



Executive Board Minutes 21/79-2

July 28, 2021–11:35 a.m.

Gabon—Request for a Three-Year Extended Arrangement Under the Extended Fund Facility

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Staff: Loko, AFR; Rother, SPR

Length: 1 hour, 5 minutes

ISSUED: October 26, 2022

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR’S SUMMING UP

Executive Directors commended Gabon for its success in containing the spread of the COVID-19 pandemic. They noted that the economy is expected to begin to recover in 2021. Directors agreed that the near-term outlook remains subject to considerable uncertainty and is contingent on the pandemic path, the effective vaccines’ rollout, and the implementation of structural reforms.

Directors noted that the new extended arrangement under the Extended Fund Facility will support recovery and anchor reform priorities for a sustainable, green and inclusive growth. They underscored that strong ownership and steadfast implementation of the program will ensure its success, including to catalyze additional external financing, and mitigate risks to the outlook.

Directors agreed that fiscal policy should continue supporting the recovery in the near term. They also emphasized the importance of a more ambitious medium-term fiscal consolidation to preserve fiscal and debt sustainability.

Directors underscored that governance and fiscal reforms are essential for a sustained fiscal consolidation. They welcomed the authorities’ efforts to improve transparency in the extractive sectors and to enhance non-oil revenue mobilization and spending efficiency. Directors encouraged the authorities to complete expeditiously the audit of all relevant COVID-19 expenditures. They called for a strong focus on improving public debt management and clearing arrears, containing fiscal risks and accelerating SOEs’ governance reform. Directors also urged the authorities to enhance social safety nets.

Directors emphasized the importance of advancing structural reforms to support economic diversification and an inclusive recovery. They encouraged the authorities to continue enhancing the banking sector and fostering financial inclusion, improving the business environment, and strengthening the anti-corruption framework to promote private investment. Directors stressed that capacity development and better coordination within the public administration are important to underpin the reform agenda’s implementation.

Directors noted that Gabon’s program is supported by the implementation of policies and reforms by the CEMAC regional institutions, which are critical to the program’s success. These comprise of the policy assurance provided in the June 2021 follow-up letter of Policy Support on regional net foreign assets (NFA) accumulation at end-June 2021 and at end-December 2021. Completion of the first review will be conditional on the implementation of the updated policy assurance.

EXECUTIVE BOARD DECISION

The Executive Board took the following decision, with one abstention by Ms. Shortino (US):

Gabon—Request for a Three-Year Extended Arrangement Under the Extended Fund Facility

1. Gabon has requested an Extended Arrangement under the Extended Fund Facility in an amount equivalent to SDR 388.8 million, for a period of three years from the date of the adoption of this decision.
2. The Fund approves the Extended Arrangement set forth in EBS/21/71 and decides that purchases may be made under the Extended Arrangement, on condition that the information provided by Gabon on the implementation of the measures specified as prior actions in Table 2 of the Memorandum of Economic and Financial Policies attached to the letter from the Minister of Economy and Economic Recovery dated July 15, 2021 is accurate.
3. The Fund waives the limitation in Article V, Section 3(b)(iii). (EBS/21/71, 07/16/21)

Decision No. 17090-(21/79), adopted
July 28, 2021

EXECUTIVE BOARD ATTENDANCE²

M. Furusawa, Acting Chair

Executive Directors

A. Andrianarivelo (AF)

Z. Jin (CC)

A. Buisse (FF)

R. von Kleist (GR)

M. Poso (NO)

A. Alaqla (SA)

R. Lim (ST)

W. Keller (SZ)

E. Shortino (US)

Alternate Executive Directors

W. Nakunyada (AE)

B. Lischinsky (AG), Temporary

C. White (AP)

R. Velloso (BR), Temporary

R. Moral Betere (CE), Temporary

R. Edwards (CO), Temporary

C. Just (EC)

N. Thiruvankadam (IN), Temporary

M. Massourakis (IT)

M. Kashima (JA)

K. Osei-Yeboah (MD), Temporary

A. Alhosani (MI)

D. Tevdovski (NE), Temporary

D. Shestakov (RU), Temporary

K. Nelson (UK), Temporary

G. Bauche, Acting Secretary

L. Briamonte, Summing Up Officer

D. Jiang, Board Operations Officer

M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: G. Agou, J. Dridi, M. Islam, D. Kanga, V. Kramarenko, A. Lahreche, B. Loko, M. Poplawski Ribeiro. Communications Department: E. Graf. Fiscal Affairs Department: B. Imbert. Finance Department: B. Jajko. Legal Department: S. Grund,

² For countries in each constituency, please see the Constituency Codes in the annex.

J. Swanepoel. Strategy, Policy, and Review Department: B. Rother. World Bank Group: S. Alliali, A. Ouedraogo, R. Singh. Executive Director: M. Mahmoud (MI), P. Moreno (CE), D. Palotai (EC). Alternate Executive Director: B. Alhomaly (SA), H. Azal (EC), M. El Qorchi (MD), A. Guerra (CE), R. N'Sonde (AF), F. O'Brolchain (CO), L. Palei (RU), J. Romero (CE), P. Rozan (FF), F. Sylla (AF). Senior Advisors to Executive Directors: W. Abdelati (MI), S. Ahmed (MD), H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), J. Damgaard (NO), P. Harvan (EC), B. Jappah (AE), T. Nguema-Affane (AF), J. Rojas (CE), S. Senich (US). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), Bah, R. (AF), Gonaya Basutli (AE), C. Becker (AP), B. Boostani (MD), E. Boukpepsi (AF), M. Coronel (BR), J. Corvalan (AG), D. Fadhel (MI), K. Florestal (BR), Z. Huang (CC), Y. Kikucji (JA), T. Krahne (GR), V. Lankester Campos (CE), M. Merhi (MI), L. Nankunda (AF), B. Piasecki (SZ), A. Ribeiro Mateus (IT), C. Westphal (US), S. Yoe (ST), F. Lopez (CE), E. Comolet (FF), C. Roman (FF).

DISCUSSION RECORD³

The Acting Chair (Mr. Furusawa):

This meeting is to consider the request by Gabon for a three-year Extended Fund Facility (EFF) arrangement. The authorities' swift response and timely assistance from development partners have helped limit the spread of the virus and save lives. As we will recall, the Board also approved two disbursement requests under the Rapid Financing Instrument (RFI), in April and July last year. These disbursements helped the authorities meet urgent balance of payments needs.

Against this background, the authorities requested a new three-year EFF to continue mitigating the impact of the pandemic, support the post-pandemic recovery, and anchor reform priorities for sustainable and inclusive growth.

The focus in the near term, as appropriately reflected by the authorities' revised 2021 budget, is on ending the health crisis and minimizing the pandemic scars. Once the pandemic is well contained, the focus shifts to tackle longstanding structural issues to put public debt on a firm downward trajectory and foster a high and inclusive growth.

Drawing lessons from the previous EFF, particularly the slow implementation of reforms, the proposed program focuses on key areas and conditionalities and further integrates the program objectives, technical assistance (TA), and capacity development (CD).

As noted by many Directors in their gray statements, steadfast implementation of the program will ensure its success, including to catalyze additional external financing and mitigate risks to the outlook. The proposed EFF is important to help Gabon address balance of payments and fiscal needs and support the broader Central African Economic and Monetary Community (CEMAC) regional strategy.

The staff representative from the African Department (Mr. Loko):

I would like to thank Directors for their insightful comments and questions. We have already provided answers to the more technical questions, and I would like to focus my answers today on three program design-related

³ Edited for clarity.

issues. Before that, allow me first to provide some updates on the current COVID-19 situation in Gabon.

As of July 26, two days ago, there have been 25,344 cases and 163 deaths. The daily cases are falling, and the country has not observed a third wave on the back of the new Delta variant. However, vaccine hesitancy remains a challenge. The country has received so far 410,000 doses but inoculated only about 60,000 people, or about 6 percent of the adults, with the first dose.

The authorities have announced that they will receive in the coming weeks an additional 165,000 doses under the COVAX initiative. However, a stronger communication campaign will be needed to achieve the authorities' objective of vaccinating 27.5 percent of the population by end-December 2021.

Turning now to the Directors' questions.

First, some Directors asked about the rationale for a front-loaded disbursement, particularly in the context of rising oil prices. The authorities' overriding priority is to continue mitigating the impact of the COVID-19 pandemic. In that context, the revised 2021 budget has increased COVID-related spending from about 3 billion CFAF in the initial budget to 68 billion, 1 percent of non-oil GDP. At the same time, domestic revenue was revised down. As a result, the overall deficit is expected to increase by about two percentage points of GDP, compared to the initial budget, generating additional financing needs.

In the medium-term, the authorities envisage a growth-friendly fiscal consolidation to reduce vulnerabilities and bring down public debt to below 60 percent of GDP by 2026.

In sum, the program proposes to front-loaded disbursement in 2021 will accommodate the financing required to support the health and social sectors and the economy during the pandemic. The staff believe that incentives for policy measures in later years will remain strong, given the authorities' commitment to the program and the actions already taken in recent weeks.

With respect to oil prices, the staff report framework is based on a more conservative assumption than the latest World Economic Outlook. We are using \$60 for a barrel as the baseline, instead of \$67.5, the actual price.

The program includes a large adjustor to deal with decreases in oil revenue. The authorities intend to save at least 50 percent of the windfall and use the rest to accelerate the repayment of domestic arrears.

Second, several Directors inquired about the possibility of front-loading program reforms. The first program year features critical reforms, including in the governance area, that will lay the foundation to reap the benefits from the mining and oil activities, lock in higher domestic non-oil revenue collection, and improve state-owned enterprises (SOEs) and public finance management.

The arrangement includes four prior actions before program approval. In addition, out of a total of 24 structural benchmarks over the three years of the arrangement, 13, which means more than half are expected to be implemented in the first year of the program.

Key actions already undertaken include measures in the 2021 revised budget to reduce tax expenditures by a cumulative 1.8 percentage points of non-oil GDP at end-2023; the audit of four key SOEs, which will form the basis for far-reaching reforms to enhance their governance and efficiency. In addition, the authorities are planning to submit a membership application to the Extractive Industries Transparency Initiative (EITI) in September 2021 and to finalize by end-September 2021 the list of public entities to close, and recommend measures to improve governance and financial management for those to return under state ownership.

They are also committed to work with Fund TA to ensure that, starting end-November, Gabon's legal framework for the collection and publication of beneficial ownership information in procurement processes include the names and nationalities of the beneficial owners. Also, the front-loaded reforms take into account the need to accelerate and implement critical measures ahead of the 2023 presidential election.

Third, some Directors inquired about how the lessons learned from the previous EFF helped in the design of the proposed new arrangement. Drawing lessons from the previous EFF, particularly the slow implementation of reforms due to weak capacity and a lack of coordination within public agencies, the staff proposes to focus the proposed program on a very few key areas and conditionalities and to further integrate program objectives and technical assistance or capacity development. The proposed new arrangement focuses on a few topics, such as domestic revenue mobilization, the management of public assets and SOEs, the banking system, and the

anticorruption framework. The proposed EFF places a strong emphasis on developing synergies between program design and capacity development. The capacity development is tailored to support the focus and phasing of structural reforms, including structural conditionality. For instance, the authorities are working very closely with the Fiscal Affairs Department to review all existing tax exemptions to identify those to streamline and those to remove. The Fund TA will also help improve coordination within public agencies by promoting digitalization. Finally, the Fund TA will also provide targeted assistance to support the country's transition toward a greener economy.

Finally, the staff also places a great emphasis on coordination with other development partners, including the World Bank and the African Development Bank. For instance, the African Development Bank is financing the recruitment of two long-term experts to help with revenue collection and the implementation of the treasury single account and reform of SOEs. We are also working with UN agencies on the revamping of taxation and investment processes to support the country's transition.

Ms. Shortino:

As noted in our gray statement, we would ask to be registered as abstaining on this program, so I will just make a few points to explain our views.

First, given Gabon's history of weak performance in IMF programs, we were quite disappointed that the program did not more directly address the stalled reforms from the prior EFF and the RFI. We have really felt like these reforms should have been completed before bringing this to the Board, even if it meant a slightly delayed Board date. In that context, we were also quite surprised to see front-loaded disbursements in the program. We really are concerned that the combination here of weak conditions and front-loaded disbursements decreased the Fund's leverage in future reviews and increased repayment risk.

Second, like many other chairs, I find it quite concerning that the program is not catalyzing or supporting other donor financing, and that includes the World Bank. This also increases the risk to the Fund. I found the staff's responses to these questions, in the staff responses, to be a little confusing. The responses imply the Bank has decided to shift from budget support to project support, but it is not entirely clear why. The way I read it is that it implies the Bank is not persuaded of the strength of Gabon's reform program. So, I just wondered if the staff could clarify that, if that is possible.

Or if there is a World Bank representative, maybe they could weigh in. The response to this question also underscores the importance of the full implementation of conditions in this program to help increase the likelihood that the Bank will step in with budget support during the program at a later date.

I would note that we do support the reform agenda in the program, particularly the reforms focused on revenue transparency and on recalibrating and auditing expenditures. If implemented, these reforms will help to improve Gabon's debt trajectory and governance climate, so it is quite key that the authorities follow through on implementation, which will also help to demonstrate the strong ownership of the program.

I would, therefore, reiterate a point made in our gray statement, that we urge the staff not to bring the first review to the Board for approval until the program conditions in that review have been completed.

Mr. von Kleist:

The Gabonese economy has been hit hard by the COVID-19 pandemic and the associated fall in global oil prices. Lockdown measures have led to large-scale losses of private sector jobs and, absent a comprehensive social safety net, poverty has increased markedly. Against this background, and given the program conditionality targeted at fiscal consolidation and important governance improvements, we support the authorities' request for an EFF arrangement.

At the same time, as also spelled out by Ms. Shortino in some more detail, we already also spelled out a number of concerns in our gray statement; in particular, we are concerned about the high risks to debt sustainability, the strong front-loading, nevertheless, of the Fund's financing and the lack of burden sharing with other international financial institution (IFIs) or creditors. And I would look forward, if the World Bank would comment on their engagement.

Risks to program implementation, as well as risks for the capacity to repay the Fund, are high. Like Ms. Shortino just now, we regret the lack of completion of prior commitments.

Against this background--backdrop, our support for the program request in its current design could be viewed as a pledge of confidence; hence, we expect from the authorities an unwavering commitment to program

objectives and a steadfast implementation of reform measures going forward. In that context, I would like to join Ms. Shortino, that we would expect the completion of prior actions and benchmarks before the review reaches the Board.

Mr. Tevdovski:

As we issued a gray statement, supporting the request for a three-year arrangement under the EFF, while we expressed concerns about the implementation, front-loading of the Fund's financing, and a lack of burden sharing with the other IFIs or creditors, I can be brief today and focus on only a few remarks.

First, as highlighted by Ms. Shortino and Mr. von Kleist, risks to program implementation, as well as the risks concerning the capacity to repay the Fund are high. We encourage the authorities to deliver the front-loaded reforms. Governance and fiscal reforms are essential for sustained fiscal consolidation efforts. Meeting these challenges will determine the success in the realization of the program. Therefore, we stress that progress on these high-priority reforms will be critical to our future support of the program.

Second, we support Mr. Pösö's comments in his gray statement about the importance of strengthening the soundness and the regulatory compliance of the banking sector. We also agree with the staff's recommendation for the authorities to work with the Bank of Central African States to broaden the sovereign investor base and reduce the sovereign-bank nexus, as well as to enhance the governance and transparency of public financial institutions.

Finally, as outlined in Ms. Kashima, Ms. Lim, Mr. O'Brolchain, Mr. White, and others' gray statements, we welcome the capacity development strategy emphasized the importance of technical assistance, especially in the context of a challenging program, such as Gabon's. With much of TA incomplete, continued weak budget credibility and transparency, and delayed reforms, we encourage the staff's close attention to achieving the TA goals.

Mr. Pösö:

Gabon has been hit hard by the pandemic, and we welcome the authorities' engagement with the Fund. We can support the authorities' EFF request; but, as we mentioned in our gray statement, we have serious concerns

regarding the program design and the slow implementation of governance reforms.

On the program design, and similar to Ms. Shortino, Mr. von Kleist, and Mr. Tevdovski, we know that the combination of front-loaded disbursements and upcoming elections can be a dangerous cocktail. In this context, we would have liked to see more front loading also with reforms and a more catalytic role for Fund financing. We encourage the staff and the authorities to keep working on mobilizing funds from other sources. Our main concern, however, is the fact that the governance commitments made in connection with the second RFI last July have still not been implemented fully. On this, I have two questions that I would like to ask our colleagues from the Strategy, Policy, and Review Department.

First, how seriously should we take the commitments made in the letters of intent? A year ago, the Gabonese authorities are committed to publishing all procurement contracts with beneficial ownership information within 30 days of the contract being awarded. Most of the contracts have now been published, but the publication of beneficial ownership information is still missing. And, in fact, this commitment is now translated into a structural benchmark under the EFF. This seems to indicate that there are no consequences when governance commitments are not respected.

Second, what is being done to ensure evenhandedness across the membership in this area? We understand that the publication of beneficial ownership information was made a prior action in the corresponding case of Cameroon's ECF/EFF arrangements, which we will discuss tomorrow. Why didn't we apply the same standard to Gabon? I call on the staff to ensure that we will have a race to the top, rather than a race to the bottom, when it comes to the governance commitments.

Ms. Edwards:

We issued a comprehensive gray statement with other chairs, in which we supported Gabon's request for an extended arrangement under the EFF but noted that there are several risks. At this time, I would like to highlight two concerns for emphasis.

First, on Gabon's accumulation of arrears, like several other chairs mentioned in their gray statements, we are concerned with the continued buildup of arrears. And like Mr. von Kleist, in his gray statement, we

encourage the authorities to develop a credible plan to address this matter comprehensively.

Second, we note with concern that several measures remain unimplemented from the previous EFF and the RFI. On the EFF, we would have preferred that the actions outstanding from the previous EFF would be front-loaded in this program. On the RFI, we would urge the authorities to implement quickly the actions which still remain outstanding, despite noting that some of the actions have been taken.

Mr. Buissé:

Gabon was hit hard by the pandemic. Given the deterioration of the current account and the need to anchor the macroeconomic and structural reforms, including for the CEMAC's external stability, I strongly welcome the request from the authorities for a new program. IMF support will be instrumental in supporting the country's reform agenda, though it is clear that a strong ownership by authorities will also be needed. I issued a detailed gray statement with Mr. Ronicle, so let me only highlight four points this morning.

First, on program design, conditionality, and the catalytic role of the program. If I counted correctly, there are 13 structural benchmarks to be reached by year-end. This will create a strong reform momentum, providing a good start to the program, if implemented correctly, of course. As evidenced by other colleagues, this comes with a front-loading, but this is really an opportunity for the authorities to complete the unfinished agenda from the previous program and deal with the crisis.

I would also note in passing that the previous program had five successful reviews and was only stopped by the COVID crisis. So, indeed, for me, this bodes very well for the success of this program. And I understand Mr. von Kleist's pledge of confidence.

I also share my colleagues' insistence on the catalytic role of the Fund, but I actually think the program is doing just that. For example, I can confirm that my authorities plan to provide even stronger budgetary support than what was in the report, with €112 million over the program period. I was also glad to see that the African Development Bank will also join.

I do not think we can blame the Fund for the inability of the World Bank to commit to a financing plan over the course of the program, which is, frankly, puzzling, given how closely the two institutions have worked together

on the CEMAC reform strategy; but I hope they will be able to come in sooner, rather than later. I will actually push for it, of course, on the other side of the street, especially considering that my authorities are putting money in this program.

Second, I want to touch upon the clearance of arrears issues, as this is a recurring issue. The clearing of external official arrears was important. Now we will be closely monitoring the clearing of external commercial arrears before the next review. In any case, avoiding new external arrears is necessary to preserve the relationship with creditors and development partners. Strengthening cash management and better coordination between units will be instrumental.

Third, there is a need to find the right balance between social spending and the needed growth-friendly fiscal consolidation. I really want to emphasize my support to the authorities' intention to raise social and infrastructure spending, while preserving debt sustainability. Given the impact of the crisis on the most vulnerable, I strongly welcome the specific attention on proposed spending quantity and quality in the program's conditionality.

My last point is on the importance of continued progress on the governance framework and transparency. They are, as many colleagues have said, absolutely critical. Ultimately, all these reforms not only reinforce the efficiency of public service but also improve the business environment, the attractiveness of the country, and, finally, the private sector growth.

*Mr. von Kleist:*⁴

I strongly support Mr. Pösö's remarks on governance issues.

Mr. Nakunyada:

We commend the authorities for their swift intervention measures that moderated the fallout from the pandemic. Nevertheless, reflecting the constraining effects of containment measures, the growth outlook remains challenged by protracted macroeconomic, structural, and balance of payments challenges. In view of this, we issued a gray statement, supporting the authorities' program request, and would like to emphasize a few points.

⁴ These comments were made in the videoconference chat window.

First, we view an EFF program as essential to accelerate reforms under the economic recovery strategy. Although emergency Fund financing and complementary development partner support helped bridge the urgent financing gaps, substantial medium-term financing needs continue to challenge the growth outlook. As such, a Fund-supported program will be instrumental to unlock donor support, while anchoring the implementation of outstanding reforms from the previous program.

Second, we stress the need for fiscal policy to be carefully calibrated to avoid jeopardizing the incipient recovery. Against this backdrop, we view appropriate contingencies as important to mitigate potential program risks. At the same time, priority should be accorded to the strengthening of social protection to cushion vulnerable households. Considering the uncertain evolution of the pandemic, we welcome the authorities' plan to accelerate vaccinations and bring the pandemic firmly under control.

Finally, we welcome the progress made in the clearance of external payment arrears, as outlined in the staff's complementary note that was circulated yesterday. Like Mr. Rashkovan and Mr. Bevilaqua, we support the integration of CD with key program objectives to help address attendant weaknesses, including in the national statistics.

Mr. Just:

At the outset, we would like to stress that Gabon is a middle-income country, and this is a General Resources Account (GRA) program. It is, therefore, disappointing that implementation of the previous program, especially with respect to external arrears, is unresolved and that we continue to discuss arrears clearance in Gabon.

While the Gabonese authorities have cleared official external arrears toward Austria yesterday, there are still approximately €20 million in external commercial arrears not yet cleared, and we urge the authorities to also set those, as well as any other external arrears for the next review at the latest, as it would be very difficult for us to accept another waiver.

Like Mr. von Kleist, Ms. Shortino, Mr. Peter, and other Directors, we are very concerned about the design of the program. We underscore the importance of aligning key structural benchmarks with disbursements to strengthen the commitment to deliver in the context of a history of overpromising and underdelivering.

Gabon's lack of delivery on the RFI transparency commitments is also disappointing, and we fully support Mr. Pösö's comments in this regard. Here, we would appreciate the staff's comments on whether the staff has verified the prior action on publication or, because, in the technical answers to questions, it says that the staff only confirms the authorities' response to that.

The planned presidential election in 2023 might further dilute the political ownership at a critical time for the EFF. Given the high risks for Gabon's capacity to repay the Fund, as well as for the debt sustainability, a less front-loaded and more cautious approach in the design of the EFF would have been warranted.

As Ms. Shortino, we expect that all program documents for the Board's approval after the August recess will contain debt data broken down by creditor, in line with the revised debt limits policy.

Mr. Jin:

We have issued a gray statement, so I will limit my remarks to a few points.

First, we support Gabon's request for a new EFF arrangement. The Fund-supported program is instrumental to restore the macroeconomic stability and promote a strong and sustainable post-pandemic recovery. We take note that post-program performance was mixed. The authorities' strong ownership of the reform agenda and the well-targeted CD strategy to improve the authorities' implementation capacity are critical to the success of the new program.

Second, despite the outstanding official bilateral arrears to our country, we expect the authorities to fulfill their commitment to clear all bilateral arrears by the first review and, therefore, have consented to the Fund's financing. It is in the interest of the authorities to keep a track record of timely and complete debt service payment to gain international confidence and maintain market access to financing. We encourage the authorities to take concrete actions to improve the public debt management and avoid the accumulation of external arrears in the future.

Finally, we underscore the importance of economic diversification, as Gabon's economy is highly dependent on the oil sector and is vulnerable to oil price volatility. Gabon is a green superpower, with a vast rainforest, described by a recent article in the Financial Times. And there is great potential to

improve the business environment to attract both public and private investments in the non-oil sector.

Mr. Massourakis:

Today, I would like to add three remarks to the gray statement we issued, supporting Gabon's request for an EFF-supported program.

First, on the program's design and riskiness, like Ms. Lim and colleagues in their gray statement, we recognize the need for front-loaded disbursements to meet significant external financing needs in 2021. However, this may weaken incentives for reform, notably, given the fragmented political landscape ahead of the elections in 2023 and the perception that there was a lack of coordination and ownership in the previous EFF. As such, we encourage the staff to maintain a very close engagement with the authorities.

This brings me to my second point which is, likewise, decisive for the program's success, that is capacity development. And here, I can just echo many Directors' gray statements and would reiterate that CD should be well aligned with the program's priorities, as well as well-timed to best take advantage of the authorities' absorption capacity.

Finally, we support the staff's recommendations for the authorities to work with the regional central bank to develop and implement a strategy to broaden the investor base for sovereign bonds, as this would contribute to weaken the rather strong bank-sovereign nexus. This should be coupled with efforts as well to promote financial inclusion. Altogether, this strategy can help create room for commercial banks to support further private sector economic activity.

Mr. Velloso:

We issued a comprehensive gray statement, supporting Gabon's request for a new EFF arrangement and calling upon the authorities to steadfastly implement the envisaged policies and reforms under the program. I will make only a couple of points for emphasis.

First, we agree that sustained growth-friendly fiscal consolidation should take center stage as the pandemic abates. In this regard, the authorities' actions and plans to enhance non-oil revenue mobilization are welcome. As these efforts are likely to yield limited results in the near term, given the incipient recovery and relatively small size of the non-extractive sector, fiscal

consolidation will have to rely more heavily on spending rationalization. Also, spending rationalization will be needed to redirect resources toward strengthening Gabon's social safety nets and addressing the country's development needs.

Second, while the program's reform agenda is appropriately ambitious, we wonder whether enough is being done to start tackling Gabon's dependence on oil. This dependence makes the Gabonese economy highly vulnerable to the significant decline in oil reserves that the country is already experiencing, in addition to bouts of price volatility that are common in the oil sector. In our view, diversification and the structural transformation of the economy are urgent. In this regard, enhancing Gabon's business environment should be at the center of the strategy to attract non-extractive investments.

Ms. Moral Betere:

We have issued a detailed gray statement and just want to make the following comments for emphasis.

We do support the request for a three-year extended arrangement under the EFF. We note that risks to the program remain very high, but we believe that it is an essential catalyst for official financing that will help to underpin the authorities' reform agenda and address its major macroeconomic imbalances toward sustained, green, and inclusive growth. The authorities' commitment to the program and the tailored CD strategy to support the implementation of the structural reforms will be crucial to the success of the program.

In addition, we also underscore the need to clear its arrears and strengthen public debt management to guarantee debt sustainability. The rapid clearance of arrears will be crucial to regain confidence and market access to finance its high financing needs. Fiscal consolidation is also paramount to safeguard debt sustainability, but strengthening the social safety net should remain a priority.

Finally, we would like to commend the authorities for the Transformation Acceleration Plan deployed in 2021 and would encourage further efforts to strengthen governance, transparency, and the anticorruption framework to improve the business climate and promote private investment.

Ms. Kashima:

While we share the concerns and risks already raised by Ms. Shortino, Mr. von Kleist, and other Directors, we have issued a gray statement, supporting the request for an EFF, provided the strong ownership and commitment of the authorities. Therefore, I will limit my comments to the following two points.

First, I would like to echo other Directors regarding the need to strengthen governance and fiscal transparency. While we welcome the staff's supplementary information, which highlighted the publication of COVID-related contracts, we note that not all contracts have yet been published, and detailed information is limited in many cases. We would appreciate if the staff could elaborate on when the authorities plan to publish the remaining COVID-related contracts and whether this gap could be considered negligible in the context of the prior actions. Going forward, it would be essential that the authorities enhance their efforts in further strengthening fiscal transparency to achieve spending efficiency and inclusive private-sector-led growth.

Second, in light of the many reforms necessary, as mentioned by Mr. Massourakis and other Directors, capacity development, well integrated with program objectives, will be essential for the success of the program. We note the ambitious TA agenda, which will require appropriate sequencing and prioritization. It will also require the authorities' strong ownership toward the program.

We look forward to updates on the TA provided both by the Fund and other development partners in subsequent reviews, which includes an assessment of the milestones and outcomes achieved.

The staff representative from the African Department (Mr. Loko):

There are two issues I would like to address, before asking our colleagues from the World Bank to talk about the World Bank potential budget support.

On the first question about the risks to the program, we recognize that there are risks to the program, stemming mainly from weak capacity. That is why, for this program --the oil reserves from the previous EFF for which the last review did not happen because of COVID--we worked closely with development partners, the World Bank, the African Development Bank, to

make sure that we can coordinate in terms of technical assistance and capacity development.

The World Bank is still providing technical assistance to Gabon, the African Development Bank, the Agence Française de Développement, and the ILO. Coordinating the technical assistance and making sure that we cover key areas of macroeconomic reforms will help to strengthen the implementation capacity.

I should also note that, on the authorities' side, they also share the concerns about the slow implementation of reforms and weak capacity. They have set up some task forces to make sure that they can monitor daily the measures and actions they would like to implement in the program.

The second question is about the prior actions on COVID-related spending. As of yesterday, the authorities have published about 500 contracts for about 45 billion CFAF. We can confirm that we have these 500 contracts published on the ministry website and that we were able to identify the 45 billion of contracts, COVID-related contracts.

The authorities confirm also that they have published all COVID-related contracts, COVID spending contracts. We do not expect them necessarily to add to the contracts they already published on their website.

Finally, the risks. I should also indicate that there are upside risks in the case of Gabon. First, the oil price. Also, the developments in the mining sector, including in manganese. We believe that even if some quick win by strengthening transparency and governance in the mining sector, in the oil sector through the submission to the EITI will help at least increase in the short run oil revenue, mining revenue, while reforms are underway to increase non-oil revenue. We believe that increasing domestic revenue, both oil and non-oil, will help keep debt under control and will also help in terms of refusing the financing needs in the medium-term.

The representative from the World Bank (Mr. Singh):

The Bank's engagement in Gabon is constrained by our risk exposure to the country. Gabon is an International Bank for Reconstruction and Development (IBRD) country. The issue for us is not whether we engage or we do not engage; it is more how best to use this borrowing space. And budget support is one instrument, among many others, that we have to engage with our client countries.

At this stage, and in light of the urgency of many of Gabon's challenges that were nicely spelled out by the IMF team, our reading is that a more granular intervention in sectors directly helping the Gabonese authorities in financing, for instance, COVID vaccines or rolling out digital solutions to improve governance were more appropriate and would have the best chance to deliver the needed development outcomes. Therefore, it is not an issue of whether we are engaged or not. It is an issue of deciding strategically which instruments are the most appropriate to use at this juncture.

The staff representative from the Strategy, Policy, and Review Department (Mr. Rother):

I just want to respond to the question that Mr. Pösö asked about the governance conditionality, the importance of which was also highlighted by Mr. von Kleist, Ms. Kashima, and others.

First of all, let me start by saying one thing very clearly. We will not let go. We will not let go on this conditionality, and we will continue to push for governance reforms, especially if countries enter into arrangements with us. So that is the overarching principle.

The second question is how do we do that? And that brings us to the implementation strategy. And there, I think it is important also, when looking at evenhandedness, that implementation requires judgment. There is no one-size-fits-all. The principle should be always doing it as quickly as possible but without overwhelming the capacity of the authorities. Because if we were to push for something that is not possible, it is counterproductive, and it is affecting our credibility. It is a judgment call. And in this judgment call, of course, we are weighing also the kind of criticality of the case, which is weighing in each specific instance. For example, if there are procurement scandals, and especially procurement scandals related to COVID expenditure, we would be much more forceful than perhaps otherwise, even if there are implementation issues.

With that, there are three broad categories.

First, sometimes up-front implementation is judged as very critical, and it can be done. That is the case of Cameroon. And if this is the case, we really try to do this.

Second, sometimes we understand that more time is needed. In these cases, we often go for structural conditionality--structural benchmarks, typically at the time of the first review. We do not want to put this on the back burner.

With this idea of giving the country more time comes also another commitment, which is that countries would then typically understand that this is really serious. And if we do not do it by the first review, it will become a prior action for the first review. For example, in cases like Mali, like Malawi, we are giving that additional time because it is difficult, but we want to remain firm at the time of the reviews, similar to the case here in Gabon.

Third, what is also important is, if we give more time, then we also use it to try to become more demanding in terms of the scope of a measure. In many cases, we are trying to push for beneficial ownership information not only on the COVID-related spending then but in general on spending. It is not only giving more time, as it is also to use it to become more demanding in terms of coverage.

The last thing I would say is that we are all learning. We are learning, for example, that for some countries, it is not even very clear what we mean by beneficial ownership versus legal ownership. We learned that sometimes technical assistance is needed to help them implement. All of this takes time. So that is what I would say now. And I am sure we will have the opportunity to discuss this further at the policy level, in light of the experience gained with implementing this at a later stage.

Mr. von Kleist:

I had asked to speak because the words “beneficial ownership” were not mentioned by Mr. Loko. And, I mean, since Mr. Pösö put a great emphasis on this, and I supported that, I thought that was missing. But now, of course, I hear what Mr. Rother has been saying. We look forward to this strong implementation, I mean, especially given the fact that these governance issues were really the only conditionality, if we want to call it conditionality, in the RFI programs. And the Managing Director put it very nicely, “spend the money, but keep the receipts”. And keeping the receipts also means we need to know who actually got the money and who benefited from it. In that sense, I thank Mr. Rother for his remarks, but we will keep a very close, close watch on this.

Mr. Andrianarivelo:

I would like to thank Directors for their support to the authorities' request for a new EFF arrangement and their useful comments and recommendations, which I will pass on to my authorities. I also thank the staff, notably, the mission chief, Mr. Loko, for the excellent work on Gabon's request and the very comprehensive responses to Directors' pertinent questions.

At this stage of the discussion, I would like to reiterate the authorities' strong ownership of and commitment to the homegrown program. It is their strong belief that continued Fund engagement through a new EFF arrangement and tailored capacity development is essential to pursue an adequate response to the health crisis and continue the implementation of reforms, including those initiated in the past arrangement.

On Directors' comments, I welcome Directors' agreement that the Fund-supported program is appropriately focused on fiscal consolidation and making further progress in strengthening revenue collection, spending efficiency, financial stability, governance and transparency, and also advancing economic diversification.

I have noted Directors' concurrence with the authorities, that temporary mitigation and support measures should be continued until the recovery firmly holds and that social spending should be better targeted as fiscal consolidation is gradually phased in.

Directors' points on strengthening the governance of SOEs and addressing weakness in public debt management to reduce fiscal risk and avoid a new accumulation of arrears are well taken.

Regarding points on arrears and external public debt, my Gabonese authorities are determined to clear all remaining external arrears before the first review of the program and are grateful to the related creditors for their nonobjections to the approval of this arrangement.

On the last point, about the catalytic role of the Fund, many Directors have rightly pointed out the limited catalytic impact on multilateral development banks (MDBs), notably, the World Bank. And I thank the staff for their comments on this issue and the World Bank also.

Following the approval of the EFF arrangement, my authorities will step up efforts toward securing additional external financing from MDBs, which is critical to the success of our program.

The Acting Chair (Mr. Furusawa):

As pointed out by many Directors, program implementation will certainly be challenging, given the uncertainty surrounding the COVID-19 pandemic and oil prices, and institutional capacity weaknesses. The authorities' strong ownership of the reform agenda, better coordination, and a tailored CD strategy will be needed to ensure an effective and timely implementation of the reform agenda and support the program's success.

The Acting Chair (Mr. Furusawa) adjourned the discussion.

ANNEX

- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

BUFF/ED/21/100

July 23, 2021

**Statement by Mr. Andrianarivelo and Mr. Nguema-Affane on Gabon
Executive Board Meeting
July 28, 2021**

Our Gabonese authorities would like to thank the Board, Management and staff for the constructive policy discussions leading up to the consideration by the Executive Board of their request for a new extended arrangement under the Extended Fund Facility (EFF).

Gabon's request come when the country is still grappling with the effects of the pandemic. Gabon was hit hard by the COVID-19 pandemic when the country was recovering from the 2014-15 oil price shock with Fund support under the 2017-2020 EFF arrangement. The authorities responded swiftly to the pandemic, with the timely and critical assistance from the Fund and other development partners. Strong containment and mitigation policy measures were taken to circumvent the spread of the virus and protect lives and livelihoods. However, the impact of the containment measures and the socio-economic fallout of pandemic was considerable in 2020, setting back some achievements made in strengthening macroeconomic stability and improving social conditions in previous years. Despite an improved outlook, the fallout of the pandemic is expected to be long lasting. In particular, the external and fiscal financing needs are projected to remain substantial over the medium-term amid uncertainties around the pandemic and commodity prices.

Against this background of fragile macroeconomic situation and prospects, the Gabonese authorities are committed to stabilize the economy and support the recovery post-COVID while accelerating the implementation of reform priorities to lay the foundations for a sustained green, and inclusive growth. To this end, the authorities have developed a Transformation Acceleration Plan (PAT 2021-23) in February 2021 including an economic component based on prudent macroeconomic management and structural reforms aimed at anchoring macroeconomic stability and stimulating investment. The authorities' economic program is consistent with the regional strategy to restore internal and external stability of CEMAC. They are requesting a three-year EFF arrangement of 180 percent of quota or SDR 388.8 million to support the implementation of that program and help mobilize additional external resources to close the large external and fiscal financing gap.

I - Impact of the Pandemic and Response

The epidemiologic situation has improved following a second wave of high infection rates in early 2021. As of July 21, 2021, the COVID-19 virus has infected 25,309 people with 163 deaths, which brings the mortality rate at around 75 deaths per million inhabitants. A vaccination campaign has been launched in the second quarter of 2021 following the acquisition of vaccines mainly from China and Russia. Despite these efforts, to date, only 23,300 persons have been vaccinated, representing a little more than 1.1 percent of the population.

The authorities followed through on their commitment to transparency in the use of COVID-19 spending. External support including the two RFI disbursements in 2020 was used to upgrade intensive care units in hospitals with appropriate equipment and build a large testing infrastructure and facilities. The use of the funds as of end-April 2021 has been accounted for and made public. A comprehensive audit of that spending is being undertaken by an external independent group and the results will be published by end-September 2021.

The macroeconomic impact of the pandemic has been substantial in 2020. The economy contracted by 1.8 percent in 2020 against a growth of 3.9 percent in 2019 due to the containment measures and global economic slowdown. Inflation has remained under control at 1.3 percent on average against 2.0 percent in 2019. The current account deficit widened from 1 percent of GDP in 2019 to 6 percent in 2020 due to the decline in crude oil and non-mining exports. With the improving epidemiologic situation, some containment measures have been progressively lifted or relaxed, but the path to economic normalization appears more challenging, as some sectors notably services remain critically affected by remaining movement restriction measures.

The overall budget balance turned negative and public debt vulnerabilities increased under intensive resource pressure. The fiscal deficit reached 2.1 percent of GDP against a surplus of 1.4 percent in 2019 mainly due to a sharp decline in both oil and nonoil revenues. Public expenditures increased modestly as spending priorities shifted towards COVID-related spending, mainly at the expense of public investment. It is worth noting that the wage bill declined in 2020 thanks to a better control of the headcount. Public debt remains sustainable despite a large increase in the public debt ratio notably due to a lower GDP. External debt arrears accumulated, and the implementation of domestic arrears clearance plan slowed down due to weak revenue performance and lower than expected external financing.

The Gabonese banking sector has been resilient although some financial vulnerabilities have increased. The regional central bank BEAC and the regional banking supervisor COBAC have adopted temporary monetary and regulatory relief measures to ensure sufficient liquidity in the system and facilitate bank loan restructuring during the pandemic. As a result, the banking system in Gabon has remained well-capitalized and profitable.

However, asset quality is thought to have deteriorated, and banks' exposure to sovereign bonds has increased. BEAC and COBAC will closely monitor the solvency and liquidity of the banking system, as the quality of bank portfolios may deteriorate with the persistence of the pandemic.

II. Outlook and Risks

While improving the outlook remains uncertain. The economic rebound in 2021 is expected to be modest with a GDP projected to grow by 1.5 percent and reach around 3.5 percent over the medium-term with progressive economic normalization. Inflation will remain contained at around 2.0 percent, below the regional convergence criterion of 3.0 percent. The current account deficit will also narrow and stabilize around 2.5 percent of GDP over the medium-term thanks to higher commodity prices. This medium-term outlook hinges on the progression of the pandemic, the evolution of terms of trade and global financial conditions, and the pace of the implementation of the economic program for which the authorities are requesting Fund support. Unfavorable developments on those fronts will add to already large BOP needs.

III. Fund-Supported Economic Program for the Medium-Term

The medium-term economic program aimed to preserve the sustainability of public finances and debt, improve governance and transparency in the public sector, and support strategic sectors and further progress in economic diversification. The priority in the short term is to pursue the response strategy to the pandemic. Going forward, policies will aim to address macroeconomic vulnerabilities by reversing the temporary measures, as conditions permit, and accelerate reform momentum. A special focus will be placed on strengthening domestic revenue mobilization. The authorities intend to leverage digitalization to increase the efficiency and performance of the public sector. A well-tailored capacity building and TA agreed with the authorities will support program implementation.

The fiscal program is the centerpiece of the authorities' program and will be based on a growth-friendly fiscal consolidation. The fiscal reforms will aim at improving medium-term fiscal and debt sustainability while expanding fiscal space for social and development spending. Fiscal consolidation will be achieved by increasing domestic revenues and ameliorating expenditure composition and efficiency, while protecting social and development spending. A revised budget for 2021 outlining the shift in policy stance has been adopted last month and submitted to the Parliament. The overall fiscal balance will gradually improve to reach surplus over the medium term and public debt vulnerabilities will decline. In addition to Fund support, financing needs over the program period will be covered by budget support expected from other development partners and bond issuances. The authorities recognize the risks to the fiscal program posed by the uncertainty around of the

pandemic and stand ready to deploy their contingency plans in case revenues or financing fall short of projections.

The authorities are strongly committed to the vast fiscal reform agenda. On the revenue side, they have started reducing tax expenditure and increasing the tax base to mobilize more domestic revenue and will further streamline tax exemptions following a comprehensive review of existing exemptions to be completed in the next few months. They will improve the administration of the VAT and pursue the modernization of the revenue administrations. On the expenditure front, they will continue their efforts to rationalize nonessential expenditures and reduce fiscal risks by further strengthening and modernizing public financial management, public investment management, and oversight of public entities. A particular emphasis will be placed on increasing the efficiency and transparency of public spending, including the wage bill, social protection programs, capital expenditures, and COVID-related spending. A list of public entities to close will be finalized by September 2021 and the governance and financial management for those to remain under state ownership will be improved.

Public debt management will be enhanced to avoid new accumulation of arrears. In this regard, the coordination between the Directorate General of Debt and other stakeholders will be reinforced. A plan for clearance of all external arrears before the first EFF review has been prepared. A comprehensive domestic debt repayment strategy will be developed following the conclusions of the task force work on domestic debt. Such strategy is particularly important for reducing macro-financial risks and preserving financial stability.

The authorities are committed to reinforce social policies. They will maintain the temporary COVID-related measures to support the most affected population and will preserve social spending in case of adverse shocks. They are in a process of improving the targeting and monitoring of social spending. With the assistance of the World Bank, a review of the eligibility criteria for social protection programs is underway and will be completed by end-2021.

Oil sector management will continue to be strengthened. The authorities have completed the audits of Gabon Oil Company and the SOGARA refinery and action plans to address weaknesses identified in the audits will be prepared by October 2021. The authorities have also implemented major steps toward the country's application to the EITI by September 2021. Transparency in the oil sector will be improved through the publication of various documents, information and reports as required by the EITI.

Weaknesses in the financial sector and public financial entities will be addressed. Actions in this regard include the strengthening of the operations, financial autonomy and transparency of the Gabonese Fund for Strategic Investment (FGIS) and the *Caisse de Dépôts et Consignations* (CDC) following extensive audits in 2020. An audit of the

Gabonese sovereign wealth fund (FSRG) assets will help reassess the investment strategy and develop a new funding model for the FGIS and FSRG. The liquidation of the three public banks which has been delayed due to the pandemic will be accelerated. The authorities will also update the NPL reduction strategy in parallel with the domestic arrear clearance plan and take measures to expand the investor base for sovereign bonds to reduce the sovereign banks nexus. They will promote financial inclusion with the adoption of a national strategy, consistent with the regional strategy under preparation.

Efforts will continue to enhance the business climate to spur domestic and foreign investment. The legal framework governing the special investment zones is being reviewed to strengthen their governance and operations and rationalize the benefits and exemptions offered in those zones. In addition, a draft investment code to strengthen the regulatory framework for investment is under preparation. The resumption of the investment policy dialogue with various stakeholders is expected to lead to the adoption of a Doing Business roadmap for 2021-2023 and an enhanced framework for employment and vocational training. The envisaged modernization of land administration is intended to accelerate access to land which has been a deterrent to investment in the past and to facilitate the gradual implementation of a property taxation.

A special attention will be given to governance and fight against corruption. The anticorruption framework has been reinforced in previous years with updated legislation, and the creation of a new criminal courts and institutions to improve governance and transparency and sanction corruption offenses. The authorities will pursue this momentum with a focus on strengthening the asset declaration regime for public officials to align it with international best practices. The activities of the anti-corruption commission will be published in an annual report.

Further progress is expected in the reinforcing of the national statistics system during the program period. In particular, the authorities will advance the institutional reform to upgrade the legal framework of the system. They will also continue improving production and dissemination of economic and social data including through the General Data Dissemination System (GDDS) with the support of international organizations including the Fund.

With virgin forest covering nearly 80% of the country, the Gabonese authorities remain committed to their climate change mitigation commitments. Gabon allocates significant resources to environmental conservation and forest management efforts. These efforts were notably rewarded last month by the Kingdom of Norway under the UN-supported Central African Forest Initiative. The development of a carbon trading mechanism to help finance policies and actions towards forest conservation is ongoing in line with the Paris agreement on climate change. The authorities will pursue a sustainable development of the forest-wood

sector and palm oil industry as part of their economic diversification strategy to limit forest-related emissions.

IV. Conclusion

In the face of the lingering impact of the health crisis, the Gabonese authorities are strongly determined to bolster their response to the pandemic, address macroeconomic imbalances and advance the implementation of their reform agenda, in line with the PAT 2021-23. They are requesting a new EFF arrangement to support the implementation of the economic program developed in that regard. Given the authorities' commitment to the program and actions already taken in recent weeks, we will appreciate Directors' favorable consideration of their request.

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GRAY/21/2181

July 26, 2021

**Statement by Mr. Nakunyada and Mr. Jappah on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the comprehensive report, as well as Mr. Andrianarivelo and Mr. Nguema-Affane for their helpful Buff Statement.

The COVID-19 shock and the ensuing oil price downturn disrupted Gabon's economic recovery momentum that benefitted from reforms under the Fund supported Extended Arrangement (2017-20). The decisive measures to contain the pandemic moderated the fallout but resulted in unintended consequences of reducing growth in economic activity, widening external and fiscal imbalances, rising public debt, job losses, and increased poverty levels. While emergency financing from the Fund and development partners helped bridge urgent financing gaps, substantial medium-term financing needs continue to challenge the incipient recovery, alongside rising infections, uncertain commodity prices, slow vaccine rollout, and structural impediments. **Against this background, we support the authorities' request for financing under the EFF arrangement to accelerate implementation of key reforms under the 2021–23 Economic Recovery Strategy.**

Fiscal policy efforts should focus on the immediate priorities of saving lives and livelihoods and timely resumption of growth-friendly consolidation once the recovery takes hold. We, therefore, welcome the revised 2021 budget designed to intensify the fight against the COVID-19 pandemic, and the modest fiscal contraction that preserves priority social and development spending. Further, we positively note the proposed rationalization of tax expenditures, prohibition of exemptions outside the budget laws, and control of recurrent expenditures that should help create additional fiscal space to strengthen social protection and ramp up public investment. That said, we urge the authorities to sustain PFM and SOE reforms to reduce fiscal risks. Nonetheless, we are encouraged by the authorities' commitment to accede to the EITI by September 2021, as part of efforts to strengthen transparency and governance in the oil sector. Relatedly, we see merit in plans to channel oil revenues through the TSA and publish the estimates for natural resource reserves, consistent with recommendations of the Fiscal Risk Evaluation report.

Considering rising risks, greater focus should be placed on preserving debt sustainability and improving public debt management. In this vein, we support plans to

enhance fiscal and debt sustainability through improvements in public spending efficiency and strengthening of revenue administration. Nevertheless, rollover risks highlighted by the significant debt service costs, the accumulation of arrears, and large gross financing needs, remains concerning. Against this backdrop, we welcome the tentative arrears clearance plan and the commitment to improve inter-governmental debt management arrangements. *We would appreciate updates on the status of arrears clearance, considering the authorities' commitment to clear the bulk of them prior to the approval of the program request or before the 1st review? In addition, we would be interested in updates on current efforts by the authorities to reach agreement with commercial creditors.*

While the financial sector has remained sound and liquid, attendant weaknesses in the banking sector and public financial entities should be addressed to support inclusive growth. In this connection, we urge the authorities to develop a strategy for an orderly exit from the temporary pandemic response measures to pre-emptively mitigate the risk of bank asset deterioration. Additionally, the high sovereign exposure underscores the need to diversify banks' asset portfolio. We, therefore, welcome the authorities plans to expand the investor base for sovereign bonds to reduce the sovereign-bank nexus. Concurrent efforts are required to rebuild capital buffers and keep market sentiment positive to counter vulnerabilities from the sharp rise in global risk premia and the increase in gross financing needs. We are, however, assured that COBAC will closely monitor the health of the banking system as highlighted in the Buff Statement. *We would welcome staff's view on the feasibility of the authorities' plans to liquidate the three public banks by end-2021, considering limited progress made thus far.*

Finally, structural reforms should be advanced to address longstanding impediments and promote a durable and inclusive growth. As such, we welcome the authorities plans to improve the business environment by strengthening the regulatory framework for investment and intensify the fight against corruption. Relatedly, we support the authorities plans to strengthen the asset declaration regime for public officials in line with international best practice. We also welcome steps to improve the capacity of the Commission to Combat Illicit Enrichment. Further, we urge the authorities to implement measures articulated in the LOI aimed to create economic opportunities for a broader spectrum of the population, to uplift living standards and arrest worsening poverty. Considering the prospect of declining oil reserves and volatile oil prices, we urge the authorities to follow through on their commitment to promote diversification as outlined in the Economic Recovery Strategy. In addition, we welcome the authorities' climate change mitigation strategy that focuses on limiting forest-related emissions.

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GRAY/21/2183

July 26, 2021

**Statement by Mr. Hosseini and Mr. Osei Yeboah on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the well-focused report and Mr. Andrianarivelo and Mr. Nguema-Affane for the helpful Buff statement. We agree with the thrust of the staff appraisal and **support the Gabonese authorities' request for a three-year EFF-arrangement equivalent to 180 percent of quota.**

Gabon has been hit hard by the pandemic, amplifying pre-existing vulnerabilities. With support of international community, including by the Fund through RFI, the Gabonese authorities acted swiftly to contain the spread of infections and through social and economic assistance averted a deeper crisis for households and firms. Nonetheless, costs to the economy has been high as growth is projected to contract in 2021 for two years in the row, twin balances widened, and the already-elevated public debt worsened. We note the decline in 2020 oil production in compliance with OPEC+ agreement and the sharp drop in oil prices contributed to deceleration of growth and a 20 percent drop in revenue. We commend Gabon's Covid-19 testing rate, among the highest in SSA, but still only 1 percent of the population have received the first dose against the authorities' target of 27 percent of fully vaccinated by end-2021. Unless Gabon receives sufficient vaccine donations the target is likely to be missed. The outlook points to a gradual and uncertain recovery, predicated on the path of the pandemic and the success of vaccine campaign.

The program is appropriately placed to help stabilize the economy and support its recovery. Given the country's sizable financing gaps, the EFF will be instrumental in catalyzing additional donor funding. Similarly, the authorities' ownership of the program will be critical to reducing fiscal and debt vulnerabilities and fostering private sector-led growth.

In near term, fiscal policy should support a healthy recovery to protect lives and livelihood. Once the pandemic abates, the authorities should revert to fiscal consolidation to build buffers for growth enhancing investment while ensuring debt sustainability, given

Gabon's development challenges and its elevated debt levels. To that end, we encourage the authorities to improve the fiscal framework and management, enhance expenditure composition to improve its social content, and accelerate revenue reforms and administration to bolster resources. The authorities should resort to further rationalization of nonpriority spending should downside risks to the outlook materialize.

Financial sector policies should strengthen financial stability and inclusion. We welcome the COBAC's policy easing and measure deployed to ensure adequate liquidity in support of CEMAC countries' responses to the pandemic. That said, as the recovery gains traction, the authorities should strengthen their monitoring and supervisory functions so they can safely unwind the regulatory forbearance measures introduced during the crisis. Going forward, further steps would be needed to deepen financial intermediation, with particular focus on addressing institutional and governance weaknesses of state financial institutions. We encourage more private participation in the equity stakes of state banks to strengthen operational efficiency and limit domestic banks' exposure to sovereign debt. Leveraging digitalization, including through mobile money platforms, the authorities could promote financial inclusion and facilitate greater access to finance and payments services.

Advancing the fight against corruption in the authorities' structural reform agenda will bode well for creating a business-friendly environment and fostering durable and inclusive recovery. We commend the authorities' anti-corruption initiatives and their plan to join the Extractive Industry Transparency Initiative with the view to strengthening governance and transparency in mining and oil activities. We welcome the completed audit of the four major SOEs, with the outcome guiding their improved performance going forward. The completion of the cadaster and property registration is vital to enhance investor confidence, promote private investment and facilitate the implementation of an effective property tax system.

We wish Gabon's authorities and its people every success.

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July 26, 2021

**Statement by Mr. Lischinsky and Mr. Corvalan Mendoza on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the informative report on Gabon and Mr. Andrianarivelo and Mr. Nguema-Affane for their helpful Buff statement.

We support the authorities' request for a three-year extended arrangement under the Extended Fund Facility (EFF). The program is oriented towards public finances and debt sustainability, enhancing public sector governance and transparency, continued progress in economic diversification, and improving strategic sectors, thereby completing the agenda of the previous EFF program. Thus, we back the proposed Decision.

The country's efforts to mitigate the COVID-19 pandemic shock and the drop in oil prices were challenging and continue to be so. These events put additional strains on macroeconomic performance, which resulted in increased unemployment and poverty levels. We are encouraged by the authorities' Transformation Acceleration Plan (PAT 2021-23) in February, which properly includes a prudent macroeconomic management, as well as structural reforms to stimulate investments. Following a Rapid Financing Instrument (RFI) last year, the requested EFF will prove handy to buttress PAT 2021-23. All these elements should be aligned with a broader CEMAC regional strategy.

We welcome the authorities' growth-friendly plans to pursue higher domestic revenue collection and better public expenditure. Enhanced Public Finance Management (PFM) and reprioritizing spending and improving its composition aims at the right direction to expand the room for large and much-needed development needs. For the former, we take positive note that a full-fledged treasury single account plan is foreseen, in addition to a ramp up for an automated interfacing of the budget, treasury, and revenue administration. For the latter, we are encouraged that the Public Investment Management Assessment (PIMA) will continue its implementation and the streamlining of civil servants' payroll is being considered. The authorities' resolution to return to a fiscal consolidation path is a welcome step once the pandemic wanes.

We welcome the authorities' enhanced fiscal transparency and accountability plan on how public resources are being used during these difficult times. Their efforts to enhance governance of state-owned enterprises (SOEs) and public agencies are warranted to create an opportunity to

rearrange existing budget allocations, limit the overall rise in spending, and strengthen control on how public resources are allocated. Key information on procurement contracts would need to be published periodically. All these measures could help boost public confidence on government socio-economic plans and send the right signals to domestic and foreign investors on the trajectory of the authorities' plan. The idea to implement major steps toward the country's application to the Extractive Industries Transparency Initiative by September 2021 is welcome. We commend the commitment to strengthen social policies, as well as to continue temporary COVID-related measures related to support those most in need.

Public debt remains sustainable, but its management will be improved so as not to repeat arrears accumulation in a situation in which risks could be mounting fast. We take note that the dynamics remain manageable considering the uncertainties the COVID-19 pandemic might bring, as well as oil price volatility. The objective to reduce public debt to below 60 percent of GDP in 2026 seems feasible from its current level of 74.7 percent. Special attention should be given to risks coming from contingent liabilities from SOEs or from new external shocks. Nonetheless, the authorities' have reiterated their commitment to macroeconomic stability for the medium term. Therefore, continued engagement with the Fund is highly relevant to catalyze financing and technical assistance from development partners and the donor community to support the economy in these times of distress.

Regarding the financial system, we take comfort in the coordinated work of the regional central bank BEAC and the regional banking supervisor COBAC to ensure sufficient liquidity in the system and facilitate bank loan restructuring during the pandemic. The temporary measures taken by COBAC and the authorities during the COVID-19 pandemic end this year. Therefore, a reassessment of the asset quality of the banking sector is warranted by the end of 2021 to bring more light on the soundness of the whole system and to implement measures to avoid potential slippages in this sector. We sympathize with the strategy to enhance the judiciary capacity and to complete the liquidation of three public banks in the near future. These preventive measures would help address potential pockets of risks that could have risen during the pandemic.

With these comments, we wish the people of Gabon all the best in these challenging times.

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July 26, 2021

**Statement by Mr. Massourakis and Ms. Mateus on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the well-written report and Mr. Andrianarivelo and Mr. Nguema-Affane for their useful Buff statement. Hit by the double shock of lower oil prices and COVID-19, Gabon faces significant financing needs over the medium-term. We support the authorities' request for a three-year arrangement under the Extended Fund Facility (EFF), that can help closing financing gaps and underpin the macroeconomic adjustments and the robust reform agenda. We offer the following specific comments:

- **A successor EFF-supported program will serve the authorities well.** We appreciated Annex I that lists the main features and areas of more limited success in the 2017-2019 program. However, we would have liked to see a “lessons learnt” exercise feeding directly into this successor EFF. In this regard, *we would appreciate staff's views on whether the “weak institutional capacity, lack of coordination and ownership, and a complicated political context” identified for the previous program still remain and what measures were put forward to minimize such limitations to the success of this program.*
- **Fiscal policy should be the crux of the program.** We welcome the authorities' commitment to a growth-friendly fiscal consolidation. We are, nevertheless, worried that starting with a contractionary fiscal stance already in 2021 may be too ambitious considering the downside risks, notably in terms of the evolution of the pandemic. However, we acknowledge that the SDR allocation is not factored in the macroeconomic framework and can serve as a buffer to downside risks. We expect the authorities to pursue a fiscal strategy hinging on supporting lives and livelihoods during the pandemic, and ambitious fiscal reforms including rationalizing tax and nonpriority expenditures, improving public investment efficiency and fostering transparency. We urge the authorities to address less successful areas in the previous program, namely in terms of overruns in special accounts and transfers to State-Owned Enterprises. We welcome the

authorities' intention to apply for the Extractive Industries Transparency Initiative and encourage them to enhance governance and transparency in the oil sector.

- **Pushing structural reforms forward and strengthening social safety nets should be integral to the authorities' agenda.** On the realm of structural reforms, the country would benefit significantly from enhancements to governance, transparency and the anticorruption framework. On social policies, we welcome the work with the World Bank to update the database of "Economically Weak Gabonese" as a means to identify those that need social support and urge the authorities to more broadly enhance the social safety nets.

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GRAY/21/2188

July 26, 2021

**Statement by Mr. von Kleist and Mr. Krahne on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for an informative and concise report and Mr. Andrianarivelo and Mr. Nguema-Affane for their helpful Buff statement. The Gabonese economy has been hit hard by the Covid-19 pandemic and the associated fall in global oil prices. Lockdown measures have led to large-scale losses of private sector jobs and absent a comprehensive social safety net, poverty has increased markedly. Now, green shoots of a recovery are slowly emerging on the back of higher commodity prices, but risks to debt sustainability and program implementation remain high.

Given program conditionality targeted at fiscal consolidation and governance improvements, including a more efficient PFM framework, we are prepared to support the authorities' request for an EFF supported program despite a number of concerns. In particular, we are uncomfortable with regard to the economy's elevated refinancing needs over the coming years, related high risks to debt sustainability, the frontloading of the Fund's financing, and a lack of burden sharing with other IFIs or creditors.

Risks to program implementation as well as risks concerning the capacity to repay the Fund are high. The authorities' track record is quite mixed and the very first sentence of the report (see "*The Gabonese economy was gradually recovering from the 2014 oil price shock when it was hit by the Covid-19 pandemic*") highlights prolonged challenges and delays in the authorities' response to adverse shocks. Furthermore, waning reform consensus could derail program implementation, particularly as public perception of poor governance and corruption is widespread. Given such weaknesses and also in light of possible political fragmentation in the run-up to the 2023 presidential elections, we would be more cautious than staff in asserting that program ownership and incentives for policy measures in later years will remain high (para. 27). Against this background, we note with particular concern that Gabon's capacity to repay the Fund is subject to high risks. As staff rightly notes, the problematic debt profile, elevated gross financing needs and susceptibility to commodity price shocks represent key

vulnerabilities in this regard for Gabon as well as the CEMAC region as a whole. *Given high risks in this case as well as cluster risks for the Fund from its broader engagement in the CEMAC region, we would welcome additional comments on whether the Office of Risk Management has been involved in the (internal) discussions regarding the proposed arrangement.*

Steadfast program implementation and strict avoidance of additional external arrears will be of the essence to swiftly reduce (fiscal) imbalances and secure sufficient external financing going forward while making use of the program’s catalytic effect. To further support program objectives, we see value in staff’s proposal for a tailored CD strategy, particularly as past program performance has been mixed and staff sees capacity problems and a certain “tendency for overcommitment” in Gabon. Regarding high risks to debt sustainability and external arrears, we would highlight staff’s assessment in the DSA that inter alia building a track record of timely and complete debt service payments as well as proactive measures to mitigate Eurobond refinancing risks will be essential to address challenges related to elevated financing needs.

We concur with staff on the need for a continuation of targeted and temporary fiscal support until the recovery becomes firmly entrenched. Given large fiscal imbalances, the authorities should consolidate public finances and build buffers (inter alia against adverse oil price shocks) without undue delay. We note that debt is assessed to be sustainable but agree with staff that risks to debt sustainability remain high. We encourage the authorities to clear all external payment arrears, at the latest until the first review, and to develop a credible plan to resolve domestic arrears, which represent a substantial part of Gabon’s public debt. *Given the proposed application of the Fund’s LiA policy (which puts a premium on information sharing) as well as given the need for adequate safeguards for the Fund in terms of debt transparency, we wonder if staff could provide additional information on table 1 of the DSA regarding the composition of public and maturing debt over the coming years.*

We note that, so far, financial stability has been preserved during the pandemic. However, potential vulnerabilities in the banking sector should be monitored carefully as crisis measures are being discontinued. In particular, the strong state-banking nexus in Gabon remains a potential source of instability and we note the authorities’ engagement in regional efforts within CEMAC to broaden the investor base and reduce the concentration of government bonds in local banks. Furthermore, we welcome recent steps to enhance NPL clearance capacity and speed up judicial processes related to credit disputes.

We strongly encourage the authorities to swiftly implement all of their transparency commitments made at the time of the second RFI approval last year. Given that beneficial ownership information is not yet available on the government’s website and only some Covid-19 procurement contracts have been published, the authorities should step-up their efforts to make information readily available. Conducting an audit of all emergency spending remains essential and its publication should be completed no later than the first review. *Could staff*

kindly provide more information on the status of the audit report, some preliminary content, and comment on the expected quality of the enquiry? On a different note, the Gabonese authorities' plans to improve the public sector governance framework, for example by applying to join the Extractive Industries Transparency Initiative (EITI), are well recognized.

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GRAY/21/2191

July 26, 2021

**Joint Statement by Ms. Lim, Mr. O'Brolchain, Mr. White, Mr. Becker, Ms. Edwards,
and Ms. Yoe on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for their informative report and Mr. Andrianarivelo and Mr. Nguema-Affane for their helpful Buff statement.

The COVID-19 pandemic has created significant challenges for Gabon to achieve its development goals and to get back on track for sustained and inclusive growth. Moreover, while some progress was made in the last EFF-supported program to help the economy recover from the 2014 oil shock, as indicated in Annex I, there are still unfinished reforms in Gabon. The proposed EFF arrangement will support the authorities' goal to maintain macroeconomic stability and debt sustainability, by pursuing ambitious growth-friendly fiscal consolidation, improving the efficiency of public spending as well as enhancing governance and transparency. It will also help to lay the foundation for green, sustainable, and inclusive growth. **We therefore support the authorities' request for a three-year Extended Arrangement under the Extended Fund Facility with access equivalent to 180 percent of quota or SDR 388.8 million.** We would like to offer the following comments for emphasis.

We take positive note that Gabon's public debt is assessed to be sustainable and its capacity to repay the Fund is adequate. Although there are notable risks to the program amidst high uncertainty around the pandemic and the economic outlook, as well as weakness in institutional capacity, these risks are mitigated by the authorities' strong ownership of the reform agenda and a well-tailored CD strategy to support reform implementation. We recognize that significant frontloading of disbursement is necessary to meet the external financing needs in 2021. However, as it may increase program risk or weaken incentives for reforms, we encourage staff to remain in close engagement with the authorities and to closely monitor program performance. *Did staff consider frontloading more of the program conditions, to match the frontloaded financing?*

Undertaking comprehensive and decisive reforms for fiscal consolidation and enhancing economic growth opportunities are vital. We welcome that the program would

serve to catalyze donor support and the achievement of the targets contained in the CEMAC regional strategy. The program is appropriately ambitious, given the current economic and fiscal situation, and pursuit of these objectives will build confidence in the post pandemic recovery process. Some of these reforms are outstanding from the previous EFF. **These actions should be frontloaded and successfully implemented to preserve the credibility of the program.** The complimentary Gabon Transformation Acceleration Plan 2021-23 is an encouraging sign that the authorities will take ownership of the reform agenda. *Can staff indicate what measures are being put in place to ensure that targets will be achieved in a timely manner?*

Preserving financial stability and addressing the weaknesses of the financial sector are crucial. We encourage the authorities to improve supervision and strengthen the regulatory framework for the banking sector. In addition, the authorities should complete the liquidation of the three public banks by mid-2022. We agree that promoting financial inclusion will help enhance economic growth as long as financial stability is not compromised. As such, we support staff's recommendation for the authorities to adopt a national financial inclusion strategy, to facilitate and improve access to finance and payment services.

Financial innovation is important in promoting financial inclusion and efficiency. While the use of mobile money is a good development in terms of ensuring that a larger percentage of the population has access to financial services, there are risks. New technologies need to be carefully regulated and monitored to ensure compliance with AML/CFT regulations and to protect consumers.

We welcome the authorities' commitment to strengthen governance and reinforce the anti-corruption framework. We encourage the authorities to pursue measures to update the legal framework governing state-owned enterprises including the publication of their annual reports, to address weaknesses in the extractive industries sector including by submitting an application to the Extractive Industries Transparency Initiative, and to improve transparency in budget execution and procurement. *Could staff provide an update on whether authorities have indeed published all relevant procurement contracts, prior to Board consideration of this EFF proposal?* We also encourage the authorities to keep strengthening the AML/CFT framework.

Authorities should continue working toward the clearance of all existing arrears. Authorities must make significant progress on their debt management practices and build a track record of performance on this issue. We understand Gabon will clear all its Paris Club arrears before Board consideration of the program. We see this as a positive indication of the authorities' intentions in this area and commend them for taking this proactive step.

We are pleased to note Gabon's commitment to environmental policymaking, including through closer consideration of climate and environment-related risks. We strongly support this work and encourage authorities to continue making strides in this area.

Finally, capacity development is essential for the successful implementation of the program. We are pleased to note that staff and the authorities have agreed on a capacity

development strategy for the next three years. We agree with the focus areas for technical assistance and the proposed milestones and outcomes and encourage both staff and authorities to ensure that TA is fully optimized to ensure that all program targets are met in a timely manner.

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GRAY/21/2201

July 26, 2021

**Statement by Ms. Kashima and Ms. Kikuchi on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for their comprehensive report and Mr. Andrianarivelo and Mr. Nguema-Affane for their insightful Buff statement.

The COVID-19 pandemic, together with the fall in oil prices, hit hard the Gabonese economy, which increased unemployment and poverty, widened the fiscal deficit, and raised public debt. Given the large financing needs and debt vulnerabilities, it is essential for the authorities to address structural weaknesses to achieve sustainable and inclusive growth under a credible UCT program. Against this backdrop and provided the authorities' strong commitment, **we support the request for an Extended Arrangement under the Extended Fund Facility (EFF)**. At the same time, while we broadly agree with the staff's appraisal, we have concerns particularly over the actual implementation. We therefore offer the following comments.

The authorities' strong ownership is key for the success of the program. While we see the proposed program appropriately focuses on the urgent and medium-term priorities, given that the last EFF program was not completed due to weak implementation, increased vigilance regarding actual program implementation is critical to preserve the credibility of the program. *Can staff elaborate on how to ensure the appropriate and timely implementation of the program targets?*

A more revenue-based fiscal consolidation is needed to achieve sustainable and inclusive recovery while increasing necessary social spending. As staff notes, phasing out of the existing tax exemptions is of utmost importance not only to increase revenues but also to improve fiscal transparency and governance. At the same time, given that tax exemptions have been frequently used to incentivize investors, we wonder if there will be implementation challenges. *We would welcome staff comments on how to ensure steady progress is made in this regard.*

On the expenditure side, **we urge the authorities to accelerate their efforts to strengthen governance and to enhance fiscal transparency, which is indispensable for more efficient public spending.** Disclosure of all budget execution information including pandemic-related spending is an urgent priority for fiscal transparency. In this sense, we cautiously note that the publication of all COVID-19 related contracts has not been implemented yet, even though it was agreed in the letter of intent under the RFI approved last July. *Could staff elaborate on the background behind the delay and provide the latest update on the publication which staff expects to be completed prior to the board approval of the EFF?* Furthermore, enhancing fiscal governance of SOEs is crucial given the significant fiscal risks from contingent liabilities of SOEs.

A credible strategy to clear the outstanding external arrears as well as to avoid new arrears accumulation is essential. As arrears weigh on the country's creditworthiness and private sector development, we urge the authorities to accelerate their efforts to clear the outstanding arrears as soon as possible and to steadfastly implement planned measures to prevent new arrears. In addition, we expect that a table of the debt stock or the service by debt holder profile will be included in the staff report of the first EFF review based on the updated Debt Limit Policy.

On financial sector policy, efforts should be focused on strengthening financial stability and addressing weaknesses in governance of public financial institutions. We encourage the authorities to swiftly take necessary actions to strengthen the bank supervisory and regulatory framework. Efforts to broaden the investor base for sovereign bonds are also needed. In addition, as financial inclusion is essential for robust and sustainable growth, we agree with staff on the necessity of a national financial inclusion strategy to improve access to finance and payment services.

Continuous efforts to improve governance and to fight against corruption is crucial for private sector-led inclusive economic development. In particular, enhancing transparency in the oil sector remains an urgent priority. We encourage the authorities to steadily implement necessary steps toward the application to the EITI including the publication of more granular and regular oil data. We also encourage the authorities to make further efforts to strengthen the legal framework for anticorruption.

Lastly, we emphasize the importance of supporting the authorities' efforts through capacity development which is well-integrated with program objectives. We welcome Annex VI, a detailed Capacity Development (CD) strategy, which is very helpful to understand the linkage between policy priorities and planned Technical Assistance activities. We look forward to staff's update of progress of the TAs in the context of the program review papers. An inclusion of the ongoing and planned TAs from other development partners would also be useful to avoid duplication of TAs.

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GRAY/21/2202

July 26, 2021

**Joint Statement by Mr. Mohieldin, Mr. Mouminah, Mr. Alhomaly, Mr. Alhosani, Ms. Alaqla, and Ms. Fadhel on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for a comprehensive report and Mr. Andrianarivelo and Mr. Nguema-Affane for their helpful Buff statement.

Despite a swift response by the Gabonese authorities to the health and economic crisis, the country was hard hit by the Covid-19 pandemic which resulted in a considerable socio-economic fallout that exacerbated pre-existing macro-structural challenges. The Gabonese economic program is consistent with the regional strategy to restore internal and external stability of CEMAC. **Against this backdrop, we support Gabon's request for a new extended arrangement under the Extended Fund Facility (EFF).** We would like to emphasize the following points.

The fiscal consolidation envisaged under the program should be phased in gradually while prioritizing short-term pandemic-related spending needs. The consolidation can become more ambitious as the pandemic abates to help address the fiscal and debt vulnerabilities and rebuild buffers. Gabon's development needs remain high in the face of significant economic contraction caused by the pandemic which led to jobs losses and increased poverty. In this regard, we underscore the importance of pursuing growth-friendly consolidation while prioritizing social spending and strengthening the social safety net. We welcome the authorities' commitment to achieving fiscal consolidation through enhancing revenue mobilization and ensuring expenditure efficiency, while protecting social and development spending. We also see merit in the authorities' decision to maintain temporary Covid-related measures to support the most vulnerable. Improving the targeting and monitoring of social spending are also steps in the right direction. In this regard, we take a positive note of the planned Fund's capacity development discussed in Annex VI, especially in areas related to revenue administration and PFM. *We note that the envisaged frontloading of critical governance measures is expected to result in higher domestic revenue collection and better public resource management, and wonder if implementation capacity constraints that were witnessed in the last EFF (2017-2020) has been addressed. Staff's comments are welcome.*

Gabon's debt remains sustainable in the medium term, but risks are high with elevated gross financing needs and substantial stock of arrears. We note that Gabon's public debt has sharply increased in 2020 largely due to GDP contraction and the inclusion of significant past domestic arrears. These efforts should be gradual to accommodate pandemic-related spending and to support the recovery. That said, we are pleased to note that the authorities are working on articulating a comprehensive debt repayment strategy to help address the country's large stock of accumulated domestic arrears. We encourage the authorities to avoid future arrears accumulation and concurrently further strengthen the public debt management framework, improve the public investment management and mitigate risks in relation to the SOEs. In this connection, we are encouraged by the authorities' strong commitment to the vast fiscal reform agenda, as indicated in the Buff statement.

The Gabonese banking system has shown resilience, supported by the BEAC and COBAC's temporary monetary and regulatory relief measures, but financial vulnerabilities might have increased, including possible deterioration in asset quality. The authorities should focus on reforms to preserve financial stability and address the growing exposure of banks to the sovereign. Here, we concur on the importance of broadening the investor base for sovereign bonds. We also welcome the plans to accelerate the liquidation of the three public banks, previously delayed due to the pandemic. Like staff, we encourage the authorities to adopt a national financial inclusion strategy in line with the regional strategy. In this regard, the authorities could leverage digitalization to improve financial inclusion while improving financial literacy.

Structural reforms would be crucial to the success of this program which rightly prioritizes improving governance, enhancing transparency and strengthening property rights. We welcome the steps taken by the authorities to enhance the transparency of the oil sector management, including the completion of the audits of Gabon Oil Company and the SOGARA refinery. We look forward to a continued improvement of governance and the anticorruption framework that would benefit all economic sectors and enhance business confidence. Diversification efforts should continue to promote private sector-led growth that is less dependent on the extractive sector, and reforms to enhance the business climate would be crucial to attract investment. While we note the ongoing review of the legal framework governing the special investment zones, we caution against excessive regulations that are not tailored to the special characteristics of these special zones, as this could deter foreign investment and go against the notion of establishing free zones with streamlined regulations to attract investment. Instead, the authorities can learn from international best practices in this area to leverage these zones to promote economic activity and create jobs in the whole economy through backward and forward linkages.

With these remarks, we wish the authorities all success in their policy endeavors.

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GRAY/21/2206

July 26, 2021

**Statement by Mr. Moreno and Ms. Moral Betere on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for their insightful report and Mr. Andrianarivelo and Mr. Nguema-Affane for their illustrative Buff statement.

Based on staff's recommendation we support the request for a three-year extended arrangement under the Extended Fund Facility the EFF. Despite the authorities' strong response, the Gabonese economy has been hit hard by the Covid-19 pandemic and by the fall in oil prices, exacerbating its previous vulnerabilities and challenges. In addition, the poor social infrastructure has increased poverty and inequality.

We note that risks to the program remain very high, but we believe that it is an essential catalyst for official financing, helping to underpin the authority's reform agenda and address its major macroeconomic imbalances towards a sustained green and inclusive growth. In addition, uncertainty regarding the outlook is also very high and mainly dependent on the evolution of oil prices and the pandemic, as well as the pace of reform's implementation. The authorities' commitment to the program and the tailored CD strategy to support the implementation of structural reforms will be crucial.

Fiscal consolidation is paramount to safeguard debt sustainability while a social safety net should remain the priority. We concur with staff that an ambitious fiscal reform should start once the recovery is under way. An effective strategy should tackle both revenues and spending. Digitalization will help to increase the tax revenue potential while the enhanced governance in the extractive sector will boost oil revenues. On the spending side, we concur with staff that given Gabon's high levels of poverty, the authorities should prioritize measures to enhance social protection. Rationalization efforts will be needed on non-priority spending, we particularly encourage reducing transfers to inefficient SOEs. We believe that

capacity development remains crucial in all these fronts, and in this regard, we appreciate the information contained in Annex VI.

The clearance of arrears and the strengthened public debt management will be paramount to guarantee debt sustainability. The DSA shows that Gabon's public debt remains sustainable, but the risks are high and have risen lately with the accumulation of arrears. In this regard, we urge the authorities to clear its recent accumulation arrears which will be crucial to regain confidence and market access to finance its high financing needs. *Could staff clarify when exactly are the authorities planning to clear its external arrears?* In addition, given Gabon's significant exposure to non-residents and foreign currency debt, building a track record of remaining current on debt service payments and a credible medium-term debt management strategy will be essential. We concur with staff that transparency is paramount to carry out an adequate risk assessment. *Does the IMF's staff have an assessment on the level of debt that is outside the scope of the DSA.? And are there any measures envisaged to increase the scope of debt in future DSAs?*

Working towards a financial sector stability and inclusion should be a key priority. We note the coordination efforts in providing liquidity to the regional banking system during the pandemic. We also note that most restructured loans seem to have been servicing their debt, which signals that NPLs would be unlikely when the measures lapse in 2021. However, vigilance should be maintained. We encourage further work to address large bank holdings of sovereign debt and broadening the investor base. In addition, the three public financial institutions' governance should be strengthened while finishing the ongoing liquidation of the three public banks.

The authorities' commitment to the development of the reform agenda will be crucial for the success of the program to achieve a durable, inclusive, and sustainable growth. We commend the authorities for the Authorities' Transformation Acceleration Plan (PAT 2021-23) deployed in 2021. However, further efforts may be needed to strengthen governance, transparency, and the anti-corruption framework to improve business climate and promote private investment. Completing the cadaster and property registration will also increase investor's confidence. Finally, the authorities' economic diversification efforts to reduce over reliance on oil will also be welcomed. *In this regard, which measures are the authorities envisaging towards a greener transformation?*

With all these comments we wish the Gabonese authorities all the best.

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GRAY/21/2211

July 26, 2021

**Statement by Mr. Bevilaqua, Mr. Velloso, and Mr. Coronel on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the report and Messrs. Andrianarivelo and Nguema-Affane for their helpful statement.

We support Gabon's request for a three-year Extended Fund Facility (EFF) arrangement. Despite implementation risks associated with institutional capacity constraints, we call upon the authorities to steadfastly implement the envisaged policies and reforms under the program. Reinforcing the ongoing response to the pandemic, tackling fiscal and debt vulnerabilities, improving governance and transparency, boosting domestic revenue mobilization, and promoting financial inclusion will be critical to fostering sustainable and inclusive growth prospects over the medium term.

Gabon was hit hard by the pandemic and while there are signs of an incipient recovery the path ahead is beset by uncertainty and risks. The Gabonese economy was impacted by the COVID-19 pandemic while it was still reeling from the oil-price slump that started in 2014. Yet, with help from last year's RFI disbursement, the authorities were able to limit the immediate fallout from the pandemic. These good efforts notwithstanding, the economy contracted, the fiscal position and debt profile worsened, and employment and social indicators deteriorated. This year's recovery hinges on the evolution of the pandemic and the scope and effectiveness of the vaccination rollout. The outlook, albeit positive, is fraught with risks and new as well as legacy challenges. As Messrs. Andrianarivelo and Nguema-Affane fleshed out in their statement, the external and fiscal financing needs will remain substantial over the medium-term.

As the pandemic abates, the authorities' focus should shift towards sustained, growth-friendly fiscal consolidation efforts. The authorities' ongoing efforts and plans to enhance non-oil revenue mobilization are welcome. However, this is likely to yield limited results in the near term, given the weak recovery and relatively small size of the non-extractive sector. Therefore, fiscal consolidation will have to rely more heavily on spending rationalization, including improving SOE management and containing the wage bill. Also, this will be needed to redirect resources towards strengthening Gabon's social safety net and addressing

the country's development needs.

While the program's reform agenda is appropriately ambitious, we wonder whether enough is being done to start tacking Gabon's dependence on oil. The oil sector accounted for about 45 percent of GDP, 80 percent of exports, and 60 percent of fiscal revenue, on average, over the past five years. This dependence on oil makes the economy highly vulnerable to the significant decline in oil reserves that the country is already experiencing, in addition to the bouts of price volatility that are common in the oil sector. In our view, this underpins the urgency for diversification and structural transformation of the economy. In this regard, enhancing Gabon's business environment should be at the center of the strategy to attract non-extractive investment. As the authorities prepare the regulatory framework for investments and resume their policy dialogue with stakeholders in this area, incorporating economic diversification goals could be helpful.

Finally, we encourage the authorities to take full advantage of the program's momentum to continue enhancing the country's macroeconomic statistics. We commend the progress already made, including with technical assistance from the World Bank and the Fund. However, it will be critical to address the national statistical system's remaining weaknesses, including adopting by mid-2022, as envisaged, a new legal framework in this area.

With these remarks we wish the authorities success in their future endeavors.

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GRAY/21/2212

July 26, 2021

**Statement by Mr. Rashkovan and Mr. Tevdovski on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

*We thank staff for this report and Mr. Andrianarivelo and Mr. Nguema-Affane for the informative Buff statement. Gabon has faced high economic and social costs from the pandemic, which amplified pre-crisis macro structural and social challenges. **We support Gabon's request for a three-year extended arrangement under the Extended Fund Facility (EFF). We welcome that the program is aimed at addressing critical governance challenges that lock in higher domestic revenue collection and better public resource management. At the same time, we have concerns, particularly over implementation, given the authorities' history of poor performance on Fund programs.***

We encourage authorities to deliver the frontloaded reforms that are based on previous programs. Governance and fiscal reforms are essential for a sustained fiscal consolidation effort. We welcome the focus on improvement of transparency, non-oil revenue mobilization and spending efficiency, as well as acceleration of SOE governance reform. Meeting these challenges will determine the success in realization of the program, which envisages an ambitious plan for raising necessary social and infrastructure spending while preserving debt sustainability. Therefore, we stress that progress on these high-priority reforms will be critical to our future support of the program.

While the Fund is expected to cover about 58% of exceptional financing in 2021-24, the liquidity and solvency situation of Gabon is a serious concern. The capacity to repay the Fund is assessed as adequate but subject to high risks. The projected high debt service, together with accumulated arrears, in an outlook that is subject to high uncertainty, is a cause for concern given the total outstanding credit to quota peak of 367.4 percent in 2022. The authorities are tasked with clearing external arrears to bilateral creditors before the first review of the program. *Can staff elaborate on the strategy in place for this?* Moreover, we note that this EFF has limited catalytic impact with other MDBs, while the front-loading of disbursements will decrease the Fund's leverage in later reviews. *Can staff elaborate on the contingency measures in case an adverse scenario materializes?*

The structural transformation is key for achieving an inclusive and sustainable economy. We agree with staff that enhancing the banking sector and financial inclusion, completing the cadaster

and property register and strengthening the anti-corruption framework would address some longstanding bottlenecks in the economy and promote private investment and inclusive growth.

We welcome the capacity development strategy and emphasize the importance of technical assistance, especially in the context of a challenging program such as Gabon's. With progress of much TA uncompleted, continued weak budget credibility and transparency and delayed reforms, we encourage staff's close attention to achieving TA goals.

With these remarks, we wish the authorities all the success in their future endeavors.

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GRAY/21/2213

July 26, 2021

**Statement by Mr. Pösö and Mr. Damgaard on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the helpful report and Mr. Andrianarivelo and Mr. Nguema-Affane for their informative Buff statement. The pandemic has taken a heavy toll on the Gabonese economy due to the implementation of containment measures to stop the spread of the virus and the reliance on oil revenues. The recovery is now underway, although the outlook remains uncertain with risks tilted to the downside. Effective vaccine rollout and implementation of ambitious structural reforms will be crucial to put the economy on a track of sustainable, green, and inclusive private sector led growth. We can support the authorities' request for a new three-year Extended Arrangement in an amount equivalent to SDR 389 million (180 percent of quota) under the Extended Fund Facility (EFF). At the same time, **we are concerned about the program design and the slow implementation of governance reforms.**

Fiscal policy should strike a delicate balance between short-term support during the pandemic and medium-term debt sustainability. It is critical that the debt-to-GDP ratio is put on a downward path as soon as the recovery is entrenched. We see room for several reforms to protect necessary social and infrastructure spending with improvements of transparency and governance as key tools. On the revenue side, we welcome the operationalization of a revamped tax exemption committee and call for an ambitious approach. We also welcome the measures to address governance in the extractive sector. On the spending side, we urge the authorities to achieve their objective of keeping the wage bill broadly constant in nominal terms.

As we mentioned in the recent Board meeting on CEMAC, we regret to see continued weak progress in regulatory compliance and bank resolution. In this context, we urge the Gabonese authorities to work with the COBAC to strengthen the soundness and the regulatory compliance of the banking sector. We agree with staff's recommendation for the

authorities to work with the BEAC to broaden the sovereign investor base and reduce the sovereign-bank nexus. We also find it important to enhance the governance and transparency of public financial institutions. Moreover, we encourage the authorities to adopt a national financial inclusion strategy to expand access to credit and payment services.

Improving governance should be the main structural priority. In this context, we would have preferred a more ambitious frontloading of structural reforms to address governance challenges. In connection with Gabon's 2nd RFI request in July 2020, staff clarified in the written response to our technical question on procurement contracts that "publication should be done within thirty days of each contract award" as stipulated in the Letter of Intent. Now, a year later, we regret to see that only some procurement contracts have been published, and information about beneficial ownership is not available. We note that the authorities have set up a team to accelerate the publication of all relevant Covid-19 related contracts and expect to publish all contracts prior to the Board approval of the proposed Extended Arrangement. In our view, this should be a prerequisite for Board approval. *Can staff confirm that all procurement contracts and information about beneficial ownership have now been published? Furthermore, did staff consider having the publication of the audit reports of all expenditures and procurement tenders linked to the pandemic as a prior action?*

We are concerned about the program design and the Fund's role as the primary IFI creditor. We take note of the combination of significantly frontloaded disbursements and a fragmented political landscape ahead of the presidential elections in 2023. *Past experiences have clearly shown that frontloaded disbursements can reduce program ownership in the later stage of the program, particularly after elections have taken place. Could staff elaborate on their plans to avoid such a situation in the case of Gabon and the possibilities for further frontloading reforms?* On the financing side, we note that the proposed EFF Arrangement would cover 58 percent of the exceptional financing. *Could staff elaborate on the Fund's catalytic role in this case and the efforts made to mobilize other sources of financing?*

With these remarks, we wish the Gabonese authorities every success in these challenging times.

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GRAY/21/2214

July 26, 2021

**Statement by Mr. Just and Mr. Harvan on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the detailed set of reports, and Messrs. Andrianarivelo and Nguema-Affane for their helpful Buff statement. The pandemic has strongly affected Gabon, and we note the significant downside risks and substantial medium-term (re)financing needs. We welcome the reform agenda envisaged in the Memorandum of Economic and Financial Policies and underscore the reforms' focus on revenue mobilization, improving public financial management, and enhancing transparency and governance. We are ready to support the program, but have some concerns about the Extended Fund Facility's design and would favor a less frontloaded disbursement of Fund financing, in the context of a mixed implementation track record, high risks for the capacity to repay, and a weak catalytic effect.

While the pace of **fiscal** consolidation should remain pandemic-dependent in the short term, we underscore the urgency of fiscal structural reforms to enhance fiscal and debt sustainability, and tackle longstanding governance issues. The main priorities remain increasing domestic revenue mobilization by reducing tax exemptions in non-oil revenues and overcoming governance issues in the oil extraction sector; reducing contingent liabilities and transfers to state-owned enterprises (SOEs); as well as enhancing budgetary processes and coordination across the government to avoid the reemergence of arrears, and improve budgetary credibility and transparency. We highlight the planned support for the reforms by Fund capacity development (CD), but note the mixed track record in implementing extensive CD recommendations. *We would welcome more detailed information on the holders of outstanding debt and an update on the clearance of outstanding arrears, including with external commercial as well as domestic creditors.* Given the high refinancing needs and planned Eurobond issuance this year, we stress the importance of building a credible track record on debt service and eliminating external arrears by the time of the first review at the latest and welcome the performance criterion in that regard. *Staff's views on any additional external financing for vaccines would be welcome.* We strongly encourage the authorities to use very conservative oil price assumptions and use any windfall gains from higher oil prices as a fiscal buffer, as well as to help increase the BEAC's reserve position.

We concur with the positive assessment of the **financial sector** so far and highlight the need to monitor asset quality, define an exit strategy from the pandemic-related support, and tackle legacy issues while increasing financial inclusiveness. We welcome the efforts to widen the investor base for sovereign bond holders, which is likely to take time and will require establishing a track record in credibility and transparency. Financial sector soundness would be ameliorated by completing the long-discussed liquidation of public banks, improving the governance of public financial institutions, and strengthening the judiciary capacity to address non-performing loans.

We stress the importance of the reform agenda focused on **governance** as well as the fight against the corruption, and regret the delays in fulfilling transparency commitments from last year's emergency financing. The authorities should publish information on beneficial ownership for all public contracts and complete audits of all emergency spending as a matter of urgency. We welcome the plan to join the Extractive Industries Transparency Initiative and encourage the authorities to enhance SOE and public agencies' governance. We positively note the efforts to develop a carbon credit trading mechanism as a source of financing and would welcome a more comprehensive staff assessment to guide government efforts in this area, including on the sustainability of current logging practices.

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GRAY/21/2219

July 26, 2021

**Statement by Mr. Palei and Mr. Shestakov on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the informative paper and Mr. Andrianarivelo and Mr. Nguema-Affane for their helpful Buff statement. **We agree with the thrust of staff appraisal and support the Gabonese authorities' request for a three-year arrangement under the Extended Fund Facility (EFF).** The homegrown program supported by the IMF would help to bolster country's response to the pandemic and reduce debt vulnerabilities while fostering private-led and inclusive growth. At the same time, the uncertainty about the course of the pandemic, as well as institutional capacity weaknesses in Gabon, pose notable risks, suggesting that strong commitment to reform agenda will be crucial for the program's success. We hope that the program would serve its catalytic role and help mobilize financing from the development partners.

We commend the authorities for the timely response to the COVID-19 outbreak, but risks of the protracted pandemic cloud the near-term outlook. The authorities were quick to respond with containment measures and financial support. The country has also benefited from the financing under the Rapid Financing Instrument in 2020. Unfortunately, the pandemic continues to take its toll, with the current outbreak being more severe than in Gabon's peers. The plans to vaccinate at least 27.5 percent of the population by end-2021 are welcome but may be ambitious, given the vaccine supply constraints. Moreover, the planned vaccination schedule does not allow to achieve herd immunity by the end-2022, therefore, new outbreaks and reinstated lockdowns remain significant risk to the recovery.

Fiscal consolidation should be prioritized over the medium term but not at the cost of permanent economic damage. Staff project sizeable fiscal consolidation, so the debt-to-GDP ratio is expected to fall below 60 percent in 2026, partially supported by the assumed broad-based economic recovery. We note that historically the positive budget balance often came from the underperformance in social spending and investment projects. While critical and growth-friendly spending should be preserved, necessary fiscal space is expected to arise

from improved tax administration and public finance management. We also encourage the authorities to clear the accumulated arrears and look forward to their elimination during the program.

Strong ownership of the reform agenda would be needed to achieve the program goals.

We agree with staff that there are several downside risks to the program, some stemming from a fragmented political landscape ahead of the 2023 presidential elections. We are particularly worried about institutional capacity to deliver on the authorities' commitments, including in critical areas of structural reforms, revenue mobilization, and social spending. Stock-taking exercise in Annex I identifies the lack of coordination and ownership as well as complicated political context as the root causes of limited success in the past. *Have political business cycle effects historically been strong in the Gabonese economy? Can staff identify concrete design features of the new program that reflect the lessons of the previous EFF beyond the extended technical assistance outlined in Annex VI?*

With these comments, we wish the authorities every success in facing challenges ahead.

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GRAY/21/2220

July 26, 2021

**Statement by Ms. Shortino and Mr. Westphal on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for this report and Mr. Andrianarivelo and Mr. Nguema-Affane for the informative Buff statement. Gabon was still recovering from the 2014 oil price shock when COVID-19 emerged, and the pandemic and subsequent fall in oil prices have severely impacted the economy, increasing unemployment and poverty. We welcome the authorities' interest in a program under the Extended Fund Facility (EFF) in support of ongoing reforms and further adjustment in the CEMAC region. Nevertheless, we have deep concerns with regards to the authorities' commitment to reform given the history of poor performance on Fund programs including stalled reforms from Gabon's prior EFF and recent Rapid Financing Instrument (RFI). Further, this relatively large program (180 percent of quota) has limited prior actions and front-loaded disbursements, and the multilateral development banks (MDBs) have committed minimal financing for budget support. Taken together, this program risks increasing the Fund's exposure to Gabon without sufficient assurances that it will put the country on a better economic trajectory. **Given these concerns, we would like to be recorded as abstaining on Gabon's request for an EFF.** Below we provide additional detail on these views.

We would have expected much stronger conditionality in this EFF given the country's history of weak performance on Fund programs. We appreciate that an RFI in 2020 helped meet an urgent balance of payments need, but the authorities have not completed the one requirement associated with the RFI: the publication of audits of COVID-related spending. Given this delay, we would have preferred for the audit publication to be a prior action rather than a structural benchmark. We also note that the authorities did not complete a significant number of conditions from the last EFF, including the submission of an application to the Extractive Industries Transparency Initiative, which has been incorporated as a condition again in this program.

Should this EFF move forward, we urge staff not to bring the first review to the Board for approval until all program conditions for the review have been completed. It will be critical for the authorities to demonstrate ownership of this program and their commitment to reform through meaningful progress on all performance criteria and structural benchmarks

going forward. In particular, the reforms focused on fiscal revenue transparency and recalibrating and auditing expenditures would help to improve Gabon's debt trajectory and governance climate. We note, however, that many of these reforms will be politically and operationally challenging.

We are also disappointed that this EFF appears likely to have limited catalytic impact with the MDBs. *Can staff offer any insights the extent to which other bilateral and multilateral institutions are likely to provide budget support, and the timing of this assistance?* Front-loading disbursements will decrease the Fund's leverage in later reviews and minimize the firepower that the Fund will have to work with if downside risks materialize. We welcome that the authorities are planning to use the SDR allocation to bolster reserves. If downside risks materialize, we expect staff to reinforce in discussions with the authorities that on-lending SDRs for budget support would not be a productive alternative to progress on reforms that could bring in MDB financing and promote medium-term growth.

We understand that staff assess Gabon's capacity to repay to be adequate but with high risks. *Can staff offer insights into the authorities' contingency plans for debt repayment if downside risks materialize?* We are concerned by the cyclical accumulation of arrears each year, though we welcome that the authorities intend to clear nearly all of the current arrears before the Board meeting and that the program precludes the accumulation of new external arrears as a continuous performance criteria. *What capacity development is staff offering to break this cycle of arrears accumulation?* We note that repayment to the IMF will peak at a substantial 26 percent of debt service. We also question whether the large repayment in 2024 (170 percent of quota) will be feasible or if it will require a follow-on program later to effectively roll over this program.

Finally, we are disappointed that the EFF document does not contain a table showing the stock or the service of debt broken out by debt holder profile. The inclusion of debt data broken out by creditor, as approved in the revisions to the Debt Limits Policy, is critical to enhancing debt transparency. We expect that all program documents that come to the Board after the August recess will contain this table.

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GRAY/21/2223

July 26, 2021

**Joint Statement by Mr. Buissé, Mr. Ronicle, Mr. Rozan, Ms. Nelson, and Mr. Roman on
Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the comprehensive report and Mr. Andrianarivelo and Mr. Nguema-Affane for their insightful Buff statement.

Gabon was hit hard by the pandemic and the sharp fall in oil prices, in a context where it was still recovering from the previous oil price shock. The economy has contracted, the current account deficit has widened considerably, the fiscal position has deteriorated, and public debt has risen. Given the deterioration of the current account and the need to anchor Gabon's macroeconomic and structural reforms, including for the CEMAC's external sustainability, **we support the request from the authorities for a new extended arrangement under the Extended Fund Facility (EFF), and believe that its main priorities are well aligned with the countries' needs.**

Implementing the program will require continuous ownership from the authorities, notably to advance reforms that diversify the economy and develop the private sector. Before the pandemic, performance in the previous program had been mixed. While the program certainly helped the economy gradually recover from the 2014 oil shock, some core objectives were not fully achieved. With 13 structural benchmarks proposed for 2021, this will create a strong reform momentum for the rest of this year. We encourage the authorities to seize this opportunity to complete the unfinished reforms from the previous program, notably to boost non-oil revenues, increase the efficiency of public spending, and improve governance.

We hope that the program will play a catalytic role for external project and budget support. We regret that the World Bank has not been able to present its financing plans over the course of the program, when partner coordination is absolutely key. However we note that the Bank may provide financing if "a strong reform program can be agreed upon with the government". *Could staff elaborate on what additional reforms may help catalyze World Bank financing? For this year, could staff also elaborate on the rationale for the frontloading of the financing, particularly in the context of rising oil prices?* We welcome the intention to discuss Gabon's SDR allocation at the first review.

Fiscal policy should strike the right balance between the response to the pandemic and a needed growth-friendly fiscal consolidation, while improving budget transparency. Increasing oil and non-oil revenues should remain at the heart of the authorities' efforts, and in this regard, we welcome the planned measures to strengthen tax administration, align Gabon's tariffs with the CEMAC common external tariff (CET), and rationalize tax exemptions as evidenced in box 2. As the latter is a sensitive topic, it must be conducted in close coordination with the business community so that any emerging issues can be addressed smoothly. On the expenditure side, we note the authorities' plans to keep the wage bill flat in nominal terms, and that there is scope for rationalizing non-priority expenditure. We strongly support the authorities' intentions to raise necessary social and infrastructure spending while preserving debt sustainability – social spending will require a concerted effort, given the authorities' weak performance in this area under the previous arrangement.

Despite a strong increase last year during the COVID crisis, Gabon's public debt-to-GDP remains sustainable in the medium term. However, risks are high and have risen lately, so a prudent debt management strategy is warranted. The key objective to reduce public debt to below 60 percent of GDP (pre-COVID-19 level) in 2026 requires a strong implementation of the above-mentioned fiscal strategy. On all these areas, substantial TA will be needed to support the authorities' efforts, and we therefore strongly welcome the very detailed forward-looking annex VI of the report.

We welcome the recent progress on clearing external arrears -it will be critical for the authorities to stay on track with their arrear clearance process. Given that numerous arrears are targeted to be cleared ahead of the Board meeting, *could staff provide an update on the external arrear clearance strategy?* Avoiding new external arrears accumulation is necessary to preserve the relationships with external creditors and development partners. The authorities can build on the measures taken in the last nine months of 2019, when no new external arrears were accumulated. In addition to clearing external arrears, we urge the authorities to also clear domestic arrears as soon as possible, and to avoid accumulating new arrears through strengthened cash management and better coordination between units. We note that the clearance of small arrears has been given priority but has barely started, and that a tentative clearance plan should be implemented starting this year. Decisive action on this front would contribute to the recovery of the economy and support the private sector. Lastly, it is positive that the authorities have begun to clear VAT refund arrears at a faster rate, though we recommend closely monitoring this issue as it generates arrears on an ongoing basis.

Weaknesses in the financial sector and public financial entities should be addressed. We welcome the various commitments to strengthen the Gabonese sovereign wealth fund (FSRG) and its asset manager the Gabonese Fund for Strategic Investment (FGIS), and the Caisse de Dépôts et Consignations (CDC). We encourage the authorities to proceed expeditiously with the liquidation of the three public banks which has been delayed due to the pandemic.

Promoting transparency and better governance will be essential over the course of the program, especially in the extractives sector. Some welcome progress was made in recent

years as the authorities started producing bi-annual reports containing some oil sector data, and new oil and mining codes were issued. However, we do see room for improvement. We encourage the authorities to follow staff's advice, notably on the publication of more granular and regular oil data, and on improving management and transparency in the state-owned oil companies. The proposed conditionality, particularly on the restructuring plans for the four major companies, will be very useful. After several delays, we look forward to the submission of a membership application to the Extractive Industries Transparency Initiative (EITI) by the end of September 2021. On a positive note, we welcome that the authorities followed through on their commitments to transparency in the use of COVID-19 spending. While many contracts are published on the website of the Ministry of Economy, we note that not all are detailed, and the beneficiary ownership information is not available. *Could staff explain whether there are any plans to provide greater public detail on these contracts, including on beneficial ownership?* More generally we welcome the specific conditionality on a framework for the collection and publication of beneficial ownership information in procurement processes.

The Transformation Acceleration Plan should help the transition toward a more diversified economy, in a context of declining oil rents. Investing in human capital through a new social pact - as evidenced in annex 1 - is essential. Given the impact the crisis is having on the most vulnerable, we welcome the specific attention on pro-poor spending in the program's conditionality, which will be important to ensuring the quality of these expenditures. Fostering the development of the agricultural sector would certainly play a role in this diversification transition, while having a positive effect on the balance of trade and food security. Improving the business environment will support private investment and Gabon's attractiveness through more security of investments and a stable regulatory framework. We appreciate that the Gabonese authorities remain committed to their climate change mitigation commitments and the sustainable use of forestry. Finally, we welcome the preliminary information provided in paragraph 19 on how the Fund supported program will support the transition to a green economy.

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GRAY/21/2224

July 26, 2021

**Statement by Mr. Peter and Mr. Keller on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

The proposed program is ambitious and high-risk. We acknowledge the difficult situation and challenges that Gabon is confronted with, including in the regional context of CEMAC. The rebound in oil prices provides a great opportunity for the authorities to recommit to a new comprehensive reform agenda. We urge the authorities to strengthen the credibility of their policy-implementation capacity, given the weak performance under the previous EFF and RFI arrangements and the long list of unfinished reforms that remain. We encourage the authorities to forcefully and steadfastly implement their ambitious commitments and strengthen their fiscal reform efforts through stepped-up domestic revenue mobilization, improved public financial management, tightened debt management, and enhanced governance and transparency.

We are concerned about the high and strongly front-loaded access to Fund resources. This leaves the Fund with a high share in balance of payments financing and exposes it to significant risk. We have some doubts on the program's catalytic effect in the absence of World Bank balance of payments financing. *We would appreciate staff's comments on the authorities' engagement with the World Bank.* With these reservations, we can support the program but stress that it will require particularly tight monitoring of the authorities' program ownership.

High quality fiscal consolidation is needed to sustainably strengthen fiscal resilience, enhance fiscal space, and improve the business climate. Fiscal reforms are the linchpin to set public finances on a sound footing, reduce dependence on external financing, and increase infrastructure investment for private sector-led growth.

- ***Domestic revenues need to be increased.*** We urge the authorities to bring VAT collection back to at least pre-pandemic levels, and to strengthen tax administration to avoid the repeated accumulation of VAT reimbursement arrears, which hamper private sector activity. Various tax exemptions, which create moral hazard and induce

distortions for private business activity, are to be reviewed and reduced, with a view to generating higher revenues and allowing for more effective investment decisions. We encourage the authorities to follow suit on implementing the other revenue measures listed in the staff report.

- ***On expenditures, we expect the authorities to strictly adhere to sound public procurement practices.*** Like other Directors, we are concerned about the proper administration and use of COVID-related funding. *What measures, including possibly judiciary, are being considered to follow up on the ex-post audits of such funding in case irregularities are detected?* We also urge the authorities to improve treasury operations and reduce the “budgetary float” that provide opportunities for corruption. Domestic payment obligations should be honored in a timely way to enhance confidence and to contribute to growth of private demand and savings. *In particular, what steps are intended to ensure the prompt payment of public service wages and entitlements, given their importance for social stability?*

Debt management and servicing capacity should be strengthened. We urge the authorities to further consolidate the fragile debt position marked by high current debt service obligations, with a view to sustainably addressing the persistently high projected financing needs over the medium term and the recurring accumulation of external and domestic arrears. High domestic arrears and hidden liabilities in state-owned enterprises also need to be urgently assessed and promptly cleared following a clear plan. Furthermore, we would caution against overly relying on local treasury bills to avoid deepening the sovereign/bank nexus.

Setting the financial sector on a sounder footing is important work in progress. We encourage the authorities at the national and regional level to closely monitor the banks’ financial situation when temporary measures are lifted at year-end. We also urge them to enforce regulatory compliance more broadly. Identified weaknesses in the governance, management, and financial integrity of public investment vehicles should be addressed. We welcome and encourage further and swifter progress on public divestments from the banking sector, which should help strengthen Gabon’s position in the regional financial framework.

Enhancing governance and transparency is key. We encourage the authorities to take a fresh look at the portfolio of public entities and enterprises with a view to streamlining it. Assessing service delivery and reducing transfers to those entities, including to state oil companies, will be essential. The authorities’ adherence to EITI is a welcome step toward more transparency in the oil and minerals sectors. Modernizing and strengthening public investment management will also be essential to generate confidence. Finally, we welcome progress in establishing a specialized commercial judiciary as well as a cadaster and property register backed up by property titles.

Forestry has an important place in macroeconomic and climate-change policies. We note with interest that Gabon's wood sector (logging and lumber) is at present contributing significantly to economic growth and jobs, and that Gabon also could become a beacon for innovative international green economy and climate-change mitigation schemes. These two welcome trends seem somewhat contradictory, however. *Could staff elaborate on the authorities' strategy on the forestry sector? What could staff's macro-financial policy recommendations be regarding trade-offs between preservation and income generation going forward?*

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GRAY/21/2226

July 26, 2021

**Statement by Mr. Jin and Mr. Huang on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

We thank staff for the insightful report and Mr. Andrianarivelo and Mr. Nguema-Affane for their helpful Buff statement. The COVID-19 pandemic crisis hit the Gabonese economy when it was gradually recovering from the 2014 oil price shock. The previous 2017-19 Extended Arrangement helped Gabon to restore macroeconomic stability but did not fully achieve its core objectives, as performance criteria were recurrently missed and several structural reforms were yet to completed. Given the protracted external financing needs, we support the authorities' request for a new Extended Fund Facility (EFF) arrangement. The authorities' strong ownership of the reform agenda is the key to this program's success. We broadly agree with the thrust of staff's appraisal and would like to limit our comments to the following for emphasis.

While coping with the pandemic remains top priority, a gradual and growth-friendly fiscal consolidation is essential to preserve the debt sustainability. We agree with staff that the fiscal policy should be guided by the non-oil primary balance and anchored by reducing public debt to pre-pandemic levels over the medium term. The suggested fiscal consolidation path rightly starts with a mild adjustment this year and continues with more ambitious consolidation after the pandemic abates. We take positive note of the program's objective to raise non-oil revenue by 3.1 percent of non-oil GDP by 2023. To achieve this target, more should be done to streamline tax exemptions and strengthen tax administration. Improving the governance and management of the oil revenue is also important to ensure the oil sector contributes adequately to revenue collections. We welcome the authorities' commitment to channel all oil revenue through the Treasury Single Account (TSA) and save the windfall revenues for reserve accumulation and much-needed investments.

Recurrent accumulation of external arrears highlights the importance of improving public debt management. Despite outstanding official bilateral arrears to China, we have consented to Fund financing and welcome the authorities' commitment to clear all bilateral

arrears by the first review. However, the recurrent accumulation of external arrears remains a source of concern, as it may undermine Gabon's access to the international market and raise the cost of future financing. Concrete actions are needed to prevent this from happening, including enhancing internal coordination and improving cash management. *As the performance criteria on external arrears was missed throughout the previous EFF program, we are wondering whether there could be more structural benchmarks on public debt management in the new arrangement. The Fund's technical assistance on this front is also welcome.*

A resilient financial sector and business friendly environment are important for a sustainable and inclusive recovery. We take positive note that the banking sector remains well-capitalized and liquid. The authorities are encouraged to keep a close watch on the banks' asset quality as the temporary supportive measures are expected to exit smoothly. The bank-sovereign nexus is a rising vulnerability and warrants swift action. While regulatory measures could help to discourage government bonds holding by the banks, more efforts are needed to promote the development of the local current bond market and broaden the investors' base. We welcome the authorities' efforts to ensure the transparency of COVID-19 related expenditures and encourage more broad-based reforms on the public procurement process.

With these remarks, we wish the authorities every success in their future endeavors.

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GRAY/21/2230

July 26, 2021

**Statement by Mr. Bhalla and Mr. Natarajan on Gabon
(Preliminary)
Executive Board Meeting
July 28, 2021**

1. We thank the staff for the detailed report and Mr. Andrianarivelo and Mr. Nguema-Affane for the comprehensive Buff. Gabon's economy has been adversely affected by the Covid-19 pandemic and fall in oil prices. The swift policy interventions by the authorities have helped to mitigate the impact emergency financing under the Rapid Financing Instrument (RFI) in 2020; this has helped to support urgent balance of payments needs and health spending. However, contraction in economic activity and weakening fiscal positions requires sustained international support. In this context, we concur with the staff support for the three-year extended fund facility (EFF).
2. The economy contracted in 2020 due to the impact of pandemic containment measures in the service sector especially retail trade and restaurant industries. The impact was compounded by the reduction in oil production. The significant growth in mining and wood sectors in Q1 of 2021 is encouraging and along with this proposed facility could help in catalyzing a strong economic recovery. In the context of increase in oil prices, can the staff comment on the growth in oil sector and oil sector revenue in the medium-term?
3. The fiscal situation has deteriorated due to sharp fall in oil price and rising tax arrears in 2020. Public debt has increased significantly from about 60 percent in 2019 to 77 percent in 2020. Improvement in the fiscal situation envisaged under the program will hinge on measures to enhance non-oil revenue which include streamlining tax exemptions, rationalizing tax rates and strengthening tax administration. Strengthening governance and transparency in the oil sector through initiatives including becoming a member of the Extractive Industries Transparency Initiative should help to improve efficiency in the sector. We welcome measures to rationalize and prioritize expenditure, strengthen efficiency in public investment and improve governance in state owned enterprises.
4. We welcome the commitment of the authorities to closely monitor the bank solvency and liquidity situation especially in the context of exit from the temporary support measures provided to the financial sector. External sector is expected to improve because of the improvement in oil and mining exports. After the sharp deterioration in 2020, the current

account deficit is expected to improve gradually. Inflation is expected to remain in the range of 2 percent over the medium-term. Structural reform measures including governance reforms and strengthening anti-corruption framework should help to boost the business and investment climate.

5. The proposed EFF program is designed to advance fiscal consolidation efforts, reduce external financing needs, mitigate the impact of the pandemic, and support the reform agenda. The quantitative performance criteria, indicative targets and structural benchmarks should help to advance macroeconomic stability and growth. We encourage the authorities to address implementation issues through the capacity development and technical assistance proposed under the program.

6. Finally, we wish the authorities success in their endeavors.

Gabon

Staff's Responses to Technical Questions Posed by Executive Directors in Advance of

EBM/21/79—July 28, 2021

Staff's responses to technical and factual questions are below.

Fiscal policy and Debt

1. ***We would appreciate updates on the status of arrears clearance, considering the authorities' commitment to clear the bulk of them prior to the approval of the program request or before the 1st review? In addition, we would be interested in updates on current efforts by the authorities to reach agreement with commercial creditors.***

2. ***The authorities are tasked with clearing external arrears to bilateral creditors before the first review of the program. Can staff elaborate on the strategy in place for this?***

3. ***Could staff provide an update on the external arrear clearance strategy?***
 - As indicated in the supplemental staff report, the authorities have cleared external arrears in line with the commitment in their MEFP (Paragraph 45).

4. ***Given the proposed application of the Fund's LiA policy (which puts a premium on information sharing) as well as given the need for adequate safeguards for the Fund in terms of debt transparency, we wonder if staff could provide additional information on table 1 of the DSA regarding the composition of public and maturing debt over the coming years.***

5. ***We would welcome more detailed information on the holders of outstanding debt and an update on the clearance of outstanding arrears, including with external commercial as well as domestic creditors.***

Gabon: Holders of outstanding external debt, 2020
(Billions of CFAF)

EXTERNAL	4,052.40
GUARANTEED	23.27
COMMERCIAL	23.04
Paris Club	23.04
ISRAEL	23.04
MULTILATERAL	0.23
EIB	0.23
DIRECT	4,029.14
BILATERAL	841.35
Paris Club member countries	260.22
CANADA	2.61
FRANCE	257.61
COUNTRIES NOT MEMBERS OF	581.13
CHINA	581.13
COMMERCIAL	246.04
COMMERCIAL NON-INSURED	232.35
AUSTRIA	70.46
SPAIN	29.18
UNITED STATES	1.01
FRANCE	40.98
ISRAEL	1.80
CHINA	88.92
COMMERCIAL INSURED	13.70
FRANCE	1.17
MOROCCO	2.02
AUSTRIA	9.37
TURKEY	1.15
INTERNAL FINANCIAL MARKETS	1,314.12
MULTILATERAL	1,627.62
AfDB	557.93
BDEAC	78.00
EIB	2.28
IsDB	108.69
WB	363.85
ADF	0.69
EDF	0.28
IFAD	2.75
IMF	473.64
AFREXIMBANK	39.52

Source: Gabonese authorities.

6. Could staff clarify when exactly are the authorities planning to clear its external arrears? Does the IMF's staff have an assessment on the level of debt that is outside the scope of the DSA.? And are there any measures envisaged to increase the scope of debt in future DSAs?

- There are potential domestic arrears, notably vis-à-vis the social security entities, SOEs and public workers (wages and benefits). The authorities intend to include these arrears in the stock of public debt (and thus in the DSA) after careful verification. In addition, the authorities committed to transition to the Government Finance Statistics Manual (2014) standards by the end of the program, which will provide a more comprehensive view on the public sector assets and liabilities.

7. Given the high refinancing needs and planned Eurobond issuance this year, we stress the importance of building a credible track record on debt service and eliminating external arrears by the time of the first review at the latest and welcome the performance criterion in that regard. Staff's views on any additional external financing for vaccines would be welcome.

- The authorities have so far financed the vaccines by themselves or through grants, notably from China. The total stock of vaccines since the beginning of vaccination adds up to 575,000 doses. The World Bank has a Board Meeting scheduled for mid-August for the financing of additional vaccines by US\$10 million under the AVAT initiative.

8. What capacity development is staff offering to break this cycle of arrears accumulation? We note that repayment to the IMF will peak at a substantial 26 percent of debt service. We also question whether the large repayment in 2024 (170 percent of quota) will be feasible or if it will require a follow-on program later to effectively roll over this program.

9. As the performance criteria on external arrears was missed throughout the previous EFF program, we are wondering whether there could be more structural benchmarks on public debt management in the new arrangement. The Fund's technical assistance on this front is also welcome.

- Under the new EFF, the authorities have committed to continue strengthening the institutional framework for debt management, especially the coordination between the General Debt Directorate and the other public debt stakeholders (e.g., establishment of a national coordination mechanisms). They have also committed to further enhancing cash management processes (e.g. Treasury single account, implementation of the commitment plans articulated with the monthly cash flow plans), which will (i) give a comprehensive view on the State's consolidated cash position in real time; (ii) strengthen the predictability of liquidity; and (iii) limit the creation of arrears as well as allowing rapid clearance of recorded arrears, if need be.
- The authorities will likely issue new Eurobonds to rollover the large repayment in 2024.

Governance and RFI-related commitments

10. We welcome the authorities' commitment to strengthen governance and reinforce the anti-corruption framework. We encourage the authorities to pursue measures to update the legal framework governing state-owned enterprises including the publication of their annual reports, to address weaknesses in the extractive industries sector including by submitting an application to the Extractive Industries Transparency Initiative, and to improve transparency in budget execution and procurement. Could staff provide an update on whether authorities have indeed published all relevant procurement contracts, prior to Board consideration of this EFF proposal?

11. Can staff confirm that all procurement contracts and information about beneficial ownership have now been published? Furthermore, did staff consider having the publication of the audit reports of all expenditures and procurement tenders linked to the pandemic as a prior action?

12. We cautiously note that the publication of all COVID-19 related contracts has not been implemented yet, even though it was agreed in the letter of intent under the RFI approved last July. Could staff elaborate on the background behind the delay and provide the latest update on the publication which staff expects to be completed prior to the board approval of the EFF?

- As stated in the supplemental staff report, the authorities confirmed that they have completed the prior action on the publication of COVID-19-related procurement contracts.

13. While many contracts are published on the website of the Ministry of Economy, we note that not all are detailed, and the beneficiary ownership information is not available. Could staff explain whether there are any plans to provide greater public detail on these contracts, including on beneficial ownership?

- The authorities have not yet implemented their RFI commitment to publish beneficial ownership information for the companies and other legal persons awarded COVID-19-related procurement contracts. Some of the posted procurement contracts, invoices, and payment orders include the names of the natural persons signing them on behalf of the awarded legal person and some do not; regardless, the natural person who signs a contract on behalf of a legal person may or may not be that legal person's beneficial owner.
- Gabon does not appear to have a framework for collecting and publishing beneficial ownership information as part of its procurement process and it has not done so on an exceptional basis during the pandemic. Therefore, the commitment to provide beneficial ownership information has been reflected in a Structural Benchmark in the program (for end-November 2021) and expanded to apply to all public procurement contracts in Gabon. Upon the receipt of a formal request, Fund staff would be prepared to provide technical assistance aimed at ensuring that the beneficial ownership information for all contracting companies and other legal persons is systematically collected and published going forward.

14. *We strongly encourage the authorities to swiftly implement all of their transparency commitments made at the time of the second RFI approval last year. Given that beneficial ownership information is not yet available on the government's website and only some Covid-19 procurement contracts have been published, the authorities should step-up their efforts to make information readily available. Conducting an audit of all emergency spending remains essential and its publication should be completed no later than the first review. Could staff kindly provide more information on the status of the audit report, some preliminary content, and comment on the expected quality of the enquiry?*

- The authorities have selected (through public bidding) Deloitte to perform the audit of COVID-19 spending. The report is expected to be ready by end-September 2021 as committed by the authorities at the time of the second RFI.

15. *On expenditures, we expect the authorities to strictly adhere to sound public procurement practices. Like other Directors, we are concerned about the proper administration and use of COVID-related funding. What measures, including possibly judiciary, are being considered to follow up on the ex-post audits of such funding in case irregularities are detected?*

- In the case of irregularities, the sanctions and procedures provided for under the general regulations for public accounting (2016) (ex. financial sanctions for misuse of public funds) and under the criminal code should apply.

16. *In particular, what steps are intended to ensure the prompt payment of public service wages and entitlements, given their importance for social stability?*

- As stated in their MEFP (paragraph 31), the authorities intend to avoid the creation/accumulation of salary arrears through several measures to improve the management of the wage bill including the reduction of the time limit for taking into account administrative acts (in particular tenure and advancement). Two other measures that can help ensure the prompt payment of public service wage are: (i) enhanced cash management (e.g. Treasury single account, implementation of the commitment plans articulated with the monthly cash flow plans) to strengthen the consolidated cash position of the State in real time and the predictability of liquidity; and (ii) IT improvements (e.g., automatic interfacing between budget and accounting departments IT systems) to guarantee that payment order are paid in due time and appropriately recorded.

Financial sector

17. *We would welcome staff's view on the feasibility of the authorities' plans to liquidate the three public banks by end-2021, considering limited progress made thus far.*

- Progress in the liquidation of the three failed public banks was undermined by the pandemic. Liquidators of BHG and Postebank saw the need for additional time,

which was approved by COBAC. The authorities have reiterated their commitment to preserve the soundness of the banking system, closely monitor and expedite the liquidations. The closure of the liquidations of BHG and Postebank is now scheduled for end 2021 and that of the BGD in mid-2022. With due liquidation monitoring, staff considers a closure of the liquidations at these dates feasible. Despite the delays, the estimated fiscal cost of the liquidations has remained broadly comparable to previous estimates, at about 1.5 percent of GDP.

Structural reforms

18. *Finally, the authorities' economic diversification efforts to reduce over reliance on oil will also be welcomed. In this regard, which measures are the authorities envisaging towards a greener transformation?*

- As indicated in the MEFP (paragraphs 53-58), Gabon—second country in the world in terms of percentage of forest cover (with a low level of deforestation)—intends to accelerate the implementation of its commitments in terms of environmental and climate change policies with a view to reaching sustainable development. The authorities are developing a carbon credit trading mechanism at the national level in line with the Paris agreement on climate change. This mechanism will help finance policies and actions in favor of forest conservation by setting up a system for the exchange of carbon credits and ecosystem credits resulting from the reduction, absorption but, above all, the sequestration of greenhouse gases and preservation of biodiversity.
- Gabon is exposed to both natural disaster (e.g., flooding) and impacts of climate changes, due to its coastal location. The last fiscal risk mission (January 2021) estimated the economic impact of environmental risk to potential amount 2 percent of GDP. In this context, the authorities have developed several initiatives to better identify and mitigate those risks. Under the new EFF, they have committed, with IMF TA, to identify (i) tax measures that can accompany Gabon's transition to a greener economy, and (ii) to conduct a climate change assessment of its investment portfolio and processes following the IMF's PIMA-CC module. The authorities have sent a written request on those issues last April 2021. Staff is currently discussing the appropriate timing to start this activity (likely next September with a remote PIMA-CC desk mission).
- The authorities are also undergoing a project with the UN system to implement a medium-term Integrated National Financial Framework (INFF) to achieve the SDGs. In Gabon the main objective of the INFF is to move towards an even greener economy.

19. *Could staff elaborate on the authorities' strategy on the forestry sector? What could staff's macro-financial policy recommendations be regarding trade-offs between preservation and income generation going forward?*

- The authorities do not see trade-offs between preservation and income generation going forward. As indicated in their MEFP (paragraph 58), their objective is to support

the sustainable increase in production and ensure a more significant contribution of the forest-wood sector to the GDP and to fiscal revenues. Key actions include: (i) the fight against illegal exploitation of natural resources and the improvement in transparency; (ii) the creation of forest plantations; (iii) the strengthening of the certification of all forest concessions; and (iv) the national forest inventory. The increase in production and jobs aims at augmenting the value chain by more than 30 percent, with the acceleration of the second and the third wood transformation. Finally, to align the sector's ambitions with the legislative and regulatory framework, a new forestry law will be developed to respond to Gabon's economic, fiscal, social, environmental and climatic challenges.

Program design and conditionality

Disbursement and conditionality

20. Did staff consider frontloading more of the program conditions, to match the frontloaded financing?

21. We are concerned about the program design and the Fund's role as the primary IFI creditor. We take note of the combination of significantly frontloaded disbursements and a fragmented political landscape ahead of the presidential elections in 2023. Past experiences have clearly shown that frontloaded disbursements can reduce program ownership in the later stage of the program, particularly after elections have taken place. Could staff elaborate on their plans to avoid such a situation in the case of Gabon and the possibilities for further frontloading reforms?

- Staff will respond to questions 19 and 20 during the meeting.

Implementation capacity and ownership

22. A successor EFF-supported program will serve the authorities well. We appreciated Annex I that lists the main features and areas of more limited success in the 2017-2019 program. However, we would have liked to see a "lessons learnt" exercise feeding directly into this successor EFF. In this regard, we would appreciate staff's views on whether the "weak institutional capacity, lack of coordination and ownership, and a complicated political context" identified for the previous program still remain and what measures were put forward to minimize such limitations to the success of this program.

23. Strong ownership of the reform agenda would be needed to achieve the program goals. Stock-taking exercise in Annex I identifies the lack of coordination and ownership as well as complicated political context as the root causes of limited success in the past. Have political business cycle effects historically been strong in the Gabonese economy? Can staff identify concrete design features of the new program that reflect the lessons of the previous EFF beyond the extended technical assistance outlined in Annex VI?

- Staff will respond to questions 21 and 22 during the meeting.

24. These actions should be frontloaded and successfully implemented to preserve the credibility of the program. The complimentary Gabon Transformation Acceleration Plan 2021-23 is an encouraging sign that the authorities will take

ownership of the reform agenda. Can staff indicate what measures are being put in place to ensure that targets will be achieved in a timely manner?

25. The authorities' strong ownership is key for the success of the program. While we see the proposed program appropriately focuses on the urgent and medium-term priorities, given that the last EFF program was not completed due to weak implementation, increased vigilance regarding actual program implementation is critical to preserve the credibility of the program. Can staff elaborate on how to ensure the appropriate and timely implementation of the program targets?

- As indicated in the MEFP (paragraphs 13, 14, and 15, Annex I), to ensure that the Transformation Acceleration Program (PAT) targets will be achieved, the Government has set up 20 Task Forces, responsible for the implementation of the various action programs linked to the twelve goals identified in the PAT. These Task Forces are composed of senior executives from the public administration and the private sector, who are directly involved in the implementation of the action plan. They provide a platform for collaboration and regular reporting to facilitate dialogue and consistency in action. Above these Task Forces, the Government has created a National Council for the Transformation Acceleration Plan, whose Steering Committee is chaired by the Prime Minister, Head of Government, and the General Coordinator for Presidential Affairs. An Executive Secretariat provides technical support in solving operational problems encountered by the task forces, as well as monitoring the progress of their respective roadmaps and reporting regularly to the Strategic Orientation Committee.

26. We would welcome staff comments on how to ensure steady progress is made in this regard.

27. We note that the envisaged frontloading of critical governance measures is expected to result in higher domestic revenue collection and better public resource management and wonder if implementation capacity constraints that were witnessed in the last EFF (2017-2020) has been addressed. Staff's comments are welcome.

- Capacity constraints remain challenging. However, the program was designed, considering the need to reinforce capacity, with an ambitious TA agenda. For instance, appropriate provisions for reforming or cancelling tax exemptions will be implemented through annual budget laws during the program period and will be closely monitored by staff as program implementation unfolds. In addition, technical assistance is already scheduled to ensure appropriate implementation and follow-up of these provisions (notably through the IT systems) and to provide hands-on support to revenue departments as needed.
- In addition, several improvements over the recent years are encouraging. These include, (i) the development of IT systems for revenue collection and management (e-T@x, SIDONIA); (ii) the creation of units within the budget department dedicated to monitor and follow-up on public agencies and SOEs; and (iii) the revamping of public investment processes following the 2019 PIMA.

Burden sharing and catalytic impact.

28. Moreover, we note that this EFF has limited catalytic impact with other MDBs, while the front-loading of disbursements will decrease the Fund's leverage in later reviews. Can staff elaborate on the contingency measures in case an adverse scenario materializes?

29. We understand that staff assess Gabon's capacity to repay to be adequate but with high risks. Can staff offer insights into the authorities' contingency plans for debt repayment if downside risks materialize?

- Gabon has always had a good-track record of repaying the Fund. In case an adverse scenario materializes, the authorities should take additional measures, including contingency measures identified in paragraph 30 of the staff report, to reduce gross financing needs. However, there are also upside risks including additional budget support and higher oil prices.

30. Could staff elaborate on what additional reforms may help catalyze World Bank financing? For this year, could staff also elaborate on the rationale for the frontloading of the financing, particularly in the context of rising oil prices? We welcome the intention to discuss Gabon's SDR allocation at the first review.

31. On the financing side, we note that the proposed EFF Arrangement would cover 58 percent of the exceptional financing. Could staff elaborate on the Fund's catalytic role in this case and the efforts made to mobilize other sources of financing?

32. We are also disappointed that this EFF appears likely to have limited catalytic impact with the MDBs. Can staff offer any insights the extent to which other bilateral and multilateral institutions are likely to provide budget support, and the timing of this assistance?

33. We would appreciate staff's comments on the authorities' engagement with the World Bank.

- We are working very closely with our World Bank Group colleagues and the Bank remains very much engaged in Gabon.
- The World bank staff indicated that, at this stage, support through project loans rather than budget support is judged more appropriate to deliver the needed development outcomes. The IBRD resources initially allocated to a budget support operation have been reallocated to project lending. In this regard, for instance, a project supporting Gabon's digital economy for an amount of USD 68 million and an additional financing for vaccine acquisition for USD 10 million will be discussed at the Bank Board later in July and in August, respectively. Bank colleagues are also considering an additional financing of USD 25 million for the e-Gabon project, and USD 70 million for an Urban Development project.
- The Word Bank Group stands, nevertheless, ready to revisit the opportunity of providing budget support in light of Gabon's access to IBRD resources and progress in pushing its reform agenda. In this regard, the IMF arrangement under consideration today is a very welcome step in the right direction.

Risks to the program

34. Risks to program implementation as well as risks concerning the capacity to repay the Fund are high. Given high risks in this case as well as cluster risks for the Fund from its broader engagement in the CEMAC region, we would welcome additional comments on whether the Office of Risk Management has been involved in the (internal) discussions regarding the proposed arrangement.

- The Office of Risk Management was not officially involved in the internal discussions. However, the arrangement went through a significant internal risk assessment by AFR and Review Departments. The Risk Matrix reflects the risks discussed and, while tilted downwards, the program has also upside risks such as higher-than-expected oil prices and production, as it happened in the previous program. These risks are also mitigated by the authorities' strong ownership of the reform agenda demonstrated by important policy measures already undertaken in the 2021 revised budget, their own Gabon's Transformation Acceleration Plan (PAT), and a tailored CD strategy to support the implementation of structural reforms. Better coordination within the public administration and across public agencies both at the policy and technical level is also critical to ensure an effective and timely implementation of the reform agenda.

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OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

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Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

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Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

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Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

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Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

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