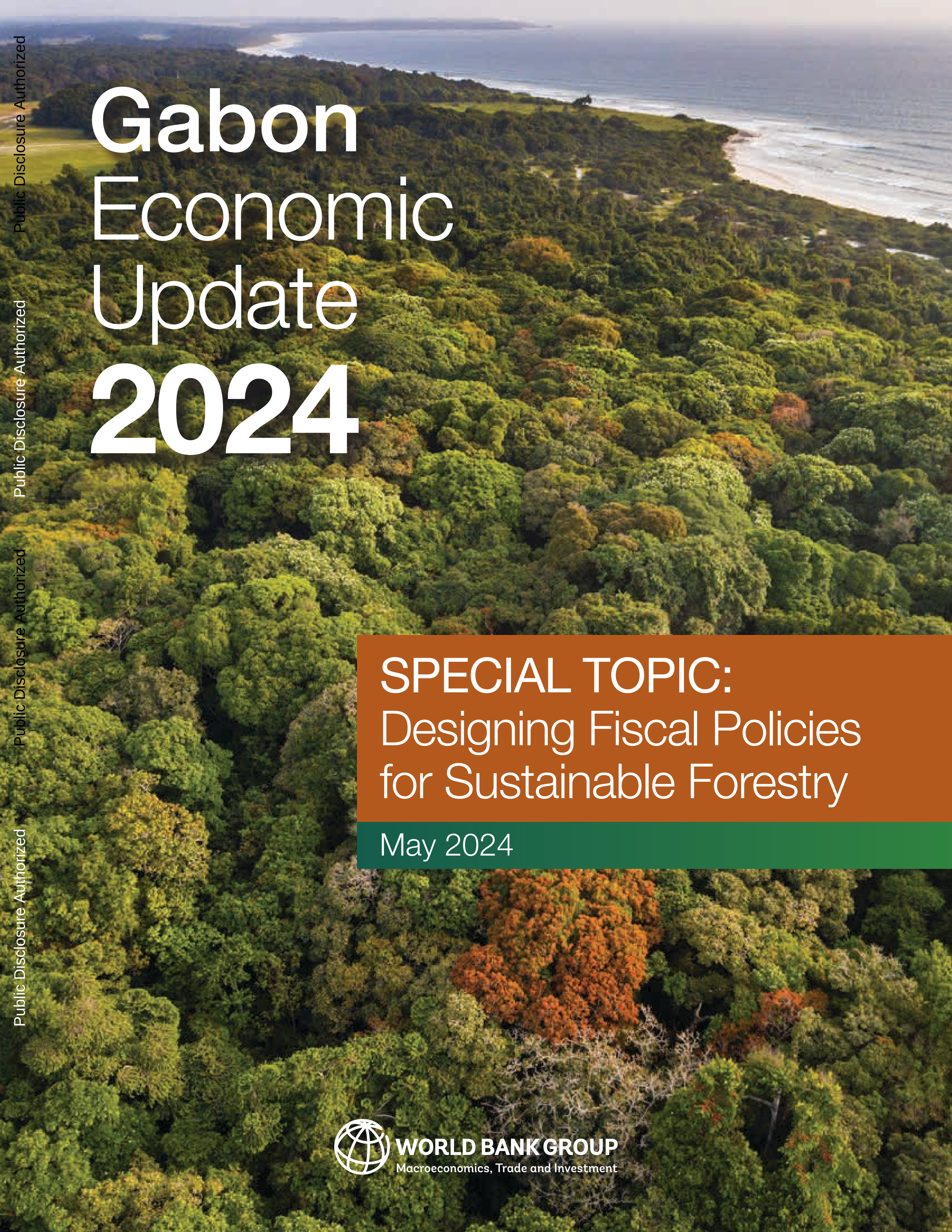

Gabon Economic Update 2024

SPECIAL TOPIC: Designing Fiscal Policies for Sustainable Forestry

May 2024

WORLD BANK GROUP
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Contents

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Acknowledgments

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Abbreviations and Acronyms

AFD	French Development Agency
AfDB	African Development Bank
BEAC	Bank of Central African States (*Banque des États de l'Afrique Centrale*)
bbl	oil barrel
CAR	Central African Republic
CAFI	Central African Forest Initiative
CEMAC	Central African Economic and Monetary Community (*Communauté Economique et Monétaire de l'Afrique Centrale*)
CFAF	African Financial Community Franc (Franc CFA)
CIT	Corporate income tax
CO_2	carbon dioxide
COBAC	Central African Banking Commission (*Commission bancaire de l'Afrique centrale*)
DRC	Democratic Republic of the Congo
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GHG	Greenhouse gas
ILO	International Labor Organization
IMF	International Monetary Fund
ITTO	International Tropical Timber Organization
NDC	Nationally Determined Contributions
ND-GAIN	Notre Dame Global Adaptation Initiative
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PPP	purchasing power parity
q-o-q	quarter-on-quarter
REDD+	Reducing Emissions from Deforestation and Forest Degradation in Developing Countries
SSA	Sub-Saharan Africa
USD	United States dollar
VAT	Value-added tax
WB	World Bank
WDI	World Development Indicators
WGI	World Governance Indicators
WITS	World Integrated Trade Solution
y-o-y	year-on-year

Overview

The Gabon Economic Update is an annual World Bank publication that presents an overview of the evolving macroeconomic position in Gabon, followed by a detailed exploration of a specific topic in each edition. The first chapter analyzes recent economic developments, key development challenges, as well as the macroeconomic outlook and risks for Gabon's future growth. It presents policy actions that could help strengthen fiscal and debt sustainability, contain food inflation, promote job creation, and sustain a resilient growth path. The second chapter of this year's Economic Update has a special focus dedicated to fiscal policies for the forestry sector. This chapter analyzes how fiscal policy reforms for forestry can contribute to generating more fiscal revenues, creating more jobs, and promoting sustainable production methods. This report is based on data available as of May 2024.

Gabon experienced lower growth in 2023, impacted by reduced global demand and transport disruptions that affected the wood and manganese industries. In 2023, Gabon's economy grew by an estimated 2.3 percent, down from 3.0 percent in 2022. Decreased demand, higher fuel costs, and railway damages from severe weather events impacted wood and mining exports. Despite these challenges, the oil sector propelled growth, with a 3.7 percent increase in output, benefiting from high global oil prices and the exploitation of new oilfields. Other sectors contributing to growth included agriculture, construction, and services. The economy showed resilience to political events, such as a coup d'état that occurred amid contested election results in August 2023, with minimal disruption to economic activity and efforts by the new transition government to normalize international relations and access to regional and global financing.

Despite economic recovery and declining inflation, one in five Gabonese is unemployed, and over a third

of Gabonese live in poverty due to lack of opportunities for jobs and income generation. Inflationary pressures in Gabon eased in line with tight monetary policy by the regional central bank, price controls, and a drop in global inflation. The consumer price inflation fell to 2.2 percent (y-o-y) in December 2023, down from a peak of 5.8 percent in late 2022. However, even if inflation has been contained, baseline prices tend to be high for local standards, as trading costs and tariffs are high, and the country imports much of its basic food and products. Even small increases in living costs can therefore be strongly felt by the population, especially the poor, as they affect people's ability to purchase basic goods. Poverty affected 35.2 percent of households, who lived on less than USD 6.85 per day in 2023. About a third of the country's youth is disengaged from work, education, or training, leading to a loss in human capital. Insufficient job creation and limited income-generating activities and social protection contribute to poverty. Capital-intensive industries, like oil, do not generate enough jobs, and there is a mismatch between job opportunities, skills, and people's aspirations. In a highly urbanized country, firms face challenges to attract workers to agriculture or wood sectors in rural regions.

Gabon's fiscal revenues reached a record high in 2023, bolstered by strong oil production and enhanced tax collection efforts. Despite a decline compared to 2022, oil revenues remained high thanks to a higher oil production, along with high corporate taxes levied on oil firms' previous year's profits, which allowed Gabon's revenues to reach 22.9 percent of GDP. Non-oil tax revenues also saw a substantial increase, aided by tax policies such as rationalization of tax expenditures. However, tax incentives continue to be extensively used to alleviate costs for firms and households, resulting in considerable revenue losses, estimated at CFAF 352 billion (2.8 percent of GDP). The digitalization of customs offices in Oyem in late 2023 and the launch of a new platform for tax payments in early 2024 are expected to support public revenues moving forward.

Pushed by high spending needs, public spending saw a strong increase in 2023, resulting in a slightly higher fiscal deficit. Government spending in Gabon reached 23.9 percent of GDP, and the budget closed 2023 with an estimated deficit of 1.0 percent of GDP, up from 0.8 percent in the previous year. Public investment saw a significant increase of 76.6 percent, with the acceleration of infrastructure projects and the launch of large projects in the last months of 2023. The relaunch of public sector hiring led to a higher wage bill. Also, the cost of the August elections and of social measures adopted in a context of high social expectations in late 2023 weighed on the budget. However, allocated spending on education and health remained low, at respectively 1.6 percent and 1.0 percent of GDP – below the averages for countries of Gabon's income group, suggesting a potential to prioritize spending toward social sectors to support households and reduce poverty.

Gabon's public debt surpassed the regional threshold of 70 percent of GDP in 2023, driven by lower growth, higher interest rates, and additional arrears caused by cash flow management issues. Gabon could face challenges to contain the public debt, which increased from 63.6 percent of GDP to an estimated 70.5 percent between 2022 and 2023. Certain additional components, such as unpaid spending commitments and Treasury bills, were identified by the authorities since the transition started and added to the debt stock. In addition, in 2023 increased cash flow pressures in a context of elections led to higher unpaid commitments, and arrears on VAT refunds and others. Without significant fiscal measures, the debt-to-GDP ratio will continue to rise. There are high spending needs to cover wages, social support, and planned investments in the National Development Plan for the Transition (PNDT). The country has been dealing with the burden of external arrears, which were estimated at CFAF 146 billion by March 2024 (1.2 percent of GDP), which affects its credibility with creditors and could lead to financing instability under uncertain global economic conditions. Efforts to improve transparency and visibility of public finances have been made by the transitional government.

Gabon's trade surplus remained high in 2023 but was affected by lower oil prices and a weaker performance in wood and manganese exports. Even if oil production increased, oil prices declined between 2022 and 2023, leading to a 15 percent reduction in the value of oil exports. However, crude prices still remained higher than in all other previous years since the 2014 oil shock. Furthermore, as mentioned, high energy costs, transport disruptions, and weaker Asian demand impacted wood and mining exports. On the other hand, nominal imports remained overall stable. Gabon's exports are highly concentrated in a few products, with oil, manganese, and wood making up 83 percent of exports in 2023. Oil alone constituted 68 percent of exports. The country primarily exports to Asian markets, with China being a major consumer, while exports to African countries and the CEMAC region are minimal. Challenges such as low regional integration and logistical and regulatory barriers impede the potential benefits of regional trade.

Gabon's economic recovery should continue over the coming years, but the country faces challenges such as lower oil revenues and increased spending pressures, which could quickly turn into an unsustainable fiscal and debt situation. New exploration and the growth of mining, wood, and agriculture would support growth in the medium term. Oil production is expected to decline due to maturing fields, although recent announcements of new oil discoveries may alter such prospects of diminishing oil production. Exports are likely to stay relatively strong, sustained by growth in Asian markets. India is expected to experience higher growth at 6.5 percent in 2026; although at a lower pace and facing headwinds, Chinese growth is expected at 4.3 percent in 2026. Overall, while Gabon's economy is poised for a modest recovery, it faces significant risks from geopolitical tensions, higher borrowing costs, persistent global inflation, climate shocks, and a potential slowdown in China's economy. The risks of political tensions during the transition and of regional sanctions could further complicate the economic and fiscal positions.

Initiatives to support local entrepreneurs and small firms, improve infrastructure, and provide better access to credit are underway to address poverty and stimulate job creation. Private sector growth is limited by regulatory, competition, and trade barriers, and inadequate access to credit, energy, and skilled labor. Governance issues persist, and living standards and access to basic services such as water, electricity, sanitation, and health are below what is typical for countries in Gabon's income group. The transitional government is implementing important economic policies including improvements in the governance of public finances, infrastructure, and support to local firms.

Going forward, strong actions will be needed to boost growth and sustainably improve living conditions without compromising fiscal and debt sustainability. It will be crucial to improve transparency of resource revenues, enabling their optimal use towards productive investments in human capital and in infrastructure. As oil reserves are finite, the wood sector emerges as a future central pillar for Gabon's economy and public finances. Adopting fiscal measures to adequately manage and benefit from this immense source of revenue and jobs will be key. While increasing in importance for public finances, the wood sector only contributed to 1.5 percent of total revenue in 2023. Property taxes, wood export duties and land area fees remain to date the main forest-related sources of fiscal revenue in Gabon. Expanding the scope of forest-related fiscal policy instruments would enable policy makers to fulfill environmental and climate goals more affordably, while generating more revenues for the state.

Special topic: Fiscal policies for forestry could be reformed to contribute to more public revenues while promoting jobs in a sustainable forestry industry

Thanks to conservation efforts and sustainable practices, Gabonese forests are a vital source for jobs and exports while providing the world with essential climate services. Gabon is the fourth most forested country in the world, with over 91 percent of its territory covered by well-preserved forests. Each year, Gabon's forests absorb approximately 140 million tons of CO_2, underlining their critical global importance in the fight against climate change. The country has an impressive and well-preserved forest ecosystem. About 14 percent of the forests are located in protected areas, including the country's 13 national parks. About 59 percent of the forests are dedicated to sustainable and controlled production of forest products managed by private companies. The annual deforestation rate has been low compared to most countries in the region and in the world, at 0.05 percent in 2010-2020. In its nationally determined contributions (NDC), Gabon pledges to remain carbon-neutral up to and beyond 2050. However, despite strong forest conservation policies, Gabon still faces challenges to curb illegal logging. Reforms being planned to tackle this issue include a new digital system for wood traceability.

While oil remains the main contributor to Gabon's economy, the forestry sector generates thousands of jobs both in urban and rural areas and has become a key driver in Gabon's diversification agenda. Through certification requirements, strict logging thresholds, and incentives for a local wood industry, Gabon has been able to transform the wood sector into a major source of jobs and exports. In 2009, the country banned log exports and set up a special economic zone to spur local timber processing. The timber industry has thus increasingly become an important pillar of Gabon's economy, accounting for 3.2 percent of GDP and 6 percent of exports in 2023. It is now the country's largest private employer, providing nearly 15,000 jobs in 2022. However, labor skill gaps are a barrier for future development, which are being addressed through initiatives such as the opening of a new training center for the wood industry in February 2024.

Recent years have seen an uptick in international funding for sustainable forest management in the Congo Basin region, but international commitments are still insufficient. Global commitments still tend to lack quantifiable and transparent targets, leaving a gap between pledges and results. Gabon became the first African nation to receive performance-based payments, securing USD 150 million through the UN-led Central African Forest Initiative. However, more substantial and sustained support remains to be provided by the global community. Gabon has not been able to obtain funding for the 90 million tons of carbon credits that were certified in 2022. Carbon credits and other green financing mechanisms are arguably still at an embryonic stage and need to be stepped up by international donors.

Part of the solution could come from fiscal reforms to optimize forest resources, as a means to secure higher public revenues and environmental goals. The forestry sector has been increasing in importance for public finances, albeit from a low base, indicating a significant untapped potential. In 2023, the sector contributed CFAF 41.9 billion to the state budget (0.3 percent of GDP), almost four times more than in 2016. The main sources of revenue came from property taxes, wood export duties and land area fees, followed by corporate income taxes paid by forestry firms. Going forward, fiscal reforms could be designed to further integrate climate-smart fiscal policy instruments, which can be cost-efficient and lead to significant results. Forest-related fiscal policy instruments can complement forest conservation and management strategies, enabling policy makers to fulfill environmental and climate goals more affordably, while generating more revenues for the state.

Land area fees applied in Gabon are an example of fiscal policies that incentivize sustainable forestry, which could be extended to other taxes in the country and replicated in other countries. Gabon levies a land area fee on forestry firms, in the form of an environmentally targeted tax that applies at rates varying based on the area's level of certification. Firms in certified forestry concessions (FSC or PAFC) pay lower taxes, concessions with legality certification face a moderate tax increase, and firms operating in uncertified concessions are subject to higher taxes. This system aimed not just at budget neutrality but also at increasing overall tax revenues, by incentivizing sustainable practices through fiscal measures. Similar approaches could be considered for other taxes and fees levied on the wood sector, which could further promote certification goals.

Reforms in tax incentives for agriculture could minimize their fiscal cost and allow them to better support sustainable agricultural practices, with benefits for the economy and the environment. In Gabon, farmers and agribusinesses benefit from VAT exemptions on agricultural inputs and from lower property taxes. Exemptions apply for imports of agricultural fertilizers and phytosanitary products, as well as for capital goods used in farming and livestock breeding. Fiscal instruments are used to promote local agriculture to ensure food security, generate jobs, and reduce dependence on costly food imports. However, they come at a high cost. VAT reductions and exemptions, which partially go to alleviating costs of farming inputs, represented revenue losses of CFAF 161 billion in 2023, equal to 1.3 percent of GDP and 12.4 percent of tax revenues. Tax benefits could be redesigned to target agricultural practices that maintain or improve forest cover, use environmentally friendly technologies and practices that contribute to soil conservation and biodiversity, or employ more advanced and greener agroforestry techniques. Reforms can thus promote agricultural growth and environmental sustainability, while avoiding both massive foregone taxes and the pitfalls of unchecked expansion and significant deforestation.

Ultimately, the integration of sustainability certification into forest-related tax rates represents a forward-thinking approach to environmental fiscal policy, one that combines fiscal and economic goals with preserving natural assets for the benefit of future generations. Such a strategy acknowledges the complexities of sustainable production and seeks to leverage fiscal instruments in service of a combination of fiscal, economic, social, and environmental goals. Fiscal policies that promote sustainable forestry can also be used by countries such as Gabon to avoid a path where unsustainable exploitation compromises forest ecosystems, taking instead an approach to forests and other resources that will enable future generations of Gabonese to continue benefiting from the country's rich natural endowments. As the authorities pursue their plans to revise the forestry code, different fiscal policy options could be considered in a strategy to increase fiscal revenues while fostering income generation, jobs, and sustainable exploitation of wood resources. Fiscal policies that could be envisaged include:

- Expanding the differentiated approach that underlies land area fees to other fiscal instruments, where more sustainable practices and certified concessions are benefited with a lower tax burden, while tax costs increase for firms operating with less sustainable production methods.

- Rationalizing tax expenditures for agriculture to improve their targeting and align them with environmental goals.
- Reforming the forestry code through a participatory and inclusive processes, that takes into account interests of all stakeholders including local communities, small producers, and forestry firms.
- Promoting digital services for the forestry sector, including processes for attribution and verification of permits and payment of all charges, taxes, and fees to increase efficiency and transparency.
- Engaging with local communities in expanding and strengthening the implementation of REDD+ projects across Gabon's forests to ensure that they benefit directly from carbon sequestration efforts. This could include financial incentives or alternative livelihood programs. The goal would be to secure more performance-based funding from international donors by demonstrating measurable progress in carbon sequestration and community benefits.
- Fostering international partnerships and securing increased funding for forest conservation and climate resilience projects. Gabon could take steps to attract more climate finance, technical assistance, and capacity-building support through international cooperation. By engaging with global environmental initiatives, international development partners, and climate funds, the country can secure more resources needed for forest conservation, community adaptation strategies, and sustainable livelihood programs.
- Promoting agroforestry and sustainable land management practices as key strategies for reducing pressure on forests. Investments in agroforestry projects that integrate tree cultivation with agricultural crops, coupled with training and technical support programs for farmers, can facilitate the transition to more sustainable agricultural practices, such as crop rotation, organic farming, and soil conservation techniques, thereby reducing deforestation and forest degradation.
- Enhancing community engagement and participatory forest management practices to ensure the sustainability of conservation efforts. Empowering local communities through participatory forest management models is crucial for the sustainable use of forest resources. Implementing community-based forest management programs that include clear benefit-sharing mechanisms can incentivize conservation and sustainable livelihoods.
- Increasing efforts to produce and export more high-level processed wood products such as furniture. This could be facilitated by offering incentives such as tax breaks, grants, and technical support, although tax incentives need to be carefully designed and considered in view of their potentially high fiscal costs. Reforms could focus on promoting local production of high-value products for domestic and international markets. Countries could invest more in vocational training programs to build a skilled workforce capable of supporting a thriving wood processing sector.

Chapter 1

Recent Economic Trends and Outlook for Gabon

1. Growth has been decelerating at the global level and in the CEMAC region

Global economic activity continues to soften, on account of the negative impacts of restrictive financial conditions, tightening monetary policies, and stagnating trade flows. Global growth has continued to decline, going from 3.0 percent in 2022 to an estimated 2.6 percent in 2023. Geopolitical risks and uncertainty have intensified and could plunge the world economy into recession. The recent conflict in the Middle East is overlapping with prolonged effects from previous shocks, including the COVID-19 crisis and the Russian invasion of Ukraine. Growth has been concentrated in emerging markets, especially in Asia, while advanced economies have been experiencing weaker growth.

Growth also decelerated in Sub-Saharan Africa (SSA), amid weaker global demand, persistent inflation, high energy costs, lower prices for metal exports, and higher instability in certain regions. Growth decreased to an estimated 2.9 percent in 2023 in SSA, against 3.7 percent in the previous year. A weakening global demand and tightening monetary policy to counter ongoing inflation have hindered recent growth. Several countries were affected by protracted and intensifying conflicts, including Sudan, Chad, and Niger. Adverse weather events and food insecurity are also on the rise. In addition, specific country challenges include high input prices in Nigeria, an energy crisis in South Africa, and a sharp decline in metal exporters' growth due to commodity price volatility.

In the CEMAC region, the dynamism of economic activity experienced a decline, while inflation remained stable (Figure 1). Real GDP growth amounted at 1.7 percent in 2023, down from 3.1 percent one year before.

Hydrocarbon GDP fell due to the gradual depletion of oil fields and constraints in gas production, while manufactured industries showed lower-than-expected outcomes despite the higher contribution of private non-oil investments (2.3 points) to GDP growth. CEMAC's authorities and governments are engaged to boost growth through regional integration. The recent commitment of international donors to finance thirteen projects under the second priority regional integrative infrastructure projects (USD 8.8 billion) is promising in this regard. The average regional inflation rate slightly increased to 5.6 percent in 2023, up from 5.5 percent in 2022. Declining oil and prices of imported goods, combined with enforcement of administered prices and restrictive BEAC's monetary policy, offset the inflationary partial phasing out of fuel price subsidies in Cameroon, Chad, CAR, and Republic of Congo.

The Bank of Central African States (*Banque des États de l'Afrique Centrale*, BEAC) maintained its tight monetary policy stance during 2023 to contain inflationary pressures and support the external viability of the exchange rate arrangement. The BEAC policy rate (*taux d'intérêt des appels d'offre*, TIAO) was maintained at five percent following a cumulative increase by 175 basis points between November 2021 and March 2023. Weekly liquidity injections were discontinued in early 2023 and the BEAC stepped up its liquidity absorption operations. Banking sector soundness indicators slightly deteriorated in the first half of 2023. Capital adequacy slightly declined to 14 percent in June 2023, but several banks are severely undercapitalized, or insolvent, highlighting large recapitalization needs. The reported non-performing loan ratio increased to 19.1 percent as of March 2023 from 17.7 percent of total gross loans in 2022. Although the short-term liquidity ratio is satisfactory at 187 percent as of March 2023, liquidity is segmented, with several banks below 100 percent. Overall, less than one-third of banks comply with all prudential requirements. Increasing exposure of the banking sector to the sovereign adds to financial sector risks. In June 2023, government loans and securities accounted for 30 percent of total bank assets, with several banks having exposure of more than 50 percent.

External and fiscal positions in CEMAC deteriorated in 2023 in a context of lower commodity prices and revenues, which prompted the Central Bank to step up its efforts to enforce foreign exchange regulations. Declining prices, especially of oil, adversely impacted the CEMAC's export performance. The current account surplus is estimated to have decreased to an average of 2.2 percent of GDP in 2023, down from 5.9 percent in 2022. At end-2023, reserves amounted to an estimated CFAF 6,886 billion, equivalent to 4.8 months of prospective imports of goods and services, compared to 5.2 months in 2022 (Figure 2). Lower commodity revenues and higher public spending impacted the region's fiscal balance, with a surplus decreasing from 2.9 percent of GDP to 1.1 percent. Despite the positive momentum in accumulation of foreign exchange reserves in 2022 which carried into the first half of 2023, net foreign assets plummeted

Figure 1. Real GDP growth (percent), 2019-2025

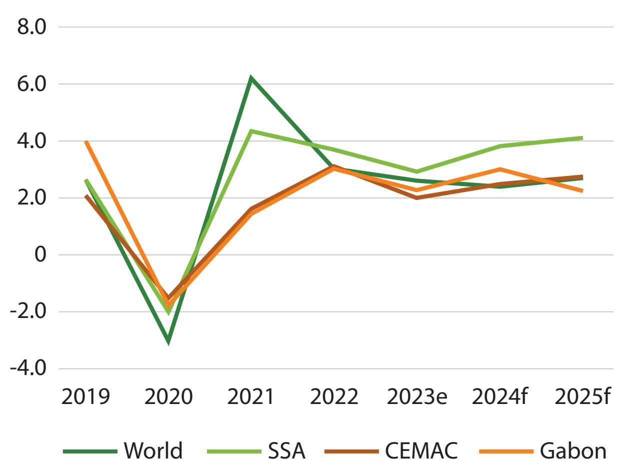
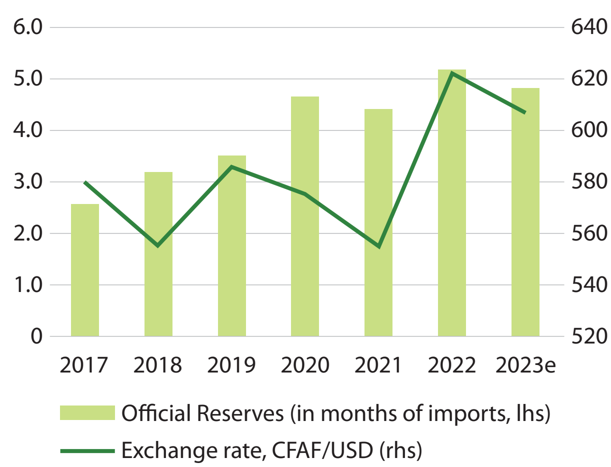


Figure 2. CEMAC reserves and exchange rate, 2017-2023



Sources: BEAC, Global Economic Prospects, and World Bank staff calculations. Data for CEMAC countries is based on a weighted average based on GDP. Preliminary data for 2023; World Bank projections for 2024 onwards.

dramatically thereafter due to declining oil prices, with an average month-on-month decline of 7.6 percent between May and October 2023. To reverse this trend, the regional central bank stepped up the enforcement of the 2018 foreign exchange regulations, especially regarding the repatriation of funds set aside for the rehabilitation of oil sites and currently located abroad. Discussions are ongoing between the BEAC, CEMAC's Ministries of Finance and Hydrocarbons, and oil companies on the scope of these funds and the legal framework that will govern the repatriation process and the management of related accounts which will be created in the Central Bank's books. Furthermore, the upcoming regional log export ban, expected for 2028, has the potential to add pressures on foreign exchange reserves, as wood represents one of the most exported goods in three CEMAC's countries. Without deepening regional integration with the development of regional wood value chains, which can reduce demand for imported manufactured wood products, the upcoming log export ban could have adverse effects on foreign reserves.

2. Gabon also experienced lower growth in 2023, amid lower global demand combined with wood and mining transport disruptions caused by inclement weather

In 2023 the Gabonese economy grew by an estimated 2.3 percent, as economic activities suffered from lower global demand and transport disruptions. This lower growth, down from 3.0 percent in 2022, was caused by weaker wood and manganese production, which were impacted by lower demand, higher fuel costs, and railway disruptions. Heavy rain and landslides destroyed a kilometer of tracks in the country's only railway at end-2022. Wood and manganese shipments were halted for several weeks, disturbing production in the first part of the year. The wood industry in particular also suffered from difficulties in securing log supply due to insufficient rail cars to meet demand for wood transportation. In addition, firms have been facing higher energy bills since the removal of fuel subsidies for industrial consumption from mid-2022. In Gabon, the performance of the wood and manganese sectors is significantly affected by issues relating to the quality of transport infrastructure, particularly railways, and energy supply (Table 1). Yet, manganese production has been showing strong signs of a recovery in early 2024, following the challenges observed in the previous year. Manganese output grew by 43.2 percent (y-o-y) in the first quarter of 2024, reaching 2.44 billion tons.

The oil sector, which is still central to the economy despite ongoing efforts to promote economic diversification, was the main growth driver in 2023. In 2023, growth was strongly driven by oil production (Figures 3 and 4). Oil output expanded by 3.7 percent to reach 10.8 million tons, thanks to the exploitation of new oilfields and efforts to optimize production in aging fields. Oil production continued to expand in recent months, growing by 17.3 percent in the first quarter of 2024 (y-o-y). Global demand for oil remained high, reflecting still relatively high prices at about USD 80 per barrel, even if decreasing since 2022 when prices peaked at around USD 100 a barrel. Moreover, OPEC+ did not increase production quotas for Gabon in 2023, as certain larger oil producers within the organization announced voluntary production cuts in April and November, in an effort to counter a decline in oil prices. However, still in 2023, local oil refining was impacted by two scheduled maintenance operations.

Other sectors driving growth in 2023 included agriculture, construction, and services. The agricultural sector, including mainly oil palm and rubber plantations and the agroindustry, expanded. The construction industry contributed significantly to growth, boosted by public works. Major works are underway in the water and electricity sectors to cover local consumption needs and reduce the frequent load shedding that occurs due to insufficient electricity and water production. Investments in public infrastructure projects led to a 6.5 percent growth in the construction sector in the last quarter of 2023 (q-o-q). Meanwhile, the retail trade and services sectors benefited from demand from oil, construction, and other sectors. However, restaurants, bars, and other nighttime services continue to suffer the negative consequences of curfews that have remained in place since the August elections.

The overall economic impact of the coup has not been significant. The regime change that took place in August 2023 has thus far brought minimal adverse impacts to overall economic activities. Following the coup, a large mining firm suspended its activities for one day, but other firms, including major commodity exporters, chose to continue their business activities. Likewise, political disruptions from the coup have been contained. The authorities have pledged to respect Gabon's international commitments and progressively normalized international relations, with several visits by the Head of State and other officials to regional partners (Box 1).

On the demand side, growth in 2023 was mainly driven by oil and agricultural exports, and by public invest-

Table 1. Selected macroeconomic and fiscal indicators					
Percent of GDP, unless indicated otherwise	**2019**	**2020**	**2021**	**2022**	**2023e**
Real GDP growth (%)	3.9	-1.8	1.5	3.0	2.3
Per capita GDP (USD, nominal)	7,524	6,680	8,636	8,840	8,414
Oil sector	21.9	15.5	20.4	27.4	24.2
Agriculture and forestry	5.6	6.6	6.0	5.6	5.8
Industry (including oil)	47.7	41.6	50.9	57.4	52.9
Services	40.5	44.9	38.7	33.2	36.4
Private consumption	37.7	42.0	32.9	30.2	34.1
Public consumption	11.0	13.2	11.4	10.5	11.1
Gross fixed capital formation	21.9	19.9	16.8	15.6	17.2
Exports, goods and services	51.4	47.5	55.5	60.3	55.0
Imports, goods and services	22.0	22.6	16.6	16.6	17.4
Government revenues	19.5	17.6	14.7	20.4	22.9
Public expenditures	18.2	19.8	16.6	21.2	23.9
Fiscal balance	1.4	-2.1	-1.8	-0.8	-1.0
Public debt	59.8	78.3	70.2	63.6	70.5
Current account balance	23.0	20.7	30.1	35.2	28.7
Trade balance	29.4	24.9	36.1	43.6	37.5
Net FDI inflows	-0.3	0.7	2.1	4.6	5.5
Inflation (growth)	1.0	1.6	1.1	4.3	3.7
Total population (millions)	2.2	2.3	2.3	2.4	2.4
Nominal GDP (CFAF billions)	9,887	8,815	11,211	13,144	12,444
Nominal GDP (USD millions)	16,874	15,314	20,218	21,118	20,502

Sources: WDI, BEAC, Gabonese authorities and World Bank staff calculations. Note: e = estimate.

ments and consumption. Oil and agricultural exports increased by 3.1 percent and 17.6 percent, respectively, in 2023, supported by still high demand from Asia. Public spending on infrastructure projects increased, with ongoing projects getting accelerated and new ones being implemented in late 2023, with further increases expected in 2024. Large-scale projects included electricity and water expansions, water treatment centers, and rehabilitations and expansions of national roads, including the Transgabonese highway connecting the capital to Franceville, Gabon's third-largest city, located in the Eastern part of the country. Public works on urban roads were also launched in the country's main cities. Likewise, public consumption increased over the year, in the runup to the general elections organized in August and increased spending by the transition authorities. Private investments in the oil sector also represented an important contribution to the economy in 2023 (Figure 5).

3. Inflationary pressures started to abate, but poverty increased due to populational growth, high unemployment, and insufficient economic expansion

Inflationary pressures slowly abated over the course of 2023 and early 2024, reflecting the tightening monetary policy adopted by BEAC, price controls, and declining global inflation. The consumer price index was at 2.3 percent in January 2024 (y-o-y), in a gradual but steady decline from its peak in late 2022, at 5.8 percent (Figure 6). Inflation in Gabon was therefore brought back below the CEMAC regional convergence criteria of 3.0 percent from August 2023 onward. While also decreasing from a peak at 8.9 percent by late 2022, food prices still stood at 4.4 percent in January 2024 (y-o-y). Imports also contributed to

Box 1. Political events shaping Gabon's transition

General elections were held in Gabon on August 26, 2023, and electoral results were not announced for four days, amid strong political and social tensions. The country was placed under nighttime curfews and internet service was blocked. On the night of the 30th, incumbent President Ali Bongo, in power since 2009 and competing for a third term, was announced as winner. Shortly after the announcement, the President was deposed by a non-violent coup led by members of the defense and security forces, with broad popular support. The coup has put an end to more than five decades of rule by the Bongo family - Ali Bongo's late father Omar Bongo had ruled from 1967 until his passing in 2009.

Gabon thus entered a two-year transition period, with the stated objective of strengthening governance and institutions. The calendar of transition steps was adopted in November 2023, a key step that allowed the country to normalize its foreign relations. An important milestone in the transition has been the recent organization of a national dialogue on the country's institutions and future political life.

Chaired by the Catholic Archbishop of Libreville, the national dialogue was organized in April 2024 to lay the groundwork for the country's political future following the transition. It was attended by 676 representatives of political parties, civil society, religious groups, social movements, the diaspora, and other entities. Dedicated committees were formed to analyze about 38,000 individual contributions that were submitted prior to the dialogue. The dialogue produced a report with proposals for the government, which included: establishment of a presidential regime with a seven-year presidential term; suspension of all political parties, and adoption of new rules for creation of future parties; maintenance of a two-year transition calendar with a possibility of one-year postponement under exceptional circumstances; promotion of economic diversification with a focus on local industrial production, increased national content, and food security; and stronger focus and resource allocations for the health sector and vocational training.

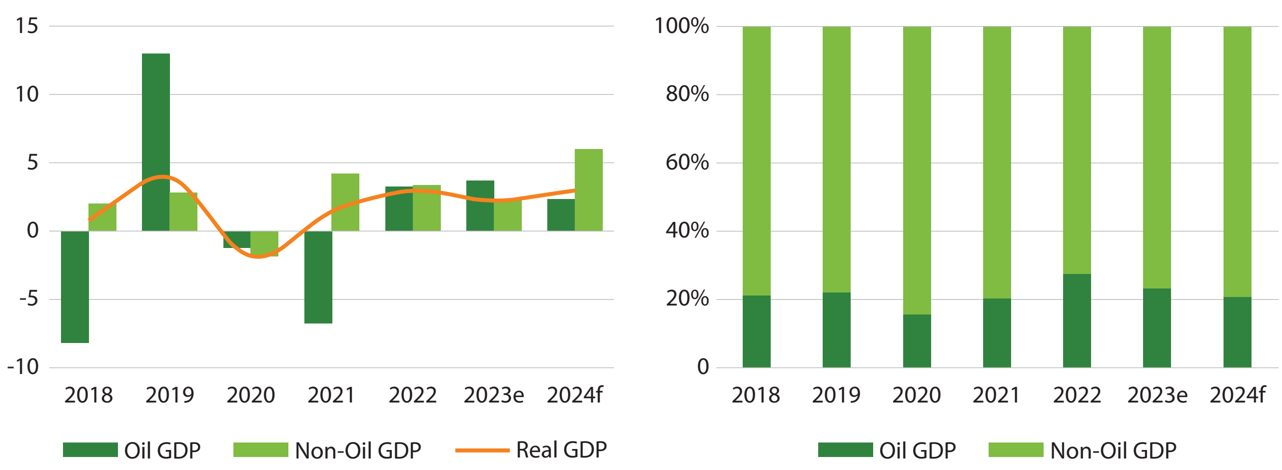
Calendar of key political events and transition steps

- August 26, 2023: Presidential, legislative, and local elections held in Gabon.
- August 30, 2023: Announcement of electoral results and deposition of the government in a coup led by members of the defense and security forces; establishment of the Committee for the Transition and Restoration of Institutions (CTRI); temporary border closures and suspension of the Constitution and dissolution of public institutions.
- September 2, 2023: Transition Charter issued by the CTRI.
- September 4, 2023: General Brice Oligui Nguema inaugurated as Transition President and Head of State; new members appointed for a transitional Constitutional Court.
- September 7-12, 2023: Appointment of Prime Minister Raymond Ndong Sima and formation of a transitional government, Senate, and National Assembly, which included members from the military and civilians from opposition parties, civil society, and the previous ruling party.
- September-December 2023: Normalization of relations with development partners including the World Bank, the African Development Bank, and the IMF.
- March 9, 2024: Readmission of Gabon into the Economic Community of Central African States (ECCAS) and lifting of sanctions, which were in place following the coup.
- April 2-30, 2024: National dialogue held to discuss social, economic, political, and institutional reforms.
- June 2024: Transformation of Parliament into a Constitutional Assembly.
- August-October 2024: Preparation of a draft Constitution.
- November-December 2024: Adoption of the Constitution by popular referendum.
- Early 2025: Adoption of a new electoral code.
- April 2025: Revision of the electoral register.
- July 2025: Distribution of voter registration cards.
- August 2025: Presidential elections and establishment of a new constitutional government.

inflation in Gabon, as a result of its strong reliance on food imports, which cover about 60 percent of its nutritional needs. In January 2024, inflation of imported products stood at 3.7 percent (y-o-y), higher than the variation in prices of local products (2.2 percent). On the other hand, energy prices continued to moderate, standing at -0.7 percent in January 2024 (y-o-y), reflecting the effect of subsidized fuel consumption.

The government has continued to expand measures to contain the rise in living costs over 2023 and further on in early 2024. By mid-2023, a revised list of 67 imported ba-

Figure 3. Despite diversification efforts, the oil sector still remains key for Gabon's economy



Sources: Gabonese authorities and World Bank staff calculations. Preliminary data for 2023; World Bank projections for 2024.

Figure 4. Gabon: Supply-side contribution to Real GDP Growth (in percent), 2019-2024

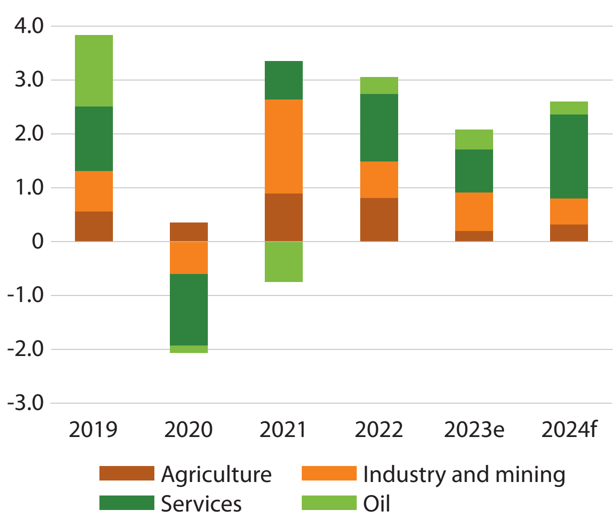
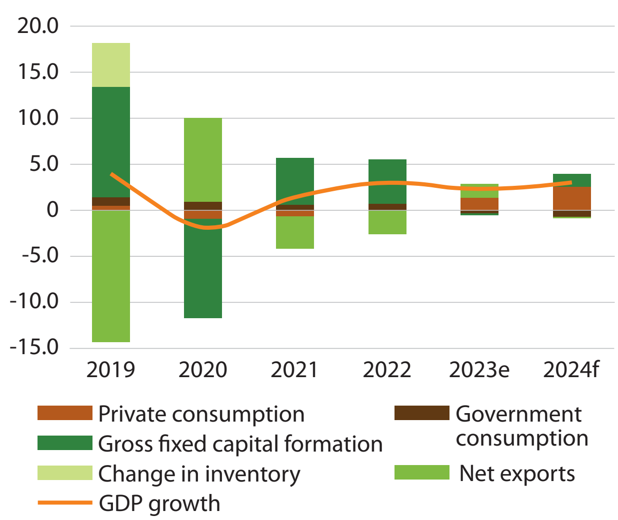


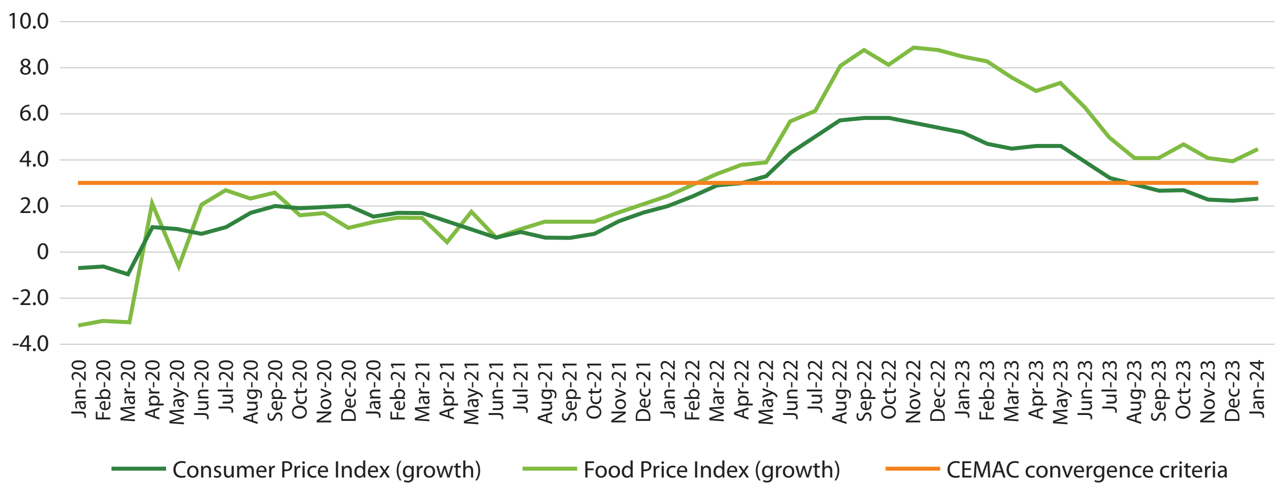
Figure 5. Gabon: Demand-side contribution to Real GDP Growth (in percent), 2019-2024



Sources: Gabonese authorities and World Bank staff calculations. Preliminary data for 2023; World Bank projections for 2024.

sic food items benefiting from tax reductions and fixed prices was announced by the government, as part of its program to contain living costs (*Programme de lutte contre la vie chère* - Fight Against an Expensive Life), initiated in 2017. This measure was adopted following nationwide stakeholder discussions in April, involving consumers, food distributors, and retail chains. The updated list includes a range of meat, poultry, dairy, rice, and other staple foods, and expands a previous list of 48 goods, which had been in place since October 2022. In late 2023, the authorities stepped up their efforts to monitor and enforce such price controls, by increasing inspections and fines for non-compliant food sellers. The government has also maintained a subsidy on wheat flour and extended the age limit for car imports to ten years, to decrease vehicle costs. Moreover, while prices were liberalized for industrial fuel starting in July 2022, subsidies were maintained to control prices of household fuel consumption, as a way to alleviate household spending pressures on gasoline, diesel, kerosene, and butane gas. More recently, new measures were announced. In January 2024, the authorities announced a further decrease in the price of butane gas, a widely used energy source for cooking. Then, additional measures were

Figure 6. Inflation (monthly, y-o-y, in percent), January 2020-January 2024



Source: Gabonese authorities.

taken in March, including lower price ceilings of certain food products and basic construction materials including refined cooking oil and cement, to decrease costs of food and access to housing. Prices were also lowered for air and train tickets.

Measures to contain food and energy inflation benefited the population, especially the most vulnerable, but they come at a high cost. In 2023, customs-related VAT benefits from the *Vie chère* program costed CFAF 33 billion (0.3 percent of GDP), and fuel subsidies amounted to CFAF 84 billion (0.7 percent of GDP). Measures such as tax exemptions and fuel subsidies thus have fiscal implications and remain a source of risk to the budget, especially in times of oil price shocks where additional revenues become urgently needed. They also have an opportunity cost, preventing the government from building fiscal buffers or from financing its priority investments projects aimed at boosting growth and improving living standards. Despite their social goals, the majority of subsidies to gasoline and diesel are actually captured by the wealthiest households, who are their main consumers of these fuels[1] – which indicates that better targeted and less costly policies could be used to support the most vulnerable in a more fiscally and environmentally sustainable manner.

Even in a context of continued recovery and alleviating inflationary pressures, poverty is estimated to have increased, affecting more than one in three Gabonese due to high unemployment. High living costs still affect households, a phenomenon exacerbated by high costs of tariffs, trade, and transportation within the country, which increase costs of imported and local products. In 2022, Mercer, a consulting firm, ranked Libreville as the second most expensive city for international employees in Sub-Saharan Africa, and 24th in the world.[2] Gabon depends on imports of food and many other consumer goods, and it applied a weighted mean import tariff of 14.5 percent in 2019, one of the highest in the world.[3] Official and unofficial fees paid at the border and along trade corridors add about 14 percent of costs of agricultural goods coming from Cameroon, whereas costs of trade intermediary players add about 39 percent to total costs.[4] Living standards are thus impacted by high living costs, but also by insufficient job creation. Poverty—defined as the share of Gabonese living on less than USD 6.85 per day, in purchasing power parity—, is estimated to have increased from 32.3 percent in 2022 to 35.2 percent in 2023.[5] Unemployment remains particularly high in Gabon, pre-

1 World Bank. Gabon Economic Update 2023.

2 Mercer 2022. Cost of living city ranking. https://www.mercer.com/en-ph/insights/total-rewards/talent-mobility-insights/cost-of-living/#:~:text=The%20top%2010%20most%20expensive,%2C%20Dushanbe%2C%20Bishkek%2C%20Ankara

3 World Bank, World Development Indicators database. Only ten countries in the world applied a higher weighted mean tariff rate on imports (based on latest data available for each country).

4 World Bank. 2022. Gabon Economic Update. Trading Agricultural Commodities: Reducing Petty Harassment.

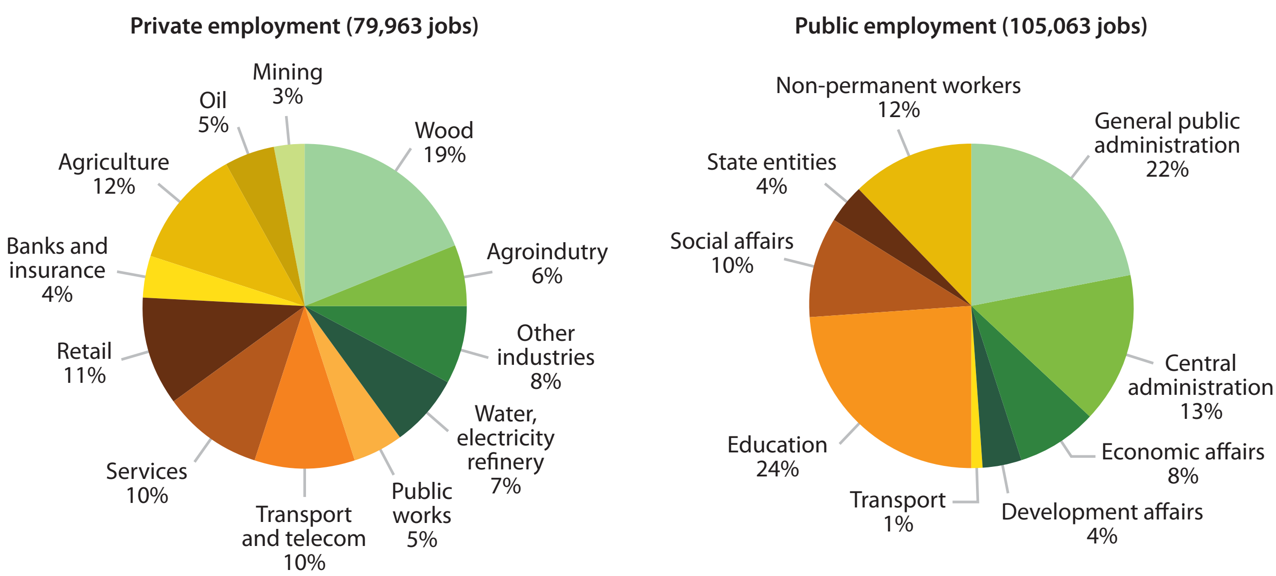
5 The poverty rate is defined as the share of Gabonese living on less than USD 6.85 per day, in purchasing power parity, based on the upper middle-income poverty rate (in 2017 PPP). This estimate is based on projections using data from the 2017 national household survey (*Enquête Gabonaise pour l'Evaluation et le Suivi de la Pauvreté*, EGEP).

venting households from earning incomes. In 2023, an estimated one in five Gabonese aged fifteen or more would be unemployed, and nearly a third of youth would neither be working, studying, or be in training, which represents a major generational loss in terms of human capital.[6]

Most formal jobs are in the public sector; the lack of private sector growth and economic opportunities, especially for the Gabonese youth, prevents them from generating income and rising out of poverty. The public administration remains the largest employer in Gabon, employing more than 105,000 people—about 57 percent of formal sector jobs—in 2022 (Figure 7). Due to a lack of corresponding profiles, two-thirds of job offers tend to go unfilled. Youth are particularly hard hit, with one out of three currently unemployed. Private firms face regulatory hurdles, constraints coming from competition and trade policies, and inadequate access to credit and energy, which all hinder their capacity to invest and create more jobs.[7] Private investment is concentrated in the oil sector, which represented 31 percent of investments in 2023. However, as the oil industry requires a smaller number of jobs, it represents only about 5.0 percent of private jobs. Despite the continuous recovery, a significant contribution to growth still comes from capital-intensive extractive industries, which do not create sufficient jobs. As a result, the substantial part of the population which does not work in commodity industries cannot directly benefit from growth in these sectors. While the authorities have plans to develop sectors with strong growth potential such as agriculture, wood, and fisheries, it can be difficult to attract much of Gabon's urban population to jobs in rural areas.

To reverse this situation, initiatives are being developed to support local entrepreneurs and small firms. Investments are underway to expand access to energy and roads. To boost access to credit, in May 2023, Okoumé Capital, a subsidiary of the Gabonese Strategic Investment Fund (FGIS), launched a CFAF 1 billion credit line for local firms. More recently, in May 2024 another entity managed by FGIS, the *Société de Garantie du Gabon* (SGG), signed an agreement with *Union Gabonaise de Banque*, one of the country's largest banks, to provide an additional CFAF 1 billion in guarantees to support financing for SMEs. Reforms are also being considered to establish an institutional framework for self-employed entrepreneurs. The transition government identified the promotion of private firms and jobs as central to improve living conditions. As a result, a new institution named *Banque pour le Commerce et l'Entreprenariat du Gabon* was created in March 2024 to promote entrepreneurship among young people and SMEs throughout the country. About CFAF 4 billion has already

Figure 7. Employment per sector (percent of formal private and public jobs), 2022



Source: Gabonese authorities.

6 According to estimates from the International Labor Organization, in 2023, 20.4 percent of Gabonese aged 15 or above would be unemployed, and 29.3 percent of youth would not be in employment, education, or training.

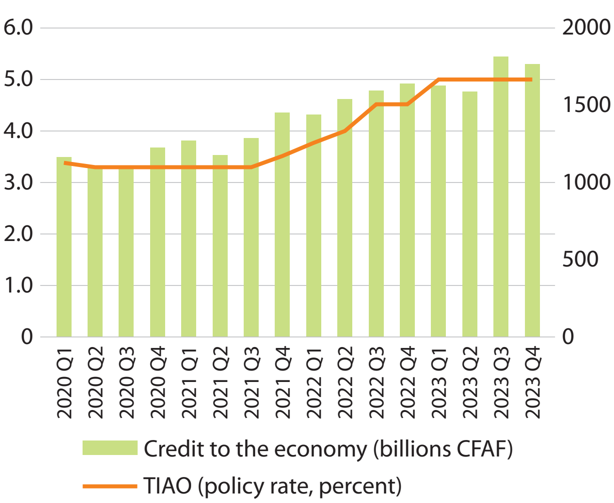
7 World Bank. 2022. Gabon - Country Economic Memorandum: Toward More Inclusive and Greener Growth.

been allocated to this new entity, but the institution still needs approval by COBAC, the regional banking regulator, before it can begin operations. Further actions to create more jobs and stimulate local entrepreneurs are urgently needed to achieve more meaningful poverty reduction in the coming years.

4. Access to credit expanded, but limited lending to private firms remains a constraint for economic growth in Gabon

While BEAC maintained a tight monetary policy, credit to the economy expanded in 2023. As of end-September 2023, credit to the private sector had increased by 13.8 percent (y-o-y), reaching CFAF 1,810 billion (Figure 8). This has been driven by demand from firms in extractive industries, public works, retail services, and transport, in line with expanding investments and overall activity in these sectors, such as private investment in oil exploration and the implementation and acceleration of public infrastructure projects. During the same period, lending to the state expanded by 18.2 percent (y-o-y), amounting to CFAF 1,769 billion. A significant factor for this rise was the increased issuance of Treasury bonds and bills in the regional market (CFAF 179.8 billion), in line with Gabon's strategy of increasing its reliance on regional financing sources. Banks' acquisition of public securities led to an increase in the share of lending to the government between September 2022 and 2023, from 34.2 percent to 36.7 percent of all credit provided by commercial banks.

Figure 8. Monetary policy rates and credit to the economy, January 2020-December 2023



Source: BEAC. Projection for credit to the economy for 2023Q4.

Yet, access to credit remains limited, hindering firms' ability to secure funds to invest and grow their operations. Domestic credit to the private sector reached about 14 percent of GDP in 2023, whereas in the previous year the average in Sub-Saharan African countries was nearly 36 percent of GDP. In addition, with much of the financial sector involved in lending to the government and large firms in extractive industries, SMEs face even more severe constraints to obtain access to credit, due to high interest rates, the absence of a credit bureau, and lack of transparent business records and guarantees.

In late 2023, the government settled domestic arrears, thereby contributing to injecting liquidity into the private sector and to reducing the ratio of non-performing loans. In September 2023, a task force with officials from different agencies was re-established to audit the country's domestic debt. Following its verifications, the government proceeded to settling domestic arrears. CFAF 85 billion were disbursed to pay overdue debt to around 300 companies, leading to higher liquidity and an improved financial situation for these firms, in turn allowing them to settle payments due to social security and taxes. Non-performing loans also decreased slightly, standing at 7.58 percent of total gross loans at end-2023, a 0.8 percent drop compared to the previous year. Furthermore, the authorities have committed to avoiding the accumulation of new arrears to private firms, and also to international creditors. Other initiatives underway include the reactivation of interministerial treasury meetings and of settling payments by order of arrival. Taking measures to institutionalize and ensure the long-term enforcement of disciplined and timely debt payments would contribute to improving public procurement, with higher credibility and predictability for firms involved in government purchases of goods and services.

As for financing costs for the government, regional and international markets remained accessible, but at higher costs. In the immediate aftermath of the coup, the credit agency Fitch Ratings had placed Gabon's outlook as 'rating watch negative'. Gabon's spread increased substantially due to the strong political uncertainty prevailing at the time. It then gradually fell, while remaining slightly above pre-coup levels, reflecting the stabilization of the political situation. Fitch's rating was upgraded to stable in January 2024 due to the easing of political uncertainty. Regarding the regional market, after a significant rise following the coup, the cost of borrowing fell sharply. Gabon was able to raise the full targeted amount in 9 out of the 13 securities issuances launched on the market since the coup, both for Treasury bills and bonds. Gabon mobilized CFAF 167.3 billion (equivalent to USD 275 million) in regional financing during the last four months of 2023, allowing the country to close the year with total regional financing surpassing the budget estimate by CFAF 35.1 billion. An additional CFAF 158.4 billion (USD 260 million) was mobilized in January and February 2024. Since April 2024, a further rise in spreads has taken place, which could be explained by the organization of the national political dialogue, around which political tensions have once again risen (Figure 9).

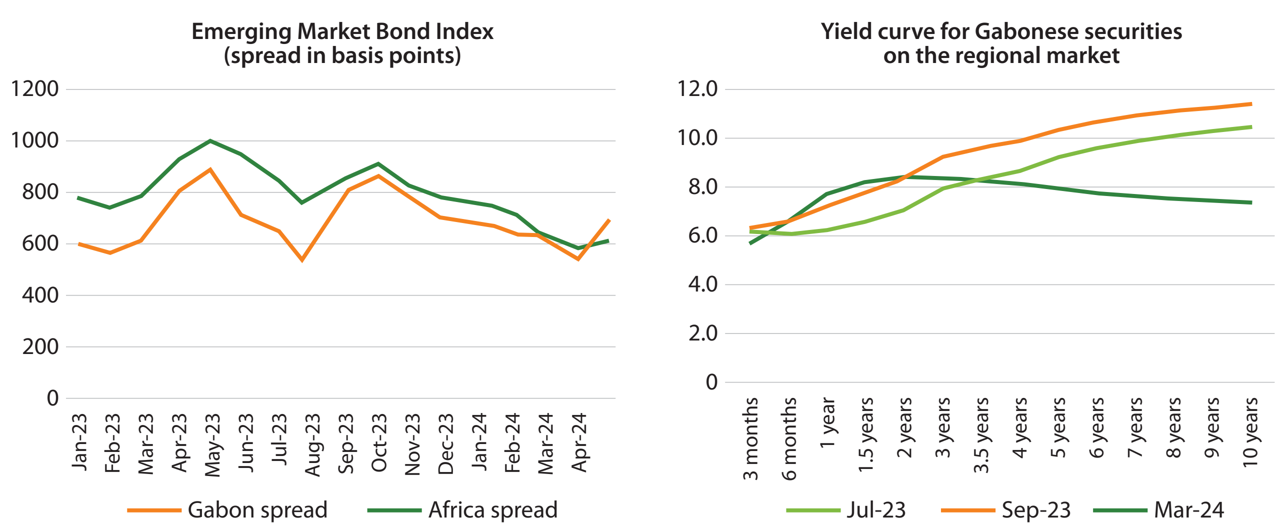
5. Fiscal revenues increased in 2023, but a strong rise in public spending has reduced fiscal space, contributing to higher debt risks

Fiscal developments

Benefiting from strong oil production and oil prices that remained relatively high, and stepped-up tax collection efforts, government revenues reached an estimated CFAF 2,848 billion in 2023, the highest level in recent years. Between 2022 and 2023, total revenues rose from 20.4 percent of GDP to 22.9 percent, to a large extent due to revenues derived from commodity sectors (Figure 10 and Table 2). Despite a 20 percent decline compared to 2022, oil revenues remained high thanks to a higher oil production, along with high corporate taxes levied on oil firms' previous year's profits, which allowed Gabon's revenues to reach 22.9 percent of GDP. Indeed, income taxes paid by oil firms—which are paid based on profits from the previous year—rose by 80.2 percent, to 4.3 percent of GDP. Initiatives to mobilize more domestic revenues led to a 44 percent increase in non-oil tax revenues, to 10.4 percent of GDP in 2023. Most taxes were levied on consumption (3.4 percent of GDP), income and profits (3.3 percent of GDP, excluding oil firms), and imports and exports (3.2 percent). Ongoing tax measures include limitations of tax incentives, VAT rate increases, the effective introduction of the single property tax in early 2023, the digitalization of customs offices at the Northern border through its connection to the Sydonia World system at end-2023, and more recently, the launch of a new digital platform for tax payments in early 2024. Customs revenues also increased due to higher import volumes, inflationary impacts, and improved tax assessment methods for manganese exports. The government collected CFAF 276.1 billion in tax and customs revenues in January and February 2024, representing about 2.2 percent of GDP. Revenue collection is expected to remain sustained over 2024.

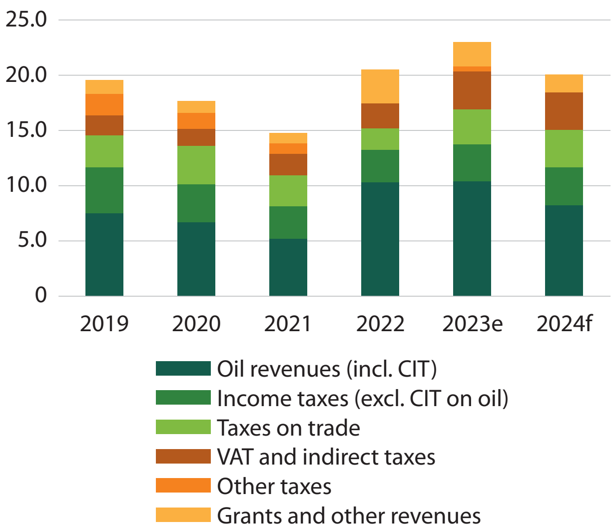
The wide use of tax incentives leads to a substantial loss of revenues. In 2023, tax expenditures were estimated at CFAF 352 billion, equivalent to 2.8 percent of GDP and 19 percent of tax revenues. Certain tax exemptions are

Figure 9. Recent evolution of financing conditions for Gabon



Sources: World Bank and BEAC.

Figure 10. Government revenues (percent of GDP), 2019-2024



Sources: Gabonese authorities and World Bank staff calculations. Estimates for 2022 and 2023 and World Bank projections for 2024. Other taxes include items such as tax fines and taxes on forestry. Other revenues include state participations, revenues from licenses, permits, and others.

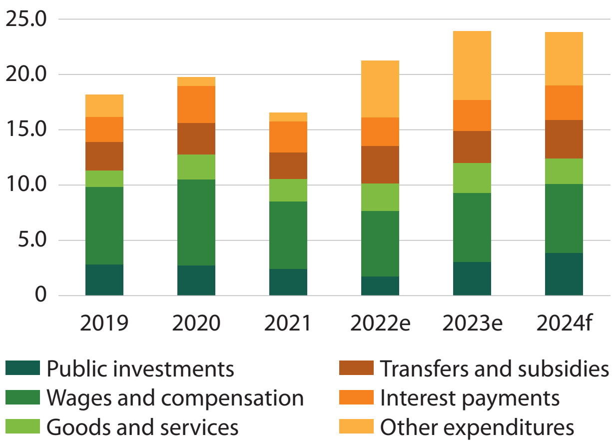
used in a strategy to contain living costs and have important social implications in sustaining households' purchasing power. For instance, exemptions on imports of staple foods adopted under the *Vie chère* program represented about 9 percent of total foregone revenues. Other tax benefits are provided to incentivize firms in different sectors. In particular, the wood sector is the most heavily subsidized, absorbing 96 percent of incentives for the corporate income tax, or CFAF 18.1 billion (5 percent of total tax expenditures). Wood industries are the majority of firms located in the Nkok special economic zone, in which tax incentives are provided to support local wood transformation.[8] With respect to domestic VAT incentives, the most benefiting sectors are oil refinery (at a cost of CFAF 70.7 billion), water and electricity distribution (CFAF 18.8 billion), and food sales (CFAF 16.8 billion). In view of the high cost of foregone revenues to the budget, it is important to rationalize tax expenditures, improve their targeting, and strengthen the control of social and economic benefits. It is also necessary to ensure a better alignment and coordination across government agencies involved in granting and controlling them. In recent years, certain actions have been taken to audit sectors benefiting from tax incentives, and to reduce the amount and period of tax benefits. Yet, stronger efforts to rationalize and improve controls of tax exemptions and incentives could be highly beneficial to public finances, alleviating fiscal pressures.

Public spending was considerably higher in 2023; higher investments, wage bill, and other costs brought spending to an estimated CFAF 2,970 billion (23.9 percent of GDP), resulting in a fiscal deficit estimated at 1.0 percent of GDP, up from 0.8 percent of GDP in 2022. Total expenditures rose by 12.5 percent in 2023, as a result of spending pressures on several fronts (Figure 11). Spending increased in the run up to the August elections, and as the transition authorities continued a higher spending policy in response to elevated social expectations. Spending on goods and services thus increased to 2.7 percent of GDP in 2023, whereas capital expenditures registered a sharp 76.6 percent increase, reaching 3.1 percent of GDP. In late 2023, as part of a strategy to modernize and expand infrastructure, the authorities accelerated the implementation of ongoing investments and launched new public works in roads, and energy and water services. Also, the wage bill expanded to 6.2 percent of GDP during this period, as a public sector hiring freeze that had been in force since 2018 was lifted by the transition authorities. Regularizations of existing workers and new hiring led to a 3.8 percent increase in public employment at the central government, reaching 104,744 public employees. The government also increased spending on debt service and settled domestic arrears in the last months of 2023. Meanwhile, spending on fuel subsidies remained high at CFAF 84 billion in 2023 (0.7 percent of GDP), even if it significantly decreased from CFAF 193 billion in 2022 due to the decline in oil prices and the removal of subsidies for industrial consumers since mid-2022. More recently, fuel subsidies to the *Société d'Energie et d'Eau du Gabon* (SEEG), the national electricity utility, were reintroduced in early 2024, raising risks of a resurging fiscal cost in support of subsidies.

Most public spending in 2023 was allocated to defense and security, education, and health, but low development outcomes indicate the need to improve targeting, volumes, and efficiency of social spending. The 2023 budget law allotted, respectively, 11.4 percent, 9.1 percent, and 5.6 percent of the total budget to these three areas. Allocations to education amounted to 1.6 percent of GDP, half of public spending in this area in Sub-Saharan Africa. Learning outcomes need to be improved to build human capital, as in 2019 nearly a third of children at the

8 For more information on tax incentives and other fiscal policies for the wood industry, please refer to Chapter 2 of this Economic Update.

Figure 11. Public expenditures (percent of GDP), 2019-2024

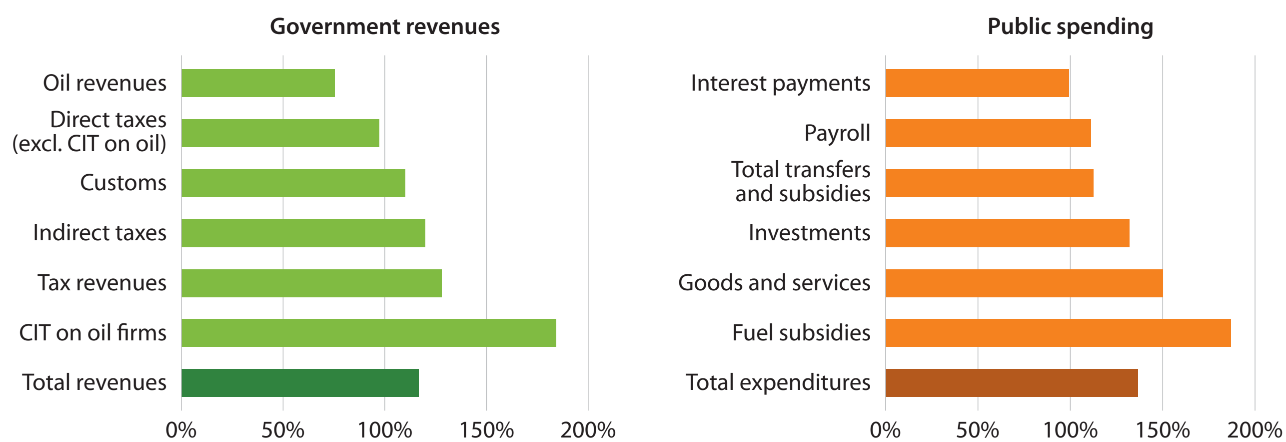


Sources: Gabonese authorities and World Bank staff calculations. Estimates for 2022 and 2023 and World Bank projections for 2024. Other expenditures include spending on social assistance and healthcare (*Caisse nationale d'assurance maladie et de garantie sociale*, CNAMGS), VAT refunds, and earmarked expenditures.

age of ten were unable to read and understand a simple text. Spending on health was estimated at 1.0 percent of GDP, yet strong improvements are needed in access to healthcare services. In 2020, Gabon had an average 0.6 physicians per thousand people, nearly one fourth of the average upper-middle income country.[9] Allocated spending on social protection and assistance amounted to only 0.5 percent of GDP, equal to six percent of the average spending of countries in its income group.[10]

Both revenues and expenditures were higher than initially foreseen in the 2023 Budget law. Due to lower oil prices compared to 2022, oil revenues reached only 75 percent of budgeted amounts. However, tax revenues surpassed budgeted amounts by 27 percent in 2023, to a large extent due to income taxes paid by oil firms based on profits from 2022, a period of higher oil prices. In addition, tax and customs collection rates were particularly high during the last quarter of the year, amounting to, respectively, 125 percent and 140 percent of the goals established in the budget law as a result of domestic revenue mobilization efforts taken by the new Government as part of a strategy to fund higher spending needs. Revenue collection has continued to exceed the budget's goals in January and February 2024. On the spending side, in 2023, public spending exceeded budget estimates by 36 percent. Actual spending was particularly high for fuel subsidies (187 percent of the budget allocation) and for goods and services (150 percent), which may be explained by the electoral context (Figure 12). To ensure a more credible and feasible budget and reduce fiscal slippage risks, the country would need to improve budgetary controls and execution, taking actions to contain discretionary spending and decisions that are not aligned with planned expenditures. Enhancing budget realism and credibility would also be crucial.

Figure 12. Budget execution (budget law vs. actual spending), 2023



Sources: Gabonese authorities and World Bank staff calculations.

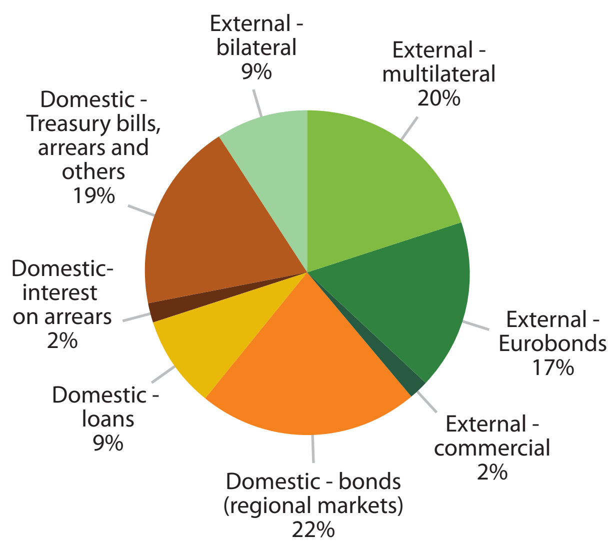
9 World Bank, World Development Indicators database. In 2019, upper middle-income countries had on average 2.2 physicians per 1,000 people.

10 World Bank, Prosperity Data360 database. Upper middle-income countries spent on average 9.0 percent of GDP on social protection in 2014-2015 (average for 40 countries for which data was available).

Debt

Gabon's public debt increased from 63.6 percent of GDP to an estimated 70.5 percent in 2023, driven by lower growth, higher interest rates, and additional arrears caused by cash flow management issues. The total debt stock stood at CFAF 8,773.1 billion at end-2023. Domestic and external debt combined represented 57.4 percent of GDP by December 2023, and had slightly declined to 56.4 percent by March 2024. However, other components were identified by the authorities since the transition started, such as unpaid budgetary commitments, arrears on VAT refunds and salaries, and Treasury bills, which amounted to 13.1 percent of GDP, bringing total debt to 70.5 percent of GDP at end-2023. In addition, in 2023 increased cash flow pressures in a context of elections led to higher unpaid commitments, VAT arrears and others. In terms of composition, apart from these additional components, external debt represented about 59 percent of total debt, comprised mostly of Eurobonds, in addition to multilateral debt, mainly owed to the IMF, AfDB, and the World Bank. Bilateral and commercial debt represented a smaller share, owed mostly to Chinese and French creditors. Domestic debt accounted for 41 percent of debt and was owed mostly to creditors in the regional financial markets and, to a lesser extent, local banks (Figure 13).

Figure 13. Composition of public debt (percent of total debt), 2023

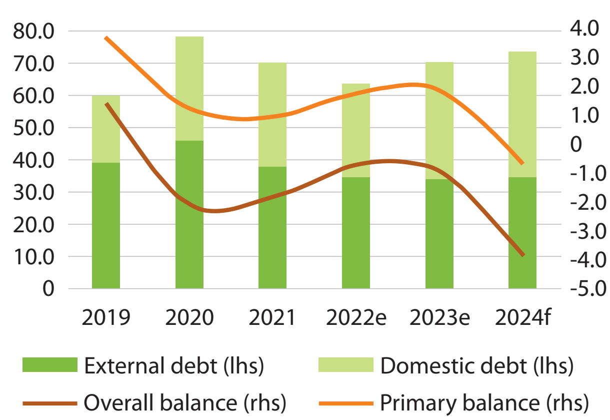


Sources: Gabonese authorities and World Bank staff calculations. Data as of December 31, 2023. The domestic debt category of 'Treasury bills, arrears, and others' includes domestic, VAT and salary arrears, unpaid budgetary commitments, and legal debt.

In view of high spending pressures and fiscal risks, enhancing the efficiency of spending and strengthening domestic revenue mobilization are essential to ensure that the debt trajectory remains sustainable. Gabon's public debt surpassed the CEMAC's regional threshold of 70 percent of GDP in 2023, and the debt-to-GDP ratio is expected to rise further in the medium term without the adoption of impactful fiscal measures (Figure 14). The IMF Debt Sustainability Analysis performed in early 2024 assessed that debt sustainability had deteriorated since mid-2022, with a high risk of debt distress, especially if a strong and sustained fiscal consolidation policy is not adopted. The country could embark on a trajectory of spiraling debt given the higher interest costs and the high spending needs coming from the wage bill and social support measures, coupled with investments planned in the National Development Plan for the Transition (PNDT).

The authorities are stepping up their efforts to improve debt and cash flow management, but the accumulation of external arrears remains a cause for concern. As of end-2023, the stock of external arrears was estimated at CFAF 123 billion (1.0 percent of GDP), including arrears on commercial, bilateral, and multilateral debt. By March 2024, arrears had further increased to CFAF 146 billion. The recurrent accumulation of domestic and external arrears over recent years raises financing costs and is a hindrance to higher credibility vis-à-vis the country's creditors. Indeed, it can compromise financing stability, especially in an event of tighter financing conditions and higher global econom-

Figure 14. Fiscal balance and public debt (percent of GDP), 2019-2024



Sources: Gabonese authorities, IMF, and World Bank staff calculations. Total debt for 2023 and 2024 is comprised of external and domestic debt, including arrears on VAT refund, suppliers, and salaries, and Treasury bills.

Table 2. Gabon: Selected fiscal indicators

Percent of GDP (unless otherwise stated)	2020	2021	2022	2023e	2024f
Total Revenue and Grants	**17.6**	**14.7**	**20.4**	**22.9**	**20.0**
Oil revenues	6.8	5.3	10.4	10.5	8.4
Non-oil tax revenues	9.9	8.7	7.2	10.4	10.1
Non-tax revenues	0.9	0.7	2.9	2.0	1.5
Grants and other revenues	0.0	0.1	0.0	0.0	0.0
Total Expenditures	**19.8**	**16.6**	**21.2**	**23.9**	**23.9**
Current Expenditures	16.2	13.3	14.3	14.6	15.1
Wages and Compensation	7.7	6.1	5.9	6.2	6.2
Good and Services	2.3	2.1	2.5	2.7	2.4
Transfers and Subsidies	2.8	2.4	3.4	2.9	3.4
Interest Payments	3.4	2.8	2.5	2.8	3.1
Other expenditures	0.8	0.9	5.1	6.1	4.9
Public Investments	2.7	2.4	1.8	3.1	3.9
Overall Balance (commitment basis)	**-2.1**	**-1.8**	**-0.8**	**-1.0**	**-3.8**
Primary Balance	1.2	0.9	1.7	1.9	-0.7
Total public debt	**78.3**	**70.2**	**63.6**	**70.5**	**73.7**
Total external debt	46.0	37.8	34.4	34.1	34.7
Nominal GDP (CFAF billions)	8,815	11,211	13,144	12,444	12,565

Sources: Gabonese authorities and World Bank staff calculations. Preliminary data for 2023; World Bank projections for 2024 (please refer to Box 2 for further details on projections). Due to data availability issues, total debt in 2020 did not include components such as VAT and salary arrears, and Treasury bills.

Box 2. World Bank fiscal assumptions

The fiscal forecast presented for 2024 are based on a 3.0 percent growth rate. Oil revenues are expected to decline in 2024 while the ongoing trend of rising government spending, observed over 2022 and 2023, is expected to continue. Major public investments are underway, to expand infrastructure and public services, and higher social expectations in the context of the transition are translating to rising spending on social support. Thus, the government will face challenges to further mobilize domestic revenues to meet its financing needs and to ensure the sustainability of the fiscal and debt position.

The key assumptions for 2024 are based on the following factors and trends:

- **Oil revenues (including CIT on oil):** expected to decline to 8.4 percent of GDP, in line with government projections, due to lower oil prices (about USD 80 per barrel in 2024).
- **Non-oil tax revenues:** expected to decline slightly to 10.1 percent of GDP, compared to 11.3 percent of GDP foreseen in the 2024 budget law given that other taxes and non-tax revenues are expected to be lower than government projections, as actions to expand taxes such as the single property tax would take more time than expected by the government. Also, projections are more conservative for non-tax revenues (such as ‘‘*comptes des correspondants*’’) which are considerably lower in historical periods.
- **Current expenditures:** expected to increase to 15.1 percent of GDP, compared to 14.1 percent of GDP foreseen in the 2024 budget law notably due to new social measures introduced by the transition authorities such as expansion of fuel subsidies and transfers and a higher wage bill, as spending on these items tends to surpass budget allocations (projected 6.2 percent of GDP vs. 6.1 percent allocated for wages and projected 3.4 percent of GDP vs. 2.8 percent allocated for transfers and subsidies).
- **Capital expenditures:** expected to increase to 3.9 percent of GDP, roughly in line with government projections, to cover large investment projects foreseen in the 2024 budget law.

Box 2. World Bank fiscal assumptions (continued)

Economic recovery has been slower than expected and deterioration in public finances more pronounced than initially anticipated. A comparison of short-term forecast made in early 2023 with preliminary estimates indicates that the fiscal position has been deteriorating in 2023 and is expected to further decline in 2024 comparing to initial projections, on the back of higher spending pressures mentioned above. Besides the deteriorating fiscal position, estimated growth in 2023 was lower than initially forecasted, notably due to transport disruptions that affected wood and manganese output. On the other hand, inflation is expected to be lower in 2024 than previously foreseen, due to lower global inflation, expanded price controls, and a continuously tight monetary policy. Furthermore, data revisions carried out by the Central Bank resulted in higher external positions, comparing to earlier projections.

Comparison of 2023 vs. 2024 forecast	2023 Economic Update		2024 Economic Update	
Indicator	**2023f**	**2024f**	**2023e**	**2024f**
GDP growth (%)	3.1	3.0	2.3	3.0
Inflation (%)	3.2	2.5	3.7	2.4
Fiscal balance (% of GDP)	2.1	2.6	-1.0	-3.8
Current account balance (% of GDP)	21.4	23.1	28.7	29.2

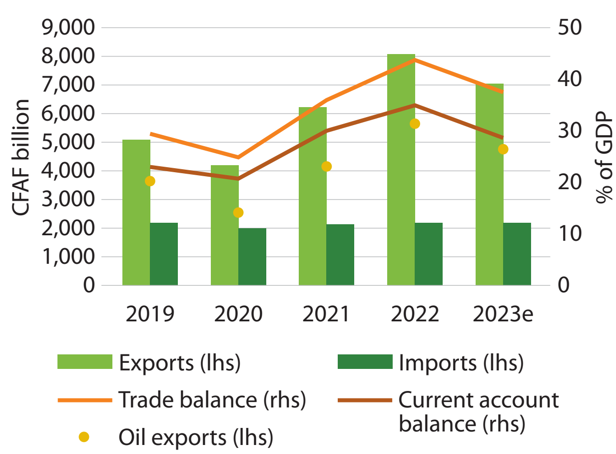
Source: World Bank staff calculations. Projections for 2023 Economic Update were based on information available as of April 2023. Estimates and projections for 2024 Economic Update are based on information updated as of April 2024.

ic uncertainty, which would see capital flight towards lower-risk markets. To address this issue, between late 2023 and early 2024 the transition authorities have been carrying out steps to improve transparency and visibility of public finances. In late 2023, approximately CFAF 380 billion was used by the government to settle external arrears, while domestic arrears were paid at a cost of CFAF 85 billion. This effort, in addition to the restoration of the constitutional court and the installation of a transitional assembly and parliament, enabled the country to regain access to concessional financing from multilateral agencies, much of which had already been suspended prior to the transition due to non-payment of debt within due dates. A settlement strategy is planned to cover remaining external arrears in 2024.

6. Gabon's external position continues to benefit from strong commodity exports, even if with a smaller trade surplus

Gabon's trade surplus remained high in 2023 but was affected by relatively lower oil prices and a weaker performance in wood and manganese exports. Even if oil export volumes increased, crude prices declined from USD 97.1 to USD 80.8 between 2022 and 2023, leading to a 15 percent reduction in the value of oil exports. Furthermore, as previously mentioned, high energy costs, transport disruptions, and weaker Asian demand impacted wood and mining exports, which decreased by, respectively, 10 percent and 3.5 percent during this period. As a result, total exports declined by 12.6 percent, in nominal terms. On the other hand, nominal imports remained overall stable in 2023. The trade balance is thus estimated to have declined to 37.5 percent of GDP in 2023, down from 46.3 percent of GDP in the previous year, whereas the current account surplus decreased from 35.2 percent of GDP to an estimated 28.7 percent over the same period (Figure 15).

Figure 15. Recent evolution of Gabon's trade, 2019-2023



Sources: BEAC, Gabonese authorities, and World Bank staff calculations.

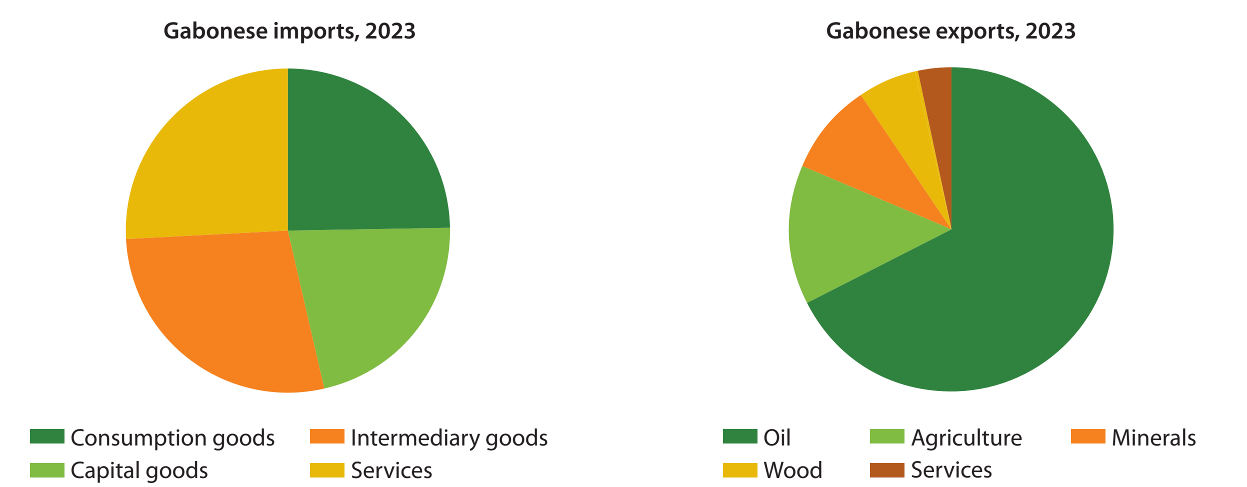
Gabon's export basket remains highly concentrated, with products derived from three commodities—oil, manganese, and wood—accounting for 83 percent of all exports in 2023. Oil alone accounted for 68 percent, the remaining share comprised mostly of manganese, wood, and agricultural goods, notably palm oil and rubber (Figure 16). Gabon also continued to rely strongly on Asian markets, which consumed about two thirds of its exports in 2023, with China alone absorbing more than a third of total exports. The Asia and Pacific region absorbed 81 percent of Gabonese oil exports in the first quarter of 2024. Meanwhile, only three percent of exports were directed to African countries, and one percent to the CEMAC region. Despite the opportunities that could come from the African Continental Free Trade Area, low levels of integration, logistical and infrastructure challenges, and regulatory barriers such as road inspections and difficulties in border compliance remain barriers for realizing the potential from intraregional trade.

Another yet to be realized potential comes from agriculture, as Gabon has abundant arable land and fish stocks. A large share of imported consumption goods was comprised by food imports, which represented about 20 percent of total imports,[11] even though government programs have been carried out over the years in an attempt to boost agricultural production. The country relies on imports to cover 60 percent of its nutritional needs, which contributes to high living costs due to high tariffs and trade costs. It also increases exposure to imported inflation, as evidenced by higher wheat prices following the war in Ukraine. Currently in preparation, the National Development Plan for the Transition focuses on developing agriculture and fisheries as a strategy to lower food prices, create more jobs, and enhance food security. Indeed, Gabon has potential to become a more prominent exporter of oil palm, coffee, cocoa, rubber, and other goods, as it has around five million hectares of fertile land, of which more than 90 percent is not exploited. Also, in 2023 fish production amounted to about 30,000 tons, 13 percent of the estimated potential for sustainable fisheries. The abundance of fertile land and fish stocks offers a potential for Gabon to sustainably develop agricultural and fishing activities, diversifying exports and reducing unemployment.

7. Outlook: Gabon's modest recovery is expected to continue, against higher risks

Despite a challenging international context, over the coming years Sub-Saharan African economies are expected to have a stronger rebound compared to 2023, on account of gradually easing inflationary pressures and financing conditions.[12] These would stimulate consumption and investment across the region, especially in non-resource rich countries. Moderate fertilizer prices would benefit agriculture in the region, whereas metal

Figure 16. Share of Gabonese exports and imports, 2023



Source: Gabonese authorities (General Directorate of Economy).

11 General Directorate of Customs. *Statistiques douanières : Commerce extérieur et Résultats de la Fiscalité douanière*. 2023.

12 World Bank. 2024. Global Economic Prospects. January.

exporters would recover from recent price shocks. Overall, growth in SSA would rise from 2.9 percent in 2023 to 3.8 percent in 2024 and a further 4.1 percent in 2025. However, lower growth is expected in CEMAC countries, averaging at about 2.7 percent over 2024-2025. Going forward, Sub-Saharan Africa faces risks associated to rising political instability and violent conflicts, financial distress, and adverse impacts of more severe and frequent droughts, floods, and other shocks on agriculture and food insecurity.

Against this backdrop, Gabon's modest economic recovery is expected to continue, driven by a more prominent non-oil economy. Gabon is projected to grow by about 2.7 percent over 2024-2026 (only 0.7 percent in per capita terms), mainly sustained by non-oil activity (Figure 17 and Table 3). Maturing oilfields could result in declining oil output in the medium term, even though this scenario may be reverted by recent discoveries of important oil reserves, announced in May 2024. Mining, wood, and agricultural output is projected to expand, supporting overall growth. Manganese production would accelerate due to the exploitation of new deposits at Okondja and Okouma, while iron ore extraction, which started in late 2023 in the new deposit of Belinga, one of the world's largest reserves, would be augmented by exploitation at Baniaka, planned to start in 2025. The wood industry would benefit from a stable supply of logs to firms in the Nkok special economic zone, whereas increased oil palm and rubber production, and new palm oil, biodiesel, and gas industries would also support growth. Large-scale public works would benefit the construction sector, while services would grow following the stronger demand for the transportation of commodities and from the overall demand generated by intensifying economic activity.

Table 3. Gabon's outlook: Selected economic indicators

Indicators	2023e	2024f	2025f	2026f
Annual percentage change				
Real GDP	2.3	3.0	2.3	2.8
Oil sector	3.7	2.3	-1.6	-2.0
Agriculture and forestry	2.1	3.6	5.5	6.6
Industry (including oil)	3.5	2.2	0.0	4.2
Services	1.5	3.3	3.1	1.1
Inflation	3.7	2.4	2.3	2.2
Percent of GDP				
Government revenues	22.9	20.0	18.8	18.1
Public expenditures	23.9	23.9	24.7	23.1
Fiscal balance	-1.0	-3.8	-5.9	-5.0
Public debt	70.5	73.7	79.1	81.8
Current account balance	28.7	29.2	28.8	28.4
Trade balance	37.5	37.8	38.0	37.9

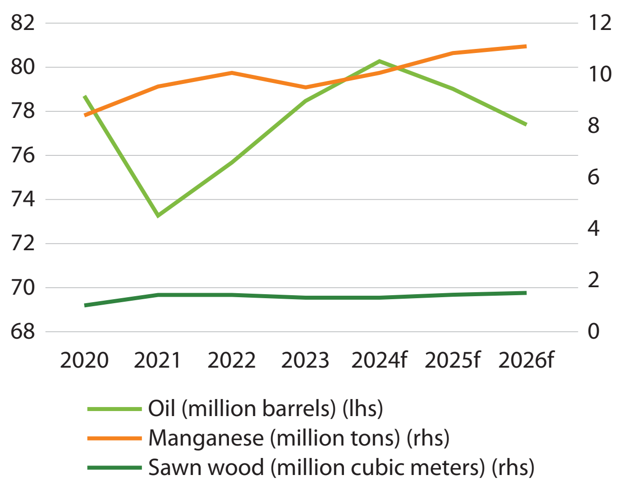
Sources: WDI, BEAC, Gabonese authorities and World Bank staff calculations. Note: e = estimate. Projections were made based on data as of April 2024.

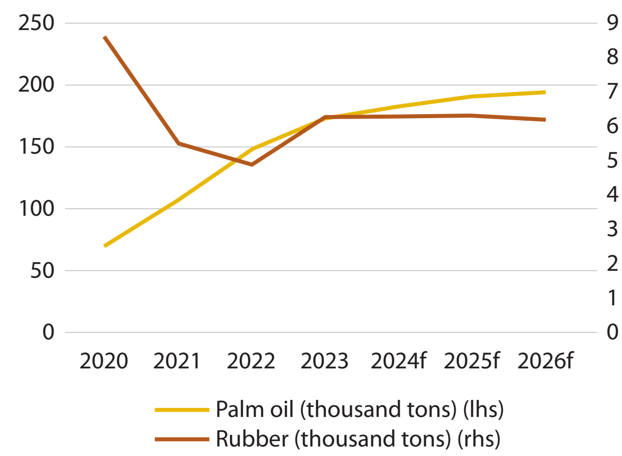
Gabon's exports are expected to continue benefiting from the global demand for oil and other commodities, especially from Asian markets.[13] Even if global growth is set for a further decline in 2024, Gabon's main export destinations would continue to experience higher growth than most other regions. The Chinese economy is projected to grow by 4.5 percent in 2024, against 5.2 percent in 2023, whereas India is set to grow by 6.4 percent in 2024, up from 6.3 percent in the previous year. While China is experiencing headwinds and is set to have lower growth than in recent decades, its demand for commodities is still expected to translate into sustained prices for many of Gabon's top exports (Figure 18). In particular, oil exports are set to continue to be strong in 2024, as first quarter data shows an 11.2 percent growth (y-o-y), even if exports could decline from 2025 onwards due to a potential depletion of oil reserves. Nevertheless, sustained global demand combined with a good performance in non-oil commodities, particularly mining and wood, would contribute to Gabon's external balances. This would be contingent on strong performance of exports of other commodities, notably manganese, iron, and timber, in line with government efforts to promote these sectors. Imports, on the other hand, would remain relatively stable, and would be driven largely by the implementation of infrastructure projects and private investment.

As for Gabon's fiscal situation, diminishing oil revenues and rising spending pressures pose important risks to the budget. Oil prices are expected to decline gradually over the coming years, impacting government revenues. Meanwhile, public spending is set to increase in the medium term, pushed notably by large-scale infrastructure projects and social support measures such as the expansion of fuel subsidies and of scholarships for secondary education. As a result, larger fiscal deficits are expected for the coming years, which would lead to an increase in the debt-to-GDP ratio. Furthermore, liquidity pressures could pose risks to financing capacity, as the country could face challenges to mobilize financing at international and regional markets.

13 OPEC. 2023. World Oil Outlook 2045. Chapter 3. Oil demand. https://woo.opec.org/chapter.php?chapterNr=1768&tableID=2997

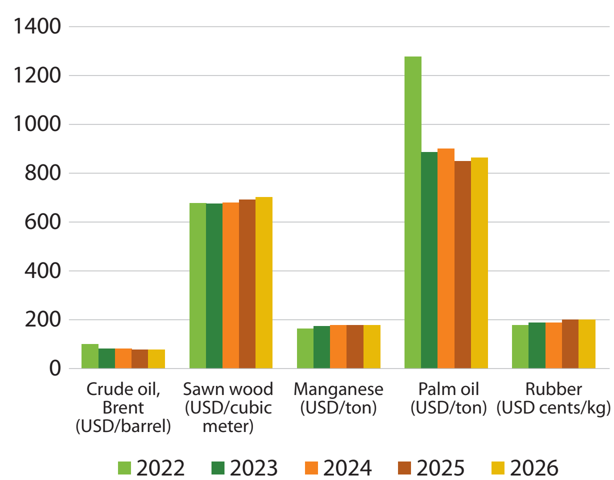
Figure 17. Declining oil production could take place in the medium term, but production of wood, minerals, and agricultural commodities would expand in the coming years





Source: Gabonese authorities. Government projections for 2024 onwards. Note: oil production projections were made based on data available as of April 2024 and do not take into account the potential impacts of recent oil reserve discoveries announced in May 2024.

Figure 18. Despite weak global growth prospects, prices for most of Gabon's main commodities would increase slightly in coming years, providing an opportunity to build reserves



Sources: Global Economic Prospects, World Bank staff calculations, and Gabonese authorities. Preliminary data for 2023 and World Bank growth projections for 2024 onwards. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates.

In April 2024, the subscription period of Treasury bonds issued at the regional market was extended for a month, which may indicate an insufficient subscription rate related to the political context and a potential increase in liquidity pressures.

In the absence of cash transfer programs, poverty is expected to increase over the coming years, fueled by inequality, insufficient job creation, and still limited entrepreneurial activities. The share of Gabonese living on less than USD 6.85 per day is projected to slightly increase by about 0.8 percent per year, reaching 36.9 percent of the population by 2026. The main factors contributing to higher poverty would be an unequal income distribution and lack of economic participation both in terms of jobs and income-generating activities. The economy remains strongly focused on oil and mining industries, which are not job-intensive. Overall per capita incomes would rise but remain unevenly distributed, requiring stronger actions to tackle poverty. Social support measures are being expanded but are almost entirely dedicated to subsidies, as cash transfer programs are nearly absent. Also, social protection spending remains a fraction of typical spending observed in upper middle-income countries.

Overall, while a continued recovery is expected, the economy faces significant risks. These include geopolitical risks linked to trade disruptions due to intensifying war in Ukraine, the ongoing conflict in the Middle East, or an escalation of regional tensions in the Sahel. Other factors that could disrupt growth include higher borrowing costs and inflation, more intense and frequent climatic shocks, or weaker growth in China and an associated drop in commodity prices. Gabon also faces high social pressures since a political transition was inaugurated, which, combined with recent SOE acquisitions and the costs to support higher wage bills and large investment projects, could lead to uncontrolled public spending and a spiraling debt. Furthermore, as mentioned, potential delays in the political transition could trigger regional sanctions, compromising Gabon's strategy of increasing its reliance on regional markets.

8. Sustained growth will require strong reforms and impactful measures to improve business conditions and the management of public finances

Economic recovery would continue in the coming years, but higher growth will need first of all sustainable macroeconomic and fiscal policies, to prevent the country from embarking on an unviable fiscal trajectory. Important fiscal and growth-enhancing policies are being pursued by the transitional government (Box 3). Yet, in view of significant spending needs and fiscal risks, actions are needed to avoid compromising fiscal and debt sustainability. Higher fiscal deficits are forecasted in the medium term, amid potentially declining oil revenues, tightened financing conditions, and rising spending pressures. Costly investments are needed to improve access and quality of roads, energy, water, health, education, and social protection services. To ensure a sustainable fiscal path, it is essential to calibrate spending plans with fiscal capacity and improve spending controls. In particular, ensuring a sustainable wage bill, containing the costs of fuel subsidies and SOE acquisitions, and prioritizing investments foreseen in the National Development Plan for the Transition (PNDT) to align them with viable financing sources will be key. Social spending could be stronger and more targeted, to improve support for vulnerable households. With regards to revenues, tax collection measures are being taken, including higher wood and mining export duties, higher excise taxes on beverages, and plans to digitalize VAT invoices. Yet, further actions may be needed, such as fully digitizing tax and customs administrations, broadening the tax base, optimizing tax policy, and rationalizing tax and customs exemptions.

Second, improving livelihoods and reversing the trend of increasing poverty will require strong governance reforms. Despite the adoption of recent reforms, governance challenges remain. Governance reforms are underway and improvements in legislation and processes are being discussed, in areas such as governance of state-owned entities, public procurement, public investment management, and cash flow management. Accelerating key actions in these areas could derive meaningful gains in terms of transparency, governance, and an optimal utilization of public funds. For example, it will be important to ensure the full operationalization of the Treasury Single Account and reform procurement legislation to improve efficiency and reduce single-source contracting. Likewise, a new SOE governance law, currently under consideration, could help improve state supervision and transparency over SOEs and other state-owned assets, including their fiscal risks, allowing for better targeting of fiscal transfers to public entities. Furthermore, it will be crucial to improve institutional controls and transparency of extractive revenues. Gabon's finances remain highly dependent on oil and higher revenues are expected to come from the mining sector over the medium term. The country is working to ensure compliance with the Extractive Industries Transparency Initiative (EITI), a global initiative that promotes open and accountable management of hydrocarbon and mineral resources. The authorities are working on arrangements to enable the publication of oil contracts, which would be a significant step towards higher transparency of state oil revenues. The publication of an EITI report in mid-2024 will be a key step to allow its first validation under the EITI standards, since its reintegration in 2021.

Third, the access and quality of basic public services need to be improved, to build human capital, address Gabon's substantial development challenges, and step up preparedness to face climate threats. Gabon has one of the highest income levels in Sub-Saharan Africa, being one of the few countries in the region that has reached upper middle-income status. However, living standards and access to basic services such as health, water, electricity, and sanitation are below those in most countries of Gabon's income group. The country faces several development challenges in these and other areas (Table 4). For example, access to sanitation was at 50 percent of the population in 2022, comparing to 93 percent in upper middle-income countries. These challenges are intertwined, as limited access to improved sanitation and safe water sources, especially in some of Gabon's regions, has led to

Box 3. Economic, fiscal and governance reforms adopted in late 2023 and early 2024

Gabon's transition government has been implementing a new political vision, with the adoption of several reforms. Over the past months, the authorities have been implementing a series of measures aimed at improving the transparency, effectiveness and governance of public finances, enhancing the management of public debt, and boosting growth and job creation.

Economic inclusiveness, living conditions, and job creation:

- Adoption of new tax exemptions and price controls on food, butane gas, transport services, and construction material, and reintroduction of fuel subsidies for the electricity utility to contain living costs.
- Award of public procurement contracts of up to CFAF 150 million exclusively to local SMEs.
- Acquisition of Assala Energy, a major oil producer, to increase local state participation in the oil sector.
- Creation of Fly Air Gabon Holding, a new airline company owned by the state, which acquired 56 percent of Afrijet, a local airline, with the goal of expanding air transport services.
- Transfer of 35 percent of participation in the major food retailer group CECA-GADIS to the state, to promote the access of local products to markets. This asset was considered to have been previously unduly obtained from the state.
- Creation of the *Société de Construction et de Restauration des Edifices Publics* (SOCOREP), in charge of construction of public buildings, to reduce the high costs paid by the state for rented offices.
- Preparation of a new development plan, the 2024-2026 National Development Plan for the Transition.
- Sale of state participations in SUCAF Gabon, a sugar refining company partially owned by the state, in a movement to balance the government's other investments in SOEs and to enable private investment to boost sugar production and meet domestic demand.
- Creation of the *Banque pour le Commerce et l'entreprenariat du Gabon* to promote entrepreneurship among young people and SMEs throughout the country. About CFAF 4 billion has already been allocated to this new entity, but the institution is still awaiting COBAC approval before it can actually begin operations.

Fiscal and public financial management measures:

- Relaunch of public sector recruitment, promotions, and regularization of temporary public workers. Hiring in sectoral ministries and agencies included 2519 staff for health, education and training, 300 for housing, 200 for agriculture and fisheries, and 500 for government media.
- Increase in the public sector retirement age from 60 to 62 years old and of employees' and the state's social contributions to ensure the financial sustainability of the pensions system.
- Seizures of assets that had been previously unduly acquired by public officials.
- Audits of entities including Delta Synergie, a holding company managing a portfolio of about twenty participations in firms in several sectors. Established in 1993 by then President Omar Bongo, its goal was to contribute to the development of the private sector in Gabon and help building 'national champions' in various business sectors. This audit aims to target mechanisms that may have allowed assets to be unduly acquired by certain businessmen and politicians.
- Launch of Digitax, a new digital platform to extend online tax filing and payments to all taxpayers.
- Relocation of the Gabonese Strategic Investment Fund (FGIS) from the Presidency to the Ministry of Economy and Participations to improve coordination with the national agenda and development goals.

Debt management:

- Re-establishment of a debt taskforce to certify and audit all public debt.
- Re-establishment of Treasury Committee meetings to improve agency coordination of treasury flows and reduce accumulation of arrears.
- Plan for oil revenues to be directly paid to the Treasury Single Account.
- Re-establishment of the principle of payments by order of arrival (''*journée comptable*") and processing of budgetary payments earlier in the process, to reduce arbitrary decisions and accumulation of arrears.

a high related mortality rate, of 17.5 per 100,000 people, more than three times the average in upper middle-income countries.[14] Moreover, human health and infrastructure are exposed to climate risks such as floods, landslides, sea level rise, and other natural events. Storms and floods are becoming more intense and have been causing damages to infrastructure and livelihoods in different parts of the country, requiring climate adaptation efforts to be considered in future investments and strategies to expand public services.

Fourth, inclusive growth will also rely on building labor skills to tackle unemployment and labor market mismatches, especially in sectors with high potential such as forestry and agriculture. While basic education enrollment has increased significantly and Gabon was the best-performing country among African Francophone countries in the Program for Analysis of Education Systems (PASEC) 2019, the quality of the education system remains low when compared to peers, stifling educational attainment and skill development.[15] The demand for jobs far exceeds supply. Affecting one in three young Gabonese, lack of job opportunities is another serious challenge, a product of labor skills mismatches and an economy that traditionally relies on capital-intensive extractive industries. The government is creating training centers, but rapid population growth and insufficient opportunities remain a challenge to future inclusive growth. As most Gabonese live in the capital and in other urban centers, a significant challenge is to attract workers to growing sectors in rural areas such as forestry and agriculture. Building and attracting skills in green growth sectors is especially important at this critical juncture in the country's development.

Fifth, reforms are needed to remove regulatory and logistical hurdles, to create a better business environment and enable private firms to invest and create more jobs in the country. According to firms interviewed by the World Bank, gaps in electricity and transportation are among the top barriers to business activities. Lack of skills, corruption, informality, and access to credit were also cited as major obstacles.[16] Important investments are being made, with hydropower, power transmission, road development, and credit support projects underway. The government is also discussing a new investment law to attract investments to more remote regions, and policies are being considered to improve support for entrepreneurship and income generating activities. Besides these constraints, Gabon has poor logistics and inadequate trade infrastructure, which hamper the country's export potential by inflating trade costs. In 2023, Gabon ranked 115th out of 139 countries in the World Bank's Logistics Performance Index (LPI). This is especially problematic because the country's exports are chiefly directed to more distant markets, which require advanced logistics and efficient air and maritime transport connectivity. In addition, stronger digital infrastructure can also contribute to business activity. While Gabon has the most developed market for digital services in Central Africa and is the sixth-ranked player in this field in Africa according to the International Telecommunications Union, there are opportunities to strengthen digital capacity. In particular, the greater use of digital technologies can provide job opportunities for the youth and foster the development of the local digital industry.[17]

Finally, policies for the forestry sector and other targeted sectoral reforms could help optimize fiscal revenues and build better conditions and incentives for sustainable growth. Economic diversification has been a long-term goal in Gabon and has remained a government priority in the transition's development plan. To ensure that rents from natural resources will be optimized and contribute to development goals, going forward it will be important to focus not only on extractive revenues but on those from other major growth drivers. Reforms could be considered to improve fiscal policies and ensure a sustainable exploitation of resources in key renewable sectors that are expected to drive growth in the post-oil era, such as agriculture and, especially, wood, which is already the first provider of formal private jobs. The country is discussing a modernization of the forestry code, which could pave the way for important fiscal reforms in this sector. Designing appropriate tax policies to foster sustainable wood production—the special topic discussed in Chapter 2—can bring substantial benefits for Gabon's workers, firms, state budget, and forests.

14 World Bank. World Development Indicators database.

15 World Bank. 2022. Gabon - Country Economic Memorandum: Toward More Inclusive and Greener Growth.

16 World Bank. 2009 Enterprise Surveys database.

17 World Bank. 2020. Gabon Systematic Country Diagnostic; World Bank. 2022. Gabon - Country Economic Memorandum: Toward More Inclusive and Greener Growth.

Table 4. Social and economic indicators in Gabon (2020-2022)					
	Value				
Indicator	2020	2021	2022	Trend	Position relative to the upper middle-income group (upper tercile – middle – lower tercile)
ECONOMIC STRUCTURE AND PRIVATE SECTOR DEVELOPMENT					
Foreign direct investment, net inflows (% of GDP)	9.2	11.2	7.5	Down	Middle tercile
Industry (including construction), value added (% of GDP)	41.6	50.9	57.4	Up	Upper tercile
Services, value added (% of GDP)	44.9	38.6	33.2	Down	Lower tercile
Agriculture, forestry, and fishing, value added (% of GDP)	6.6	6.0	5.6	Down	Middle tercile
INFRASTRUCTURE					
Gross fixed capital formation (% of GDP)	21.9	19.9	16.8	Down	Lower tercile
Access to electricity (% of population)	90.3	91.1	91.8	Up	Lower tercile
World Bank Logistics Performance Index (LPI) Score: 0 to 5 Rank: Out of 139-167 countries	Score: 2.2 Rank: 143 In 2016	Score: 2.1 Rank: 150 In 2018	Score: 2.4 Rank: 115 In 2023	Up	Lower tercile
HUMAN CAPITAL (EDUCATION)					
Government expenditure on education, total (% of GDP)	2.9	3.4	2.7	Down	Lower tercile
Output per hour worked (GDP constant 2017), international $ at PPP	28.4	27.2	25.8	Down	Upper tercile
DIGITALIZATION					
Individuals using the Internet (% of population)	68.7	70.8	71.7	Up	Lower tercile
CLIMATE CHANGE					
ND-gain index on climate vulnerability and readiness (0-100, higher is better)	43.0	42.5	42.6	Stable	Lower tercile
EMPLOYMENT					
Employment in agriculture (% of total employment)	30.0	30.2	29.9	Stable	Upper tercile
Employment in industry (% of total employment)	15.8	16.1	16.2	Up	Lower tercile
Employment in services (% of total employment)	54.0	54.0	54.5	Up	Middle tercile
Labor force participation rate, total (% of total population ages 15-64)[1]	47.5	48.0	50.4	Up	Lower tercile
Labor force participation rate, male (% of male population ages 15+)[1]	53.9	54.3	57.3	Up	Lower tercile
Labor force participation rate, female (% of male population ages 15+)[1]	37.1	37.8	39.5	Up	Lower tercile
Vulnerable employment, total (% of total employment)[1]	31.5	31.4	31.3	Stable	Middle tercile
Vulnerable employment, male (% of male employment)[1]	28.2	28.1	28.0	Stable	Middle tercile
Vulnerable employment, female (% of male employment)[1]	37.7	37.6	37.4	Stable	Middle tercile
WORLDWIDE GOVERNANCE INDICATORS Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)					
Voice and Accountability	21.7	23.1	24.2	Up	Lower tercile
Political Stability and Absence of Violence/Terrorism	45.8	45.8	49.5	Up	Middle tercile
Government Effectiveness	15.2	19.5	24.5	Up	Lower tercile
Regulatory Quality	17.1	21.9	25.5	Up	Lower tercile
Rule of Law	26.7	24.8	22.2	Down	Lower tercile
Control of Corruption	20.5	20.9	16.0	Down	Lower tercile

Sources: WDI, WGI, ILO, ND-Gain. Data for 2020-2022 unless otherwise stated.

1 Employment data based on modeled ILO estimates. The labor force participation rate refers to the percentage of the working age population who are in the labor force (including job seekers). The unemployment rate refers to the percentage of the labor force that is currently without a job. Vulnerable employment refers to the sum of self-employed workers and unpaid family workers.

Chapter 2

Designing Fiscal Instruments for Sustainable Forestry and Public Finances

Introduction

The six nations encompassing the Congo Basin—Cameroon, Central African Republic, Equatorial Guinea, Gabon, Democratic Republic of the Congo, and Republic of the Congo—are custodians of the world's second largest tropical forest and its largest remaining unbroken forest landscape. This basin serves as a vital carbon sink, crucial for both regional and global ecological balance and climate stabilization. It is a rich reservoir of biodiversity and a cherished home for 60 million inhabitants, for whom these forests are not only indispensable natural resources but also an integral part of their cultural legacy. Indigenous peoples and local communities in this region depend on and sustainably manage these ecosystems. Sustainable forest management and well-regulated wood production are important sources of economic activity and revenue in the Congo Basin.

Historically, the Congo Basin has experienced relatively low deforestation rates compared to other tropical forest regions; however, 2021 marked an alarming increase in forest loss. Deforestation in the Congo Basin increased in 2021 compared to the baseline period 2018-2020 by nearly 30,000 hectares (or 4.9 percent), reaching a total of 636,000 hectares lost in 2021. To achieve the global goal of halting deforestation by 2030, a reduction in forest cover loss of 10 percent per year from the 2018-2020 baseline will be needed. According to a recent regional assessment, only two Congo Basin countries—the Republic of the Congo and Gabon—are currently on track to meeting this goal. Each year that passes without sufficient progress makes it increasingly difficult to meet global forest protection goals and increases the annual reductions that will be required in future years. Beyond deforestation, the risks of forest degradation and fragmentation loom large, threatening the integrity of the world's most extensive intact forest landscape.

Carbon sequestration services provided by the Congo Basin forest are estimated at least US$55 billion annually, corresponding to 36 percent of the GDP of the region covered by the forest in 2021.[18] In addition, the Congo Basin forests also mitigate global warming through their cooling effects through transpiration. Other important ecosystem services provided by the forests, some of which also have global public good characteristics, include biodiversity, controlling floods and erosion, and filtering water supplies.

The Congo Basin countries face difficult trade-offs between forest preservation and economic opportunities that involve deforestation. The primary threats to these core intact forests arise from industrial mining, logging, and commercial agriculture, which pave the way for further development and deforestation in pristine forest territories. Although subsistence agriculture remains the most common direct cause of deforestation in the region, it typically occurs in already fragmented areas. Challenges such as insecure land tenure for local communities, governance issues, weak institutional frameworks, and insufficient law enforcement intensify the encroachment and direct pressures on these forests. Given the Congo Basin countries' need for accelerated growth and job creation, finding an adequate balance between forest preservation objectives and the use of forest resources and land for economic development is essential. International climate finance can play an important role by providing resources that, at the minimum, provides adequate compensation for foregoing alternative economic uses of forest resources. It could also help finance alternative investments that would generate sustainable growth and employment.

Governments in the Congo Basin region of Central Africa are engaged in concerted efforts to mitigate deforestation, though their prioritization of economic growth and poverty alleviation may inadvertently conflict with forest conservation goals if not strategically aligned. In 2021, during the UN COP26 climate conference, over 140 countries, covering more than 90 percent of global forest cover, pledged to cease deforestation and land degradation worldwide by 2030, as part of the Glasgow Leaders' Declaration on Forests and Land Use. All six countries of the Congo Basin have endorsed this declaration, acknowledging the critical need to safeguard forests both globally and within their region. Integrating a forest-centric approach into broader macroeconomic development plans and fiscal policy regimes can assist these nations in achieving sustainable development and enhancing rural livelihoods, while concurrently preserving their forest ecosystems. The realization of these objectives in the Congo Basin demands the supportive engagement of industrialized nations, the private sector, and philanthropic entities, investing in the sustainable use and management of these indispensable forest resources.

Carbon-finance, development aid, and private sector mobilization for forest protection can play an important role in compensating Congo Basin countries for the economic opportunities foregone by preserving their forests. The Congo Basin nations need the backing of industrialized countries, the private sector, and philanthropic organizations to invest in the sustainable utilization and management of these vital forests. However, at present financial compensation for the provision of the global public good of carbon sequestrations amounts to less than one percent of the estimated value of these services. At the same time, forest projects are among the lowest cost interventions per ton of CO_2 averted.[19]

International benefactors have recognized the paramount importance of the Congo Basin forests, committing USD 1.5 billion between 2021 and 2025 to aid, but, these commitments, though laudable, have not fully materialized into concrete actions. The 2022 global Forest Declaration Assessment revealed that a year following COP26, the world witnessed the loss of 6.8 million hectares of forest, resulting in the emission of 3.9 billion metric tons of greenhouse gases. A mere six years remain to fulfill the ambitious objective of stopping and reversing deforestation by 2030. Under the Forest Carbon Partnership Facility, the World Bank is working with eleven countries, including Cameroon, the Central African Republic, the Republic of Congo, and Gabon, to enhance readiness for the issuance of high integrity carbon credits which would facilitate the transfer of resources to communities from companies and governments.

Fiscal policy is an often underused policy instrument to foster the sustainable use of forest resources and growth, but can play an important complementary role to other instruments such as regulation, information and voluntary instruments. In particular, fiscal poli-

18 Mitchell I. and S. Pleek. 2022. This is a lower bound estimate, using the value of USD 50 per ton used by the US government. However, Mitchell and Pleek estimate that the value could be as high as USD 150 per ton.

19 Mitchell I. and S. Pleek. 2022.

cy tends to be effective where economic agents respond well to price signals and where limited governance capacities constrain the effective enforcement of regulations.[20] Expenditure policies can also support sustainable forest management, but limited fiscal space tends to severely constrain their use. While scaled up climate finance for the Congo Basin countries is essential to help moderate trade-offs between sustainable forest management and economic development objectives, environmental fiscal policies can help widen fiscal space and create important pre-conditions for leveraging greater international and private financing of domestic climate action.

Effective use of fiscal instruments can help (a) capture a fair share of resource rents for the state, contributing to overall fiscal space; (b) promote industrial policy objectives, such as increased domestic value addition and employment; and (c) foster environmental management and sustainable use of forests. Key instruments include the taxation of natural resource rents, results-based expenditure policies (payments for ecosystem services, REDD+),[21] subsidies, environmental taxation (taxes, charges and fees), tradable permits, biodiversity offsets/biobanking, liability instruments (noncompliance fines) and performance bonds. The various fiscal instruments will interact in the achievement of the aforementioned objectives. In addition, economic policies that do not directly address forest issues, such as agricultural policies or mining policies, may also affect the use of forest resources. It is thus important that they are embedded in a comprehensive and consistent approach for the sustainable management of forest resources.

The effective use of forest-related fiscal instruments can play an important role in expanding fiscal space, including for increased expenditures that would help to promote the sustainable management of forests. This is particularly important in the Gabonese context, where enhancing domestic revenue mobilization to be able to meet large expenditure needs and reduce the dependence on revenues from the hydrocarbon sector is a policy priority. Public finances remain highly dependent on oil, which accounted for nearly half of total government revenues in 2023. Recent discoveries can prolong the benefits derived from oil wealth. However, oil revenues could start to gradually decline along with lowering prices and maturing

20 World Bank. 2021. Designing Fiscal Instruments for Sustainable Forests. Washington D.C.: The World Bank.

21 Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD+) is a voluntary climate change mitigation framework developed by the United Nations Framework Convention on Climate Change (UNFCC) to promote conservation, sustainable management of forests, and enhancement of forest carbon stocks.

oilfields, as it may take time for new fields to enter into production. Also, in the context of its political transition, Gabon is facing higher social expectations and spending needs. Large projects are underway and the state needs resources to expand public services and improve infrastructure. Fiscal reforms in sectors such as forestry can therefore contribute not only to fostering environmental goals but also to mobilizing more revenues to meet spending needs and to avoid a deteriorating fiscal position.

Fiscal policies for sustainable forests are closely intertwined with potential international compensation for climate services provided by the Congo Basin countries. First, environmental fiscal policies can help to achieve sustainable management of forests as the basis for leveraging carbon finance. At the same time, given the Congo Basin countries' very limited fiscal space, international and private financing are also essential to implement programs for forest conservation and to establish adequate monitoring, reporting, and validation systems.

The special topic (i) examines the current socio-economic context of forest policy in Gabon, (ii) discusses the role and current use of forest-related fiscal instruments, and (iii) proposes options and trade-offs in the design of forest-related fiscal policy reforms. The key goals of such reforms are to adequately capture resource rents, promote forest-based value-addition and employment, mitigate deforestation and forest degradation, and promote sustainable growth, while creating preconditions for leveraging greater international and private financing of domestic climate action. There remains a notable lack of comprehensive knowledge in this area, particularly in terms of how fiscal policy instruments are currently employed at the country level, of these policies' effects on various incentives, and of how particular fiscal policy reforms may contribute to the goal of leveraging greater climate finance from international donors and the private sector. This chapter aims at informing policy dialogue towards a spectrum of strategies to craft a fiscal system that is more tailored to forest conservation and sustainable growth management.

The sections of this special topic are centered on the following topics:

- State and trends of forests in Gabon;
- Contribution of forests to Gabon's economy and to climate action;
- Regional and international context;
- The role of environmental fiscal policy: Trade-offs in the forestry sector;
- Use of forest-related fiscal policy instruments in Gabon;
- Opportunities for climate-smart forest fiscal policy reform in Gabon;
- Looking ahead: how to achieve fiscal, economic, and environmental goals with fiscal policy reforms for forestry?

The analysis and discussion focus narrowly on fiscal revenue instruments directly targeting forest production and preservation to highlight first order opportunities for the use of fiscal instruments. However, it is important to note that concrete policy design and implementation will need to consider a whole range of complementary issues. First and foremost, forest-related fiscal instruments are a subset of economic instruments for sustainable forest management and complement regulatory approaches and information and voluntary instruments. Second, deforestation and use of forest resources also depend on non-forest policies. An important example of such non-forest policies are agricultural policies such as agricultural subsidies that may lead to increased demand for land and lead to deforestation. Water sector policies are another important example, given the central role of healthy river systems for sustainable forests. Policies that lead to unsustainable water extraction or river pollution would result in negative impacts on river and forest ecosystems. Another example would be policies that affect peoples' livelihoods and their demand for forest products. For example, where wood is used by many households, provision of alternative energy sources would reduce the demand for wood. Finally, it is also important to mention the importance of land use planning frameworks and their interaction with fiscal policies. For example, ecological reserves would need to be managed differently from community managed forests and taxation/fines allocated according to the land use planning.

The present analysis draws on and contributes to the World Bank's broader engagement on the Congo Basin forests. This includes work on Country Climate and Development Reports, Public Finance Reviews, and Country Economic Memoranda which have been or are being prepared for most CEMAC member countries and which often include forest-related analysis. In several countries, including Cameroon, the Central African Republic, and Gabon, the World Bank has specific project activities to support the sustainable utilization and management of forests. The World Bank is currently also preparing natural capital accounts for several Congo Basin countries, which will provide in-depth valuations of the services provided by the Congo Basin Forest. Another important aspect of the World Bank's work is to look at options for monetizing the carbon and ecosystem services provided by the Congo Basin forest, looking at options such as nature-linked bonds, debt for nature swaps, or helping countries meet the prerequisites required for accessing carbon finance. Recognizing the importance of helping countries achieve greater benefits and value added from their forests, a project that would, inter alia, support value chains in the forest sector in the CEMAC region is currently being prepared. The World Bank has also recently established the Global Challenge Program: Forests for Development, Climate, and Biodiversity (GCP-F). The program recognizes that conservation will remain a vital part of sustainable forest management, but it will broaden the approach to put people at the center by generating meaningful economic opportunities and mobilizing significant private sector resources to develop cross-sectoral forest-based economies. Specific activities for the roll-out of the program to the Congo Basin countries are currently being designed.

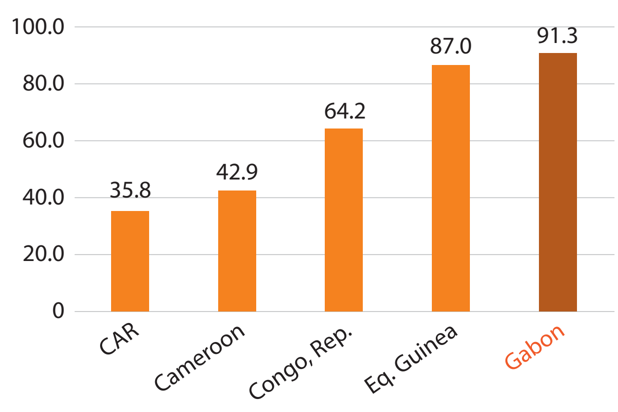
1. Thanks to conservation efforts and sustainable practices, Gabonese forests are a vital source for wood industry jobs and exports while providing the world with essential climate services

1.a. State and trends of forests in Gabon

Gabon is the fourth most forested country in the world, with over 91 percent of its territory covered by well-preserved forests, spanning about 22 million hectares (Figure 19). The country has an impressive and well-preserved forest ecosystem. About a quarter of the total terrestrial and marine territory is located in protected areas. The deforestation rate, although low compared to most countries in the region and in the world, has slightly increased from 0.02 percent in 2000-2010 to 0.05 percent in 2010-2020[22] (Figures 21 and 22). There are three main types of forests in Gabon: evergreen forests in the west, dominated by famous species such as Okoumé (Aucomea klaineana); dense humid forests located in the central part of Gabon, covering a significant portion of the country; and semi-deciduous forests in the northeast, where trees like Limba, Wengé, and Ayous are found.[23] In Gabon, 14 percent of the forest is located in protected areas, including the country's 13 national parks. Approximately 59 percent of the forest is dedicated to sustainable and controlled production of forest products managed by private companies, based on management rights granted by the government. In 2021, half of Gabon's forests were subject to long-term management plans[24] (Figure 20).

Over the years, the Gabonese government has been implementing policies and programs aimed at reconciling forest conservation with sustainable economic development. This includes initiatives such as the creation of national parks and protected areas, as well as efforts to promote responsible forest management and sustainable use of forest resources. Notable environmental protection decisions made in recent decades include the 2001 Forest Code, which mandates sustainable management of all forest concessions; the National Parks Law of 2007 that created 13 national parks covering 12 percent of forest land; the log export ban imposed in 2009; the creation of the National Council on Climate Change in 2010; the adoption of the national climate plan in 2012; the adoption of laws on sustainable development and environmental protection in 2014; the ratification of the Paris

Figure 19. Forest area in Gabon and CEMAC countries (percent of land area)



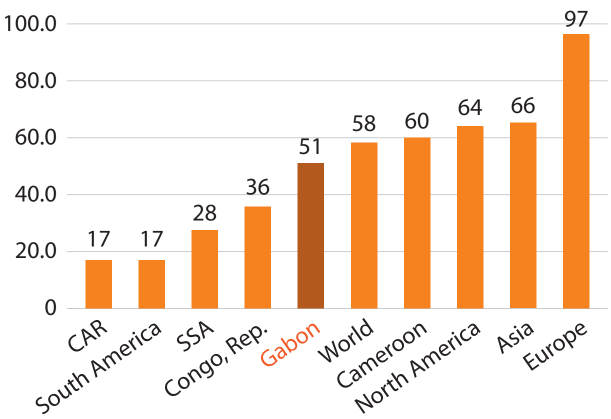
Source: FAO.

22 FAO. 2024. *SDG indicators database*. https://www.fao.org/faostat/en/#data/SDGB

23 Timber trade portal. 2024. *Forest resources.* https://www.timbertradeportal.com

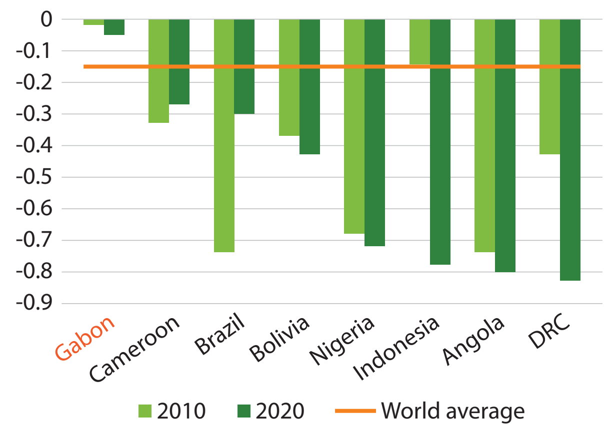
24 A long-term forest management plan is a detailed document that outlines strategies and actions to sustainably manage a forested area for an extended period, often spanning multiple decades. These plans are formulated to harmonize environmental, social, and economic factors to safeguard the forest ecosystem's long-term vitality and productivity while addressing stakeholders' diverse needs. Forest management plans are usually updated regularly.

Figure 20. Proportion of forest area with a long-term management plan, 2020



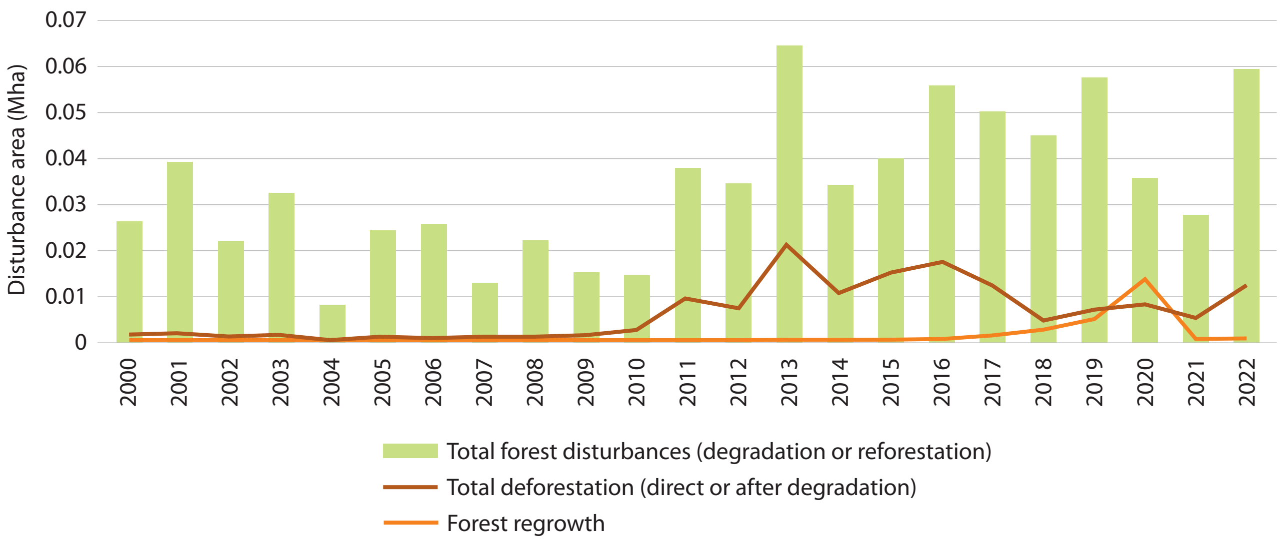
Source: FAO.

Figure 21. Deforestation rate in Gabon and selected countries, percentage of forested area



Source: FAO.

Figure 22. Gabon's deforestation trend and categories



Source: Vancutsem et al. 2021.

Agreement in 2016; and the signing of a decree on climate change in 2021.[25] Additionally, various research centers and forest projects are active, including the Institute of Tropical Ecology Research and the Institute of Agronomic and Forestry Research.[26] Furthermore, through AGEOS, its geospatial agency, the country made efforts in data collection, using advanced technical resources such as drones and satellite imagery, complemented by field research.

Despite strong forest conservation policies, Gabon still faces challenges to curb illegal logging. A small yet heavily urbanized population and an economy fueled by oil revenues have contributed to limiting the impact of human activity on Gabonese forests. In 1970, 30 percent of the Gabonese population resided in urban areas. This percentage increased to over 90 percent by 2020, while the average for Sub-Saharan Africa was 41 percent.[27]

25 Gabon's second NDC. 2022.

26 AFD. 2021.

27 World Bank. World Development Indicators database.

Furthermore, Gabon stands out for its very low population density, with only eight inhabitants per square kilometer, compared to an average of 45 for Sub-Saharan Africa. While the high urbanization and low density rates have contributed to forest preservation, strong initiatives have been implemented in favor of forest conservation, which allowed the country to achieve considerable results. Oil continues to play a major role in the economy, but since 2010 Gabon's development strategy has set forestry as a key driver for economic diversification, which increased pressure on forests. Overall, the authorities have been able to develop the forest economy in a sustainable way. Yet, despite the implementation of certification requirements and attempts to monitor the wood product chain, illegal logging remains a practice in the country.[28] Reforms being planned to tackle this issue include a new digital system for wood traceability.

1.b. The forestry sector provides a major contribution to the economy and grew to become a key driver in Gabon's diversification agenda

While oil remains the main contributor to Gabon's economy, the forestry sector generates thousands of jobs both in urban and rural areas. Oil remains the leading sector of the economy, accounting for nearly 70 percent of exports and 23 percent of GDP in 2023. However, faced with challenges related to a potential gradual depletion of oil reserves and price volatility, the government has been seeking new avenues to diversify its economy. Through certification requirements, strict logging thresholds, and incentives for a local wood industry, Gabon has been able to transform the wood sector into a major source of jobs and exports. The timber industry has thus increasingly become a major pillar of Gabon's economy, accounting for 3.2 percent of GDP and 6 percent of exports in 2023.[29] It is now the country's largest private employer, providing nearly 15,000 jobs in 2022.[30] Increased employment in the sector is largely attributed to the expansion of wood processing industries in the Gabon Special Economic Zone (GSEZ) in Nkok since 2009. The sector is seen as a crucial element in the economic diversification strategy being prepared under the National Development Plan for the Transition (PNDT). It already figured as a key future growth driver in the Emerging Gabon Strategic Plan (PSGE), the development plan launched in 2009. The wood industry has indeed a strong potential to become an even more prominent growth driver. Yet, challenges persist to combat illegal logging and to achieve higher levels of wood transforma-

28 Nature Economy and People Connected. 2017. Timber Legality Risk Assessment - Gabon. May.

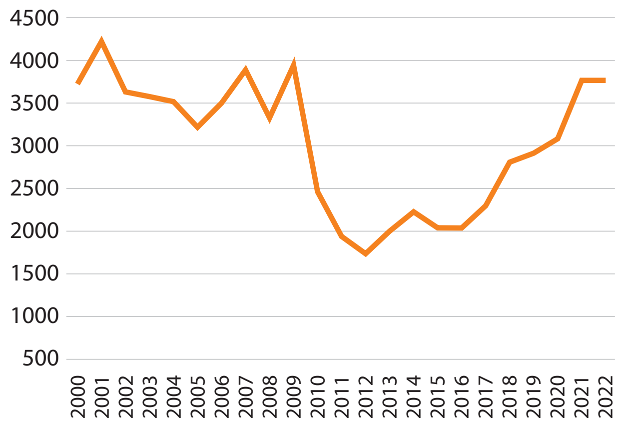
29 General Directorate for the Economy and Fiscal Policy, Ministry of Economy and Participations of Gabon.

30 Government of Gabon. 2023. Tableau de Bord de l'Economie. Situation 2022 – Perspectives 2023-2024. No. 53. October. Ministry of Economy and Participations. General Directorate for the Economy and Fiscal Policy.

tion. Reforms to improve the fiscal policy for this sector can help achieve the goals of further developing a sustainable local wood processing industry, to boost job creation and to increase the value-added of its exports.

Gabon stands out from other CEMAC countries in terms of its relatively developed wood processing industry. Since the decision to ban logs exports in 2009, timber produced in Gabon has increasingly been processed locally. The decision initially sparked difficulties for exporters and led to a drop in exports, from 3.9 million m^3 in 2009 to 1.9 million m^3 in 2011[31] (Figure 23). However, since then, exports have rebounded and caught up to pre-2010 levels, with more value added, benefiting the economy and tax revenues. The number of wood processing units increased from 82 in 2009 to 197 in 2020, of which 70 were located in the Nkok Special Economic Zone.[32]

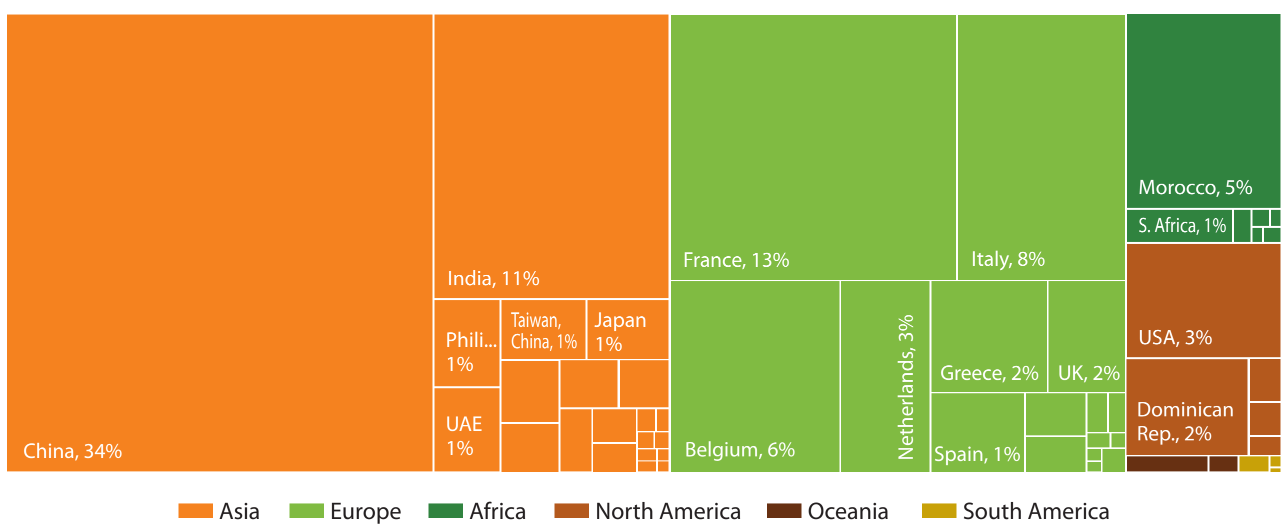
Figure 23. Gabon's industrial roundwood production quantity (1000 m^3)



Source: ITTO.

Currently, over 50 percent of Gabon's forest product exports are directed to Asian markets, which have become the main destination for wood produced in Central Africa over the past few decades (Figure 24). In 2022, Gabon's main trading partners for wood exports were China, France, India, Italy, Belgium, and Morocco.[33] Although it produces less industrial roundwood than Cameroon, which is the largest producer in the region, Gabon manages to offset this by adding more value to its production and exports. In 2022, the country exported over USD 700 million worth of primary processed wood (Figure 25). Most of these exports consisted of sawn wood and veneer, which are more processed forest products than industrial roundwood. Production of secondary processed wood, such as furniture and moldings, has steadily increased in re-

Figure 24. Gabon's top wood export destinations in 2020



Source: WITS

31 ITTO. 2024. *The International Tropical Timber Organization (ITTO)*. https://www.itto.int/biennal_review/

32 Timber trade portal. 2024. *Forest resources.* https://www.timbertradeportal.com

33 WITS. 2024.

cent years, although there are still opportunities to increase production levels. In 2022, exports of secondary processed wood reached USD 21 million (Figure 26).

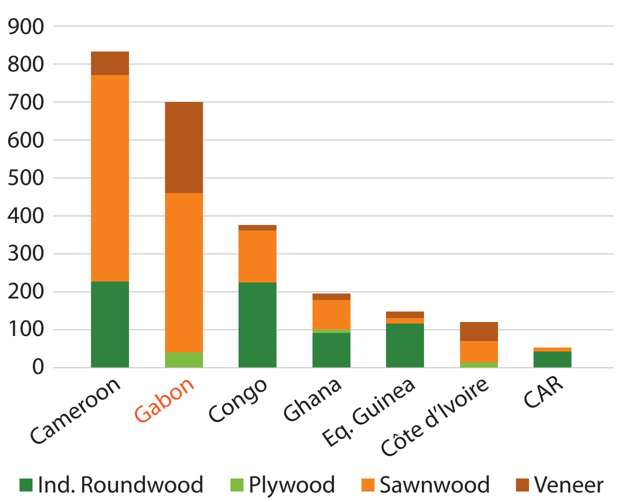
Efforts are underway to tackle labor skills gaps and enable further expansion of the wood industry. The value added by wood processing helps increase income for businesses and workers and allows the country to earn more tax revenues. When properly managed, local wood processing can lead to economic and environmental benefits, contributing to job creation, income growth, exports and tax revenues, while maintaining high conservation levels and a sustainable use of forest resources. The availability of labor skills is a challenge for higher level of wood transformation, as the country faces mismatches between skills and jobs, which leads to high unemployment rates, in particular for the youth. To meet this need, a vocational training center dedicated to the wood industry was built in the Nkok area with World Bank support in 2023. Training programs started in February 2024, and should contribute to the sector's expansion, with benefits for wood revenues and job creation.

The strategy to increase local agricultural production to create more jobs and reduce dependence on costly food imports could pose a challenge for forest conservation, which the authorities aim at addressing through the land use plan. Finding a delicate balance between agricultural development and the preservation of forests and biodiversity will be critical. With support from the UN-led Central African Forest Initiative and other partners, a national land use plan (*Plan National d'Affectation des Terres*) is being developed by the government to ensure the protection of forest areas. An Interministerial commission was created in 2017 to determine land uses for the national territory, to align economic activity with social and environmental goals, and optimize the use of natural resources. The plan had established land uses for different sectors, including forestry, protected zones, agriculture, fisheries, urban areas, transport infrastructure, oil and mining activities. It sets the institutional framework for concessions and permits for forest and agricultural land use.[34] With a continued effective implementation and compliance with the land use plan and conservation policies, there is room for further development of agricultural and fishing activities in a sustainable manner, aligned with the country's goals.

1.c. Gabon is an important carbon absorber thanks to its forests; going forward, the forestry sector will play an increasing role in the country's climate commitments

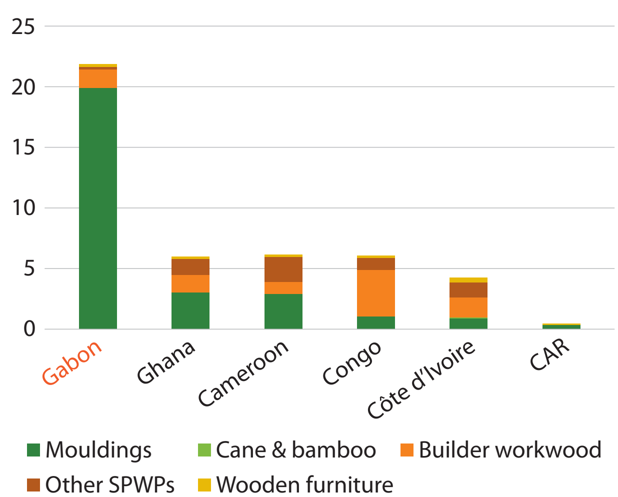
Each year, Gabon's forests absorb approximately 140 million tons of CO_2, underlining the critical global im-

Figure 25. Exports of primary processed wood products, 2022 (USD millions)



Source: ITTO.

Figure 26. Exports of secondary processed wood products, 2022 (USD millions)



Source: ITTO. Note: SPWP = Secondary Processed Wood Products.

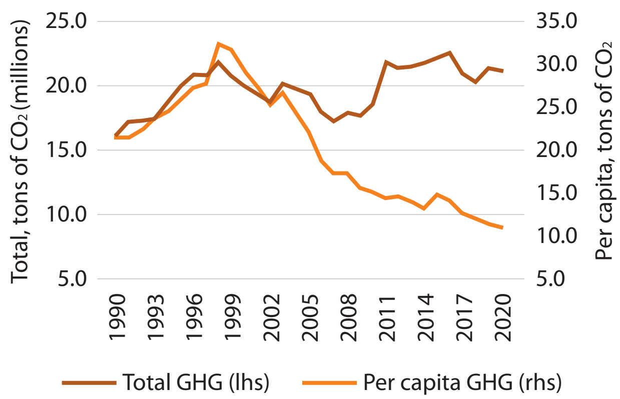
34 Commission Nationale d'Affectation des Terres. https://www.cnat-gabon.com/

portance of Gabonese forests in the fight against climate change. After the oil and gas sector, land use change and forestry are the second largest contributors to total emissions, accounting for 6.3 million tons, or 25 percent of total emissions (Figure 28). Following this are industry sectors, electricity, waste, manufacturing, and construction, totaling 4.8 million tons. Total greenhouse gas emissions have only slightly increased over the past 20 years, rising from 20 million tons in 2000 to 21 million tons in 2020, representing 0,04 percent of global emissions. Regarding per capita emissions, they decreased from 29.3 tons in 2000 to 10.5 tons in 2021, thanks to reduced deforestation through conservation efforts (Figure 27). In terms of emissions per capita, Gabon ranks second in CEMAC after Equatorial Guinea, which stood at 11.3 tons per capita in 2021.[35]

In its nationally determined contributions (NDC), Gabon pledged to remain carbon-neutral up to and beyond 2050, with a net carbon absorption capacity of at least 100 million tons of CO_2 per year. Adopted by governments around the world following the 2015 Paris Agreement on climate change, NDCs present each country's contributions to achieving the goals of this treaty. In the case of Gabon, the state made a strong pledge to remain carbon-neutral. However, the government emphasized that this will require international support in terms of financing, technical support, technology transfer, uninterrupted access to the timber market, and support to efforts to exit the oil and gas economy. Unlike other NDCs in the region, such as those of Cameroon, Congo, and CAR, Gabon's NDC does not provide an estimation of the amount needed to meet the stated commitments. In 2030, in a "controlled" scenario, emissions for the forestry sector are estimated at 30,4 million tons of greenhouse gases (GHG), representing an emissions reduction of 54,7 million tons or 64 percent compared with the "business as usual" scenario. In its NDC, the government considers sustainable harvesting and local processing of wood into finished and semi-finished products for export as the main mechanisms to maintain forests' sequestration capacity.[36]

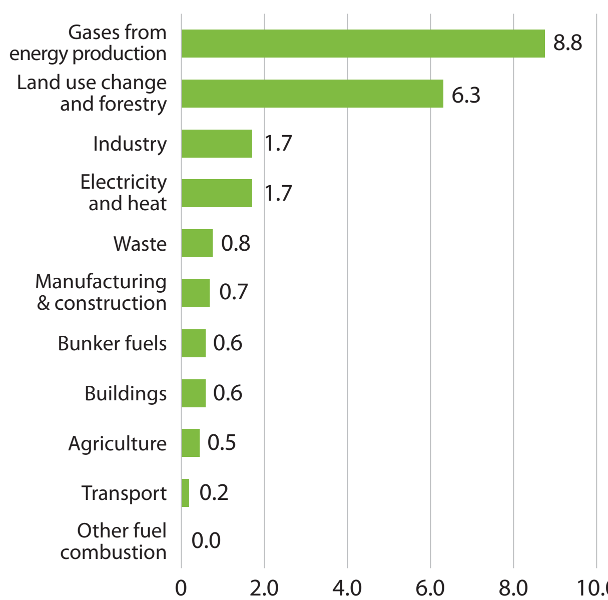
Securing land tenure for forest communities and enforcing the benefit-sharing of forest revenue is central to combating deforestation, improving local communities' social conditions, and strengthening social cohesion. Research shows that when effectively implemented, granting participation rights to local actors in forest governance can enhance forest management.[37] When communities have a direct stake and decision-making power in managing their local forests, they are more likely to adopt sustainable practices that align with their long-term inter-

Figure 27. Gabon's total and per capita GHG emissions, 1990-2020



Source: Climate Watch.

Figure 28. Gabon's GHG emissions by sector, million tons, 2020



Source: Climate Watch.

35 Climate Watch. 2024. https://www.climatewatchdata.org/data-explorer/historical-emissions?historical-emissions-data-sources=climate-watch&historical-emissions-gases=all-ghg&historical-emissions-regions=CMR&historical-emissions-sectors=&page=1

36 Gabon NDC. 2022. Nationally determined contributions (NDCs). https://unfccc.int/documents/497489

37 Klooster and Masera, 2000; Smith and Scheer, 2003; Veit, 2019.

ests. By receiving a portion of the revenues from activities such as sustainable timber harvesting, non-timber forest product collection, or eco-tourism initiatives, communities become invested stakeholders in the responsible management of these natural assets. Additionally, the income generated through revenue sharing can be reinvested in community development projects, education, healthcare, or alternative livelihood opportunities, further strengthening the connection between forest conservation and local well-being. Community-based forest management and forest revenue benefit sharing foster a sense of ownership and responsibility among community members, encouraging them to protect the forests from overexploitation and illegal activities. For full effectiveness, community forestry programs need clear tenure rights, capacity building, and support from higher levels of governance.

Gabon was one of the early adopters of community forestry, recognizing the need to restore usage rights to local communities. The creation, implementation, and management of community forests in Gabon are governed by the 2001 forest code. This law grants local communities the right to use forests while promoting sustainable forest management principles. Permits for community forests were initially launched in the Ogooué-Ivindo province in 2013 and relaunched in 2022. Gabon has 85 community forests under definitive conventions, 39 under provisional conventions, and 45 reserved by decision. These categories cover more than 750,000 hectares, representing 3 percent of the country's total forest area.[38] Community forestry in Gabon offers an opportunity for local populations to benefit from forest resources and to participate in income-generating activities and sustainable management practices. The forest code also foresees that concession holders need to contribute to public interest activities developed by local communities. Implementing regulations were introduced in 2014 through a collaborative process, resulting in the establishment of a fee paid by forestry operators aimed at supporting local communities. A pilot phase led to the signing of benefit-sharing agreements between 26 local communities and eight forestry concession holders in 2016. However, insufficient implementation has led to legal disputes involving communities that did not receive benefits, indicating that there is a potential for efforts to further strengthen community forestry and benefit-sharing mechanisms.[39]

2. Climate and forestry policies from a regional and global perspective

2.a. Global climate financing is becoming an ambitious agenda, but building an effective and substantial mechanism capable of responding to countries' needs remains a challenge

Recent years have seen a notable uptick in international funding for sustainable forest management in the Congo Basin region, but international commitments are still insufficient and often lack quantifiable and transparent targets, leaving a gap between pledges and results. This trend of rising global commitments is exemplified by the UN-led Central African Forest Initiative (CAFI) and the Congo Basin Joint Donor Statement issued at the UN Climate Change Conference in 2021 (COP26). Supported by several major donors, it earmarked an ambitious USD 1.5 billion for distribution across six Central African countries from 2021 to 2025.[40] Letters of intent signed between CAFI and national authorities have further solidified commitments, amounting to USD 465 million. Yet, when set against the stark backdrop of the Congo Basin's needs for forest protection—a sum that dwarfs these commitments—one cannot help but perceive a mismatch between scale and ambition. Also, there is a discrepancy between commitments and realizations, as evidenced by the Congo Basin's relative international underfunding for climate action, when compared to other tropical forest regions. The Amazon Fund has received USD 1.3 billion in donations since its establishment in 2008, and additional USD 640 million had been pledged in 2023.

At the national level, policies are being implemented but distributive and interagency coordination challenges can hinder climate action and social goals. Regarding national climate financing, a first key step taken in Gabon has come through regulation No. 019/2021 of September 13, 2021 on climate change, which established the Climate Issues Management Body, an entity responsible for setting up a national carbon credit market. On budgetary policies, certain governments in the Congo Basin earmark budget lines for forest conservation and protected area funding, but the objectives and actions of differ-

38 Kahondwa, P. 2024.

39 Client Earth. 2021.

40 The COP26 Congo Basin Joint Donor Statement was supported by the Bezos Earth Fund, Belgium, the EU, France, Germany, Japan, the Rep. of Korea, the Netherlands, Norway, Sweden, the UK, and the US.

ent ministries often are hindered by lack of coordination, diluting the potential impact of these funds. The situation is further complicated when considering funding distribution. Funding allocated to local communities, communal forests, rural women, smallholder farmers, and indigenous populations remains scarce.

Global initiatives to reduce emissions from deforestation have emerged as potential financial lifelines for the Congo Basin forests, but so far these have been insufficient to meet their goals. Initiatives include voluntary carbon markets and the UN-led REDD+, a framework to encourage developing countries to reduce emissions through sustainable forest management. Gabon became the first African nation to receive performance-based payments through REDD+, securing USD 17 million of the anticipated USD 150 million through CAFI (Box 4). While this development is laudable, it underscores a broader issue: the funding flows through REDD+ are a trickle rather than the needed torrent. More substantial and sustained support from the global community remains needed. For instance, Gabon has not been able to obtain funding for the 90 million tons of carbon credits that were certified in 2022. Carbon credits and other green financing mechanisms are arguably still at an embryonic stage and need to be stepped up by international donors if serious efforts are to be made to support countries that continue to maintain forests and that provide other environmental public goods.

In the absence of stronger global climate financing instruments, part of the solution to achieve financing and environmental goals can come in the form of fiscal reforms to optimize forest resources. Gabon has been aiming at carbon credits to mobilize the necessary resources to achieve forest protection and CO_2 mitigation goals, but global solutions need to be further developed to meet financing needs. Although strides have been made towards financing forest conservation in Gabon and the Congo Basin more broadly, the situation remains fraught with challenges and complexities. The remedy could lie in refining fiscal policies to optimize forestry revenues derived from sustainable uses, and in channeling existing domestic funds more effectively towards forest protection in line with social and economic goals.

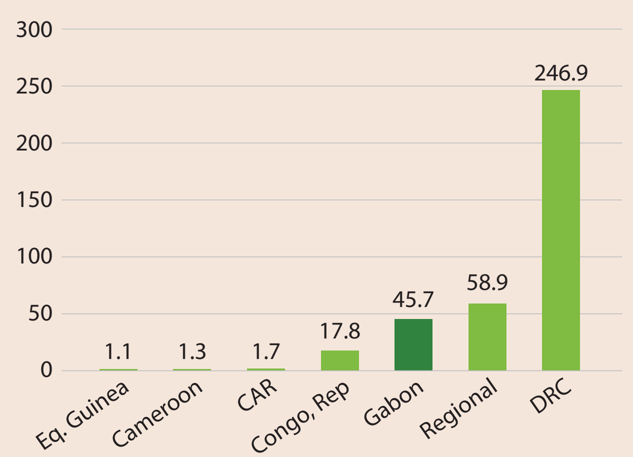
Forest-related fiscal policy instruments and results-based financing are interconnected through their shared goal of promoting sustainable forest management and conservation. Fiscal policy instruments, such as Pigouvian taxes and subsidies, are designed to influence

Box 4. CAFI support to Gabon

The Congo Basin forest is the world's largest carbon sink. Despite its historical preservation, this tropical forest, the world's second largest, is currently under growing pressure. While forests serve as vital carbon sinks, they can also become sources of greenhouse gas emissions if they are destroyed or degraded. Land use and forestry sectors are major contributors to greenhouse gas emissions in Central Africa. Yet, emissions remain significantly lower than the absorption capacity of these forests, estimated at 1.1 billion tons of CO_2 annually, equivalent to 3 percent of global emissions. Central African nations face various development challenges, including persistent poverty, lack of economic opportunities, food insecurity, and gaps in public services and energy access, all of which impacts sustainable forest management. Successful forest preservation in Central Africa requires substantial international support for transformative reforms and ambitious investments on the ground, alongside pragmatic efforts to address the underlying causes of deforestation.

To contribute to forest preservation, in 2015 a coalition of mainly European governments and international organizations including the UNDP, FAO, and the World Bank created the Central Africa Forest Initiative (CAFI). Led by the UN, it aims to slow down forest loss and degradation in the Congo Basin. This multi-donor coalition was thus set up to improve coordination and mobilize resources to support Central African countries. CAFI aims to be both a trust fund that supports direct investments related to forest and biodiversity preservation and a high-level political dialogue platform. This initiative works closely with the UN-REDD Program and builds on the work of other initiatives in the region, such as the Congo Basin Forest Fund. In 2021, Gabon became the first country to benefit from a USD 17 million envelope from CAFI thanks to its proven efforts to reduce over 5 million tons of CO_2 with REDD+ initiatives implemented during 2016 and 2017 compared to annual emission levels from 2006 to 2015.[41] This first payment was made under the agreement signed with Gabon in 2019 for a total USD 150 million to be distributed over ten years. Although encouraging, this payment remains insufficient considering the country's immense needs in forest management and its broader contribution in providing a global public good through forest preservation.

CAFI monetary transfers (2015-2024), in USD millions



Source: UN.

the behavior of forest stakeholders by making sustainable practices more financially attractive. For instance, in Nepal, fiscal policy instruments have been used to address issues related to revenue sharing and benefit distribution among community forest user groups, although inconsistencies in these policies have hindered their effectiveness. Similarly, in India, intergovernmental fiscal transfers have been employed to support forest conservation, but the design of these transfers is crucial for achieving desired conservation outcomes. On the other hand, results-based financing links financial rewards to the achievement of specific, pre-defined results, such as reduced deforestation or improved forest governance. This approach is central to initiatives like REDD+ (Reducing Emissions from Deforestation and Forest Degradation), which mobilizes financial resources based on verified emission reductions. The integration of fiscal policy instruments with results-based financing can enhance the effectiveness of both approaches by providing continuous financial incentives for sustainable practices while ensuring accountability and measurable outcomes. For example, Gabon's use of a 'bonus-malus' (feebate) fiscal instrument mechanism in forest policy—as applied to the land area fee—demonstrates how aligning fiscal measures with sustainability certification standards can improve fiscal resource distribution and policy performance. Overall, the synergy between fiscal policy instru-

41 CAFI. 2022.

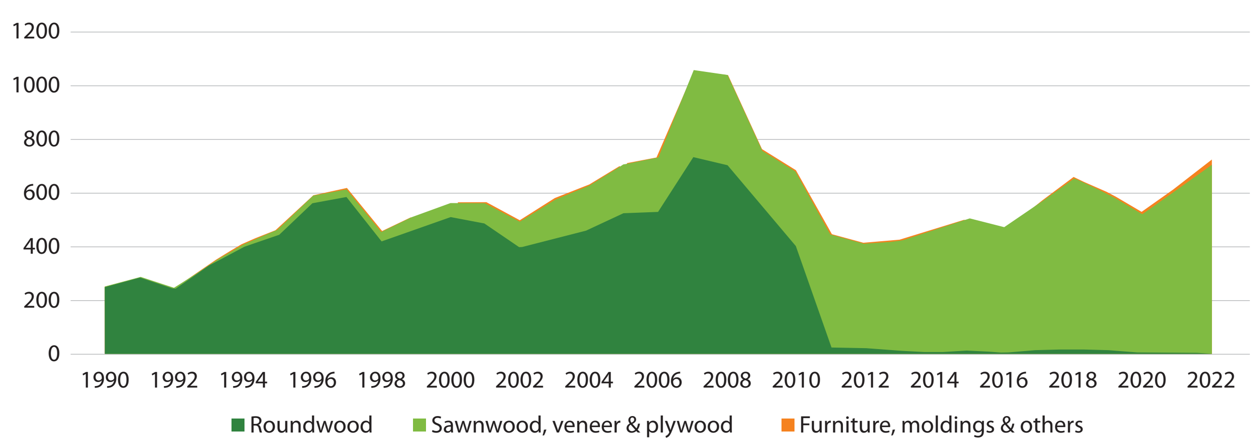
ments and results-based financing can create a robust framework for achieving sustainable forest management and conservation goals.

2.b. The log export ban in Gabon and CEMAC: could this be an answer to promote higher added value for local industries?

CEMAC countries have moved towards a planned log export ban to promote local timber processing and sustainable forest management, but ensuring enabling business conditions will be key for firms to be able to generate higher local added value for wood products. This significant policy shift, initially slated for January 2023, has been subsequently postponed in certain CEMAC member states, to allow sufficient time to adapt. Setting up the right conditions for local production is needed to avoid this ban from becoming an additional regulatory burden on firms. The development of local wood industries will require not only appropriate fiscal and forestry policies, but also labor skills, access to roads, energy, financing, and other necessary conditions. This initiative is a facet of a broader regional strategy, the Sustainable Industrialization Strategy of the Timber Sector in the Congo Basin, designed to reconcile environmental stewardship and industrial development. The strategy envisions the establishment of special economic zones focused on wood processing, a regional committee to oversee industrialization efforts, and the development of plantations in accordance with sustainable practices. Furthermore, it advocates for the creation of educational institutions to nurture a new generation of professionals in the timber sector, supported by a harmonized forest code and a unified forest taxation policy. The African Development Bank is expected to play a pivotal role in financing this transformative project.

Ahead of other countries in the region, Gabon had already enacted a total ban on log exports in January 2010, which helped to increase the contribution of local wood industries to economic diversification. A regional ban on log exports across the entire Congo Basin will represent a veritable turning point and should have significant economic impacts. This policy has significantly shaped the timber sector in Gabon, leading to the development of a substantial number of timber processing units. As mentioned, wood exports dropped immediately after the ban, but have since then regained in importance and shifted to higher value-added products. Overall export levels have remained below those registered during commodity boom years in the early 2000s, but exports of higher levels of processing have strongly increased. Exports of processed wood, including sawn wood, veneer, and plywood, were more than two times higher in 2022 compared to their peak before the log export ban, in 2008. Exports of furniture, moldings, and other products involving higher processing levels remained relatively smaller but have multiplied by twelve between 2008 and 2022 (Figure 29). The Gabonese log export ban has been credited with enhancing the value added by the timber industry to the national economy, tripling the sector's contribution to Gabon's GDP and employment.

Figure 29. Wood exports in Gabon (USD millions)



Source: ITTO. 'Furniture, molding & others' includes wooden furniture, builder woodwork, moldings, cane and bamboo, and other processed wood materials.

This export ban, however, may inadvertently catalyze a shift in forest exploitation activities to other nations within the Congo Basin, underscoring the inherent limitations of unilateral measures. Gabon continues to enforce its log export ban and further seeks to strengthen its local timber processing capabilities. Yet, regional coordination is essential. The collective ban by the CEMAC countries would not only be a policy shift but a broader realignment, recognizing the intertwined fates of nations in the region in their attempts to limit deforestation and promote sustainable forest management. It represents a recognition that the preservation of the Congo Basin necessitates a shared vision and collective action.

2.c. What will be the impact of the EU regulation on deforestation-free products for CEMAC countries?

Adding to the complexity of CEMAC regional initiatives, the European Union, a major export market for CEMAC, has taken significant steps to restrict the import of commodities linked to deforestation. A new EU Regulation on Deforestation-Free Products entered into force on June 9, 2023, and will be applicable from December 2024. It was adopted as part of a broader effort to mitigate climate change and biodiversity loss, and to integrate forest conservation into trade policies. This regulation aims to ensure that a range of products sold within the EU do not originate from deforested land in other parts of the world. This includes wood products, meat products, cocoa, coffee, palm oil, soy, rubber, charcoal, and printed paper products. The regulation has three key elements: due diligence requirements, risk-based controls, and penalties for non-compliance. First, companies will need to provide a "due diligence" statement confirming that their products do not come from deforested land and have not led to forest degradation, including of irreplaceable primary forests, after December 31, 2020. This also includes compliance with relevant legislation of the producing (exporting) country on human rights and rights of indigenous peoples. Second, the EU will classify countries or regions as low-, standard-, or high-risk. Products from low-risk countries will undergo a simplified due diligence procedure, whereas higher-risk countries will be subject to more rigorous checks. Third, companies that fail to comply with these rules could face significant fines, with a maximum amount set at 4 percent of the firm's EU annual turnover.

The EU deforestation regulation could incentivize sustainable forest management in Congo Basin countries, but may have limited impact on Gabon since its log export ban already aligns with the EU's environmental objectives. By requiring stringent due diligence and traceability, the EU regulation sets a higher standard for environmental monitoring, reporting, and verification systems, which could encourage countries to adopt more sustainable practices. This, in turn, could lead to policies and practices that prioritize forest conservation and sustainable land use, aligning with the EU's environmental standards to maintain access to its market. Over time, the EU's approach could lead to more stringent environmental standards in other regions. However, its effect may be less pronounced in some countries since it will depend on various factors, such as the relevance of other importing markets; the regulatory cost burden and local political will; the capacity of local industries to comply with these standards; and the support from international bodies and NGOs in facilitating compliance. As for Gabon, its log export ban and efforts in promoting processed timber are aligned with the new EU regulation. Its timber industry focuses on exporting a variety of finished and semi-finished wood products, mainly to markets in Asia, the EU, and North America.[42] These higher-value products are in a better position to comply with EU and other international regulations and standards, including those aimed at reducing deforestation and promoting sustainable forest management, giving Gabon an advantageous position.

Also, Gabon and other CEMAC countries are involved in the Forest Law Enforcement, Governance and Trade (FLEGT) Voluntary Partnership Agreements (VPAs) with the EU, which aim to ensure that EU's timber imports are legally sourced. The agreements involve defining a legality standard and setting up a Timber Legality Assurance System that covers the entire supply chain, and have led to increased transparency, stronger civil society organizations, and more forest revenues being distributed to communities (Box 5). Cameroon, for instance, has seen important progress in managing timber supply chains and strengthening independent monitoring, demonstrating the impact of FLEGT licenses and VPAs on improving forest governance and reducing illegal logging activities.[43] For the case of Gabon, the country began negotiating a VPA with the EU in September 2010. Despite initial progress, ne-

Box 5. Political challenges and the role of governance: cross-cutting issues in sustainable forest management

The promotion of sustainable forest management in CEMAC countries faces several cross-cutting issues, including weak governance structures and political economy constraints. Effective governance is crucial for sustainable forest management. Yet many regions, including CEMAC, suffer from inadequate governance capacity, which hampers the adoption of forest certification and other sustainable practices. Institutional and structural obstacles, such as insufficient funding and lack of technical forestry operations training, further impede the effective involvement of local communities in forest management, which can lead to overexploitation and degradation. Additionally, the presence of multiple, overlapping, and independent actors along the value chain can create trust and credibility issues, complicating the implementation of policies like the Voluntary Partnership Agreement (VPA) with the European Union.

Political economy issues, such as the influence of economic sectors like agriculture, bioenergy, and mining, can also pose significant challenges, necessitating coherent international policy cooperation and integrative actions to align these sectors with sustainable forest management goals. Moreover, the high transaction costs associated with implementing and enforcing rules to reduce overharvesting can deter effective forest governance, especially under conditions of environmental and institutional uncertainty. The uneven progress in sustainable forest management achieved in different parts of the world highlights the need for long-term forest management plans and clear ownership of forests to prevent deforestation and degradation. Despite the global expansion of sustainable forest management, the gap between developed and developing countries often remains wide, necessitating multi-dimensional solutions involving coordination among various stakeholders. Finally, the socio-economic benefits of forests are often undermined by poor governance, which calls for systematic analyses and targeted efforts to improve administrative systems and promote positive changes. Addressing these cross-cutting issues is essential for achieving sustainable development and ensuring the resilience of forest ecosystems and a more socially and economically optimal use of forests in CEMAC countries.

42 Timber products produced in Gabon include: (i) industrial roundwood and sawn timber, which are primary products with lower transformation levels. In the case of sawn wood, it involves cutting logs into planks, which are easier to transport and fetch higher prices on international markets; (ii) veneer and plywood, which are made by slicing large logs into thin layers, and are then either used as is (veneer) or glued together to form plywood (this process adds value to the wood and is particularly favored in the manufacturing of furniture and for construction purposes); (iii) particle board and fiberboard, which are engineered wood products made from wood chips, sawmill shavings, or even sawdust, and a binder, which are pressed, extruded, and commonly used in furniture manufacturing; (iv) moldings and joinery, which include processed wood used for door frames, window frames, and other detailed woodwork in buildings.

43 Chatham House. 2024.

gotiations underwent delays, but Gabon expressed intent in 2019 to relaunch negotiations. The regional and international forest regulations and governance arrangements demonstrate a multi-faceted approach in CEMAC countries to combat deforestation and promote sustainable forest management. By incorporating both legislative measures and collaborative initiatives, these efforts aim to ensure the conservation and sustainable use of forest resources, contributing to global objectives of biodiversity conservation and climate change mitigation, while promoting local industries, job creation, and higher-value exports.

3. The role of environmental fiscal policy: trade-offs in the forestry sector

3.a. How can fiscal instruments contribute to public finances and to sustainable forestry?

Numerous strategies exist for forest conservation, yet their efficacy varies significantly, particularly in the context of nations with limited resources and strong development needs. Countries in different parts of the world have adopted an array of policies, including regulatory mechanisms, voluntary instruments, and economic incentives (Table 5). Regulatory mechanisms, such as mandated standards and prohibitions, have shown promise in meeting conservation goals. Nevertheless, they demand substantial administrative and enforcement infrastructure and may not be as cost-effective as alternative economic measures. Certain economic instruments, such as policies based on results-driven spending, also require specific governance structures, institutions, and administrative frameworks. Some of these policies, like REDD+, are dependent on financial support from international benefactors.

Conversely to other instruments, climate-smart fiscal policy instruments applied to the forestry sector are, in principle, a cost-efficient strategy that can lead to significant results. Forest-related fiscal policy instruments can complement forest conservation and management strategies. A holistic approach, incorporating regulations, informational measures, and various economic strategies adapted to the local reality, including policies based on results-driven spending, is crucial for a comprehensive and effective conservation framework. Indeed, environmental taxes can enhance the effectiveness of these strategies, enabling policymakers to fulfill environmental and climate goals more affordably, while contributing to public finances. When thoughtfully crafted, these fiscal instruments have the potential to produce benefits for the environment and the national budget (Box 6).

Forest taxes are often used to boost government revenues, but they tend to involve imperfect, asymmetrical information, especially in regards to tropical timber and fragile states. They aim at capturing the "stumpage value" of a production forest, that is, an economic rent, a profit in excess of "normal" return.[44] By focusing on the "stumpage

Table 5. Selected approaches and policy instruments for sustainable forest management

Regulatory approaches	Information & voluntary instruments	Economic instruments
• Restrictions or prohibitions on use (e.g. restrictions on trade on illegal timber) • Restrictions or prohibitions on access and use (e.g. designation of protected area) • Permits and quotas • Quality, quantity, and design standards (e.g. minimum harvesting diameters) • Spatial planning (e.g. ecological corridors) • Planning tools and requirements (e.g. environmental impact assessments, strategic environmental assessments)	• Ecolabeling and certification (e.g. sustainability certification) • Green public procurement • Voluntary approaches (e.g. negotiated agreements between firms and governments) • Corporate environmental accounting • Conditional credit	• Results-based expenditure policy (payments for ecosystem services, REDD+) • Subsidies • Environmental taxation (taxes, charges and fees, royalties) • Tradable permits • Biodiversity offsets/biobanking • Liability instruments (noncompliance fines) • Performance bonds

Source: World Bank. 2021, adapted from OECD. 2013.

44 Gillis. 1992. The stumpage value corresponds to the market price of the wood production (that is, a mix of logs, sawn wood, by-products, and finished products) minus the cost associated with logging, forest management, transport, processing, marketing, and a "normal" profit. Corporate taxation should also be deducted to obtain the stumpage value of a forest management unit.

value," or the net value of forest production after accounting for various costs, governments can leverage taxes as a tool for securing revenues that might otherwise be lost to inefficiencies and information gaps. Forest taxation, therefore, can be viewed as a way of capturing the forest economic rent not collected by corporate taxation, in a context of asymmetrical information between companies and governments about the prices and costs of timber operations. In certain cases, species are traded in small quantities on few markets, making the information on sales prices difficult to obtain. Relative prices are constantly evolving, not only among species but also between logs and processed products. In addition, companies can reduce their tax base, often through transfer pricing practices, and due to understaffing tax authorities can face difficulties to ensure tax compliance. Forest taxes can thus play a critical role by contributing to more revenues for the state.

A well-designed forestry taxation system requires careful planning and understanding of potential impacts. A tax targeting timber production, for instance, might inadvertently encourage practices detrimental to forest health, as it could stimulate illegal logging to avoid taxation. Tax policies need to incentivize methods that align with sustainable forest management principles, ensuring that taxation not only serves fiscal objectives but also contributes to forest conservation. Forestry tax rates can be based on *land area, output levels,* or the *sustainability of production methods*, and the chosen approach will shape incentives for forest conservation and will have varying administrative and governance challenges.

The revenue-generating potential of forest taxes can support policies to keep forested land under its current use, especially if environmental fiscal strategies are used. Such taxes can serve as a counterbalance to pressures to promote land conversion to other uses such as agriculture. However, traditional forest taxes do not act as environmentally targeted taxes, since tax rates in practice do not vary based on the size of negative externalities (e.g., emissions) but on the area exploited or volume of timber. While taxes could in principle be levied based on associated environmental damages, this could entail high administrative and monitoring costs. An alternative solution is designing environmental fiscal policies, which can offer a pathway to mitigating deforestation. Options include environmental taxes on exports, fee-and-rebate ('feebate') systems where a fee is imposed on high emission products and a rebate is provided to low emission goods, and ecological fiscal transfers. These innovations underscore the potential of fiscal policy to drive forest conservation efforts, even within the constraints of limited resources. They can also help ensure equitable and effective tax collection from forest resources.

Box 6. The impact of forest-related fiscal instruments on the fiscal space

Forest-related fiscal instruments significantly impact the fiscal space by influencing government revenues and expenditures through various mechanisms. Instruments such as Pigouvian taxation and subsidies, and market-based systems like feebates and certification schemes can either enhance or constrain the fiscal space depending on their design and implementation. For instance, the introduction of feebates, which are budget-neutral mechanisms, can promote sustainable forestry without reducing government revenues, as seen in the promotion of certified timber and agricultural commodities in Central Africa. However, the effectiveness of these instruments can be limited by high administration and compliance costs, as well as the niche market shares that they often occupy, which has been observed in the case of voluntary certifications supported by developed countries.

Several cross-country examples illustrate the varied impacts that forest-related fiscal instruments can have on public finances. In Brazil, the REDD+ strategy, which includes both results-based funding and market instruments, demonstrates how financial resources can be mobilized for emission reductions, thereby impacting the fiscal space through the redistribution of funds across various government levels. In Nepal, inconsistencies in fiscal policy instruments, such as multiple taxation and unclear revenue-sharing mechanisms, have hindered the sustainable management of forest resources and affected the financial situation of community forest user groups, thereby impacting local fiscal space. In Poland, the forest fund model redistributes resources from high-income to deficit-reporting forest districts, although it faces challenges in ensuring fair and optimal distribution. Additionally, the implementation of financial accounting standards like AASB 1037 in Australia, which mandates the reporting of forest assets' net market value, can influence fiscal space by recognizing changes in asset values as revenues or expenses. The impact of forest-related fiscal instruments on the fiscal space is multifaceted, requiring a balanced approach that considers both economic and regulatory measures to achieve sustainable forest management and at the same time contributing to fiscal stability.

3.b. What are the fiscal instruments used for forestry in Gabon and what are their impacts for firms, jobs, public finances, and the environment?

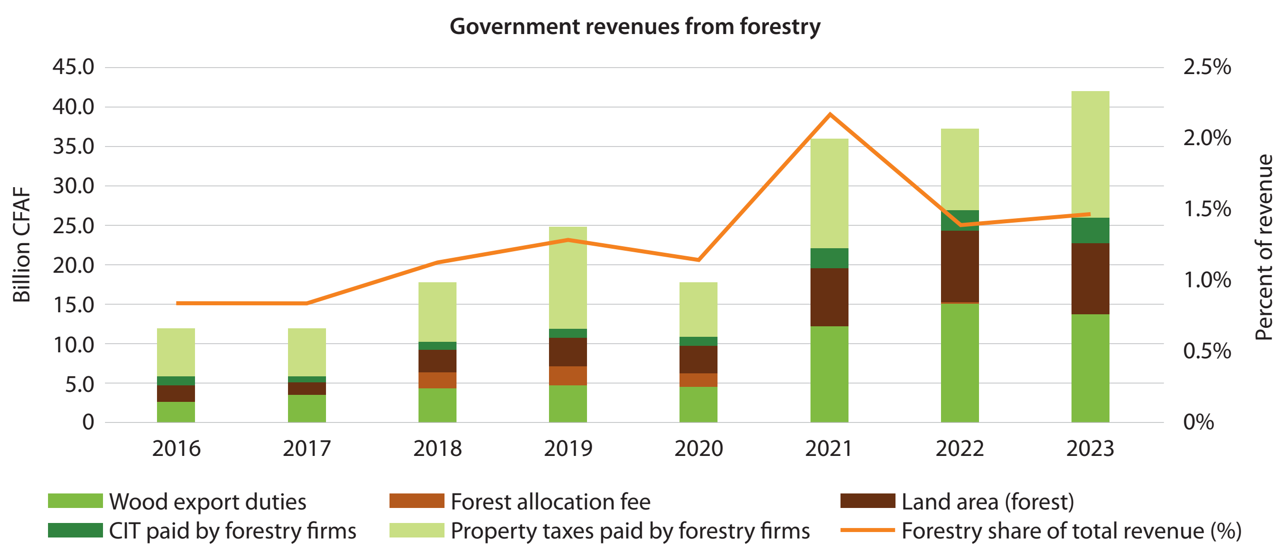
In 2023, the forestry sector contributed CFAF 41.9 billion to the state budget (0.3 percent of GDP), almost four times more than in 2016. Public finances in Gabon remain strongly dependent on oil revenues, but the forestry sector has been increasing in importance, representing about 1.5 percent of total government revenues in 2023. The main sources of revenue came from property taxes, followed by wood export duties, land area fees, and corporate income taxes paid by firms in the sector. Since the log export ban applied in 2010, revenues from forestry have been increasing in line with rising wood production. Yet, trade disruptions and lower demand associated with the COVID-19 crisis impacted revenues in 2020 (Figure 30). This section presents a survey of fiscal instruments for the forestry sector in Gabon, analyzing how they contribute to fiscal, economic, and environmental goals. Fiscal instruments are presented by degree of complexity, going from more traditional instruments to those which attempt to balance and integrate multiple considerations such as environmental targeting and negative externalities,[45] revenue generation, administrative capacity, and strategic state capacity in managing varied vested interests in the forest sector.

Recurrent annual charges

Recurrent annual charges usually consist in property taxes and land area fees. Property taxes are charged on a percentage of the value of the property, which can include or exclude the value of the trees. Area fees are a fixed charge per area of land,[46] and are generally simpler to implement since property taxation depends on regular land evaluation. However, area fees are typically determined by valuations of the forestry concession, which may need to be adjusted over time, usually through competitive auction.

Gabon levies a land area fee on forest firms, an environmentally targeted tax that applies to the sector at rates varying based on the area's level of certification.[47] The 2024 rates are: CFAF 300 per hectare for FSC or PAFC/PEFC certified concessions; CFAF 600 per hectare

Figure 30. Forest-related revenues in Gabon



Sources: Government of Gabon and World Bank staff calculations. CIT = corporate income tax.

45 Tax instruments that aim at addressing negative externalities are based on the Pigouvian principle (named after economist Arthur Pigou), which intends to ensure that the producer of goods and services that cause harmful effects for society will cover that cost.

46 World Bank 2021.

47 The General Directorate of Forests (*Direction Générale des Forêts*) issues forestry permits and estimates the amount to be paid. This information is passed on to the Tax Authority (*Direction Générale des Impôts*), which is responsible for collection and control. Rates are available in the Tax Code (*Code des Impots*, art. 318 and 326) and the budget law and the Tax Authority (*Direction Générale des Impôts*) needs to be consulted for information on revenue collection. The tax rate for non-certified concessions was increased in 2024. Rates had already been increased for non-certified concessions before, from CFAF 400 per hectare in 2012 to CFAF 800 per hectare in 2021.

for legally certified concessions; and CFAF 1,000 per hectare for non-certified concessions.[48] In addition, a fee of CFAF 1,000 per foot is charged for technical services provided by the forestry services. In 2023, the land area fee contributed with CFAF 9.1 billion to the budget, or 0.07 percent of GDP, and its contribution should increase due to the higher rates charged for this fee for non-certified concessions starting in 2024.

In addition, Gabon charges a single property tax (*Contribution Foncière Unique*) on firms, which was introduced in 2023, replacing previous property taxes. It applies to the value of land property and not to trees. This tax is levied at a 20 percent rate for legal entities and 5 percent for individuals. The CFU is not conditional on the sustainability of the landowner's or user's forestry management or agricultural practices.[49] Revenues generated by the property tax are earmarked to fund local governments, and the wood sector's contribution is especially important for municipalities in rural areas where wood activities take place. In 2023, forestry firms paid CFAF 16.1 billion for the property tax, or 0.13 percent of GDP.

The land area tax can be considered as an ecological tax in Gabon, given that a national land use plan is respected and upstream environmental issues are taken into account in the allocation of permits. Gabon's area fee stands in stark contrast to traditional, environmentally non-targeted area fees used in other countries, which have complex, often unpredictable, effects on logging behavior. The response of loggers to fiscal pressures from area fees that do not integrate environmental considerations has, in other countries, shown that increased fees sometimes beckon towards more intensive logging. Higher fees can induce a myopic rush towards exploitation, urging loggers towards premature extraction, as they impose a fixed cost regardless of the volume of timber extracted or the methods of extraction.[50]

48 The Forest Stewardship Council (FSC), Program for the Endorsement of Forest Certification (PEFC), and Pan African Forest Certification (PAFC) are reputable systems for certification of sustainable forest management.

49 Up-to-date information on tax rates is available in the budget law published on the website of the Budget Directorate. Information on amounts collected is obtainable from the tax authority (*Direction Générale des Impôts*) for amounts collected.

50 Vincent, Gibson, and Boscolo. 2003.

Logging licenses and the auctioning of forest concessions

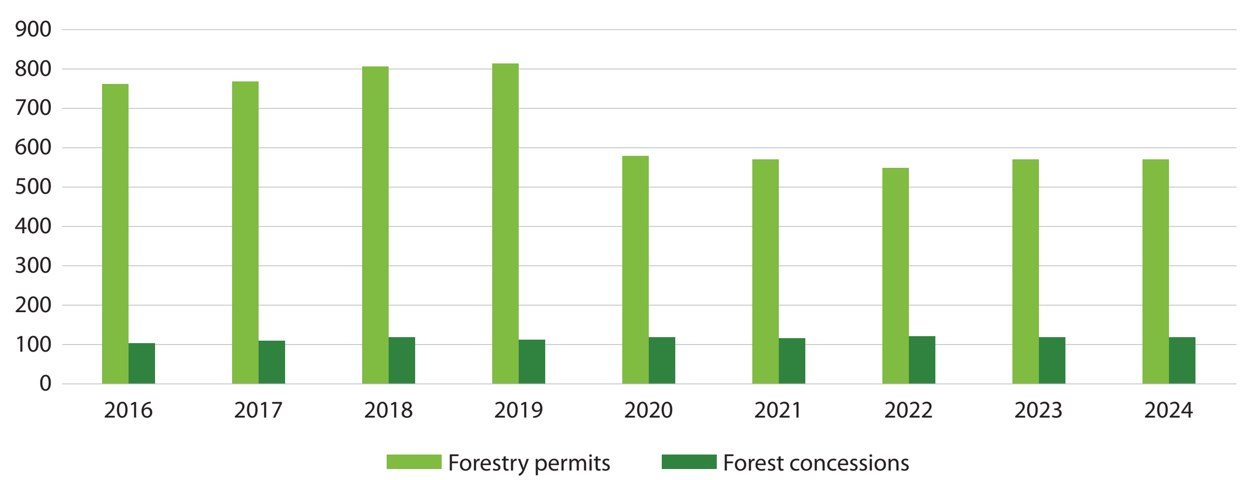
In Gabon, logging licenses are allocated through competitive auction, which integrate sustainable forestry and land management criteria. As of 2024, companies in Gabon operate through 571 active forestry permits, in a territory demarcated within 120 forest concessions (Figure 31). Permits are issued by the General Directorate of Forests in line with the national land use plan, which integrates environmental concerns.[51] As they are issued through a bidding procedure, license fees work as a tax on logging rents. Forestry operators could be willing to bid up to the value of their expected net profits derived from the concession. Such auctioning can thus fulfill two objectives: (i) increasing tax collection by using competition among companies for access to resources; and (ii) countering discretionary allocation of permits through the comparison of proposals and, ideally, the publicity and transparency of the allocation procedure. As forest allocation fees are attributed for a number of years, these fees generated more substantial revenues for the state in 2020, at CFAF 1.7 billion, or 0.02 percent of GDP.

The political economy constraints on competitive auctioning of forestry concessions are often considerable, and Gabon's case could serve as example for other countries. The auctioning of forest permits is often strongly opposed by insiders in the private sector, including the logging and deforestation-linked commodities sectors. At the same time, forestry ministries tend to favor technical criteria over financial ones, and can overestimate their capacity to monitor and enforce the fulfillment of commitments once the permit has been allocated. Gabon's experience could thus inspire other countries in Central and Western Africa to expand the use of auction mechanisms for allocating forest permits.

Output taxes: royalties from harvested timber, stumpage yield taxes, and export duties

Typically, output taxes commonly take the forms of royalties from the market value of harvested timber or a stumpage yield tax, which can have different economic and environmental implications. Royalties are usually a percentage of the timber market value at the time of harvest, and can thus fluctuate based on demand and supply conditions. A stumpage yield tax, in contrast, is a fixed charge levied on the volume of wood extracted, regardless of market value. The choice of output tax has implications for revenue variability. Royalties tend to be more volatile, with higher revenues when prices are high, but lower revenues when prices are down. In contrast, a stumpage yield tax provides a more predictable and stable revenue stream. Also, royalties share the price risk between the timber owner and the harvester (or the government in some cases). When prices are high, both benefit, and when they are low, both earn less. On the other hand, a stumpage yield tax places more risk on the timber harvest-

Figure 31. Concessions and forestry permits attributed in Gabon



Source: Government of Gabon, General Directorate of Forests.

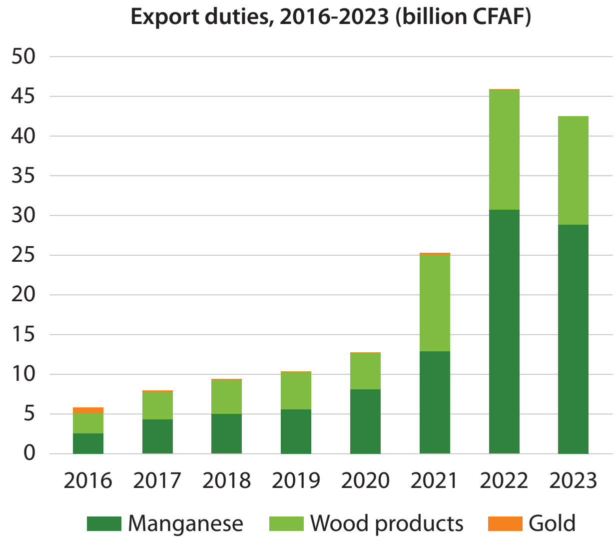
51 Information on the number of permits and forest concessions is available can be made available upon request by official mail to the General Directorate of Forests (*Direction Générale des Forêts*).

er, as they have to pay a fixed rate regardless of the timber's selling price. Moreover, these two output taxes can have mixed, ambiguous impacts on harvesting decisions. Value-based royalties can be an incentive to harvest more when prices are high, potentially leading to unsustainable practices if not well-regulated. In contrast, a fixed stumpage yield tax might encourage more consistent harvesting practices, but could discourage harvesting if the fixed tax becomes economically burdensome during periods of low timber prices. Furthermore, stumpage yield taxes can modify incentives as there is room to modulate tax rates according to the objective of promoting certain species over others, or prioritizing specific locations. Each system has advantages and challenges, and the choice should be made based on economic objectives, administrative capacity, and forestry management goals.

Gabon does not collect royalties from harvested timber and no longer applies a felling tax, but imposes a fixed levy on timber harvested, which goes into a local development fund. Following the ban on log exports, a felling tax was introduced. This tax was more complex than a conventional stumpage yield tax since its rate varied according to several factors involving the species of wood and the land use plan.[52] In 2020, the felling tax was abolished and replaced by a wood export duty. As for Gabon's fixed levy on timber, it is applied at a rate of 800 CFAF per cubic meter and aim at benefiting local populations in wood extraction areas.

Meanwhile, an export duty on timber is also payable in Gabon based on the category of wood processing, incentivizing higher added value in exports. With the abolishment of Gabon's felling tax in 2020, export duties started to apply on processed timber, at rates that vary in order to incentivize greater value addition to the domestic timber processing industry. Wood export duties were increased in 2024, in an effort to mobilize more revenues for the state. In 2024 the tax rates initially introduced in 2020 were raised from: 7.0 percent to 8.5 percent for products having undergone primary processing; from 3.0 percent to 5.0 percent for products that underwent secondary processing; and from zero to 3.0 percent for products that underwent tertiary processing.[53] Export duties applied on timber generated CFAF 13.6 billion of fiscal revenues in 2023, equal to 0.11 percent of GDP and 0.74 percent of

Figure 32. Export duties in Gabon



Source: Government of Gabon, General Directorate of Customs and Indirect Taxes. Prior to 2020, a felling tax was levied at exports, which was replaced with an export duty in the 2020 budget law.

tax revenues (Figure 32). Their contribution to the budget should increase in coming years, in line with the higher tax rates applied since 2024. To ensure administrative control, the Customs Directorate is present when containers are filled and checks export declarations to verify compliance with what was recorded at the time of stuffing.

Timber export duties in Gabon are lower than in certain neighbors, which allows the state to generate revenues while representing a smaller incentive for economic and environmental distortions. Even though export duties were increased in 2024 in Gabon, the economic burden of these taxes remain relatively lower, comparing to some countries in the region. In the Central African Republic, rates vary from 11 percent for logs to 5 percent for sawn timber and 2 percent for 3rd and 4th stage processing levels. In Cameroon the timber export tax is applied at a 75 percent rate, while firms located in an industrial free zone pay a reduced rate of 60 percent on logs and 15 percent on processed wood. Exceptionally high rates can generate undesirable, if unintended, spillover effects. They can decrease competitiveness, disincentivizing exports and investment, and incentivize smuggling, corruption, or

52 The tax rate is defined by Order 005 of 2021 on the wood price list and updated, if necessary, in the budget law. Updated information on the felling tax rate is thus available in the budget law published on the website of the budget directorate (*Direction Générale du Budget*).

53 The 2024 budget law specifies the export duty rates. Information regarding revenues collected can be requested to the customs directorate (*Direction Générale des Douanes et Droits Indirects*).

underreporting of exports. If there is an economic push to process timber domestically due to high export taxes but local processing is wasteful or inefficient, it could lead to greater environmental degradation compared to exporting logs for more sustainable processing elsewhere.

Business income taxes and tax incentives

Forestry businesses are also subject to general taxes on business income, which carry specific implications due to the sector's long investment cycles. Apart from paying sector-specific taxes like export taxes or stumpage yield taxes, firms in the wood sector are subject to corporate income taxes. In forestry, the period from planting trees to harvesting can extend over many decades, which need to be considered in how income taxes are designed and implemented. In many jurisdictions, income from timber is not taxed on an accrual basis, where income is recognized as it is earned. Instead, it is taxed on a realization basis, meaning the income is recognized at the point of harvest. This method recognizes the proceeds from timber, minus the associated costs, only when the timber is actually harvested and sold. The taxation of these proceeds can vary: they may be treated as ordinary income or as capital gains. Typically, long-term capital gains taxes are lower than ordinary income tax rates. When timber proceeds are taxed as capital gains, this usually provides a significant tax benefit because of lower rates normally applied.

In Gabon, companies are subject to the corporate income tax regardless of their field of activity and there are no special provisions for forestry companies. However, cooperatives selling agricultural products benefit from partial or total exemption from corporate income tax. The corporate income tax rate is 30 percent for ordinary companies and 35 percent for mining and oil companies. Over the years, corporate taxes paid by forestry firms increased steadily, from CFAF 1.2 billion in 2016 to CFAF 3.2 billion in 2023, or 0.03 percent of GDP. Yet, firms in the wood sector, many of them operating in the Nkok special economic zone, benefit the most from income tax incentives. In 2023, they received CFAF 18.1 billion in benefits, equal to 96 percent of all corporate income tax benefits and 5 percent of total tax expenditures. Efforts have been gradually made to limit the periods and amounts of tax benefits.[54]

54 Further information on rates and relevant adjustments is obtainable in 2024 budget law and data on total revenues collected from business income taxes are handled by the tax authority (*Direction Générale des Impôts*).

Tax expenditures for agriculture and value added tax exemptions for farm inputs

Without proper regulatory frameworks and sustainable land use planning, tax expenditures can undermine environmental conservation efforts. Tax expenditures for agriculture and VAT exemptions for farm inputs are designed to promote agricultural expansion and productivity. However, when not aligned with environmental objectives, they cause ecological disruptions, biodiversity loss, and increased deforestation. These incentives can inadvertently encourage the conversion of forested lands into agricultural fields, especially in regions where agricultural expansion is the primary driver of deforestation. By reducing the cost of agricultural inputs, VAT exemptions can make it more economically viable for farmers to cultivate larger areas, including areas potentially encroaching on forested lands.

In Gabon, farmers and agribusinesses benefit from VAT exemptions on agricultural inputs. Exemptions apply for imports of agricultural fertilizers and phytosanitary products, as well as for capital goods used in farming and livestock breeding.[55] Also, companies engaged in logging activities receive a specific treatment with regards to the VAT. The VAT does not apply to small firms in all sectors, as companies with annual sales of less than CFAF 60 million are not subject to this tax, but this threshold rises to CFAF 500 million for companies engaged in wood extraction.

Agricultural producers also benefit from property tax benefits in Gabon. Land located in rural areas of less than five hectares, farmed within a radius of 25 kilometers from urban agglomerations, and used exclusively for market gardening are permanently exempt from the single property tax. Buildings used for agricultural or rural purposes, such as barns, sheds, stables, cellars, wine cellars, wine presses and others used either to house livestock or to store crops, are exempt for five years. Moreover, land outside the urban perimeter that has been newly used for raising livestock, or cleared and seeded, is also temporarily exempt. Finally, the property tax is levied based on flat rates per hectare, which vary according to the type of crop.[56]

Reforms in tax incentives for agriculture in Gabon could minimize their fiscal cost and allow them to better support sustainable agricultural practices, with benefits for the economy and the environment. Tax incentives are used in Gabon to promote local agriculture as a means to ensure food security, generate jobs, diversify the economy, and reduce dependence on costly food imports. Fostering local food production is one of the key targets of the 2024-2026 National Development Plan for the Transition, a new strategy being conceived by the transitional government to build a resilient and inclusive economy. However, tax incentives come at a high cost. Tax benefits such as lower VAT rates on inputs and lower property taxes could be redesigned to target agricultural practices that maintain or improve forest cover, use environmentally friendly technologies and practices that contribute to soil conservation and biodiversity, or employ more advanced and greener agroforestry techniques. To mitigate the negative environmental impacts while leveraging the economic benefits of agricultural development, it is crucial to integrate fiscal policies strategically. Reforms can thus promote agricultural growth and environmental sustainability, while avoiding both massive foregone taxes and the pitfalls of unchecked expansion and significant deforestation.

4. Opportunities for climate-smart fiscal policy reform for forests in Gabon

4.a. Calibrating forestry taxes to further incentivize sustainable wood production methods

The fiscal and ecological benefits of forestry taxes hinge on the precise targeting of the tax base and on the design of a taxation approach that incentivizes sustainable wood industries. The environmental impact of timber activities varies greatly depending on the production methods utilized. Taxes on timber products increase the costs of production but ideally, environmental forestry taxes should encourage sustainable production by adjusting tax rates to reflect the ecological footprint of different production methods. Varying tax rates can thus be im-

55 The list of eligible products is produced jointly by the Ministry of Economy and Participations and the Ministry in charge of Agriculture. Information on the amount of the related tax expenditure is available in the tax expenditure report appended to the budget law, including information on the applicable rate and total tax expenditures.

56 Based on the 2024 budget law, single property tax rates of 5 percent apply to the actual rental value for properties held by individuals or companies registered in Gabon and whose partners are all individuals. In other cases, it is taxed at 20 percent. For undeveloped rural properties, the tax base is constituted by the market value which is set at a flat rate per hectare, varying according to the type of crop: (a) land cultivated with coffee, cocoa, oil palms, rubber: CFAF 600; (b) other crops: CFAF 250; (c) land in the 2nd category with adjacent industrial food processing plants for that product: CFAF 150; (d) undeveloped land: CFAF 150; (e) land used for raising large livestock: CFAF 150. 2024 budget law.

posed in accordance with the sustainability of production practices. This innovative approach emphasizes the importance of differentiating tax burdens based on environmental impact of economic activities. This shift represents a nuanced understanding of fiscal incentives, acknowledging that the sustainability of timber production varies across different harvesting techniques.

The integration of sustainability certification into tax policy offers a promising solution to administrative and information challenges that can hinder the implementation of tax policies for sustainable forestry. Despite the potential of commodity tax systems to drive sustainable practices, the practical challenge of varying tax rates based on production methods often lies in the fiscal authorities' limited insight into the specifics of these methods. This informational gap hinders the ability to align tax rates precisely with sustainability practices. To overcome this obstacle, authorities can leverage the detailed assessments conducted by certification agencies. This allows them to align tax rates more closely with the environmental impact of production methods. Offering tax discounts or waivers for products certified as sustainable introduces an incentive structure for producers to adopt more environmentally friendly practices. This approach not only addresses the informational gap but also promotes market formalization by incentivizing legality and sustainability in production processes. The collaboration between fiscal authorities and certification agencies thus exemplifies a synergistic approach to environmental policy, wherein the strengths of each entity are harnessed to achieve a common goal. This partnership has the potential to enhance market dynamics by creating a dual incentive structure, where certified producers benefit from both tax advantages and consumer preferences for sustainable products, contributing to placing a country's exports on a more competitive position in global markets. Moreover, this approach fosters international cooperation by aligning domestic fiscal policies with global sustainability goals, offering a model for international collaboration in forest conservation.

Ultimately, integrating sustainability certification into forest-related tax rates represents a forward-thinking approach to environmental fiscal policy, one that combines fiscal and economic goals with preserving natural assets for the benefit of future generations. Such a strategy acknowledges the complexities of sustainable production and seeks to leverage fiscal instruments in service of a combination of fiscal, economic, social, and environmental goals. As mentioned, they could encompass wood products such as timber and paper, and potentially other commodities such as agricultural and mineral products. By adopting and expanding this strategy, governments can create a more effective, information-driven framework for encouraging sustainable practices in the forestry sector and beyond, paving the way for a more sustainable and environmentally responsible global economy. Fiscal policies that promote sustainable forestry generate global benefits by maintaining carbon absorption. In addition, they can also be used by countries such as Gabon to avoid a path where unsustainable exploitation compromises forest ecosystems, taking instead an approach to forests and other resources that will enable future generations of Gabonese to continue benefiting from the country's rich natural endowments.

4.b. A 'bonus-malus' system in forestry: using taxes on non-sustainable production to finance tax benefits for sustainable practices

A 'bonus-malus' system in forestry consists in applying higher taxes on non-sustainable production to fund tax reductions for sustainable practices. This system is intended to be budget-neutral, where the revenue from higher taxes (maluses) directly funds the reductions (bonuses).[57] This model is particularly relevant in budget-constrained environments in Congo Basin countries. It requires careful calibration to ensure it does not lead to revenue losses for the state. For instance, when applied to taxation based on concessions' certification levels, the mechanism's success depends on accurate forecasting of the transition from non-certified to certified units.

A bonus-malus system in forestry taxation can encourage sustainable forestry practices, but could bring high costs for local firms and small producers and requires robust management and forecasting capabilities. A mismanaged system that fails to evolve in line with changes in production patterns can lead to fiscal imbalances. Another potential challenge is the accessibility of certification systems for national firms and small producers, often due to high audit costs. One solution could be to allocate a portion of sectoral taxation to a special fund dedicated to partially subsidizing audit costs, thus reducing financial barriers for firms. Supporting smaller producers through financial subsidies for certification could also enhance inclusivity and effectiveness.

57 Karsenty. 2024.

Land area fees applied in Gabon are an example of fiscal policies that incentivize sustainable forestry, which could be extended to other taxes in the country and replicated in other countries. In Gabon, a differentiated forestry taxation system was introduced, which resembles a bonus-malus mechanism: certified forestry concessions (FSC or PAFC) received a tax reduction, concessions with legality certification faced a moderate tax increase, and firms operating in uncertified concessions are subject to higher taxes. This system aimed not just at budget neutrality but also at increasing overall tax revenues, by incentivizing sustainable practices through fiscal measures. The varying rates applicable to forest extractors based on concession's certification levels produce an incentive towards higher certification levels. Similar approaches could be considered for other taxes and fees levied on the wood sector, which could further promote certification goals. They could also be envisaged to promote other sustainable practices in timber but also other commodities such as agriculture and fisheries.

4.c. Looking ahead: how to achieve fiscal, economic, and environmental goals with fiscal policy reforms for forestry?

Combining fiscal instruments with better forest governance through improved enforcement, monitoring, and transparency can help Gabon safeguard its forests while enhancing the forestry sector's role in the economy.

The effectiveness of ecological tax reform in the forestry sector is not just a matter of fiscal policy design but also a reflection of a country's governance capacity and the strategic alignment of tax mechanisms with conservation objectives. As the preceding discussion has shown, the integration of taxes with performance bonds and certification schemes presents an innovative approach to leveraging fiscal tools for environmental stewardship. By incentivizing sustainable practices through innovative combinations of certification schemes and fiscal mechanisms, countries can foster a more responsible management of forest resources, aligning economic incentives with environmental goals.

Such fiscal strategies, however, are not standalone solutions but components of a comprehensive policy mix that addresses the multifaceted challenges of forest conservation. From regulatory measures to economic instruments and informational campaigns, the success of

forest conservation and sustainable development strategies and efforts hinges on the ability to implement a coherent, integrated strategy that leverages the strengths of each approach. The role of governance, in this context, cannot be overstated. A robust governance framework is essential not only for the effective implementation of tax policies but also for fostering the collaboration and transparency necessary for sustainable forest management.

Going forward, Gabon could reform fiscal policies for forestry to promote the sustainable of both its forests and public finances. Over the coming years, Gabon is expected to face high spending needs, to cover public investments in public infrastructure and in the expansion of public services, measures to support living standards, and a rising public sector wage bill. On the revenue side, the country's fiscal challenges include rising financing costs in view of global tightening of financing conditions, and prospects of declining oil revenues due to the maturity of oilfields. As oil resources may gradually disappear, pressures could mount on intensifying the use of forests and other natural resources.

Gabon aims at reforming its forestry code, which could provide a momentum for broader fiscal policy reforms for the forestry sector. The reform of the 2001 forestry code is part of policy actions considered in the National Development Plan for the Transition, with the aim of modernizing forest legislation. Ongoing governance initiatives in the sector include the adoption of digital wood traceability systems to improve transparency, efficiency, and combat illegal logging. Different fiscal policy options could be considered in a strategy to increase fiscal revenues while fostering income generation, jobs, sustainable exploitation of wood resources. Fiscal policies that could be envisaged include:

- Expanding the 'bonus-malus' mechanism that underlies land area fees to other fiscal instruments, where more sustainable practices and certified concessions are benefited with a lower tax burden, while tax costs increase for firms operating with less sustainable production methods.
- Rationalizing tax expenditures for agriculture to improve their targeting and align them with environmental goals. The authorities could consider implementing a monitoring system to ensure that the benefits generated by tax incentives are used effectively and aligned with environmental goals.
- Reforming the forestry code through a participatory and inclusive processes, that takes into account interests of all stakeholders including local communities, small producers, and forestry firms.
- Promoting user-friendly digital services for the forestry sector, including processes for attribution and verification of permits, payment of all charges, taxes, and fees to increase efficiency and transparency, and real-time tracking of forestry activities, ensuring these platforms are available also in more remote areas to increase efficiency and transparency. As part of capacity building activities, the government could provide training for forestry officials and concessionaires on the use of digital tools to improve efficiency and transparency.
- Engaging with local communities in expanding and strengthening the implementation of REDD+ projects across Gabon's forests to ensure that they benefit directly from carbon sequestration efforts. This could include financial incentives or alternative livelihood programs. The goal would be to secure more performance-based funding from international donors by demonstrating measurable progress in carbon sequestration and community benefits.
- Fostering international partnerships and securing increased funding for forest conservation and climate resilience projects. Gabon could take steps to attract more climate finance, technical assistance, and capacity-building support through international cooperation. By engaging with global environmental initiatives, international development partners, and climate funds, the country can secure more resources needed for forest conservation, community adaptation strategies, and sustainable livelihood programs.
- Promoting agroforestry and sustainable land management practices as key strategies for reducing pressure on forests. Investments in agroforestry projects that integrate tree cultivation with agricultural crops, coupled with training and technical support programs for farmers, can facilitate the transition to more sustainable agricultural practices, such as crop rotation, organic farming, and soil conservation techniques, thereby reducing deforestation and forest degradation.
- Enhancing community engagement and participatory forest management practices to ensure the sustainability of conservation efforts. Empowering local communities through participatory forest management models is crucial for the sustainable use of forest resources. Implementing community-based forest management programs that in-

clude clear benefit-sharing mechanisms can incentivize conservation and sustainable livelihoods.

- Increasing efforts to produce and export more high-level processed wood products such as furniture. This could be facilitated by offering incentives such as tax breaks, grants, and technical support, although tax incentives need to be carefully designed and considered in view of their potentially high fiscal costs. Reforms could focus on promoting local production of high-value products for domestic and international markets. Countries could invest more in vocational training programs to build a skilled workforce capable of supporting a thriving wood processing sector.

Addressing fiscal and environmental challenges in the forestry sector requires a balanced approach that considers both the economic benefits of taxation and the potential for negative outcomes. Solutions might include more moderate tax rates on sustainable practices, improved enforcement mechanisms, higher rates and penalties for non-compliance, strengthening the fight against illegal logging, and adopting other fiscal policies that encourage sustainable practices in both the domestic and export markets. A well-integrated fiscal approach for the forestry sector needs to consider the effects of fiscal policies on revenue collection, on firms and jobs, and on the environment. Lessons learned from previous fiscal reforms for forestry in Central Africa indicate the need to carefully consider political economy aspects and how sector interests could hamper reform efforts (Box 7).

Strengthening regional cooperation through harmonized regulations, better law enforcement, and improved forest fiscal policy alignment will better equip Congo Basin countries to face cross-border challenges, enhance institutional capacities, and attract more international funding.

Box 7. Lessons learned from fiscal reforms for forestry in Central Africa

Reforms that seek to promote competitiveness and enhance revenue collection from forestry in Central Africa have had only partial success since the 1990s. Since the early 1990s, reforms of forest concession regimes in Central Africa have been designed with World Bank support. Previous reforms focused on increasing public revenues through competitive markets or taxation and dismantling fraudulent and uncompetitive behavior ('patronage systems') in forest permit allocation. This included proposals to shift taxation from exported wood to the volume cut or the area of the concession, which was intended to reduce waste and inefficiency. Over time, the focus of forestry reforms shifted towards REDD+ initiatives, which emphasize reducing emissions from deforestation and forest degradation. This shift reflected a broader change in international environmental policy priorities. However, the actual impact of these initiatives on forest management practices and deforestation rates has been mixed.[58]

These reforms aimed to improve governance and transparency in the forestry sector, and increasingly, environmental goals. However, in certain cases, reforms faced resistance from vested interests, including from timber companies and government officials, which resulted in partial implementation. This underscores the complex political economy surrounding forestry reforms.[59] The ongoing challenge is to design and implement fiscal policies that effectively balance economic incentives with conservation goals, ensuring that forestry practices contribute to sustainable development and environmental protection.

Past experience highlights the importance of aligning fiscal instruments with sustainable forestry management goals and of ensuring inclusive and participatory policy making processes. Previous reform attempts demonstrated that practical difficulties hinder the implementation of reforms. They indicate the need for building robust and transparent systems to manage and monitor forestry activities. Also, it is important not to underestimate the non-timber values of forests, which are crucial for livelihoods of forest-dependent people.[60] Previous efforts show that inclusive policy-making processes are needed, to involve all stakeholders, including local communities and forest-dependent populations, and ensure support for forestry reforms both from environmental sustainability and economic development perspectives.

58 Hoppe et al. 2023.

59 Karsenty. 2016.

60 The World Bank is developing a robust natural capital accounting in the Congo Basin forests, including the value of forest ecosystem services and other non-timber benefits.

Better coordination of forest preservation policies in Congo Basin countries will help ensure consistent enforcement across borders, reduce illegal activities, and improve sustainable management practices. Although Congo Basin countries have legal frameworks that aim at regulating forest management and protection, the lack of regional guidelines and enforcement can hinder the implementation of these laws. Strengthening the Central African Forestry Commission (COMIFAC), particularly through its Central African Forest Observatory (OFAC), is essential for harmonizing national institutional frameworks and data collection. Harmonizing fiscal policies, particularly to encourage the expansion of forest management plans and certifications and to align agricultural and mining policies with forest protection efforts, can significantly contribute to forest preservation in the region.

Regional political efforts within CEMAC to harmonize forest-related fiscal policies are crucial for fostering environmental conservation, business environment improvements, and regional integration. While aligning countries to commit to a log export ban to promote the domestic timber sector is a significant step, further actions could be used to strengthen regional cooperation in this area. Impactful policies could include enhancing the coverage, quality, and monitoring, verification, and enforcement of sustainability certifications for forest-linked commodities. These certifications can ensure that products meet environmental and social standards, improving market access and prices for the region's exports. Regional coordination can be fostered to harmonize different practices. Adopting recurrent annual charges on commercial land use, such as land area taxes, can discourage deforestation and promote sustainable land management. Implementing feebates, with taxes varying based on production sustainability, incentivizes eco-friendly practices, while reforming costly and environmentally harmful tax expenditures, like subsidies for agricultural inputs, can further support sustainable forest management.

Aligning CEMAC member countries with best-practice frontiers of forest-fiscal policies can mitigate competitive disparities among member countries, creating a stable and predictable investment environment to attract more sustainable investments. Through environmentally targeted (Pigouvian) standardization of forest taxation and regulations, governments can reduce tax evasion, capture greater land-use sector rents, promote fairer revenue distribution, and lessen administrative burdens for firms engaged in cross-border operations. Regional alignment encourages a more conducive business that can attract more investment in sectors such as timber, agriculture, and eco-tourism, benefiting local populations through job creation, technology transfer, and infrastructure development. Coherent policies also bolster regional integration by facilitating trade and cooperation, enhancing overall cohesion, and making the region more attractive to international donors and organizations focused on climate change and sustainable development.[61]

Regionally integrated forestry initiatives are essential to avoid beggar-thy-neighbor policies, which can undermine collective progress by shifting unsustainable logging practices to less regulated countries. Harmonized regulations promote sustainable forest management by ensuring the uniform application of environmental standards, thereby protecting forests and biodiversity across borders. Evidence from regions such as the European Union, Amazon Cooperation Treaty Organization, and East African Community demonstrates that policy alignment effectively combats environmental degradation and fosters sustainable practices.[62] By embracing coordinated fiscal policies, CEMAC countries can safeguard their forests, bolster economic growth, and enhance regional resilience against worsening climate impacts.

Regional forest-fiscal alignment can also significantly enhance CEMAC countries' attractiveness to international donors, organizations, and conservation funds. Lending groups such as the World Bank, Global Environment Facility (GEF), and Green Climate Fund (GCF) could be more likely to bolster investment in regions where policies are harmonized, as this reduces the risk and complexity of project implementation. Potential funding and technical assistance can be unlocked for development projects such as reforestation, biodiversity conservation, and sustainable land management,[63] strengthening activities including those under the Central African Forest Initiative (CAFI). The World Bank, under the aegis of its Global Challenge Program on Forests for Development, Climate, and Biodiversity, is initiating a regional Congo Basin Sustainable Forest Economies program to increase regional coherence on governance and fiscal policies. The

61 OECD. 2019.

62 European Commission. 2020; ACTO. 2021.

63 World Bank 2021; GEF 2022.

program also aims at strengthening regional institutions such as CEMAC, COMIFAC, and OFAC to foster the use of digital technologies particularly Earth Observation (EO) and Artificial Intelligence (AI) for forest and biodiversity monitoring and monitoring, reporting, and verification systems. Financial instruments and mechanisms such as the Forest Carbon Partnership Facility (FCPF) and the REDD+ (Reducing Emissions from Deforestation and Forest Degradation) initiative can provide additional vital support. Engaging more with investors and climate-related aid organizations can be achieved through regional cooperation platforms, joint project proposals, and demonstrating a strong commitment to policy coherence and sustainable development. This collaborative approach can not only secure more financial resources but also bring in expertise and technology essential for long-term environmental and economic sustainability.[64]

The Congo Basin countries' efforts to preserve their forests provide an essential global public good in the form of climate regulation and biodiversity services and require significantly scaled-up international support and compensation.

The international community must urgently provide more substantial financial support and a fair compensation for the Congo Basin forests' carbon sequestration and ecosystem services. Despite their pivotal role in global climate regulation and biodiversity preservation, these forests receive inadequate financial recognition for their critical environmental contributions. While acting as a significant carbon sink and providing vital ecosystem services that benefit the entire world, the Congo Basin forests are underfunded. The Congo Basin countries face a substantial financing gap for their climate services, receiving only a small fraction of the required funds. This stark disparity highlights the urgent need for increased and equitable investment in the conservation and sustainable management of these forests. Adequate financial backing is crucial to sustain conservation efforts, combat deforestation, and promote sustainable development in the region. Fair compensation for these ecosystem services would not only help preserve these vital forests but also bolster the economic stability and growth of Congo Basin countries, paving the way for a more equitable and sustainable future for all. To this end, countries also need to enhance their readiness to effectively mobilize available climate finance options. The World Bank, through a regional ASA initiative, is supporting these nations in building the necessary capacity to attract more results-based climate financing.[65] This approach considers the comprehensive value of forest ecosystems and environmental services, including carbon sequestration, biodiversity conservation, soil conservation, and water retention.

64 UNFCCC 2018.

65 The World Bank, through its Congo Basin Forests Advisory Services and Analytics (ASA), is assisting CEMAC countries and the DRC in developing natural capital accounts to capture the comprehensive value of forest assets and ecosystem services, thereby enhancing national planning and decision-making for sustainable forest management. Additionally, the initiative supports these countries in building the necessary capacities and readiness to leverage both existing and innovative options for results-based climate finance.

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