rate of 5 percent on 116 additional products from the list of basic goods; and (ii) revised the 2017 Finance Law to specify that (a) all exemptions from taxation on cross-border transactions require authorization in the Finance Law and must be accompanied by estimates of revenue forgone, and (b) discretionary administrative exemptions have been suppressed. | No | No (reduced exemptions do not affect in a significant way goods more widely consumed by the poor). |
| **Prior Action #2:** To stabilize the wage bill in the short-term, the Prime Minister has issued a circular to all its ministries prohibiting all recruitments across administrations, including agencies, departments and state owned enterprises, for a period of 12 months, excepting only its ministries responsible for health, national education, and defense for which hiring will be on a case-by-case basis. | No | No (will not affect public sector wages or involve lay-offs). |
| **Prior Action #3:** To improve the efficiency of procurement practices, the Council of Ministers has adopted a draft law on public procurement in line with its PFM framework, which inter alia clarifies stakeholders' responsibilities and better enforces the provisions on the use of single sourcing. | No | No |
| **Pillar II: Enhancing Competitiveness** | | |
| **Prior Action #4:** To streamline business registration and spur business creation, the Minister of Investment Promotion has issued a regulation (*Arrêté*) establishing a One Stop Shop for business registration under its *Agence nationale pour la promotion des investissements* (ANPI) and said One Stop Shop has been staffed by transfer of representatives of the ANPI, enterprise and collateral registry (RCCM) and tax administration to said One Stop Shop. | No | Yes, positively (by supporting a business climate more conducive to spur the private sector and SMEs generating new jobs and building resilience to shocks). |
| **Prior Action #5:** To strengthen ICT services, the Council of Ministers has approved (i) the draft law on the regulation of electronic communications and (ii) the draft law on electronic transactions, including, inter alia, provisions for a more competitive ICT sector and for more secured electronic transactions. | No | Yes, positively (by supporting increased ICT usage by bottom 40 percent and more jobs in ICT related-services and the private sector, with focus on youth). |

| Prior Actions | Significant Positive or Negative Environment Effects (Yes/No/To be Determined) | Significant Poverty, Social, or Distributional Effects Positive or Negative (Yes/No/To Be Determined) |
|---|---|---|
| **Pillar III: Protecting the Poor** | | |
| **Prior Action #6:** To prioritize primary health care and make its delivery more efficient, the Minister of Health has issued a regulation (*Arrêté*) specifying the key design characteristics of the PBF reform to be applied in selected health regions. | No | Yes, positively (by improving geographic and economic accessibility to quality health care). |
| **Prior Action #7:** To ensure that PBF is effective, the Minister of Budget has issued a regulation (*Arrêté*) that establishes a dedicated PBF account for annual allocations and provides greater autonomy to service providers. | No | Yes, positively (by improving geographic and economic accessibility to quality health care). |
| **Prior Action #8:** To make social protection services better targeted and more streamlined, the Council of Ministers has adopted: (i) a draft law to change the operational definition of Poor Gabonese (GEF) taking into consideration, among other things, household composition and the poverty line, and (ii) 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. | No | Yes, positively (by improving the targeting of social protection services to make sure they benefit the poor and a broader scale cash transfer program benefitting the poor). |
| **Prior Action #9:** To increase the financial autonomy and accountability for the delivery of safety nets and non-contributory health insurance, (i) the Minister responsible for Social Development has signed with the CNAMGS an annual performance contract specifying objectives in terms of results and resources, and (ii) the parliament has introduced a Special Solidarity Contribution to finance the health insurance for the GEF. | No | Yes, positively (by improving the availability of funding for and the quality of delivery of social protection services). |

## ANNEX 5: GRAPHS AND TABLES

**Table 5.1. Key Fiscal Indicators, 2012–2019**

| | 2012 | 2013 | 2014 | 2015 | 2016e | 2017p | 2018p | 2019p | 2020p |
|---|---|---|---|---|---|---|---|---|---|
| | (As a percentage of GDP) | | | | | | | | |
| Total Revenue | 30.1 | 30.2 | 29.7 | 21.1 | 17.1 | 18.8 | 18.9 | 19.1 | 19.1 |
| Oil revenue | 17.5 | 15.5 | 14.7 | 7.1 | 5.1 | 6.0 | 5.8 | 5.3 | 5.1 |
| Non-oil revenue | 12.6 | 14.7 | 15.0 | 14.0 | 12.0 | 12.7 | 13.1 | 13.8 | 14.0 |
| Tax | 12.0 | 14.0 | 14.8 | 13.6 | 10.8 | 11.5 | 11.9 | 12.7 | 12.9 |
| Taxes on income, profits, capital gains | n.a. | n.a. | 4.3 | 4.7 | 3.6 | 3.8 | 4.0 | 4.1 | 4.2 |
| Domestic taxes on goods and services | n.a. | n.a. | 4.2 | 2.0 | 2.7 | 2.8 | 2.9 | 3.2 | 3.4 |
| Taxes on international trade and transactions | n.a. | n.a. | 4.7 | 4.2 | 3.3 | 3.7 | 3.9 | 4.2 | 4.0 |
| Other taxes | n.a. | n.a. | 1.7 | 2.8 | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 |
| Nontax non-oil | 0.7 | 0.7 | 0.2 | 0.4 | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 |
| Total expenditure | 27.6 | 28.4 | 23.8 | 22.1 | 22.1 | 22.0 | 20.1 | 19.7 | 19.4 |
| Current expenditure | 16.3 | 16.3 | 16.2 | 17.0 | 17.0 | 15.8 | 15.1 | 14.7 | 14.4 |
| Wages and salaries | 5.9 | 6.4 | 7.9 | 8.4 | 8.8 | 8.3 | 8.0 | 7.5 | 7.3 |
| Goods and services | 3.7 | 2.7 | 2.7 | 2.8 | 3.0 | 2.2 | 2.2 | 2.2 | 2.2 |
| Transfers and subsidies | 5.7 | 5.5 | 3.9 | 3.8 | 2.9 | 2.2 | 2.2 | 2.2 | 2.2 |
| *of which fuel subsidies* | 2.6 | 2.5 | 1.3 | 0.9 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest payments | 1.0 | 1.7 | 1.6 | 2.0 | 2.3 | 3.1 | 2.7 | 2.7 | 2.7 |
| Capital expenditure | 11.4 | 10.6 | 6.7 | 5.0 | 4.9 | 4.9 | 5.0 | 5.0 | 5.0 |
| Foreign financed | 2.1 | 3.1 | 3.0 | 2.1 | 2.9 | 3.3 | 3.2 | 3.5 | 2.6 |
| Domestically financed | 9.3 | 7.5 | 3.7 | 2.9 | 2.0 | 1.6 | 1.8 | 1.5 | 2.4 |
| Special accounts (including from earmarked revenue) | 0.0 | 0.0 | 0.4 | 0.0 | −0.3 | 1.2 | 0.0 | 0.0 | 0.0 |
| Other expenditure (funds, net lending) | 0.0 | 1.4 | 0.5 | 0.1 | 0.5 | 0.1 | 0.0 | 0.0 | 0.0 |
| Overall balance (commitment basis) | 2.5 | 1.8 | 6.0 | −1.0 | −5.0 | −3.3 | −1.2 | −0.6 | −0.3 |
| Adjustment to cash basis (arrears payment) | −0.2 | −1.5 | −3.6 | −3.0 | −1.6 | −1.3 | −1.1 | 0.0 | 0.1 |
| Overall balance (cash basis) | 2.2 | 0.2 | 2.3 | −4.0 | −6.6 | −4.6 | −2.3 | −0.6 | −0.1 |
| Total Financing | −2.2 | −0.2 | −2.3 | 4.0 | 6.6 | 4.6 | 2.3 | 0.6 | 0.1 |
| Foreign borrowing (net) | −0.2 | 5.9 | 0.8 | 2.3 | 1.7 | −0.9 | 1.4 | 1.4 | 0.3 |
| Domestic borrowing (net) | −2.0 | −6.1 | −0.5 | 2.4 | 5.4 | −1.7 | −3.8 | −3.8 | −0.5 |
| Banking system | −0.9 | −3.7 | 1.1 | 3.3 | 6.5 | 0.7 | −0.8 | −1.9 | −0.4 |
| Nonbank sector | −1.2 | −2.5 | −1.6 | −0.9 | −1.1 | −2.4 | −3.0 | −2.0 | −0.1 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Financing gap | 0.0 | 0.0 | −2.6 | −0.7 | −0.5 | 7.2 | 4.7 | 3.1 | 0.3 |
| Exceptional financing | 0.0 | 0.0 | −2.6 | −0.7 | -0.5 | 7.2 | 4.7 | 3.1 | 0.3 |
| Total public debt | 19.7 | 29.2 | 34.1 | 44.7 | 64.2 | 64.6 | 63.8 | 61.5 | 57.1 |
| *of which statutory advances from BEAC* | n.a. | n.a. | 2.9 | 5.3 | 5.4 | 5.0 | 4.3 | 3.5 | 2.8 |

*Source*: National authorities, IMF.

*Note:* e = estimate, p = projection.

## Table 5.2. Gabon Public Sector DSA - Baseline Scenario

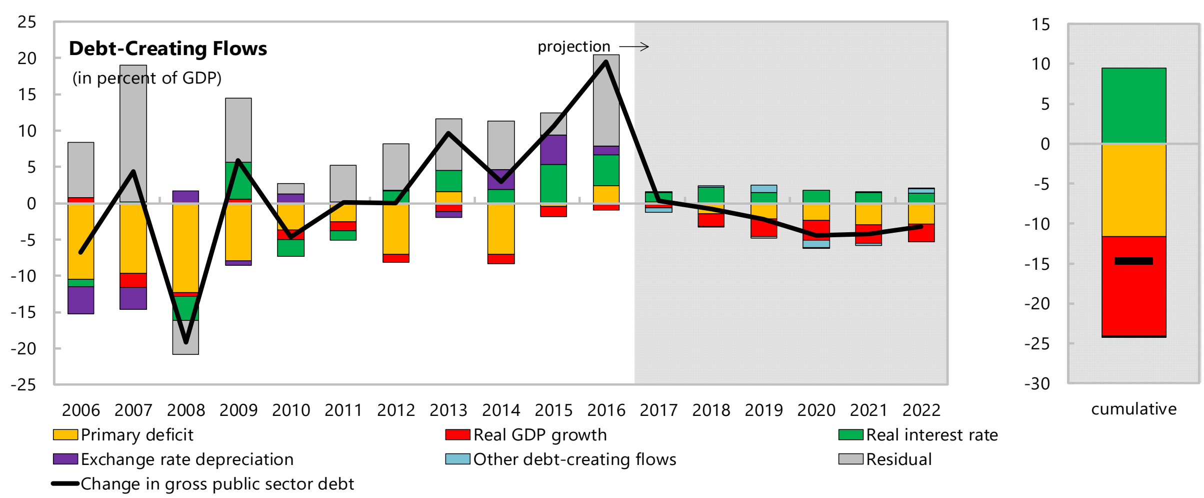
(in percent of GDP unless otherwise indicated)

### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006-2014 [2/] | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | As of January 05, 2017 | | |
| Nominal gross public debt | 27.7 | 44.7 | 64.2 | 64.6 | 63.8 | 61.5 | 57.1 | 52.8 | 49.5 | Sovereign Spreads | | |
| Of which: guarantees | 0.2 | 0.0 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | EMBIG (bp) 3/ | | 569 |
| Public gross financing needs | 0.2 | 3.7 | 11.8 | 13.4 | 9.0 | 6.8 | 5.9 | 5.1 | 7.7 | 5Y CDS (bp) | | n.a. |
| | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.6 | 3.9 | 2.1 | 1.0 | 2.7 | 4.1 | 4.6 | 4.8 | 5.0 | Ratings | Foreign | Local |
| Inflation (GDP deflator, in percent) | 3.6 | -8.9 | -4.3 | 2.5 | 0.6 | 1.5 | 1.0 | 1.4 | 1.6 | Moody's | B1 | B1 |
| Nominal GDP growth (in percent) | 7.5 | -5.4 | -2.3 | 3.5 | 3.3 | 5.6 | 5.7 | 6.2 | 6.7 | S&Ps | B | B |
| Effective interest rate (in percent) [4/] | 4.7 | 4.3 | 5.1 | 4.6 | 4.1 | 4.0 | 4.0 | 4.2 | 4.5 | Fitch | B+ | B+ |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006-2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | cumulative | debt-stabilizing primary balance [9/] |
| Change in gross public sector debt | -0.8 | 10.6 | 19.5 | 0.4 | -0.8 | -2.3 | -4.5 | -4.3 | -3.3 | -14.7 | |
| Identified debt-creating flows | -7.2 | 7.6 | 6.9 | 0.2 | -0.7 | -2.1 | -4.4 | -4.3 | -3.3 | -14.6 | |
| Primary deficit | -6.6 | -0.4 | 2.4 | 0.1 | -1.5 | -2.1 | -2.4 | -2.9 | -2.9 | -11.7 | -0.4 |
| Primary (noninterest) revenue and grants | 28.6 | 21.1 | 17.1 | 18.8 | 18.9 | 19.1 | 19.1 | 19.2 | 19.2 | 114.3 | |
| Primary (noninterest) expenditure | 22.0 | 20.7 | 19.5 | 18.9 | 17.4 | 16.9 | 16.7 | 16.3 | 16.3 | 102.6 | |
| Automatic debt dynamics [5/] | -0.6 | 8.0 | 4.5 | 0.7 | 0.5 | -1.0 | -1.0 | -1.1 | -1.1 | -2.9 | |
| Interest rate/growth differential [6/] | -0.4 | 4.0 | 3.4 | 0.7 | 0.5 | -1.0 | -1.0 | -1.1 | -1.1 | -2.9 | |
| Of which: real interest rate | 0.4 | 5.4 | 4.3 | 1.3 | 2.2 | 1.5 | 1.7 | 1.4 | 1.4 | 9.5 | |
| Of which: real GDP growth | -0.8 | -1.4 | -1.0 | -0.6 | -1.7 | -2.5 | -2.7 | -2.6 | -2.5 | -12.4 | |
| Exchange rate depreciation [7/] | -0.2 | 4.1 | 1.2 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | -0.6 | 0.2 | 1.0 | -1.0 | -0.3 | 0.6 | 0.0 | |
| Privatization receipts and overdue tax cc | 0.0 | 0.0 | 0.0 | -0.9 | -0.3 | -0.3 | -1.3 | -1.2 | -0.3 | -4.3 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Accumulation of deposits at banking sys | 0.0 | 0.0 | 0.0 | 0.3 | 0.6 | 1.3 | 0.3 | 1.0 | 0.9 | 4.3 | |
| Residual, including asset changes [8/] | 6.4 | 3.0 | 12.6 | 0.1 | 0.0 | -0.2 | -0.1 | 0.0 | 0.0 | -0.1 | |




Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

*Source*: IMF.

**Box 5.1. IMF Gabon EFF Arrangement**

The IMF program would run over four years, 2017–2020, and provides total financing in the amount of US$628 million. The main goal of the program is to ensure macroeconomic stability and lay the basis for sustainable and equitable growth. To this end, the program seeks to ensure debt sustainability at the national level and help preserve external stability at the regional level. It is built upon three pillars: (a) well-balanced fiscal consolidation that minimizes the impact on growth and protects vulnerable groups; (b) structural fiscal reforms to improve the efficiency and transparency of public spending; and (c) policies to enhance financial sector stability and economic diversification.

The program targets a fiscal adjustment of approximately 2 percent of GDP in 2017. The aim of the fiscal consolidation is to shore up debt sustainability and to restore the external balance and rebuild regional international reserves at the BEAC. The fiscal deficit is expected to gradually adjust to achieve balance by 2020. The proposed fiscal adjustment is expected to rely on a small increase in non-oil revenue and on measures to contain spending. The fiscal strategy also encompasses the repayment of statutory advances to BEAC, a gradual buildup of deposits, and a fiscal rule to contain the budgetary float. Arrears have also been integrated with fiscal and debt statistics.

The program includes structural benchmarks in the areas of: (a) financial sector; (b) public expenditure management; (c) tax policy administration; and (d) business climate and diversification (see Annex 5 for details). Some of these structural benchmarks complement the proposed World Bank operation's prior actions. Notably, a structural benchmark on the publication of an annex to the Finance Law covering derogations from the existing tax exemption regime (including details on their economic, budgetary, and social impact) will contribute to strengthen the management of tax expenditure. The financial sector reforms focus on containing the risks stemming from distressed public banks and nonperforming loans.

Various proposed reforms support transparency in PFM and should help address some of the structural issues which have contributed to create the crisis, notably extra budgetary spending and arrears accumulation. The key measures in this area are (a) the publication of an executive order of the Prime Minister implementing the general accounting regulation on procedures for expenditure execution; and (b) the publication of a cost-benefit analysis for investment projects authorized by the Finance Law, with budgets exceeding CFAF 20 billion.

*Source*: IMF.

**Table 5.3. IMF Structural Benchmarks for 2017–2018**

| Sector/Measure | Timeframe | Macroeconomic Rationale | Related Documentation |
|---|---|---|---|
| *Financial Sector* | | | |
| Prepare a plan for the orderly resolution of the activities of the three distressed state-owned banks. | End-July 2017 | Reduce financial sector vulnerabilities and fiscal risks. | Copy of the document signed by the Minister of Economy. *Status: met, draft provided to IMF in July 2017* |
| Prepare a national strategy to strengthen legal and supervisory frameworks concerning nonperforming loans. | End-September 2017 | Reduce financial sector vulnerabilities and fiscal risks. | Copy of the document presenting the national strategy signed by the Minister of Economy. *Status: on track, IMF to collect evidence during first review in Oct 2017* |
| *Public Expenditure Management* | | | |

| Sector/Measure | Timeframe | Macroeconomic Rationale | Related Documentation |
|---|---|---|---|
| Publish an executive order of the Prime Minister implementing the general accounting regulation on procedures for expenditure execution, clarifying roles and responsibilities, and requirements to be met for regulated derogations. | Prior Action | Reduce budget risks. | Copy of the published executive order. Draft order prepared by the Budget Ministry and signed by the Prime Minister. |
| Implement the VECTIS module to allow for the systematic issuance of mandatory payment orders; sensitize suppliers and administrative officers on the new procedure. | End-June 2017 | Reduce budget risks. | Copies of press releases by the Budget Ministry and reports of training sessions with administrative officers. *Status: completed, Executive order No. 337/PM/MBCP issued on May 29 2017* |
| Publish quarterly reports on the amount and composition of the stock of payment orders and arrears. | End-September 2017 | Reduce budget risks. | Copies of the quarterly reports produced by the Budget Ministry and verification of online posting. *Status: on track, IMF to collect evidence during first review in Oct 2017* |
| Publish cost-benefit analyses for investment projects authorized by the Finance Law, with budgets exceeding CFAF 20 billion. | End-December 2017 | Improve public investment management. | Publication of analyses as an annex to the 2018 Finance Law. |
| Complete an independent audit of 2015 and 2016 domestic expenditure arrears. | End-March 2018 | Transparency and ensure value for money in the use of public resources. | Publication of the audit report in the web page of the Ministry of Economy. |
| *Tax Policy/Revenue Administration* | | | |
| Publish an annex to the Finance Law covering derogations from the existing tax exemption regime, including details on their economic, budgetary, and social impact. | End-December 2017 | Strengthen revenue mobilization. | Copy of the annex to the 2018 Finance Law. |
| *Business Climate and Diversification* | | | |
| Establish assessment, validation, and monitoring bodies for PPPs in the Ministry of Economy as established by the PPP Law. | End-September 2017 | Leverage private sector expertise to support investment projects. | Copy of the Presidential decree. *Status: on track, IMF to collect evidence during first review in Oct 2017* |

*Source*: National authorities, IMF.