Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 21-Nov-2018 | Report No: PIDA25509

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Gabon	P164201	Gabon Second Fiscal Consolidation and Inclusive Growth DPF (P164201)	P159508
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	14-Nov-2018	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Budget and Public Finance	Ministry of Economy, Prospective, and Development Planning		

Proposed Development Objective(s)

This second operation maintains the development objectives of the first operation and continues to support spending efficiency and inclusive growth. It will continue to support Government's efforts in: (i) strengthening fiscal sustainability and efficiency in public sector management, by continuing to increase revenue mobilization, stabilizing the wage bill while introducing structural improvements in the civil service, and improving efficiency and transparency in public spending; (ii) enhancing competitiveness, by improving the business climate, consolidating one-stop shop services and paving the way for a new investment code; and (iii) protecting the poor, by pursuing gradual reforms to improve the efficiency of health care delivery and social protection services.

Financing (in US$, Millions)

SUMMARY

Total Financing	200.00

DETAILS

Total World Bank Group Financing	200.00
World Bank Lending	200.00

Decision

B. Introduction and Context

Country Context

The proposed operation is part of a concerted response to the CEMAC economic crisis which has started to show results. In a crisis meeting in Yaoundé on December 23, 2016, CEMAC Heads of State reaffirmed their commitment to safeguarding the CFA franc peg to the euro and committed to sharp fiscal adjustments. CEMAC countries resolved to put in place a coordinated policy response and all agreed to seek IMF, World Bank, African Development Bank (AfDB), and French Development Agency (Agence Française de Développement, AFD) support for implementing this strategy. Gabon was the first member to seek new IMF support for its national reform plan.

Gabon's short term economic outlook is improving as strong measures have been adopted to pursue fiscal consolidation and to address persisting liquidity and arrears management issues. GDP growth in 2018 is estimated at 1.2 percent, up from 0.5 percent in 2017 in spite of lower than anticipated oil production. Growth in the non-oil economy reached 1.9 percent driven by new export-oriented sectors. The primary non-oil fiscal deficit is estimated at 6.4 percent of non-oil GDP in 2018, which is a marked improvement from 9.7 percent in 2017 and 11 percent in 2016. This is due both to revenue and expenditure efforts. The external position improved in 2018 thanks to a sharp uptake in oil and manganese prices and to imports contraction following lower public spending; this helped stabilize the level of official reserves. Liquidity and solvency levels of commercial banks remain satisfying, and authorities have been addressing the vulnerabilities stemming from the crisis. The second review of the IMF EFF program was concluded on August 1st, 2018, and a staff-level agreement was reached after the third review mission, in November 2018, reflecting these positive developments. There are, however, substantial downside risks to this baseline, in particular lower oil prices, delays in reform implementation, and tighter global financing conditions for Gabon.

Gabon is committed to promoting inclusive growth and has embraced an ambitious program anchored on fiscal consolidation, structural reforms to support private sector growth, and enhanced public services delivery. First, fiscal consolidation is at the core of the Government's reform program and is supported by the First Pillar of this operation. The Government has committed to significant fiscal consolidation to restore balance in its fiscal and external accounts and to stop accumulating payment arrears. **Second,** Gabon needs to ensure that its economy becomes more competitive, keeps on diversifying, and creates more jobs, especially in the private sector, while building resilience to future shocks. In 2019 Gabon ranked 169th out of 190 countries in the *Doing Business* Report of the World Bank. Gabon has nonetheless started a diversification process driven by private investment; in 2017, manganese production increased by 27 percent, palm oil 72 percent, forestry 23 percent, and wood industry 7 percent. Additionally, Gabon has taken steps to improve its investment climate, such as the creation of institutions fostering public-private dialogue (PPD). The Gabonese economy has embarked on its digitization and the overall ICT environment has become more competitive and dynamic; Gabon now ranks 6th in Africa on the Internet Development Index of the International Telecommunications Union (ITU). **Finally**, fiscal consolidation needs to be achieved while simultaneously improving the efficiency of public social services for the poor. Poverty remains quite prevalent in Gabon, as 33.4 percent of the country's population lives below the national poverty line according to the 2017 national household survey. Gabon ranks 109 out of 188 in the 2015 Human Development Index and Inequality is high, at about 0.42 as measured by the Gini index. Between 2012 and 2017, the Human Capital Index (HCI) value for Gabon increased from 0.44 to 0.45 making Gabon's higher than the average for the Sub-Saharan Africa region, despite being lower than the average for the upper-middle income group. Public spending on health and safety nets is low, and fiscal consolidation needs to safeguard these expenditures. In this challenging context, the Government has recently taken important foundational steps to make social services more efficient and equitable. For instance,

allocations were made under the 2018 amended finance Law for safety nets, while a law was recently promulgated to move to poverty-based targeting.

Relationship to CPF

The operation's development objective is aligned with the broader World Bank's twin goals of ending extreme poverty and promoting shared prosperity as well as with more specific engagement on these topics in Gabon. Specifically, this proposed second DPF is fully consistent with the World Bank Country Partnership Framework (CPF) FY12–FY16, which has been extended by two years (up to FY18) with the recently completed Program Learning Review (PLR). The operation is central to the PLR's three main objectives: improved governance and public sector capacity, greater competitiveness and increased employment, and improved human development and environmental sustainability.

C. Proposed Development Objective(s)

In support of the country's ambitions, this second operation will maintain the development objectives of the first operation and continues to support spending efficiency and inclusive growth. It will continue to support Government's efforts in: (i) strengthening fiscal sustainability and efficiency in public sector management, by continuing to increase revenue mobilization, stabilizing the wage bill while introducing structural improvements in the civil service, and improving efficiency and transparency in public spending; (ii) enhancing competitiveness, by improving the business climate, consolidating one-stop shop services, paving the way for a new investment code, and strengthening ICT services; and (iii) protecting the poor, by pursuing gradual reforms to improve the efficiency of health care delivery and social protection services.

Key Results

Specific expected results by the end of the DPF series (by the end of 2019, that is one year after this operation) revolve around the following:

Under Strengthening Fiscal Sustainability and Efficiency in Public Sector Management (pillar 1)

- Non-oil revenue (as a percentage of non-oil GDP). Baseline (2016): 17.0%. Target (2019): 16.9%.
- Share of pilot ministries/institutions having developed and approved their (i) workforce and skills plans and (ii) performance evaluation system. Baseline (2016): 0%. Target (2019): 80%.
- Wage bill increase in real terms. Baseline (2012-2015): 12%. Target (2016-2019): 0%.
- Percentage in value of contracts (excluding externally financed projects and counterpart funds) above CFAF 100 million awarded through competitive process. Baseline (2015): 29% (estimated). Target (2019): at least 70%.

Under Enhancing Competitiveness (Pillar 2):

- Number of days necessary for business registration. Baseline (2016): 50. End line (2019): 35.
- Number of inquiries expressions of interest received by ANPI from foreign investors showing interest in investing in Gabon. Baseline (2016): 6. Target (2019): 15.
- 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). Baseline (2016): i) 98%, ii) 175%. Target (2019): i) 110%, ii) 180%. (*) By number of lines/subscriptions, not by unique subscriber.

Under Protecting the Poor (Pillar 3):

- Share of (Primary Health Care) PHC facilities in selected health regions with PBF Contract. Baseline (2016): 0%.

Target (2019): 40%.

- Eligibility to Economically Weak Gabonese (Gabonais économiquement faibles – GEF) database based on the new poverty-based targeting mechanism. Baseline (2016): Eligibility to GEF database based on self-reported individual income. Target (2019): The recertification process based on the new poverty-based targeting mechanism is completed for at least 50% of households in GEF database.
- Key performance indicator on service quality developed and used by CNAMGS. Baseline (2016): no. Target (2019): yes.

D. Project Description

This operation is the last of the Gabon DPF series of two. This second operation allows to extend and deepen key reforms to improve private sector development and social sector services. It is aligned with the coordinated response of the Economic and Monetary Community of Central Africa (Communauté Économique et Monétaire de l'Afrique Centrale, CEMAC) countries to the recent economic crisis as well as with the Extended Fund Facility (EFF) program supported by the International Monetary Fund (IMF). The proposed operation and DPF series continue to be 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.

This second operation maintains the three development objectives of the first operation and is organized around three pillars, each including several policy areas:

- **Pillar 1: Strengthening Fiscal Sustainability and Efficiency in Public Sector Management.** Policy areas: (a) Increase revenue mobilization and improve transparency; (b) stabilize the wage bill and public employment, and improve staff performance; and (c) improve efficiency and transparency of public spending.
- **Pillar 2: Enhancing Competitiveness.** Policy areas: (a) Improve the business climate and (b) strengthen ICT services. And,
- **Pillar 3: Protecting the Poor.** Policy areas, providing foundations to: (a) Improve the efficiency of health care delivery, particularly at primary level, and (b) increase the efficiency of social safety net (SSN) services.

The pillars of the operation are organized around the above three development objectives. They are mutually reinforcing and geared toward supporting jobs creation in the non-oil economy. Fiscal consolidation will not only help clear arrears to the private sector, providing liquidities to businesses and banks, but also create the necessary fiscal space to support the poor and vulnerable. The second pillar supports private sector development with reforms aimed at facilitating investment and bringing dynamism to the non-oil economy. Overhauling the investment framework will allow to Maximize Finance for Development by helping create a level playing field for investors, offering more transparency, predictability, and better dispute redress mechanisms. The third pillar supports the foundations for Performance Based Financing (PBF) in health and targets improvements of the social safety nets to support the poor and vulnerable while new economic sectors emerge and start creating jobs.

E. Implementation

Institutional and Implementation Arrangements

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

The Results Framework includes indicators that will be carefully monitored. It was updated from the DPF1 initial document, to reflect changes in country's policy reform context and related triggers.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

Policy actions under the fiscal consolidation pillar are not expected to have significant overall social, poverty, and distributional effects. The deepened targeting of products under the 'la Vie Chere' program implies that only core food items are being retained, with a view to protect the consumption of the poorest households. **Additionally, policy actions to strengthen the recruitment control system and improve worker's performance are not expected to have significant overall social and distributional effects.** This is due to several factors. The first of these two measures, based on the results of a wage bill study which provide clear evidence that the current workforce is oversized in many sectors only affects new recruitments and potential ghost workers (via a cleanup of HR records), and thus will not affect civil servants' wages or involve lay-offs. Furthermore, this measure will also not affect the education, health or social protection ministries, maintaining their capacity to deploy teachers and medical personnel where they are most needed. The second measure promoting a shift from automatic to merit-based promotions will also not involve lay-offs. It might affect public sector wages in that it might focus rewards on good performers. Ultimately, this should improve the quality of public services thus benefitting citizens at large.

Policy actions under the Enhancing Competitiveness Pillar, namely the operationalization of the One-Stop Shop and the foundations for a new investment code, are expected to generate positive social effects in the mid-term. Amore diversified and dynamic economy should open a wider range of employment opportunities through a stronger SME environment, the subsequent creation and growth of SMEs leading to new jobs.

Policy actions supported under Pillar 3 are expected to bring the potential of significant positive social, poverty and distributional effects, as they aim directly at benefitting the most disadvantaged population groups. In the health sector, steps towards the operationalizing of PBF in primary care in selected health districts (and away from tertiary care) will benefit lower-income households, by making health care economically and geographically more accessible and of better quality. With regard to social protection, the adoption and operationalization of more accurate targeting model will make safety nets more efficient and better targeted to the poor. The reform will address, among others, issues related to the eligibility threshold (not linked to the national poverty line) and the current bias against large (usually poorer) families. This will likely substantially reduce inclusion and exclusion errors, thus increasing the poverty and distributional effects of existing and more importantly, potential future transfers. More broadly, the recently completed 2017 household survey is expected to inform the Government's efforts to revisit its instruments to address poverty and vulnerability.

Cross-cutting gender aspects. None of the expected prior actions under the three Pillars are expected to increase gender gaps and/or gender-based vulnerabilities. Pillar 3 PBF health measures are expected to strengthen primary health care including in poorer regions, hence alleviating access constraints for women. There are, however, serious gender gaps in education attainment particularly in rural areas where the difference between women and men amounts to 1.7 years, and in terms of economic opportunities- with an unemployment rate of women 20 percentage points higher than of men. Thus, the team will strive to strengthen policy dialogue to explore ways to address some of these gaps to make targeted policy actions benefit women and girls, either through specific DPF3 triggers or complementary measures in investment financing and /or technical assistance. Regarding Pillar 2, various entry-points will be explored to boost women entrepreneurship and access to market- relevant skills.

Environmental Aspects

Gabon has established a clear legal and institutional framework for environmental management. The cornerstone of environmental legislation in Gabon is the Law no. 007/2014 on the protection of the environment in the Republic of Gabon ('Environment Law'). This law and subsequent decrees establish the general conditions, prohibitions, enforcement for the prevention and control of pollution, and lay down requirements for prior environmental assessment for any investment projects. 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 « Direction Générale de l'Environnement et de la Protection de la Nature (DGEPN) » is the principal agency responsible for the management of the environment and coordinates, monitors, and supervises all activities in this field.

Despite this credible legal and institutional framework, investments, operations and operating procedures do not typically meet international standards for Environmental, Social, Health and Safety (ESHS) performance because local regulatory oversight and enforcement capacity are limited. Some prior actions to be implemented under this DPF are likely to have environmental effects, and hence need to receive scrutiny and close supervision. The following approach is proposed. Environmental considerations will be factored in the design of relevant reforms, for instance ensuring that environmental agencies are represented in the One-Stop-Shop for business registration, and that the revised investment code includes notions such as sound corporate governance and environmental sustainability and promotes the development and diffusion of environmentally friendly technologies.

Waste management, including for health care waste is regulated in Gabon by Decree No. 000541/PR/MEFEPEPN of July 15, 2005. Per this Decree, it is the responsibility of the waste generator to ensure that the waste is packaged, transported, treated and disposed of in terms of the legal requirements and that there is an auditable record of the steps involved in storing, collecting and transporting the waste. Health care institutions are waste generators but not all hospitals in Gabon have waste treatment facilities. Since Prior Action #8 is 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: to ensure continuous monitoring, supervision and coaching on healthcare waste management, the Performance Based Financing and Quality of care checklist shall include waste management, hygiene and safety issues; healthcare waste management achievements shall be reflected in the quarterly quality evaluation for the PBF payments. However, since all health care centers do not have waste treatment facilities and the same level of waste management and safety skills at inception, special attention will need to be paid to ensuring that new enrolled health care entities nominate a waste management Focal Point, sign an agreement with a Regional Hospital that hosts an environmentally friendly incinerator and train in healthcare waste management (HCWM) and related safety measures. Under this Second operation, readiness for the start of PBF implementation is delayed. However, these considerations will be taken into account in the preparation of DPF3.

G. Risks and Mitigation

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

The political and governance risk is rated as high. Following the recent parliamentary elections, an expected change in the government team presents a risk of delays in reforms implementation. This may hamper the administration's ability to implement reforms in a timely manner, particularly the ones related to fiscal consolidation and broad-based social

protection ones. Social tensions, in particular the strike in customs and tax administrations, hinder efforts to mobilize domestic revenues that could make Gabon more resilient to external shocks and may delay economic recovery. To mitigate these risks, the project team has quickly engaged dialogue with newly appointed ministers and is strengthening collaboration with central administration officials.

The macroeconomic risk is rated as high. There are risks to the macroeconomic outlook and to the program supported by this DPF series. Key risks to the macroeconomic outlook include a reversal in the increase of oil prices and tighter global financial conditions, which could impact negatively the size of the fiscal adjustment. From a program perspective these risks could mean delays – or reversal – in the implementation of the measures supported under pillar 1, on tax exemptions and wage bill control, for example. Gabon's commitment to stay the course on fiscal consolidation as demonstrated by the recent set of measures announced by the authorities in the Amended 2018 and the Draft 2019 Finance Laws are important mitigating factors against these risks.

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 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 high. 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. In addition, through the PFM RAS, the World Bank supported PFM reforms. Other PFM measures are supported through the IMF program.

The stakeholders risk is rated as substantial. Civil service reform to address structural problems in the public-sector wage bill is highly sensitive in any country, from a social perspective. The proposed measures aim at gradually moving to a fair, transparent and merit-based civil service management, including hiring and career management to respond to social expectations for reform. In this process, the Government has put emphasis on communication to the public, and will further strengthen dialogue with trade unions and public consultations as a mitigation measure, with support from the World Bank civil service reform RAS project.

The regional risk is rated as high. There is a 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, especially when it comes to restoring the external balance and reconstituting international reserves. Recovery hinges on a full implementation of policy commitments by CEMAC member states and regional institutions, and notably the conclusions of IMF programs by the two members still in negotiation, EQG and ROC. Discussions with EQG have progressed, with the conclusion of an SMP (non-financing program) in the first half of 2018. The BEAC plays a key role in regional stabilization, and is being supported by a World Bank TA program aiming at strengthening the capacity of selected CEMAC regional financial institutions to implement their mandates in the areas of financial stability, inclusion, and integrity.

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