

Gabon

Increasing Economic Diversification & Equalizing Opportunity to Accelerate Poverty Reduction

Systematic Country Diagnostic

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International Development Association (IDA)
Country Department AFCC1
Africa Region

International Finance Corporation (IFC)
Sub-Saharan Africa Department

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Sub-Saharan Africa Department



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Gabon Profile

Population	2.2 million
Land Area	267,667 sq. km
Main Towns	Libreville (capital), Port Gentil, Franceville
Climate	Tropical
Language	French (official), Fang, Myene and other Bantu

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Acronyms

AFD	Agence Française de Développement - French Aid Agency	MAI	Market Accessibility Index
AfDB	African Development Bank	MDG	Millennium Development Goals
ANFPF	National Agency in charge of Professional Training and Development	MTEF	Medium-term Expenditure Framework
ANINF	National Agency of Digital Infrastructure	NDC	Nationally Determined Contribution
ANPI	National Agency for Investment Promotion	NIMP	National Infrastructure Master Plan
ARMP	Public Procurement Regulatory Agency	NRI	Networked Readiness Index
BEAC	Central Bank of Central African States	NSS	National Statistical System
BEPC	Certificate of Lower Secondary Studies	ONE	National Office for Employment
BCPSGE	Coordination Office of Strategic Plan for an Emerging Gabon	PER	Public Expenditure Review
CEMAC	Central African Economic and Monetary Community	PFM	Public Financial Management
CEP	Certificate of Primary Studies	PNAT	National Land Use Plan
CFAF	Central African CFA franc	PNDS	National Plan for Health Development
CNAMGS	National Healthcare and Social Protection Insurance Fund	pp	Percentage points
CNAT	National Land Use Commission	PPP	Purchasing Power Parity
CPI	Corruption Perception Index	PPPs	Public-Private Partnerships
CNSS	National Social Security Fund	PRE	Economic Recovery Plan
DHS	Demographic and Health Survey	PSGE	Strategic Plan for an Emerging Gabon
DPF	Development Policy Financing	RGPL	Population and Housing Census
ECI	Economic Complexity Index	SCI	Statistical Capacity Indicator
EFF	Extended Financing Facility	SDG	Sustainable Development Goals
EGEP	Gabonese Survey on Poverty Evaluation and Monitoring	SETRAG	<i>Transgabonais</i> Operating Company
EITI	Extractive Industries Transparency Initiative	SEZ	Special Economic Zone
ENEC	National Survey on Employment and Unemployment	SIGI	Social Institutions and Gender Index
FDI	Foreign Direct Investment	SME	Small and Medium Enterprise
FGIS	Gabonese Sovereign Investment Fund	SOE	State-Owned Enterprise
FNAS	National Social Assistance Fund	SOTRADER	Company for Agricultural Transformation and Rural Development
GCI	Global Competitiveness Index	SPI	Social Progress Index
GDP	Gross Domestic Product	SSA	Sub-Saharan Africa
GEF	Economically Weak Gabonese	STEM	Science, technology, engineering, and mathematics
GHG	Greenhouse Gas	TFP	Total Factor Productivity
GNI	Gross National Income	TFR	Total Fertility Rate
GRAINE	Gabonese Company for Agricultural Realizations and Initiatives of Nationals		
HCI	High Council for Investment	TTCI	Travel and Tourism Competitiveness Index
HDI	Human Development Index	UMIC	Upper Middle-Income Countries
HRMIS	Human resources management information system	UNDP	United Nations Development Program
ICT	Information and Communication Technologies	VAT	Value Added Tax
IDS	Indices of Social Development	WDI	World Development Indicators
		WGI	Worldwide Governance Indicators

IFMIS Integrated Financial Management
Information Systems
ILO International Labor Organization
IMF International Monetary Fund
LMIC Lower Middle-income Countries

WHO World Health Organization
WDR World Development Report

Key Messages

This Systematic Country Diagnostic (SCD) analyzes the economic and social context of Gabon and what it can do today to end extreme poverty and enhance shared prosperity. It also identifies priority routes to faster progress.

Gabon's abundant natural resources, its strategic location, high urbanization, and youthful population give it major potential for poverty reduction and shared prosperity.

Immediately after independence in the 1960s, the oil boom propelled Gabon to upper-middle-income status and brought major progress in living conditions. The thriving resource sector attracted large flows of its rural population to urban centers, resulting in the highest urbanization rate in Africa: increasingly, Gabonese were concentrated in a few cities along the coast—economic density is still low nationally, but especially in the now sparsely populated rural regions.

However, because Gabon had not had the time to lay the institutional and infrastructural foundations to ensure inclusive development and broad-based improvement of living conditions, as commodity prices fell and resources were depleted, the early economic and social achievements began to reverse. Today its real GDP per capita is just half what it was in the mid-1970s, spatial inequalities are large, many areas lack public services as well as economic opportunities, unemployment is among the highest in Africa, and many of the jobs available are informal and not productive. Despite increasing efforts, structural shifts to more sustainable and inclusive growth have yet to fully materialize. Although initiatives to build non-oil sectors are beginning to pay off, the shift to more dynamic tradable sectors is not yet significant. Economic growth has stalled, and Gabon trails peers in major economic and social outcomes. Persistent governance and investment climate challenges, exacerbated by unsupportive fiscal policy and budgetary planning, deter development of a strong private sector and prevent effective allocation of resources to social development and spatial integration.

Two critical pathways to sustained inclusive growth and shared prosperity have been identified in this SCD:

- *Economic diversification* is crucial to revamp growth, increase productivity, and build resilience to volatility in commodity markets.
- *Equalizing opportunities and enhancing human capabilities* can broaden access for all Gabonese to public services and better job opportunities and build productivity, competitiveness, and inclusive growth.

Six policies will pave the way for Gabon's progress:

- Four priorities are *transformational*: (1) Better urban management and inland connectivity will help cities function more efficiently and speed national convergence in basic living standards. (2) Enhanced human capital will raise productivity and support transition to a fully diversified economy. (3) Gender equality is a central resource for inclusive development and higher productivity. (4) A consolidated financial and banking sector will promote financial inclusion and private domestic investment.

Two priorities are *foundational*: (1) Robust fiscal management and sound macroeconomic policies will allow Gabon to keep the economy stable and manage resources more effectively. (2) Improving the investment climate and economic governance are central to private sector development and jobs creation.

I. Overview and Country Context

A. Country Context

A small and highly urbanized country with significant potential and vision

1. Gabon is a small Central African country with low population density and a youthful population. Located on the Atlantic coast, the Gabonese Republic is bordered by the Republic of Congo, Cameroon, and Equatorial Guinea. The country is relatively small, with an area of 270,000 km² and an estimated population of 2.1 million. At 8 inhabitants per km², it is one of the least dense countries in the world. More than 40 percent of Gabonese are under the age of 15, and with an urban fertility rate of 4 children per woman and a rural rate of 6, the population is growing. Though the youthful population can be an asset for the country's development, the benefits will materialize only if the economy can absorb them productively.

2. In Africa, Gabon stands out for both its high income and its rich natural resources. It is one of the few countries in Sub-Saharan Africa (SSA) with upper-middle-income status; its prosperity is due to its diverse endowment of natural resources. Gabon has the second largest economy in the Central African Economic and Monetary Union (CEMAC). Topping its wealth of nonrenewable resources are petroleum, manganese, and to a lesser extent uranium, iron ore, diamonds, and gold (Figures I.1 and I.2). Rainforest covers 88 percent of the country, which has a uniquely rich ecosystem and extensive endowments of fertile land, water courses, and fisheries.

Figure I.1: Crude Oil Production, 1970–2016 (tons of oil equivalent)

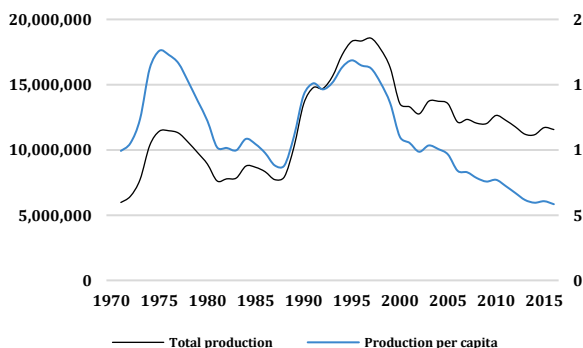
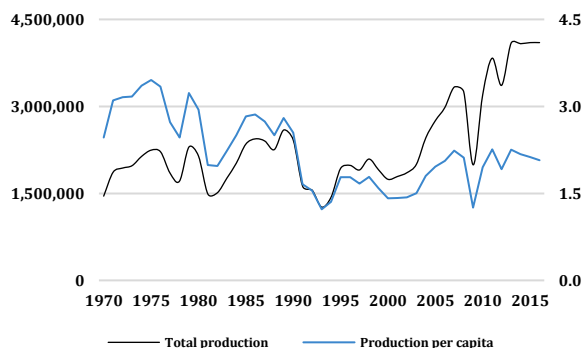


Figure I.2: Manganese Ore Production, 1970–2016 (metric tons)



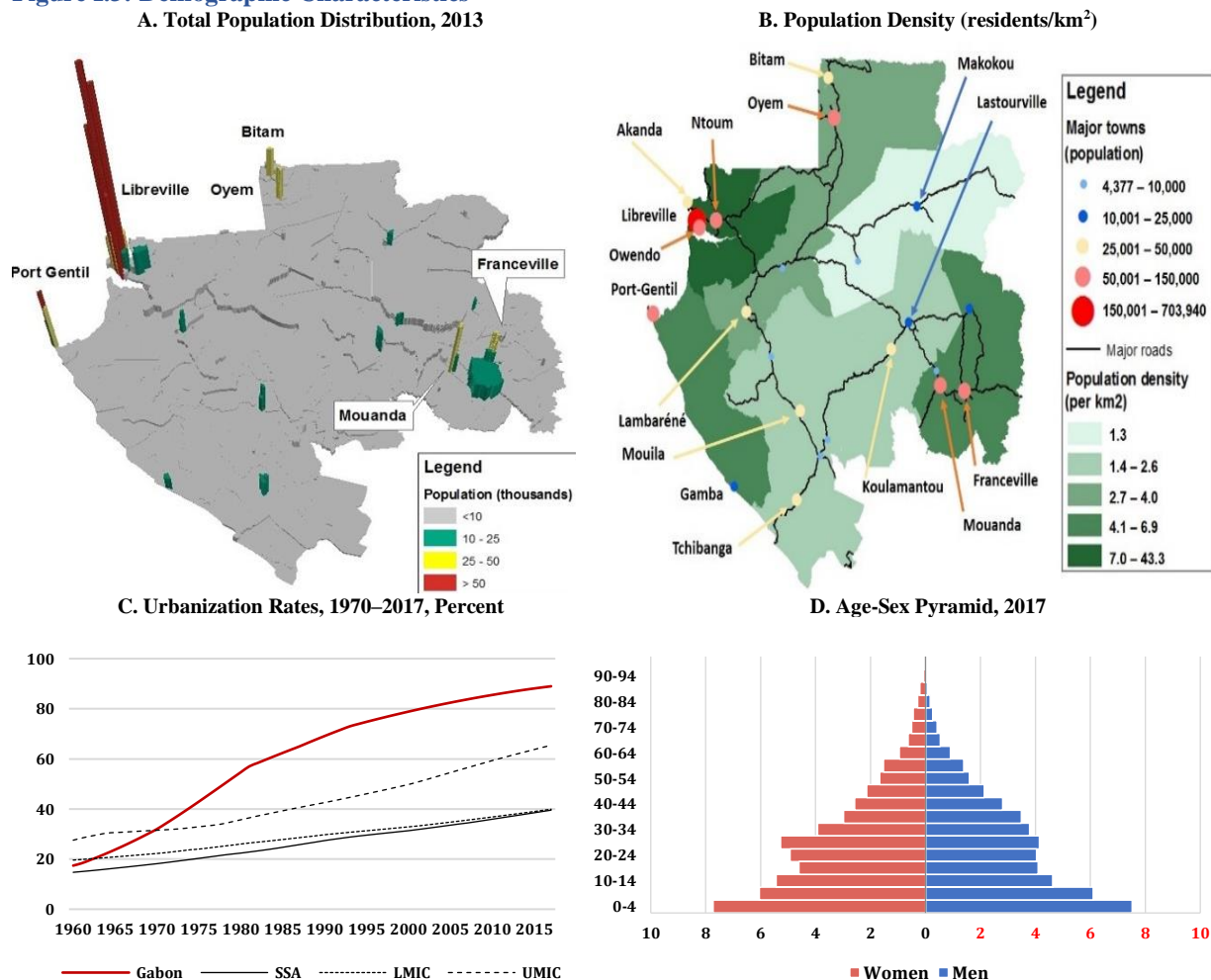
Source: OECD and World Mineral Statistics, contributed by permission of the British Geological Survey.

3. Urbanization in Gabon is much higher than the average for Africa. Most Gabonese live in a few cities, leaving the rest of the country sparsely populated. The discovery of large oil fields in the early 1970s accelerated rural-urban migration, so that the urbanization rate shot up from 20 percent in the early 1960s to 89 percent in 2017—the highest rate in Africa (Figure I.3). More than half of the population live in the capital, Libreville, in Port-Gentil, and to a lesser extent in Franceville, leaving the rest of the country with a density of less than 2 inhabitants per km². Although low population density increases per capita resource availability and reduces pressure on the environment, it also generates diseconomies of scale for public services and increases their cost.

4. Recognizing the country's assets, the vision of the government is to transform it into a diversified economy by 2025. The goal of the Strategic Plan for an Emerging Gabon (PSGE: *Plan*

Stratégie Gabon Émergent), launched in 2010, is to build a competitive, diversified, resilient, and inclusive economy. The PSGE sets out an ambitious reform agenda to leverage natural resources, catalyze economic transformation, and move higher on the value-added export chain. The plan has three strategic pillars: address competitiveness, build up sectors that have solid growth potential, and promote shared growth. It identifies priority sectors that correspond to the country's comparative advantages and can add value to underexploited natural resources by building up national capacity for processing. Substantial infrastructure investments are planned in support of the three pillars. Gabon is also among the few countries in SSA that have demonstrated commitment to protect forests and biodiversity, curb carbon emissions, and address climate risks.

Figure I.3: Demographic Characteristics



Source: World Development Indicators (WDI) 2019, Population and Housing Census *Recensement Général de la Population et du Logement* (RGPL) 2013, Household Budget Survey *Enquête Gabonaise pour le Suivi et l'Évaluation de la Pauvreté* (EGEP) 2017.

5. This Systematic Country Diagnostic (SCD) analyzes the economic and social performance of Gabon and reflects on constraints on and opportunities for its development. The SCD first diagnoses the trends, drivers, and challenges of growth and poverty. It then identifies channels and priority areas of intervention to accelerate progress on poverty reduction and shared prosperity. The diagnostic builds on extensive consultations with national authorities and other stakeholders in Gabon and draws on the current body of knowledge. However, the analysis is

complicated by the limited availability of quality data. Because of data gaps, crucial analyses (e.g., country economic memorandum, economic updates) are missing, which this report is intended to provide.

B. Achievements

Remarkable economic growth powered by oil.

6. Immediately after independence the discovery of oil propelled Gabon's economy to upper-middle-income status. Between 1968 and 1977, the annual Gross Domestic Product (GDP) growth accelerated to more than 9 percent, easily surpassing the averages for lower- and upper-middle-income countries (5.2 and 6.4 percent) and far ahead of the SSA average (4.3 percent). GDP per capita doubled. When oil production peaked in the mid-1970s, it accounted for more than 50 percent of GDP and over 30 percent of Gabon's annual economic growth.

7. The growth momentum translated into major progress in human development and living conditions. The oil-driven fiscal windfalls allowed the country to invest massively in social services and infrastructure—though sometimes with no real economic rationale. Consequently, by the early 1990s, such basic welfare indicators as literacy and mortality rates, access to basic amenities, employment, and health coverage had reached upper-middle-income levels, far above those of lower-middle-income and SSA countries. Poverty at international lines was significantly lower than elsewhere in SSA and close to the level in upper-middle-income countries (UMICs).

8. Gabon's natural resources and sociopolitical stability attracted considerable foreign direct investment (FDI). In contrast to the general instability in SSA, Gabon's politics have been remarkably stable, although some recent events have been worrying.¹ Despite being rooted in patronage and generating questions about political freedom, this sociopolitical stability, coupled with the country's natural resource endowments, have continued to attract FDI, which reached 2.4 percent of GDP in the mid-1970s, compared to less than 0.7 percent in UMICs and SSA generally; in 2017 it shot up to more than 10 percent—substantially above the comparator country average of less than 4 percent. Yet FDI has long been limited to natural resources, with no perceptible spillovers to the rest of the economy or any benefits for most Gabonese.

The cost of heavy dependence on resource-led development.

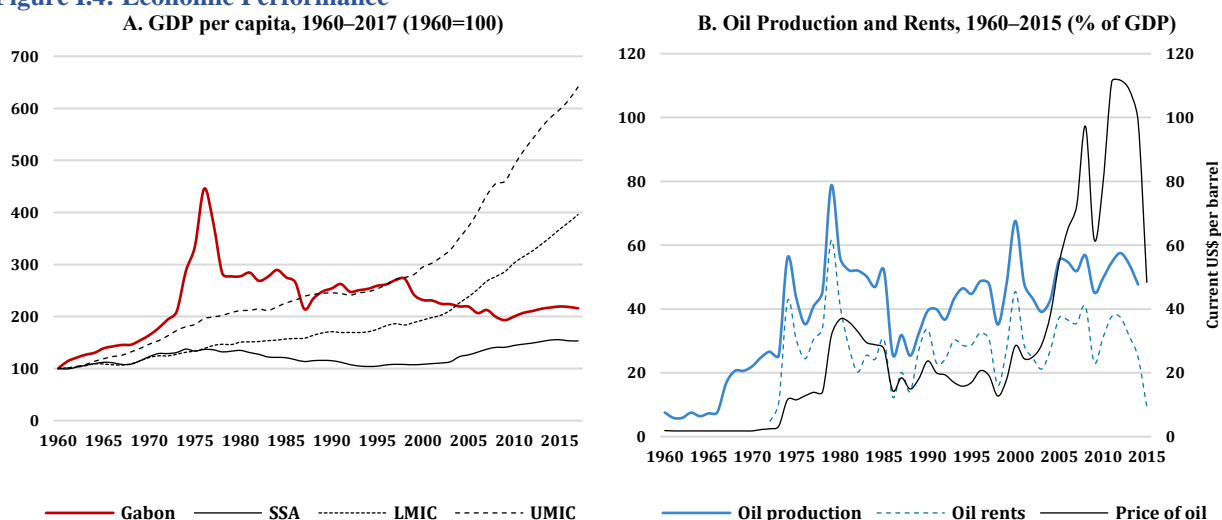
9. Gabon has thus not been able to direct its resource wealth to sustainable development. Wealth accumulation grounded in natural capital becomes unsustainable over time if it does not convert into other forms of wealth as oil fields mature and reserves decline. Currently, produced capital—equipment, machinery, urban land—constitutes only 17 percent of Gabon's wealth and human capital accounts for only 31 percent. This is far below UMIC averages and makes it harder to diversify the economy away from oil. Gabon could have expanded its productive base and achieve more sustainable gains in wealth per capita if, rather than using oil income for consumption, it had invested in building produced and human capital.

10. As a result, the oil crisis in the 1980s stalled progress and Gabon's economic and social achievements began to fade. From 1977 to 1986 the economic boom gave way to protracted

¹ The 2016 presidential elections triggered a wave of protests and violence, which were contained through citizen dialogue and political reforms. On January 7, 2019, the government suppressed an attempted coup led by a dozen military officers.

recession and the economy suffered broad swings as GDP oscillated between contraction and substantial growth and the economy swung between recovery, supported by structural adjustment programs, and recession. When in the mid-1980s oil prices plunged, economic growth almost flattened; it has now been stalled for three decades, achieving a paltry annual average of 0.8 percent between 2000 and 2009, rising to 3 percent per year from 2010 through 2018 (Figure I.4). Although the lack of reliable data makes it difficult to fully understand the causes of this decline, it appears that overreliance on oil, aggravated by procyclical fiscal policies, has made the economy more vulnerable to oil price volatility and other shocks. Taking population growth into account, since the mid-1980s per capita GDP growth has been on average negative. While SSA and both UMICs and lower-middle-income countries (LMICs) have had steady upward growth, after peaking in 1976, Gabon’s real GDP per capita had by 2017 been cut by half.

Figure I.4: Economic Performance



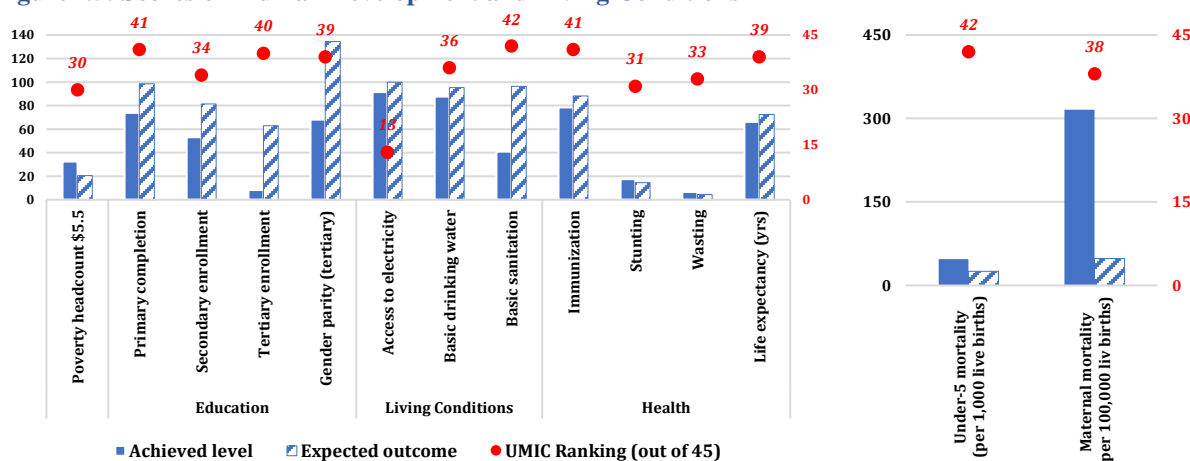
Source: WDI 2019 and Ross and Mahdavi 2015.

Note: Oil rent is the difference between the value of crude oil production at world prices and the costs of production.

11. Though recent poverty indicators suggest that Gabonese living standards are slowly improving, outcomes do not yet meet expectations. Between 2005 and 2017 the national poverty rate declined from about 42 to 33.4 percent and signs of urban pro-poor growth have been emerging. However, poverty has fallen more slowly than the population grew, so the absolute number of poor has risen. The prevalence of subjective poverty (51 percent) demonstrates unmet Gabonese aspirations for better living conditions. In 2017, the poverty rate at the international line (US\$5.5 a day in 2011 purchasing power parity, PPP) was an estimated 32.2 percent, which compares favorably with levels for SSA as a whole but is about 12 percentage points higher than what might be expected from Gabon’s per capita national income (Figure I.5).

12. Large discrepancies persist between the country’s economic potential and its human development. Although Gabon ranks 58th in GDP per capita, in the 2015 Human Development Index (HDI) it ranked 109th of 188 countries and in the 2018 Human Capital Index (HCI) it was 110th out of 157. The country ranks near the bottom for UMICs, falling short on most dimensions of human development and living conditions.

Figure I.5: Scores on Human Development and Living Conditions

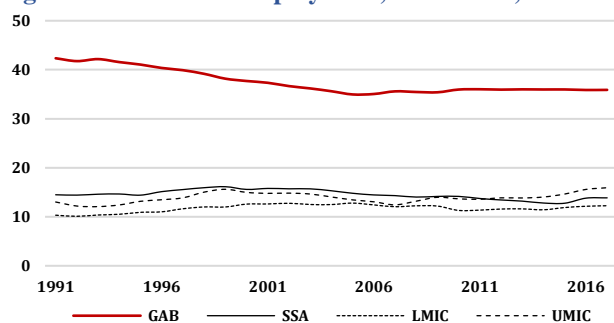


Source: WDI 2019.

Notes: Figure I.5 compares Gabon’s achievement to the performance on each human development outcome that might be expected from its gross national income (GNI) per capita. Expected outcomes are estimated using a panel data generalized estimating equation and assuming Gamma distribution of dependent variables. The figure also compares Gabon’s rank to the sample of 45 UMICs. The ranking ranges from 1 (best) to 45 (worst). Except for life expectancy at birth and mortality rates, outcomes are in percentage.

13. Job creation has not been commensurate with the economy’s potential. After more than a decade of full employment in the 1970s, driven by expansionary fiscal policy and massive public employment, the collapse of oil prices in the mid-1980s caused a lasting negative shift in the labor market and rising unemployment. Currently, unemployment in Gabon is among the highest in Africa with 20 percent of the workforce and about 33 percent of people under 25 unemployed (Figures I.6 and I.7). Youth educated through secondary school account for about 60 percent of the unemployed and women for 70 percent.² The belief that public employment was guaranteed for life and is the best job option for young graduates has likely biased preferences in education toward fields that increase the chances for public jobs. This, coupled with inadequate education and training for the job market, has produced skill shortages and mismatches.

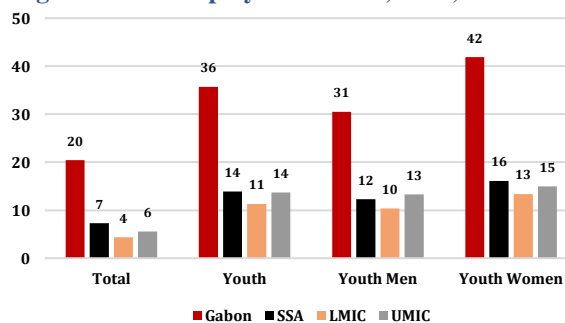
Figure I.6: Youth Unemployment, 1991–2017, Percent



Source: WDI 2019.

Note: Unemployment expressed as a percentage of the labor force aged 15–24.

Figure I.7: Unemployment Rates, 2017, Percent



² Data from the 2010 Labor Force Survey (ENEC). The EGP 2017 shows lower unemployment based on the International Labor Organization (ILO) definition, but significantly higher hidden unemployment. The discrepancy is due to differences in survey design. Labor Force Surveys are better suited to assess employment and provide more accurate data.

14. The formal private sector remains very small. Preferential policies for large foreign investors and inadequate assistance to small enterprises inhibit the emergence of a vibrant private sector. Moreover, generous public wages, an unattractive investment climate, and limited access to finance have given the economy a high cost structure. As a result, the informal sector accounts for 50 percent of employment and constitutes a parallel labor market. Informal employment is particularly prevalent among the poor, who lack access to productive assets and capacity-enhancing services. Food distress and shocks for which there are no well-targeted and comprehensive coping strategies make the lives of the poor even more precarious.

Further economic and social progress will require a considerable shift of the development paradigm.

15. Rising recognition of Gabon's economic and social deficiencies has led to new development strategies to revive the economy and strengthen social inclusion. The PSGE development agenda was severely eroded by the budget crisis that followed the 2014 oil crisis, which undermined macroeconomic stability, increased debt, and led to a worrying accumulation of domestic and external arrears—all of which impinged upon public investment, growth of small enterprises, and outlays to social sectors. Gabon has spearheaded CEMAC efforts to adopt an Economic Recovery Plan (*Plan de Relance Économique*, PRE) and to request assistance from the International Monetary Fund (IMF) Extended Financing Facility (EFF).³ Public-private partnerships (PPPs) with foreign investors were initiated to improve infrastructure and enhance economic transformation. Meanwhile, to improve the investment climate and further attract investments, the government created the High Council for Investment as a platform for public-private dialogue and the National Agency for Investment Promotion (ANPI).

16. The potential of efforts to reduce the weight of the oil sector in the economy has not yet been realized. Since the early 2000s, as part of Gabon's diversification strategy the nonoil sector has made a higher contribution to GDP and in recent years private sector development has accelerated slightly. However, the strategy has not yet made a significant dent in oil's domination of the economy. Moreover, many nonoil sectors have as yet had only a limited gearing effect on the rest of the economy and are themselves dependent on oil income. Private sector dynamism and associated job creation have yet to materialize.

17. Gabon's vision of transforming itself into a diversified emergent economy by 2025 is still not on track. There is little sign of sustained growth, fiscal space, or progress on reducing poverty and employment uncertainty; and human development indicators are still far below the economy's potential. The persistent discrepancies between Gabon's per capita wealth, per capita well-being, and human development outcomes make it clear that wealth is concentrated within a small segment of the population and resources are inefficiently distributed. Thus, identifying the most effective channels for sustained development and poverty reduction and setting priorities for intervention are critical to ensure that Gabon moves briskly up the development ladder to sustainable and equitable transformation.

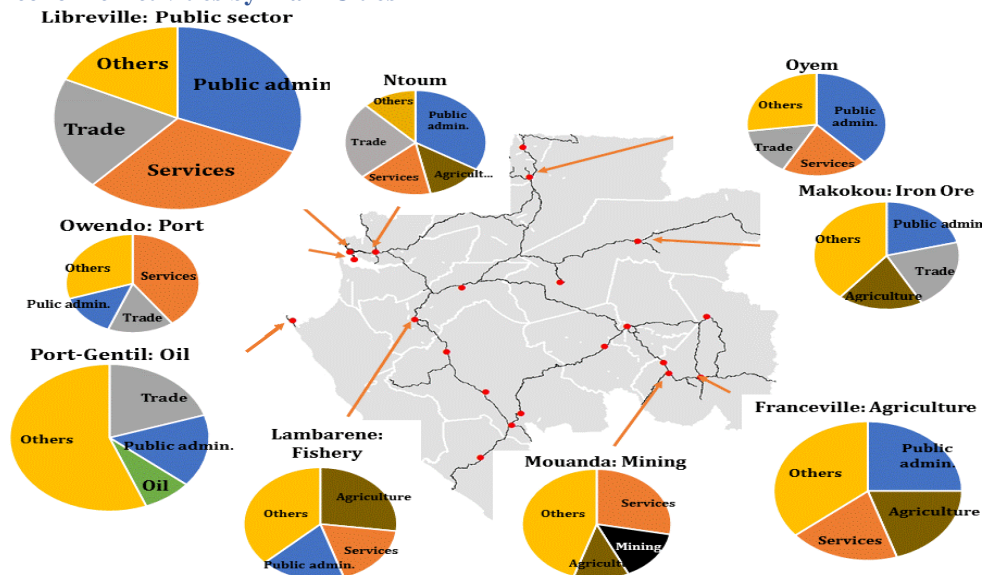
³ The decline in oil prices in 2014 prompted CEMAC member countries to undertake fiscal and structural adjustments to maintain external stability and the integrity of CEMAC monetary arrangements. They requested IMF support and Gabon was very active in preparing an Economic Recovery Plan for 2017–19 and undertaking structural reforms to accelerate growth, improve the investment climate, and reduce social inequalities.

C. Challenges

Wide geographic disparities and minimal shared prosperity.

18. Gabon lacks economic density; like most of the population, economic activity is concentrated in a few urban centers. Over 60 percent of economic activity occurs in Gabon's main two cities: 50 percent in Libreville, which houses 40 percent of the population, and 10 percent in Port-Gentil, where another 8 percent of Gabonese live (Figure I.8). Franceville, the third largest city, contributes only 7 percent to the economy; some smaller cities like Owendo and Akanda contribute a larger share because they are part of the *Grand Libreville* agglomeration. Different cities specialize in different economic activities. For instance, public administration is concentrated in the capital with some spillover to neighboring cities like Akanda. Agriculture is centered on Franceville and in the northern regions near Makokou, though there is some in the south near Mouila. The oil industry is primarily in Port-Gentil, followed by Owendo and Lambarene; and mining is mostly in Mouanda and in areas surrounding Franceville. The rest of the country, which is sparsely populated, has few economic activities.

Figure I.8: Economic Activities by Main Cities



Source: EGEP 2017

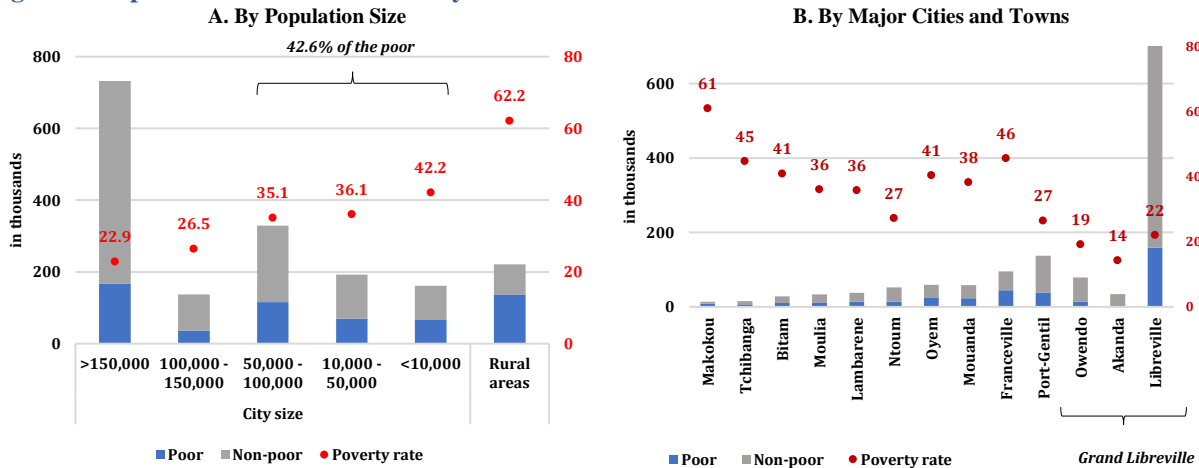
19. Poor urban management has prevented cities from functioning effectively and limited the diffusion of agglomeration economies. Urbanization has occurred in Gabon without proper planning; the result is ill-functioning, inefficient cities. Where it is not totally lacking, strategic planning for urban development, land use, and transport is ineffectual. As a result, what has emerged are informal quasi-property rights and a proliferation of informal settlements. The inadequate coverage and quality of urban infrastructure, in particular access to transport, clean water, sanitation, electricity, and health care, is likely to erode any benefits from agglomeration, such as labor pooling, specialization, and knowledge diffusion. Urban infrastructure is fundamental to the emergence of positive synergies from agglomeration and a heightening of national productivity. It affects not just urban living standards and quality of life but also production efficiency and spatial spillovers from agglomeration. Rapid population growth in the main cities and their peri-urban areas, exacerbated by problems related to climate change, food stress, poor housing conditions, and the low coverage and quality of infrastructure and services,

requires the integration of pro-poor urban management and planning that promotes inclusiveness and spatial equity.

20. Gabon’s uneven geographic density helps explain wide disparities in poverty and living standards. Because urbanization is so high, regions with the highest poverty rates do not necessarily host the highest number of poor. For instance, in rural areas, the rate of poverty is 59.5 percent, compared to just 29.4 percent in urban areas. However, because so many Gabonese live in urban areas, they contain 75 percent of the poor.

21. The geographic heterogeneity has two primary structuring dimensions: city size and proximity to main agglomerations. Together, Libreville and Port-Gentil contain nearly 50 percent of the national population but 32 percent of the poor. Conversely, small and medium towns (population 10,000–100,000) account for just 40 percent of the population but nearly 43 percent of the poor (Figure I.9). The incidence and density of poverty are markedly lower in small towns near the main urban centers; poverty is most prevalent in remote and sparsely populated areas that lack public services, connectivity to markets, and access to economic opportunities.

Figure I.9: Spatial Distribution of Poverty



Source: RGPL 2013 and EGEP 2017.

22. The geographic disparity of poverty in Gabon underscores the importance of effective territorial development to accelerate poverty reduction and shared prosperity. The spatial typology of Gabon, based on accessibility to markets, night-time lights (a proxy for economic activity), and poverty distribution makes it possible to identify three types of areas: (1) lagging and sparsely populated provinces; (2) lagging provinces with a relatively large number of poor; and (3) leading areas where economic and population density are highest. The results are consistent with the distribution of poverty across the nation: Northern provinces lag the most. They tend to be sparsely populated, lack basic services and connective infrastructure, and must contend with a variety of natural barriers. Southern provinces, where a larger number of poor people live, are also lagging but have intermediately urbanized cities. Leading areas, in the west, tend to have a large number of poor people and to be surrounded by lagging zones, which suggests the existence of barriers that prevent the benefits of economic activities in these areas from spilling over their borders to benefit the whole economy. This typology can be used to customize policies to connect leading and lagging areas and realize the benefits of economic concentration and agglomeration while reducing disparities in living standards.

Political stability but not inclusive development.

23. Abundant natural resources made Gabon one of the richest countries in SSA but were counter-productive for its long-term development. Natural resource wealth can perversely affect economic and social outcomes by creating opportunities for rent-seeking practices and exposure to volatility (Sala-i-Martin and Subramanian 2013). Human capital and institutions are decisive for whether natural resources are managed for socioeconomic development. When governance and institutions are weak, resource rents can lead to inefficient redistribution of revenue, greater social inequality, underinvestment in human capital, and corruption, which in combination allow low-quality institutions to persist (Mehlum et al. 2006; Wiens 2013; James 2015; Cockx and Francken 2014 and 2016). Resource revenues tend to reduce domestic tax effort, which reduces demands for accountability; divert public spending away from productive social spending; create incentives for corruption, embezzlement of revenues, and collusion on tax evasion; and deter needed investment in building institutional capacity. Weak institutions indicate a lack of commitment to safeguarding natural resource revenues, reducing fiscal volatility, improving the efficiency of public spending and public services, and turning resource wealth into broad-based sustainable development (Ross 2015; Badeeb et al. 2017; World Development Report [WDR] 2017).

24. The prevailing political settlement has brought political stability but foundational weaknesses of institutions prevented inclusive development. Development of a modern, pluralistic polity and establishment of rules-based institutions have been complicated by a colonial legacy of political privilege and by the influence of family networks in creating the modern state. As the entrenched political leadership forged five decades of sustained political stability, its members retained control of the principal centers of economic activity. Clientelism in the administration and elite capture of public resources benefitted those of superior social status, to the detriment of the welfare of most Gabonese. The unequal distribution of wealth has steadily eroded the social compact and exacerbated negative public perceptions of governance. Public trust in the state has eroded by its failure to direct some wealth to the neediest population groups. Limited demands on governance have also contributed to pervasive corruption and lack of transparency in resource management, thus weakening service delivery and state capacity.⁴

25. The political patronage system has prevented pro-equity reforms. This system, which over time has become deeply rooted in the administration, has promoted the privatization of public resources and persistent corruption within the administration. Gabon ranked in the third most corrupt group of countries (123rd of 180) in the 2019 *Transparency International Report*, and in the lowest 25 percent in terms of government effectiveness and regulatory quality in the 2018 *World Governance Indicators*.⁵ Moreover public perception of corruption is high; according to the 2017 Afrobarometer survey, over 95 percent of Gabonese believe that government officials are involved in corruption and over 80 percent believe that corruption has been rising over time.

26. The government has undertaken serious efforts to fight corruption, but with recent frequent government reshuffles signs of fragility seem to be emerging. In 2019, there were five government reshuffles. The last occurred during a serious corruption case that involved massive embezzlement of oil revenue by high-ranking officials. The government has demonstrated its determination to fight corruption through investigations and arrests of those involved in the

⁴ According to Afrobarometer 2014/15, 65 percent of Gabonese report having no interest in public affairs.

⁵ Gabon ranked 117th of 180 countries in the 2017 *Transparency International Report*.

embezzlement and through creation of the Ministry of Good Governance and Anti-Corruption; but the constant turnover in the government is slowing critical reforms and may compromise its commitment to pro-growth and pro-poor policy changes.

Fiscal policy, the business environment, and poverty.

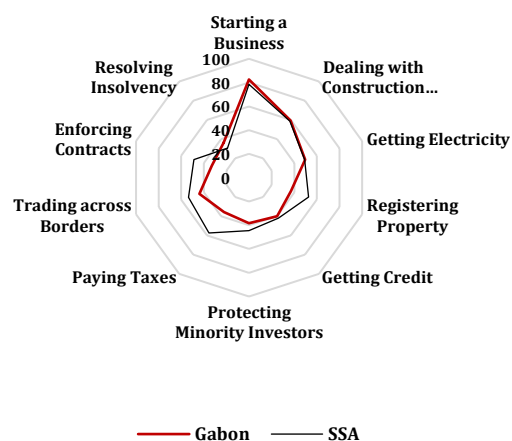
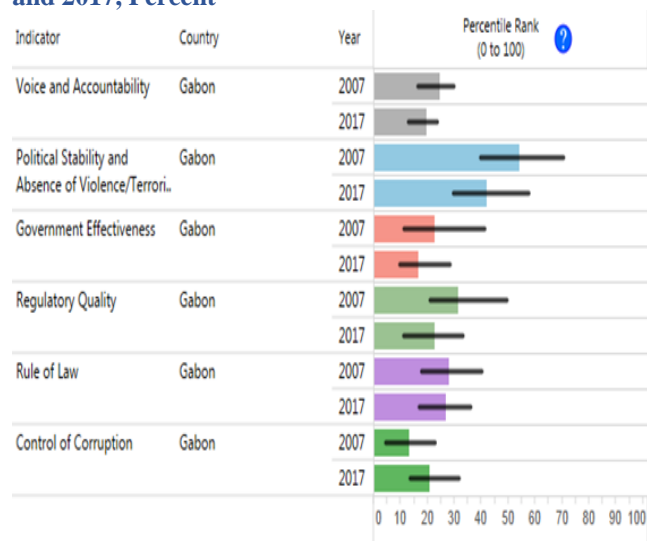
27. The procyclical pattern of fiscal policy has contributed to lower economic growth and higher volatility. Historically, Gabon has followed a procyclical fiscal policy of expansionary public spending during economic upturns and contraction in downturns. During the economic recessions in 2006 and 2008, the government ran budget surpluses, which pushed debt down to 20 percent of GDP—below the official ceiling of 35 percent and far below the CEMAC recommendation of 70 percent. Following the PSGE launch, which accelerated GDP growth, public investment picked up from 4 percent of GDP in 2009 to nearly 10 percent in 2012. During that period, the government devoted about 40 percent of its budget to investments in support of economic diversification and creation of a more favorable business environment. Meanwhile, with nominal revenues growing only slowly while spending rose rapidly, the fiscal surplus narrowed to 0.6 percent of GDP in 2011. The surplus turned into a deficit of 3.1 percent in 2013 as public spending hit a peak of 34.7 percent of GDP. After the 2014 oil crisis, Gabon’s fiscal and debt positions deteriorated significantly. The deficit reached 5 percent of GDP by 2016 and public debt reached 64.2 percent of GDP—far above the authorities’ policy ceiling. The dramatic increase of gross debt was coupled with a worrying accumulation of arrears, which negatively affected the private sector, particularly small and medium enterprises (SMEs). Inadequate governance and fiscal institutions, coupled with limited implementation capacity and forecasting difficulties, made it difficult to smooth public spending and save resource revenues. This have made the country more vulnerable to economic volatility, which in turn lowered government capacity to control the near-term fiscal stance and deliver a counter-cyclical impulse; it also contributed to boom and bust cycles that depressed growth.

28. Procyclical spending and the lack of fiscal rules undermined government capacity to sustain productive public spending during downturns. Despite a history of fiscal surpluses, the favorable macroeconomic conditions were not used effectively to build up fiscal buffers and create the fiscal space necessary to sustain investments in human development and basic infrastructure across business cycles. The commodity downturn in 2014 deprived the government of important streams of revenues, which significantly reduced capital investment and outlays for health care, social protection, and education. Fiscal adjustment, which focused on capital investment, caused a significant decline in general public investment and a slowdown in non-oil growth. The budget lines allocated to social sectors were often not executed due to fiscal constraints. Efforts to address the deficits were thwarted by the rigidity of the wage bill, which in 2018 reached 9 percent of GDP. The government has recently committed to improving the management of the wage bill and introducing a performance management system. Efforts since 2016 to strengthen the macro-fiscal framework have made some progress, although more is needed if macroeconomic stability is to be attained. In 2018, the deficit narrowed to 1.3 percent of GDP and debt declined, but the situation remains fragile.

29. Inadequate governance and a poor business climate are major challenges for Gabon’s economy. The deteriorating perceptions of governance in the last 10 years are worrying, though not uncommon for a resource-rich country (Figure I.10). The lack of transparency in management of public resources has fueled speculations about how oil revenues are used, to the point where since 2013 Gabon is no longer part of the Extractive Industries Transparency Initiative (EITI). The

poor business environment has undermined efforts to diversify the economy and accelerate growth. Gabon ranks 169th out of 190 countries in the World Bank’s *2019 Doing Business Report*, far behind most of its SSA and upper-middle-income peers (Figure I.11).⁶ The high cost structure of the economy brought about by high public-sector employment and generous wages has created Dutch disease-like effects that adversely affected competitiveness and productivity.

Figure I.10. Worldwide Governance Indicators, 2007 and 2017, Percent **Figure I.11: Doing Business Scores, 2019, Percent**



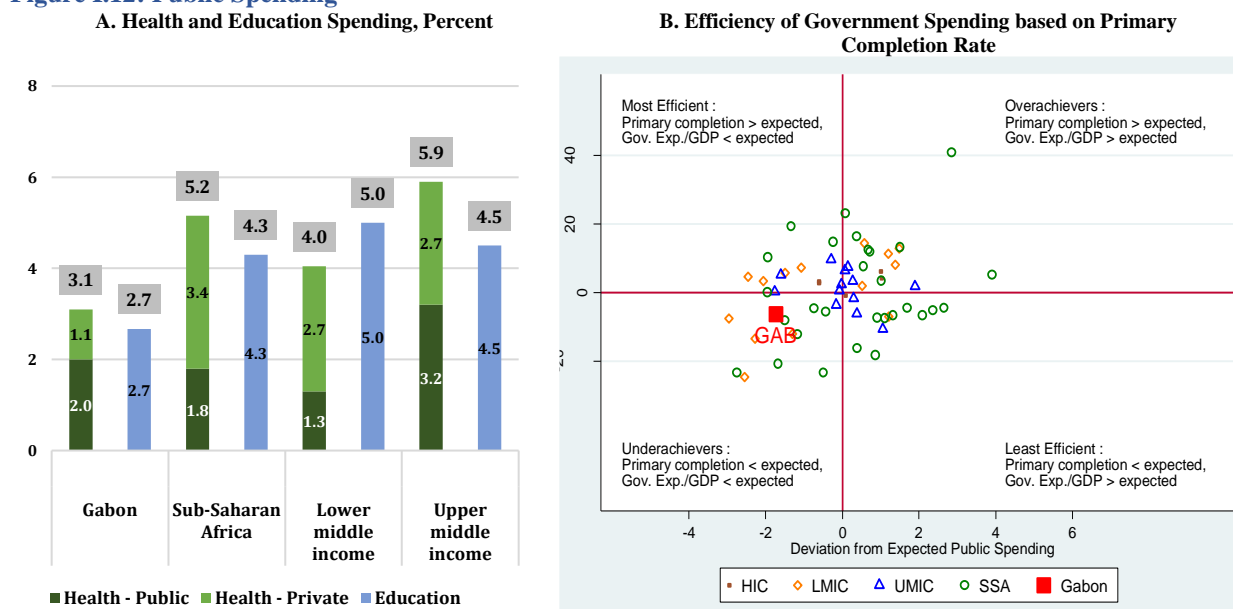
Source: WGI and Doing Business Report 2019.
 Note: Scores are scaled in percentile (0=lowest; 100=best score)

30. Opaque public resource management and the patronage system make it difficult to hold the administration accountable for service delivery. They have also worsened a bloated and nonperforming public sector.⁷ Dependence of the budget on oil revenues and lack of mechanisms for saving resource windfalls have led to large swings in both revenues and spending. Extensive use of exemptions, incentives, and other tax expenditures have slowly eroded the tax base, further complicating macroeconomic management and diminishing allocation of resources to human development. In 2014 public spending on noncontributory social protection was 0.5 percent of GDP, on education 2.7 percent, and on health 2 percent, significantly below the averages for middle-income countries and SSA. Insufficient resources for human development equate to sub-par outcomes (Figure I.12). Poor management of public investments has led to shortfalls in the coverage and quality of infrastructure, obstructing connectivity within and beyond borders. Lack of budget control and poor management of fiscal risks, particularly debt, have led to frequent budget deviations and significant accumulation of arrears.

⁶ Of 50 SSA countries, only 12 rank lower than Gabon: Central African Republic, Chad, Republic of Congo, Democratic Republic of Congo, Equatorial Guinea, Eritrea, Guinea-Bissau, Liberia, São Tomé and Príncipe, Somalia, South Sudan, and Sudan.

⁷ Although an employment ceiling is part of the Finance Law, between 2007 and 2017 the number of civil servants went 40 percent, to 100,000 (World Bank 2018a). The government recently committed to freeze public hiring and control ghost workers. The civil service law is also being revised.

Figure I.12: Public Spending



Source: EGEF 2017, UNESCO, IMF databases and WDI 2019.

Note: Education spending is for 2014 and health spending for 2016. Expected education and public spending values in B are based on OLS regressions with fixed effects. See World Bank Public Expenditure Review (PER) 2018 for details.

31. The government has recently acted to strengthen the regulatory framework and enhance the business environment. Public services to domestic and international investors have been consolidated under a single agency, ANPI-Gabon, which promotes inward investment and supports entrepreneurship and development of export trade. The agency provides a one-stop shop for private investors to simplify the complex processes and coordinates reforms to improve the business environment. A unit has been set up to support PPPs, responding to the need for a cross-cutting unit linking opportunities to investors. The legal and regulatory basis for PPPs is also being reviewed. Reforms to improve management of public investments are expected based on the results of the 2019 public involvement management assessment. The government has also adopted measures to improve fiscal discipline and increase revenue collection. It has created an electronic tax-declaration and payment (e-tax) platform, upgraded customs service information systems, and increased the frequency of customs inspections. However, serious deficiencies in tax and customs administration continue to undermine collection efforts, as do exemptions, allowances, credits, reduced tax rates, tax holidays, and deferrals.

32. A fragile financial and banking system limits access to credit for the local private sector especially for small enterprises. Although the emergence of mobile banking has massively expanded financial inclusion, the financial system itself is not yet sound. The domestic capital market is embryonic and there is little financing for small businesses. Most banks in Gabon are local branches of foreign banks whose primary interests are in financing oil and mining projects rather than local enterprises. Because it is very difficult for local SMEs to negotiate loans, they cannot expand their activities. Gabon's current economic difficulties have further affected the banking system, contracting access to credit even more.

33. To improve its efficiency and effectiveness across the board, the government has begun to enhance digital development of the state. In 2011, it created the National Agency of Digital

Infrastructure (ANINF) to coordinate execution of its digital development strategy. Committed by the 2025 vision to make Gabon a center of excellence in services with high added-value and a digital pioneer, Gabon has begun to provide e-public services and expects digital development to help make government more accountable and society more inclusive.

34. Gaps in data availability and quality make it harder for the government to make evidence-based policy decisions. Fundamental statistical information, both macroeconomic and microeconomic, is either lacking or outdated. In 2017 Gabon scored 36.7 of 100 in the Statistical Capacity Indicator (SCI); the SSA average was 60.5. Despite its specific commitment to address Gabon’s economic and social challenges, without complete data and statistical evidence to guide the planning, targeting, and monitoring of reforms, the government cannot really assess how effective its strategies are. Recognizing the problem, in 2015 the government passed a law to build the capacity of the National Statistical System (NSS). A Statistics Development project is now underway to improve the quality and availability of Gabon’s statistical information.

D. Pathways to Sustainable Poverty Reduction and Shared Prosperity

35. This SCD lays out two mutually reinforcing pathways to promote poverty reduction and shared prosperity, and realize national development goals: (1) economic diversification and (2) more equitable access to opportunities and building human capital. Economic diversification is vital to revamp growth, increase productivity, and enhance resilience to the vagaries of oil markets and the depletion of oil revenues. It can open up economic opportunities for more of the population through both jobs and investments in service delivery. Economic diversification contributes to the expansion of occupational and consumption choices and favors learning opportunities that are essential for enhancing people’s standard of living and well-being (Banerjee and Newman 1993; Hartmann 2014). Greater diversification also helps to promote opportunity-based entrepreneurship rather than necessity and subsistence-level entrepreneurship (Gries and Naude 2010). The infrastructure and institutional changes that accompany diversification provide positive effects on human development.⁸ To ensure that all Gabonese benefit from economic transformation and to equalize their chances to participate in economic growth, diversification must be coupled with more effective policies to distribute opportunities equitably and expand human capabilities. Economic diversification and structural change draw upon human and productive capabilities; enhanced human capabilities help to sustain and diversify growth by increasing productivity. Poverty reduction and shared prosperity can be sustained by better macroeconomic management and supportive regulation and institutions. This report examines both roadblocks and opportunities along each pathway and identifies priority areas of intervention to achieve Gabon’s ultimate goal of a competitive, resilient, and inclusive economy.

Pathway one: Economic diversification.

36. Economic diversification can pave the way for sustainable economic development, poverty reduction, and less income inequality. Diversification can catalyze sustained and inclusive development through higher growth and lower GDP volatility (Hartmann 2014; Hidalgo 2015). Empirical evidence for a number of countries, including Gabon, shows that there is a

⁸ Expansion of economic diversification and growth would increase tax revenues, which could be invested in such public goods as education, infrastructure, and social protection programs (Hartmann 2014). Diversification also tends to encourage a more even distribution of economic and political power within the economy and the establishment of fully democratic institutions (Hartmann 2013; Hartmann and Pyka 2013).

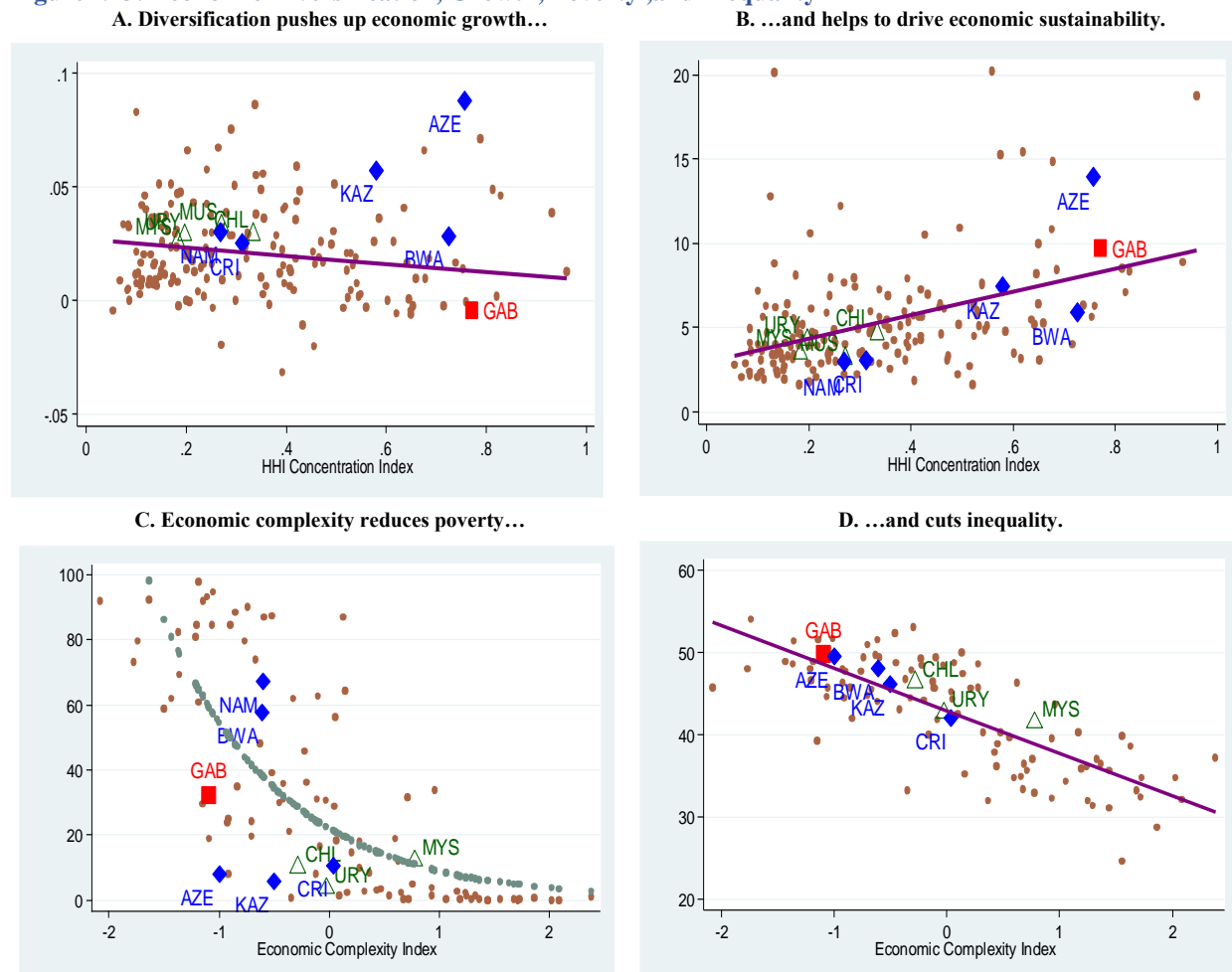
significant association between productive structures, as measured by economic complexity and concentration indices, and the degree of economic growth, volatility, poverty, and income inequality.⁹ Figure I.13 illustrates bivariate relationships on the one hand between export concentration, GDP growth, and GDP growth standard deviation (Figure I.13A and B); and on the other between economic complexity, poverty headcounts, and Gini measures of income inequality for over 100 countries (Figure I.13C and D). Both GDP volatility and income inequality show negative and significant relationships with economic complexity and export diversity; in other words, countries with more sophisticated productive structures and diversified economies tend to be less volatile and more inclusive. These relationships are robust to controls for measures of human capital and institutions. They support the idea that a country's productive structure co-evolves with both its human capital and the quality and inclusiveness of its institutions, promoting learning opportunities and capability development, and thus creating positive spillovers and further rounds of innovation and development (Hartmann et al. 2017).¹⁰

37. Different types of diversification can have different implications for occupational choices and people's welfare: (1) Economic diversification can be based on building up existing sectors beyond oil, such as wood and agro-processing, and the creation of slightly different products and services. (2) It can also promote the emergence of entirely new sectors and activities. The first type creates employment and increases competitiveness and productivity in specific sectors but can make the economy dependent on a few core activities and hence vulnerable to external shocks. The second reduces vulnerability to risks, opens up new choices and activities, and thus enables innovation. Whereas it is essential for long-term economic and human development, it requires building up productive capabilities through infrastructure, inputs, education, and skills that are costly and difficult to achieve (Hartmann 2014). Where there is little diversification and a limited productive base, in the short to medium term building up existing sectors may be more conducive to job creation, productivity, and growth. Diversification into new sectors can be considered as a long-term strategy when the mechanisms for facilitating creativity and innovation are in place and resources are available for the necessary investments in infrastructure and institutions.

⁹ The Economic Complexity Index (ECI) measures the sophistication of a country's productive structure based on the diversity of its economy (the number of products it exports), and the ubiquity of its products (the number of countries that export that product) (Hidalgo and Hausmann 2009). Concentration is captured by the Herfindahl–Hirschman Index (HHI) of export concentration. ECI assigns higher values to more complex economies; HHI assigns lower values to more diversified ones.

¹⁰ This basic concept is that sophisticated productive structures allow countries to produce high-value-added products that are also more diverse. Economic diversification tends in turn to expand the extent of human capabilities, triggers co-evolutionary change and institutional development, promotes recombinant growth, reduces exposure to external shocks, and favors more democratic growth through more equal distribution of economic, political, and social power. However, in addition to the numerous economic reasons why diversification has positive effects on human development, the potential negative effects should also be considered (Hartman 2014).

Figure I.13: Economic Diversification, Growth, Poverty ,and Inequality



Source: WDI 2019, UN-COMTRADE, Galbraith et al. 2014 (GINI EHII dataset). and MIT’s Observatory of Economic Complexity (atlas.media.mit.edu).

Notes:

- The regression models are based on Hartmann et al. (2017). The models in panels A and B are based on 180 countries for 1970–2016 and 106 countries in 2000–16.
- Income inequality is measured by both GINI HHI and Gini coefficients from WDI; the negative association with ECI is robust to both measures. GINI EHII is available for 1963–2008 and the HHI concentration index for 1995–2016. The correlation coefficient between GDP volatility and HHI is estimated at 4.8 and is statistically significant at 1 percent. There is also a significant negative association between GDP volatility and ECI (-0.36), but the relationship ($R^2 = 0.03$, $p\text{-value} = 10^{-3}$) is weaker than that with HHI ($R^2 = 0.2$, $p\text{-value} = 10^{-6}$). The ECI has strong and significant correlations with GINI EHII, estimated at -5.2 , and Gini WDI, estimated at -3.8 ; both are significant at 1 percent, with the former relationship being stronger ($R^2 = 0.6$ compared to $R^2 = 0.2$, $p\text{-value} = 10^{-10}$).
- AZE= Azerbaijan, BWA = Botswana, CHL = Chile, CRI = Costa Rica, KAZ = Kazakhstan, MUS = Mauritius, MYS = Malaysia, NAM = Namibia, and URY = Uruguay. They represent structural and aspirational economies against which the performance of Gabon (GAB) is benchmarked. Countries in blue are structural peers, and those in green aspirational. See Appendix A for details on peer countries selection.

38. Gabon’s abundant resources offer high potential for economic diversification. Diversification has a greater chance of success if it is based on both current and anticipated market demand, and if it can be supplied by domestic capabilities while creating a virtuous cycle for developing complementary capabilities that can empower those already in place (Mahroum and

Al-Saleh 2013). Gabon's productive capacity and its potential to reinforce capabilities in domestic enterprises, in particular SMEs, conditions not only the path of diversification and productive transformation but also the country's ability to generate and distribute income. Along this pathway, the SCD examines Gabon's capabilities and opportunities for diversification and the prerequisites and factors to enable capability enhancement and productive transformation.

39. However, it is urgent to remove several obstacles to unleash Gabon's potential. The analysis identifies several constraints to faster and more effective economic diversification in Gabon's current economic and business environment. Many of these are deeply entrenched in its recent history and political reality, and development itself will not be enough to eliminate them. Active and effective government intervention in a small number of priority areas is necessary for Gabon to navigate this pathway successfully.

Pathway two: Equalizing opportunity and expanding human capabilities.

40. The benefits from growth can only be translated into socioeconomic achievements for all if there is equal access to opportunities for both jobs and capability-enhancing services. Expanding opportunities for all Gabonese, particularly the less well-off, depends on whether the government can invest in higher-quality health, education, and connectivity services, and can also ensure access to economic opportunities (WDR 2017). Such investments rely on the government's capacity to collect and allocate revenues efficiently and equitably; spending on quality public services can help ensure that all Gabonese can add to their human, financial, and physical capital—and can use the new assets to generate income. Well-designed safety nets, transfers, and other social programs can facilitate equity and social inclusion by empowering vulnerable population groups.

41. Gabon's youthful workforce and its fast-growing population give human capital a central role in the country's economic future. Building literacy, numeracy, and other foundational skills, reducing school dropouts, reducing grade-repetition, promoting good teaching practices, and improving health outcomes are central to raising human capital. Moreover, additional targeted efforts are needed to respond to the changing nature of work and the prospects for diversification. The social and economic changes brought about by digital technology are both transforming the nature of work and promoting new ways to build up human capital and allow the workforce to take full advantage of the opportunities they offer (WDR 2019; Choi, Dutz, and Usman 2019). Digital technologies have the potential to boost productivity and jobs for low-skilled workers throughout the economy and to promote growth-oriented entrepreneurship. Taking advantage of evolving economic opportunities requires a solid foundation of human capital and specific skills. Adjusting to the next wave of jobs also requires social protection. Digital technologies could be leveraged to accelerate human capital acquisition and upgrading.

42. Used well, technology can facilitate access to education and learning materials; help connect people to public services that support social, health, and financial inclusion; and accelerate the delivery of effective services. In general, digital technology has the potential to strengthen human capital and employability and transform the availability and nature of work. This will depend on there being the right mix of policy, investment, and resource support. To make the most of these changes, building human capital is the overarching priority. The pivotal role of the government is to effectively provide quality health and education services and basic infrastructure, and to ensure that all Gabonese have equitable access to opportunities. Beyond improving the

coverage and targeting of social protection programs, it is essential that the government reform its social protection policies to prepare for the changes in the labor market.

43. Policies to expand human capabilities and equalize opportunities need to be accompanied by policies for economic and structural change that can trigger a virtuous cycle of economic growth and poverty reduction. Because they can complement and reinforce each other, both enhanced human capital and economic development are needed to promote sustained poverty reduction and shared prosperity. Structural change and economic growth are not possible without a healthy, well-educated workforce. However, investment in human capital might not lead automatically to creation of more and better jobs without simultaneous investment in economic diversification and transformation to create the economic demand for the educated and skilled workforce. Improving capabilities and skills would not reduce poverty over the long term if workers cannot access a diversity of well-paid occupational choices and if the poor continue to be forced into self-employment with low incomes. Only the higher-value-added sectors created by economic diversification can provide more and better jobs, particularly for the poor; that implies a need for human development policies to upgrade capabilities and expand the productive base; that will in turn feed back into economic growth. The low diversification of Gabon's economy offers opportunities to use digital technologies and other policy tools to harness the potential of its untapped human and natural resources (Hartmann 2014; Choi, Dutz, and Usman, 2019). Although profound positive effects on human development might be expected, it will be difficult to trigger a virtuous cycle of productive diversification if Gabon's productive capabilities are inadequate.

44. This pathway identifies areas for policy reforms to improve the efficiency and sustainability of service delivery and the provision of social infrastructure.¹¹ The analysis explores channels, challenges, and main areas for policy reforms to expand access to improved public services and heighten the impact and sustainability of the social protection system. It capitalizes on policy reforms already underway to expand human capital and reduce vulnerability and also explores how resources and government policies can be better directed to productive investment in economic and human development.

E. Policy Priorities

Priority reforms in foundational and transformational areas.

45. The SCD identifies six priority areas for action, clustered into two groups: (1) *foundational priorities* are prerequisites for higher and more sustained growth and faster job creation; and (2) *transformational priorities* are areas where concerted action over the next five years could accelerate progress on poverty reduction and shared prosperity. The four policy areas for transformational action are to (1) improve urban management and national connectivity; (2) build up human capital; (3) maximize gender equality; and (4) promote financial inclusion. The two foundational priorities are to (1) improve macroeconomic and fiscal management; and (2) enhance the investment climate and better support businesses. Selection of specific policy areas within each priority is based on the evidence presented in the report, which is informed by in-country consultations and has been endorsed by the country team.

- **Improve urban management and in-country connectivity.** Gabon's high level of urbanization puts it in a favorable position to take advantage of the benefits of

¹¹ Social infrastructure includes, e.g., housing, health and education facilities, and communication networks.

agglomeration once policies to reduce fragmentation and increase economic density are in place. The foremost priority is to reduce precarity and facilitate mobility by expanding access to primary education and health care, adequate sanitation, electricity, and clean drinking water in rural and lagging areas. Key priority actions to accelerate the process include:

- Ensuring well-functioning land markets, enforcing property rights, and making basic social services universally available.
 - Improving urban planning in large and leading cities by ensuring that blueprints allocate land for future roads, water, sanitation, electricity networks, and other amenities.
 - Incorporating pro-poor interventions into urban planning to not only promote livability and inclusiveness, but also heighten productivity.
 - Addressing market and coordination failures, particularly land market distortions and within-city connectivity, to transform these cities into centers of trade and ensure wider diffusion of agglomeration economies, such as production links, market access, and information transfer.
 - Improving connectivity between intermediate and leading cities through better infrastructure and supportive interventions to facilitate their development.
 - Bringing entrepreneurs closer to markets to help increase economic density.
 - Sustaining Internet and digital momentum and exploiting the potential benefits of digital technologies to expand service delivery and connectivity.
 - Building on current progress in the energy sector to improve the quality of the power provided and expand access to electricity.
 - Implementing pro-productivity and skills-upgrading interventions for small and informal businesses, leveraging low-skill-biased digital technologies, and creating a favorable ecosystem for small firms and entrepreneurs to facilitate the transition to formality and boost productivity.
 - Facilitating regional integration, focusing on the soft side, by improving trade and customs facilities, reducing bureaucracy, building administration capacity, and enacting existing agreements.
- **Build up human capital.** This will require a multi-pronged strategy that will:
 - Expand early childhood development services as a foundation for building the capabilities of future workers.
 - Ensure that vocational and tertiary education, which feed students into the labor market, are responsive to labor market needs and preparing students for the changing nature of work.
 - Upgrade the skills of the current workforce by reinforcing the technical training system.

These reforms should be part of a cohesive, sequenced policy agenda that is aligned to economic development needs—one that responds to both current and future skill needs and is responsive to Gabon’s budget constraints. To complement these reforms, interventions

are needed to improve the quality and accessibility of primary health care and social protection, which will improve productivity and empower poor and vulnerable people.

- **Maximize gender equality.** Gender equity is to be achieved along with strategies to build up human capital, increase productivity, and promote inclusion. Women represent about half of Gabon's population and workforce. Increasing their access to education and employment creates economic assets that can heighten production and productivity and reduce the transmission of poverty across generations. To facilitate their active participation in the labor market and economic life, policy priorities should therefore:
 - Reduce constraints on women's time (e.g., through better access to child care services and parental leave policies, and proximity to basic services and markets).
 - Enhance women's access to economic assets, correct discriminatory laws and strengthen their rights to property and job-related benefits, and open up access to credit.
 - Use technology to help expand the reach of services and information to women.
 - Invest in education and skills-building for women, particularly adolescent girls in vulnerable families, to help reduce fertility rates and the strain that high dependency ratios put on social services and poverty reduction.
 - Expand access to tertiary education for girls, particularly those in disadvantaged families and regions, and promote women's acquisition of science, engineering, technology and mathematics (STEM) and digital skills to open up job opportunities for them in information and communication technologies, and to further empower them.
 - Expand women's access to health care services and address early pregnancy.
 - Amend the Civil Code to enforce laws that protect women and eliminate gender discrimination; use public policy to combat the root causes of gender inequalities in economic and legal institutions and cultural and social norms that perpetuate it.
 - Foster women's societal, political, and economic representation to increase their voice in society and within the household.
- **Consolidate the financial and banking sector and promote financial inclusion:**
 - Build up the financial sector through orderly liquidation of the three banks in distress and better capitalize financial institutions.
 - Create commercial courts and establish alternative dispute resolution mechanisms to ensure that claims and property rights are speedily enforced.
 - Enhance financial inclusion by expanding digital financial services and introducing agency banking to reach sparsely populated rural areas.
 - Improve SMEs access to credit by putting in place both public and private risk-sharing mechanisms, and instruments like a registry of movable collateral.
- **Adopt a robust fiscal framework and prudent macroeconomic policies.** There are two priorities: create more fiscal space and engage the private sector to fund investments to support the growth strategy. To do so:

- Expand the tax base and improve revenue collection, eliminate numerous tax exemptions, and provide fiscal certainty for economic actors.
- Make spending more efficient through more rational allocation of resources. In particular, move swiftly to downsize the public wage bill.
- Strengthen macroeconomic management and fiscal planning using databases, planning tools, and more proactive cash management by the Treasury.
- Build on and sustain the momentum of PPPs development to accelerate the provision of infrastructure.
- Adopt countercyclical fiscal policy to insulate the economy from the fluctuations of natural resource prices and smooth out economic volatility to create the conditions for sustainable and broad-based growth.
- **Improve state and institutional governance to ensure effective and accountable delivery of services to citizens and businesses and improve the business environment.** Nontransparent management of public resources undermines service delivery outcomes, citizens' trust, and state capacity. Persistent corruption within the administration and institutional weaknesses have prevented distribution of natural resource wealth to the poor and investment of public resources and oil rents in productive capabilities. Addressing these weaknesses calls for more transparent and efficient management, particularly in the current tight fiscal situation where state ability to mobilize resources is limited. Priorities are therefore to:
 - Strengthen public institution accountability, restore public confidence in the government, and improve provision of public services.
 - Improve the governance of the education and health sectors in order to build up human capital and state capabilities.
 - Address the lack of commercial justice as manifested in the multiplication of legal cases against private companies.
 - Ensure that property rights are enforceable through land registry reform so that investors can more easily secure land titles.
 - Better coordinate policy and move to more realistic and consistent policy-making to align policy with budgetary constraints.
 - Intensify efforts to improve Gabon's *Doing Business* indicators to attract more private investment.

II. Progress in Poverty Reduction and Shared Prosperity

A. Changes in Monetary Poverty and Inequality

The incidence of poverty has slowly declined, but the number of poor increased.

46. Gabon compares favorably with its African peers in terms of its poverty rate, but trails behind its aspirational peers. According to the 2017 household budget survey (EGEP: *Enquête Gabonaise pour le Suivi et l'Évaluation de la Pauvreté*), 33.4 percent of the population lives below the national basic-needs poverty line, set at CFAF 840,400 per capita per year, and about 8.2 percent are unable to meet the minimum nutritional requirements.¹² Using the global measure of extreme poverty, Gabon seems to have almost eradicated extreme poverty with only 3.4 percent of the population living on less than US\$1.9 per person per day (in 2011 purchasing power parity, PPP). However, estimates based on the international poverty line for upper middle-income countries (US\$5.50 per person per day, 2011 PPP) show that 32.2 percent of the population is poor, which is up to 50 percentage points (pp) lower than the SSA and lower middle-income countries averages; but 8 pp higher than the average for upper middle-income countries and 12 pp higher than what might be expected given Gabon's per capita GNI (Figures II.1 and II.2). Gabon is ahead of its African peers such as Namibia and Botswana, but lags behind its other structural and aspirational peers.¹³ While poverty rates in non-African peer countries hover around 10 percent (reaching the low of 3 percent and less in Malaysia and Uruguay), Gabon's poverty rate remains around 20 pp higher.

Figure II.1: Poverty Headcount at US\$5.5 a day (2011 PPP), Percent

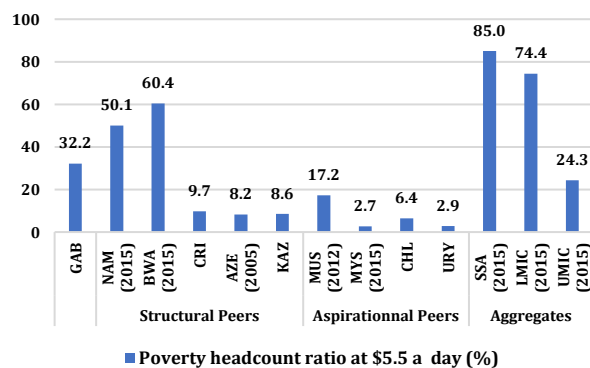
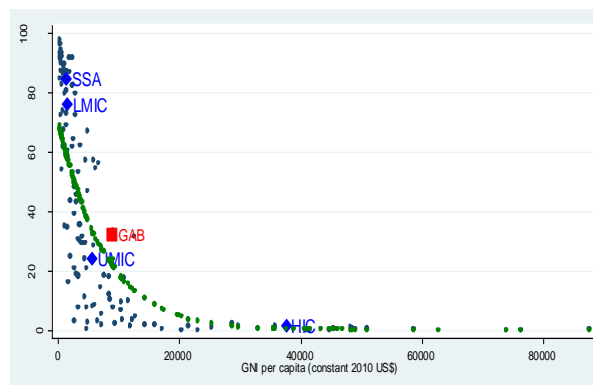


Figure II.2: Poverty Headcount and GNI per capita



Sources: EGEP 2017 and WDI 2019.

Note: Poverty rates are for 2017 except when mentioned otherwise. Poverty fell to 18.4 percent for UMIC in 2018.

47. Poverty is not very deep, and inequality is relatively low. The depth of poverty or poverty gap, which measures how far on average poor households are from the poverty line, is estimated at 11.3 percent—in other words, a poor household would on average need CFAF 94,965 per capita per year to escape poverty. Consumption-based Gini index stands at 38, against an SSA average of over 40. It is lower than selected comparators, but Kazakhstan. However, inequality in Gabon is likely higher than the figures reported here, as available surveys fail to sample the richest households and to capture the rising concentration of wealth among people at the top end of the

¹² Gabon's national poverty line translates into about US\$5.7 per capita per day at 2011 PPP.

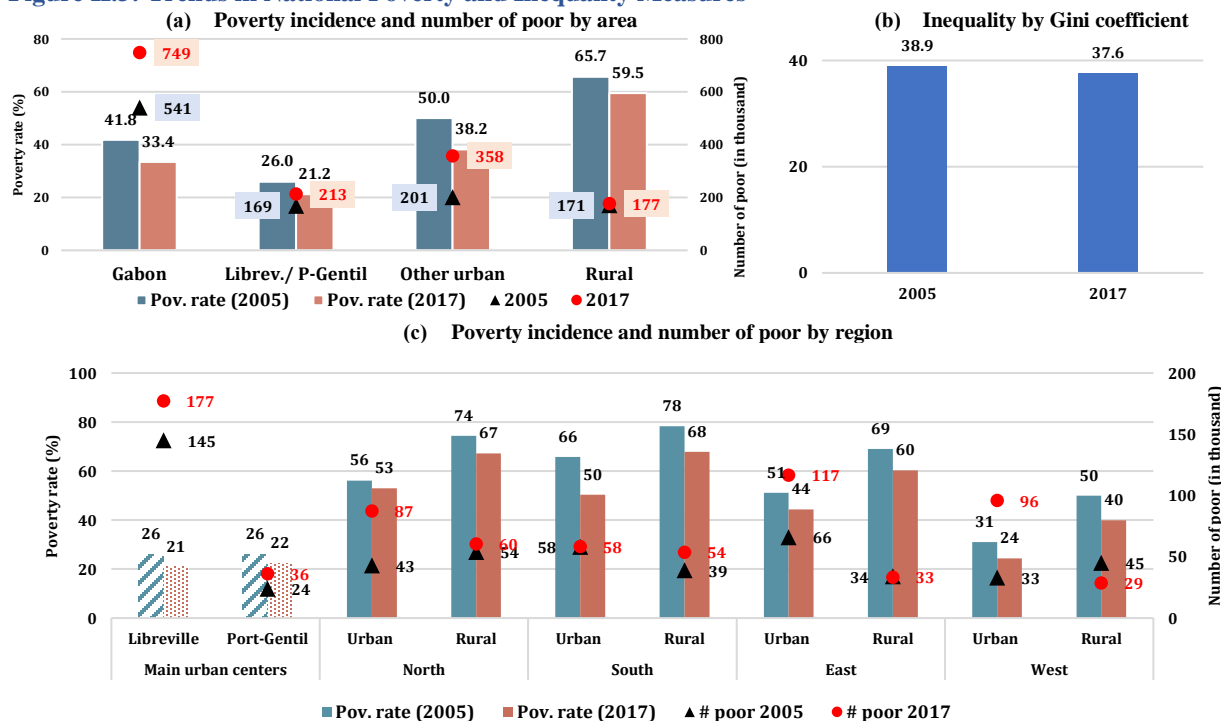
¹³ See Appendix A for the selection of aspirational and structural peers.

distribution. Also, the consumption aggregate used to measure inequality excludes expenditures on large durable goods, which are more common purchases by richer households and better reflect the dispersion of welfare.

48. More than half of rural people are poor, and their poverty is three times deeper than that of the urban poor. About 59.5 percent of the rural population lives in poverty, compared to 29.4 percent in urban areas—21.2 percent in Libreville and Port-Gentil and 38.2 percent in other urban centers. The depth of poverty is almost three times higher in rural areas than in urban zones: the amount needed there is CFAF 219,344, far more than the CFAF 75,636 per capita per year for poor households in urban areas.

49. Poverty has declined in the past decade, yet at a slower pace than population growth, leading to an increase of the absolute number of poor. Two household budget surveys, EGEP 2005 and 2017, provide a basis for estimating poverty trends. Changes in the survey design have resulted in challenges to the analysis of trends in consumption and poverty over time (see Gabon Poverty Assessment, World Bank 2019b, for details). These challenges are addressed using the Small Area Estimation Prediction method (Elbers, Lanjouw and Lanjouw, 2003; Christiaensen et al., 2012). The results suggest a decline of the national poverty headcount from 41.8 percent in 2005 to 33.4 percent in 2017, accompanied by a reduction in the depth of poverty (Figure II.3). However, the decline of poverty by 1.6 percent a year was lower than the population growth of around 3 percent a year, resulting in an increase of the absolute number of poor people by about 38 percent.

Figure II.3: Trends in National Poverty and Inequality Measures



Sources: EGEP 2005 and EGEP 2017.

Notes: Poverty rates for 2005 are from small area estimation. In 2017, Franceville poverty rate is 44.5 percent but in 2005, the city was merged with urban east. Regional areas are defined as: North (Ogooué-Ivindo & Woleu-Ntem Provinces), East (Haut-Ogooué & Ogooué-Lolo Provinces), West (Estuaire, Moyen-Ogooué & Ogooué-Maritime Provinces), and South (Ngounié Province & Nyanga Provinces). Urban West excludes Libreville and Port-Gentil.

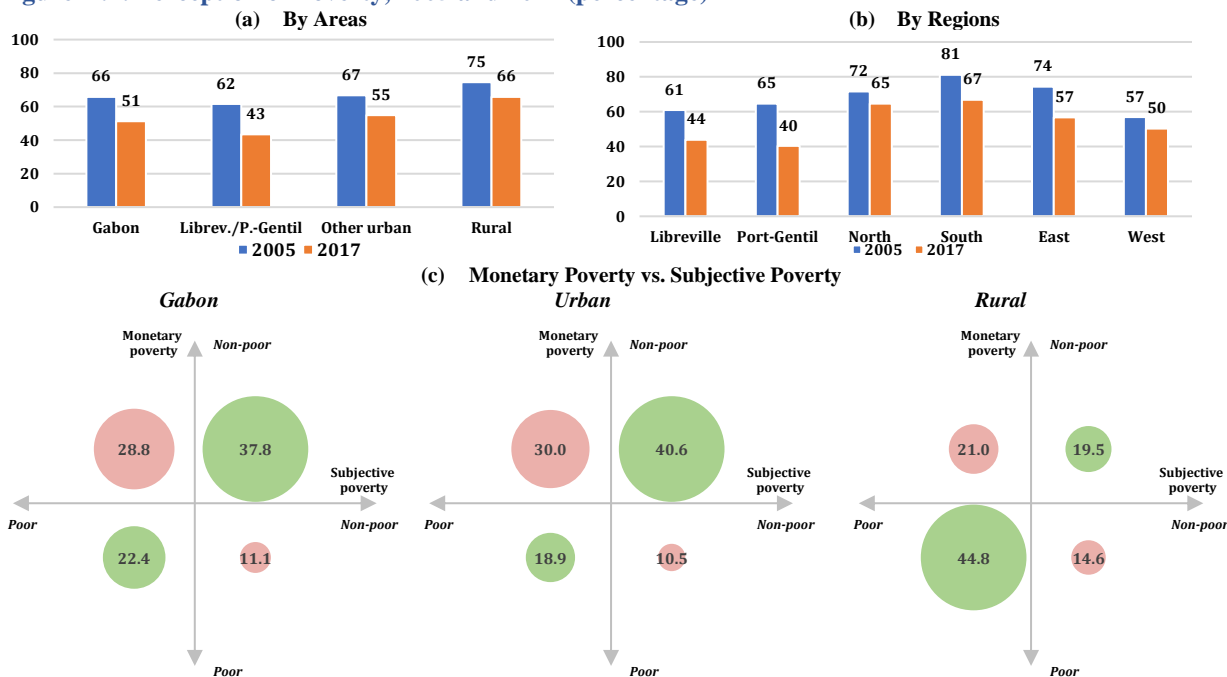
50. The number of poor people is increasing particularly fast in urban areas outside the main cities. Most of the increase in the number of poor people accrued to urban areas, leading to an even higher concentration of urban poverty. Although urban areas outside Libreville and Port-Gentil recorded the fastest decline in poverty rates, they witnessed the largest increase in the absolute number of poor, which rose by 78 percent compared to 26 percent in main cities and 4 percent in rural areas, due to high population growth in these areas. While around one fourth of the poor remain located in Libreville, their number is increasing fast in other urban cities, particularly in the east urban (Figure II.3).

51. The reduction in poverty was coupled with some progresses in living conditions. The lack of comparability between household surveys prevents a clear understanding of the drivers of the reduction in poverty rates (World Bank, 2019b). Yet, the available information suggests some improvements – though limited—in access to basic services and ownership of some productive assets that can corroborate the reduction in poverty rates. The decline in the multidimensional poverty headcount by about 21 pp in 2000–2012 further lends support to the findings about the improvement of monetary poverty indicators over the past decade.

52. The Gabonese have been feeling less poor over time, yet the perception of poverty remains widespread, reflecting unmet aspirations for better living conditions. The subjective poverty rate declined by around 15 pp during 2005-17, but due to population growth, the number of people feeling poor increased by 32 percent.¹⁴ More than half of the population continues to identify itself as poor in 2017, a rate nearly 20 pp higher than monetary poverty incidence (Figure II.4). The perception of poverty is higher in rural areas, but the discrepancy between feeling poor (subjective poverty) and being poor (monetary poverty) is more acute in the urban areas, particularly Libreville, indicating a highly negative perception of economic conditions in these areas. The perception of poverty is remarkably high among the relatively well-off population groups, as over 40 percent of the Gabonese in upper income groups (4th and 5th quintiles) consider themselves as being poor, indicating high unmet aspirations among the better off.

¹⁴ Subjective poverty reflects the self-assessment of people's own welfare, independently from their income, and is therefore strongly related to the individuals' perception of local living conditions and expectations in life.

Figure II.4: Perception of Poverty, 2005 and 2017 (percentage)



Sources: EGEP 2005 and EGEP 2017.

Notes: Subjective poverty rate for Franceville is estimated at 52.1 percent in 2017.

In the SW quadrant of Fig. II.4 c 22.4 percent of the population are both monetary and subjective poor.

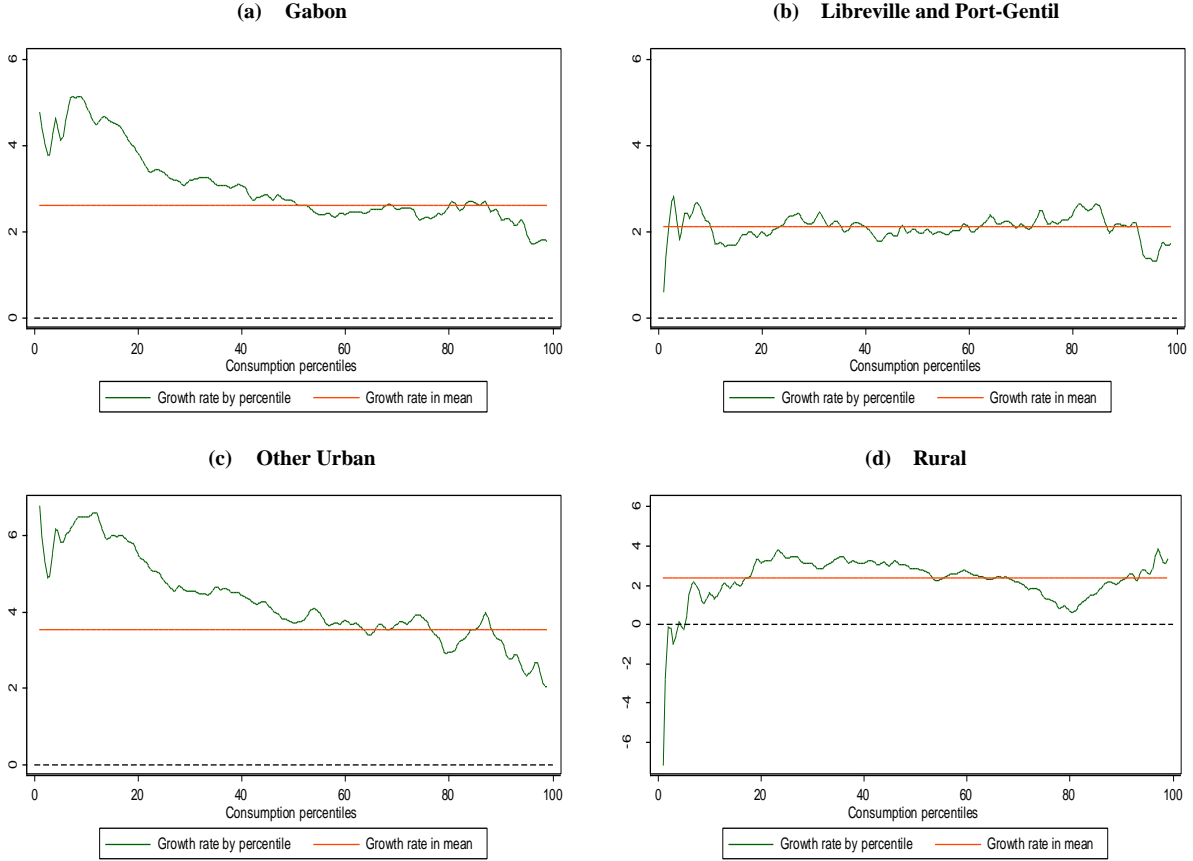
53. The widespread subjective poverty is explained by the heavy financial and welfare stresses faced by a large part of the population. A large share of households suffers from the instability of their financial situation. The stress is particularly heavy for the poor as the share of poor households considering their financial situation very unstable is 25 pp higher than for non-poor ones. Beyond the current perception of financial difficulties, households also report an important worsening of their welfare over the course of 2016.

Gabon has made some strides toward shared prosperity.

54. Some signs of pro-poor growth have been emerging since 2005. Despite the apparent negative trends in per capita GDP, survey-based household consumption appears to have been increasing, leading to reduction in poverty.¹⁵ Consumption growth seems to have been higher for people in the bottom 40 percent of the income distribution than among those better-off, suggesting a pro-poor pattern of growth (Figure II.5). Yet the results indicate a sluggish response by poverty to economic changes, with a growth elasticity of poverty estimated at -1.4 : that is, a 1 percent increase in mean consumption will reduce the poverty headcount by only 1.4 percent. These positive results are also tempered by the modest increase of consumption, which rose by only 8,455 CFAF per person per month in 12 years, and by the fact that the pro-poor growth pattern is observed only in urban areas— while the poorest rural groups witnessed a decline of their consumption level.

¹⁵ National account (NA) data show an increase in private consumption per capita by about 0.5 percent per year during 2005-17, and WDI 2019 data indicate an increase in household final consumption per capita by 1.5 percent a year. This supports the observed increase in survey-based household consumption and subsequent reduction in poverty.

Figure II.5. Growth Incidence Curves, 2005–2017, Percent



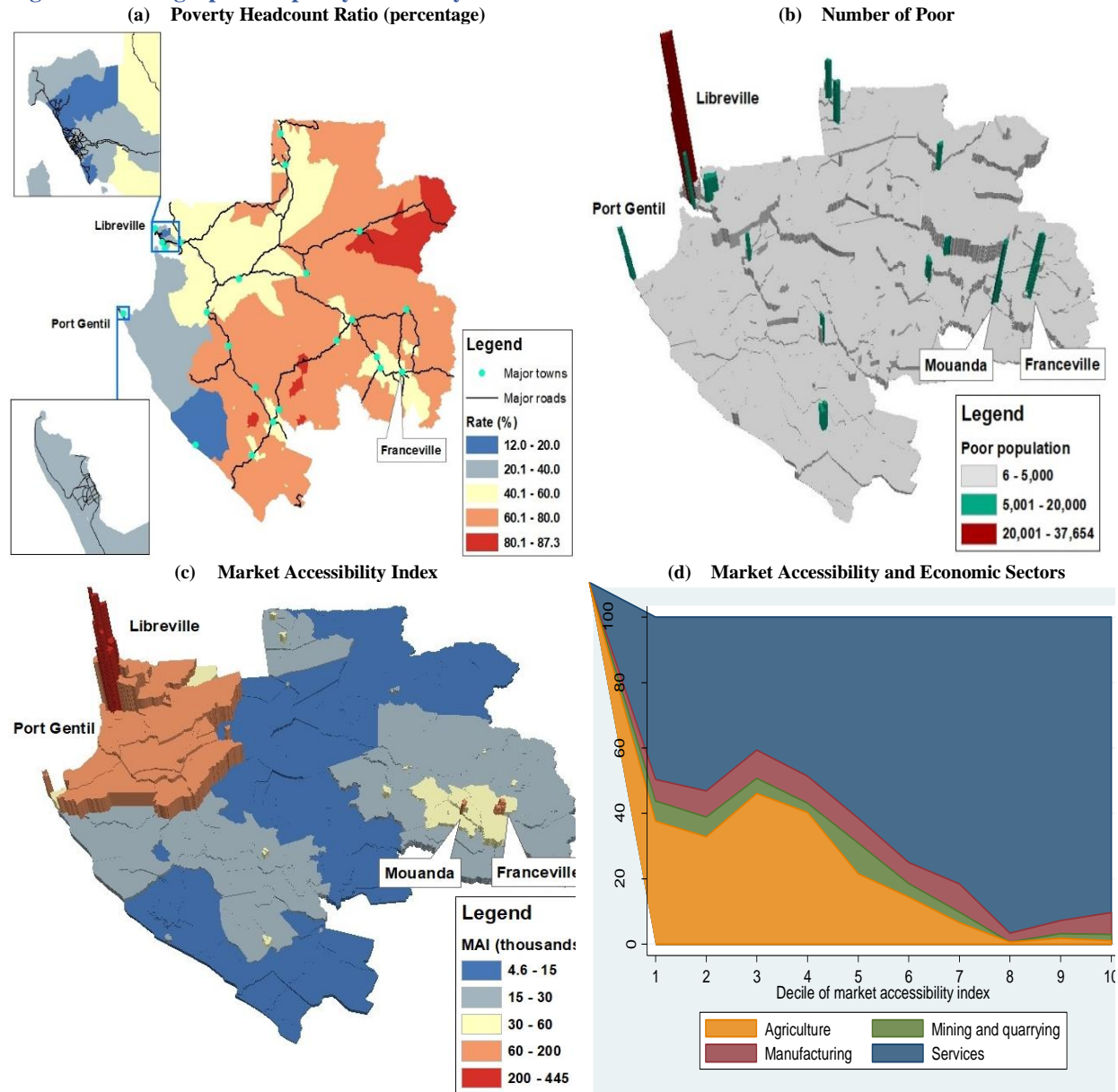
Source: EGEP 2005 and 2017.

B. The Geographic Pattern of Poverty

The incidence of poverty is higher in rural areas, but more than three quarter of the poor live in urban areas.

55. There are major disparities in the incidence of poverty and the distribution of poor people across the country. Because urbanization is so high, regions with the highest poverty rates do not necessarily host the largest number of the poor. The rural poverty rate is two times higher than the urban one, but 76 percent of the poor live in urban areas. Yet, urban and rural poverty are far from being homogeneous (Figure II.6).

Figure II.6: Geographic Disparity of Poverty



Sources: RGPL 2013 and EGEP 2017.

Note: MAI is estimated for each canton by summing up the population of surrounding towns/villages within a certain travel time divided by the cost to trade with these towns/villages.

56. Geographic disparities in the incidence of poverty and the distribution of poor people have two main dimensions: the size of a city and its proximity to main agglomerations. The two largest cities—Libreville and Port-Gentil—together host 48 percent of the national population but 28 percent of the poor; meanwhile, 48 percent of the poor are scattered throughout small and medium towns, which account for just 40 percent of the population. The incidence of poverty declines as the city grows: poverty is more widespread in small towns with populations below 50,000 than in medium sized cities (50,000-100,000), which in turn record higher poverty rates than large cities of 100,000 or more. The incidence and density of poverty are markedly lower in small towns near the main urban centers, but poverty is highly prevalent in remote and sparsely populated areas that lack public services, connectivity to markets, and access to economic opportunities. Large cities are critical for growth and poverty reduction, given that they concentrate an important number of poor and they hold the potential of larger economies of agglomeration and structural transformation. Yet, secondary towns can also hold a powerful policy tool for poverty reduction and inclusive growth by giving a broader base of the population the ability to become economically and physically mobile and access new income opportunities, and by spillovers to their surrounding rural hinterland (Lanjouw and Murgai, 2014; Christiaensen and Kanbur, 2017; and Ingelaere et al., 2018).¹⁶

57. Market accessibility and cities' connectivity strongly influence the incidence of poverty. In general, *cantons* with better access to markets have lower poverty rates. As shown in Figure II.6, areas with high market accessibility index (MAI) are concentrated around Libreville, including the city and its immediate *hinterland*, while market access remains very limited in the rest of the country except for Franceville and some of its surrounding areas. Conversely, secondary cities identified as poverty centers appear to have low MAI, compounding their ability to curb poverty. The underlying mechanisms to explain the role played by market accessibility might vary from one *canton* to another, but a central determinant is the correlation between MAI and economic sectors. Well-connected areas are more likely to attract diversified economic opportunities from different sectors of the economy. In turn, diversification of economic activities increases the wealth accruing to a specific territory through more added-value and the creation of more productive jobs.

The spatial typology of the country shows a clear divergence between regions.

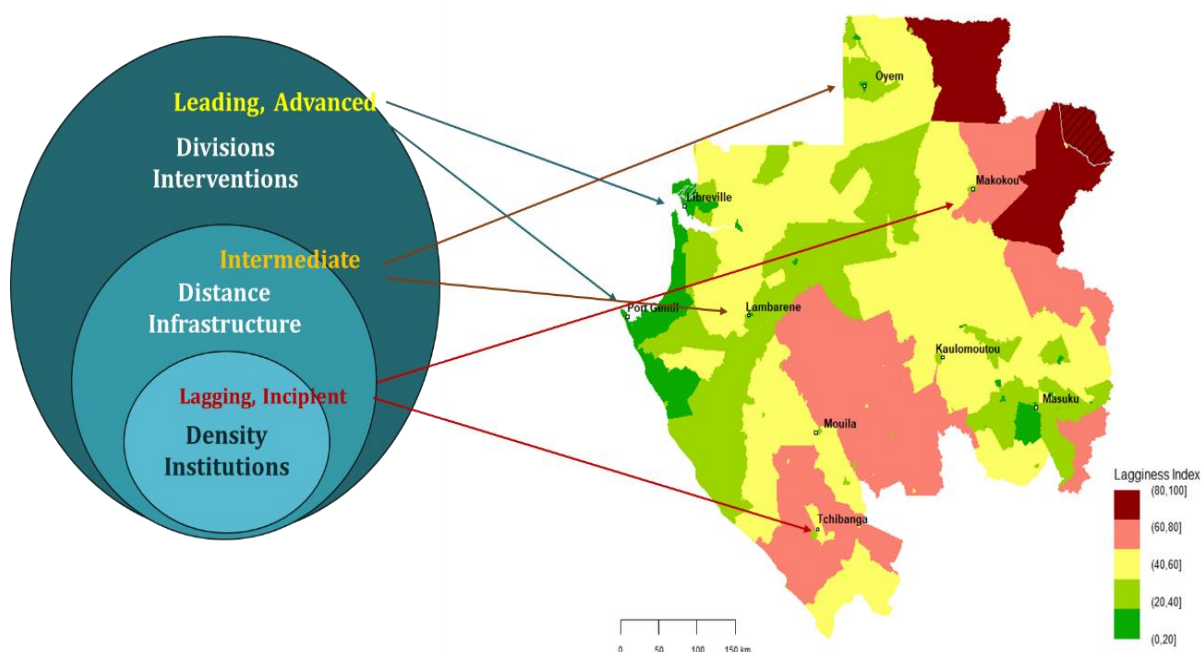
58. The spatial distribution of poverty underscores the importance of effective antipoverty interventions tailored to local conditions. Economic activity is concentrated in a few cities, which also concentrate most of the population (Figures I.3, D.2 and D.4). While economic concentration generates agglomeration economies, notably labor pooling and proximity to markets as well as information spillovers, it also leaves out some populations, exacerbating spatial disparities in living standards and poverty. A better understanding of the differences of challenges between regions can help to customize policies to connect leading and lagging areas and realize the benefits of economic concentration and agglomeration while reducing disparities in living conditions.

59. The northern and southern provinces lag the most in terms of living conditions and economic activities. The spatial typology, based on accessibility to markets, economic activity, and poverty, makes it possible to identify three types of areas: (1) lagging and sparsely populated provinces; (2) lagging provinces with a relatively large number of poor; and (3) leading areas

¹⁶ Secondary towns are defined here as urban areas with a population in the range of 10,000 to 100,000 inhabitants.

where economic and population density are highest.¹⁷ Consistent with the distribution of poverty across the nation, Northern provinces of Ogooué-Ivindo and Woleu-Ntem lag the most (Figure II.7). They are predominantly rural with few cities at incipient urbanization levels, tend to be sparsely populated, lack basic services and connective infrastructure, and must contend with a variety of natural barriers. Southern provinces such as Ngounié and Nyanga are also lagging but have intermediate-urbanized cities where a larger number of poor people live. Leading areas, in the West, have cities at advanced urbanization levels. They tend to have the highest population density and consequently the highest number of poor people. They are surrounded by lagging zones that may be acting as barriers that prevent the benefits of leading-area economic activities to spill over to the whole economy.

Figure II.7: Spatial Typology and Development Priorities



Source: RGPL 2013, EGEP 2017 and US Defense Meteorological Satellite Program.

60. Lagging regions have lower employment, higher rates of out-of-school children, and lower access to basic services and amenities. Employment rates of 25-64 year olds are on average 13 pp lower in lagging areas (51 percent) than in leading ones (64 percent). Self-employment is also more prevalent in lagging regions, where 47 percent of workers are self-employed compared to 30 percent in leading regions. The proportion of out-of-school children aged 7–12 is estimated at 16 percent in lagging areas and reaches 32 percent among children aged 13-19, compared to respectively 9 and 18 percent in leading zones. The net enrollment rate in secondary education is over four times higher in leading areas (63 percent) than in lagging zones (15 percent). Disability rates are over two times higher in lagging zones, particularly due to high disability rates among those aged 25 years and older. Access to safe drinking water and electricity is almost universal in leading areas, but reaches only 30 and 9 percent, respectively, in lagging regions. The latter tend

¹⁷ The typology uses the *lagginess* index, which summarizes how each county scores on the different indicators and provides information on each county's position relative to the others. Its advantage is that it allows to look at several dimensions of *lagginess* under a single indicator.

also to have very limited access to improved sanitation. Over 90 percent of dwellers in leading areas own a phone compared to only 46 percent in lagging regions.

61. Gender education and employment gaps tend to be higher in lagging areas. In leading areas, enrollment in secondary education is higher among girls, where the ratio of girls to boys is 1.2, but in lagging zones the ratio is only 0.4. The proportion of out-of-school girls aged 13–19 is only 1 pp lower than that of boys in leading zones, but the gap reaches 17 pp in lagging zones where also the proportion of 17 years old married girl is two times higher than in leading zones. This suggests that girls in lagging zones drop early from school partly to marry. In leading regions, employment rates among men tend, on average, to be 30 pp higher than among women, while in lagging regions, men’s employment rate is only 13 pp higher than women’s. However, in lagging regions more women than men are self-employed—the proportion of self-employed women is 32 percent in leading regions and 52 percent in lagging zones, compared to respectively 29 and 44 percent among men. This suggests that women in lagging areas cannot afford to stay unemployed and have to rely on subsistence self-employment for their livelihoods.

62. The challenges of lagging areas also depend on the challenges faced by their neighbors. An underperforming county surrounded by leading areas could develop faster if its product and labor markets are better connected to the thriving area. Conversely, lack of connective infrastructure or institutional barriers may prevent the benefits of economic activities in leading zones from spilling beyond their borders to benefit the broader economy. Several counties surrounding Libreville, Port Gentil and Franceville are in this situation (Figure D.3). In contrast, few urban counties in the south (e.g., Mayumba and Okundja) appear as leading within lagging areas and may serve as an important entry point to rural poverty reduction given their tight connection to rural hinterlands.

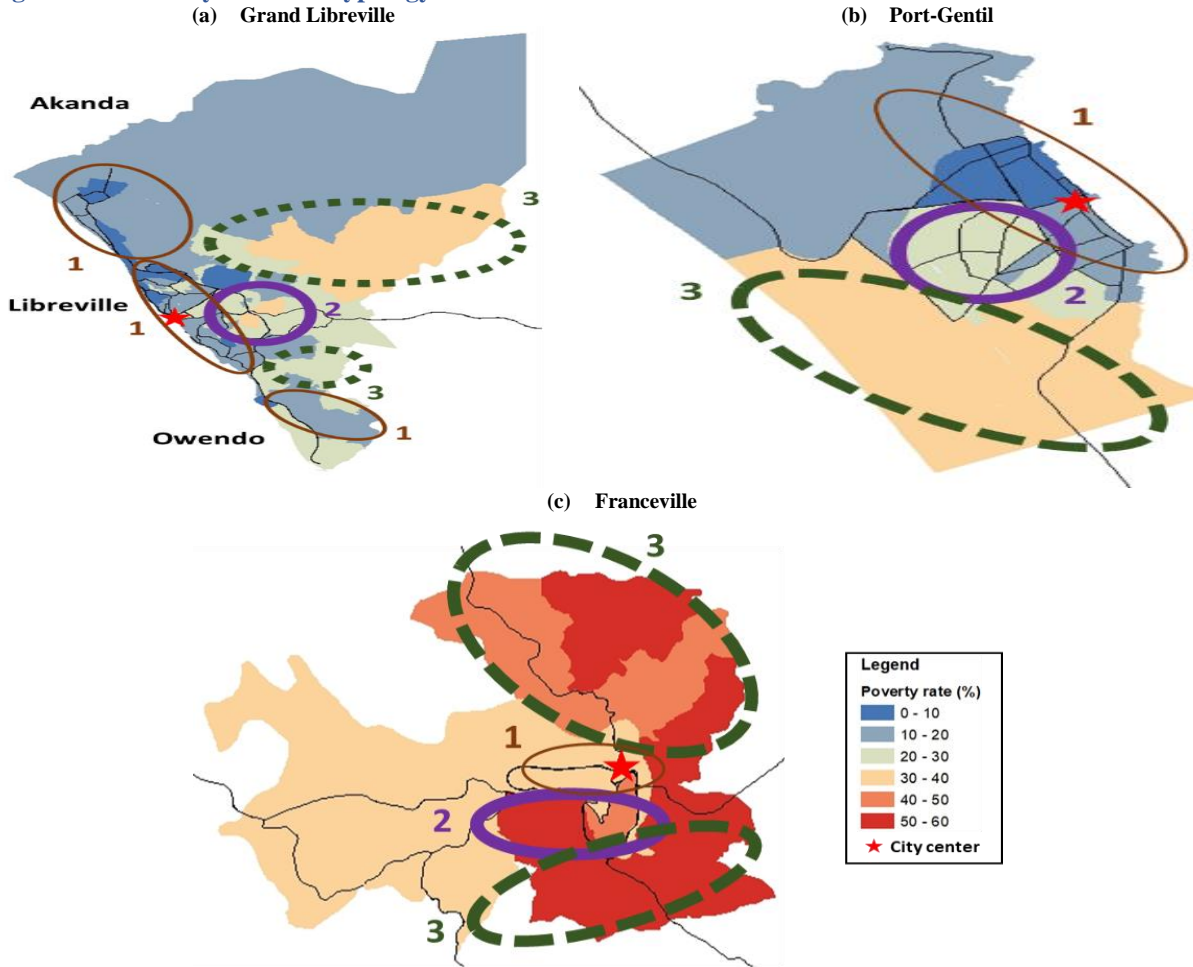
A deep dive in urban poverty reveals large disparities in the incidence and density of poverty within large cities.

63. Neighborhood poverty maps in the largest cities reveal three types of areas based on the incidence and density of poverty. Poverty maps for 143 neighborhoods in the three largest cities (108 in Grand Libreville: 89 in Libreville, 6 in Akanda and 13 in Owendo; 13 in Franceville; and 22 in Port-Gentil) show large variations in the incidence and density of poverty. Poverty rates vary between 6 and 35 percent in Grand Libreville (6-35 percent in Libreville; 8-15 percent in Akanda; and 7-25 percent in Owendo); 8 and 38 percent in Port-Gentil; and 30 and 57 percent in Franceville. A typology based on the proportion and number of poor reveal three types of neighborhoods: (1) low poverty rates and few poor; (2) high poverty rates and population density—therefore a large number of poor; and (3) high poverty rates but fewer poor people due to low population density.

64. There are pockets of poverty in neighborhoods surrounding city cores, but the incidence of poverty is higher in less densely populated peri-urban areas. In the three main cities, poverty rates and the number of poor people tend to be lower in neighborhoods closer to the coast and in core city centers (type 1 -brown circle in Figure II.8). Neighborhoods in Akanda and Owendo are also less poor, accommodating many upper-middle-class households who commute to Libreville. In the capital, relatively poorer neighborhoods, with poverty rates around 30 percent, are inland, surrounding the city center (type 2 -purple circle in Figure II.8). Because population density is also higher in these neighborhoods, they account for a large number of poor, resulting in pockets of poverty. Peri-urban areas toward Libreville city center tend also to have a higher incidence and density of poverty. The Northeastern part of the city is sparsely populated, so despite a higher

incidence of poverty it has fewer poor people (type 3 -green circle in Figure II.8). In Port-Gentil and Franceville, neighborhoods in the central town tend to be less poor; neighborhoods surrounding the center have both higher poverty rates and more poor people. Outer peri-urban areas of these cities have the highest poverty rates but being less-densely populated they host fewer of the poor. Beyond the poverty pockets, the poor are dispersed throughout the cities, challenging antipoverty interventions that are geographically targeted.

Figure II.8: Poverty rates and typology



Sources: RGPL 2013 and EGEP 2017.

65. Poorer neighborhoods tend to have more unemployment, higher rates of out-of-school children, and lower enrollment in secondary school. In the three cities, employment rates tend on average to be 10 pp lower and unemployment 6 pp higher in the poorest neighborhoods than in better-off ones. The net enrollment rate in secondary education is over 7 pp lower in poorer neighborhoods, and the proportion of out-of-school children aged 7–12 is about 3 pp higher. Gender employment gaps are high everywhere but seem to be slightly higher in areas with a high concentration of poverty. Access to piped water and electricity is almost universal in the three cities, but poorer neighborhoods tend to have less access to improved sanitation. Overall, access to basic services tends to be lower in poor peri-urban neighborhoods. Satellite images suggest poor local infrastructure and housing conditions in neighborhoods where there are pockets of poverty in Libreville. Low housing costs and proximity to city centers in these neighborhoods may have attracted poor migrants from other areas, deepening the pockets of poverty.

66. The recent migration pattern towards the largest cities indicates that the influx of migrants is prominent in wealthier neighborhoods, though poorer neighborhoods have attracted some low-skilled migrants. Poverty tends to be lower in neighborhoods where the proportion of recent migrants is higher, suggesting that recent internal migration patterns were to better-off neighborhoods. However, this pattern is observed only among highly-educated migrants, as those who have completed higher education tend to settle in less-poor neighborhoods. These skilled migrants were mostly pulled by economic opportunities in Libreville. Conversely, migrants with only primary education tend to settle in poorer neighborhoods, where the cost of housing is lower. The pattern of international immigrants is very different: they tend to be concentrated in neighborhoods where poverty is the lowest, essentially coastal neighborhoods in Libreville.

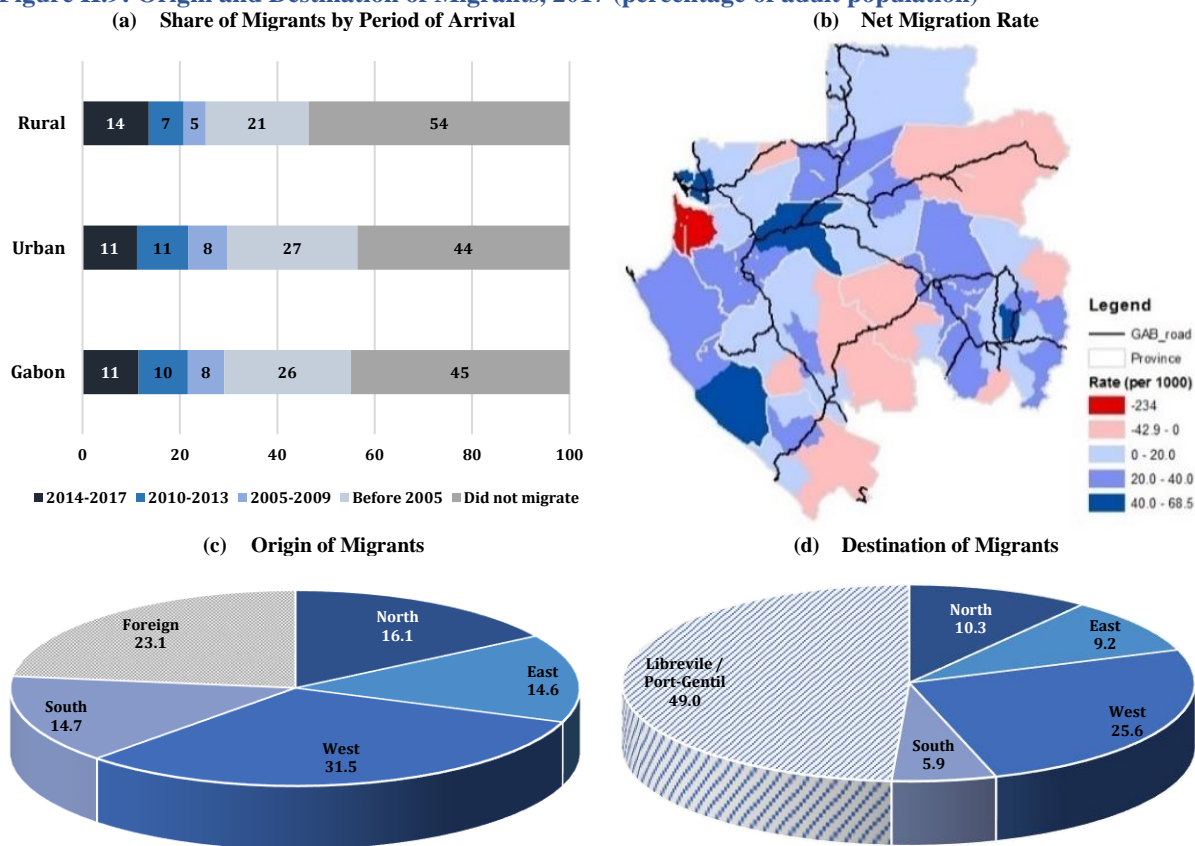
67. Overall, poor urban planning and management in main cities hampered their efficient functioning and limited agglomeration benefits. In the main cities, the soft side of urban planning has been generally overlooked. Strategic management, land use and transport are either lacking or ineffectual, resulting in the emergence of informal property rights and a proliferation of informal settlements. Areas on the edge of city centers and in sprawling urban peripheries, where poor urban dwellers look for a foothold in cities and escape the costs of urban living, are characterized by high prevalence of informality both in forms of income generation and in forms of settlement and housing. The inadequate coverage and quality of urban infrastructure, in particular transport and basic social services, are likely to hinder the benefits from agglomeration. Better urban infrastructure, and overall better urban management, is fundamental to improve living standards and quality of life in cities, increase productivity and unleash positive synergies from agglomeration economies. Rapid population growth in main cities and their peri-urban areas, coupled with impending problems related to climate change and poor living conditions require the integration of pro-poor oriented strategies in urban management and planning to promote faster poverty reduction and inclusiveness.

The sustainability of internal migration as a pathway out of poverty is questionable.

68. Internal migration offers prospects for better living conditions, but its sustainability as a poverty-reduction mechanism is uncertain. Only about 28 percent of migrant households live in poverty compared to 42 percent of non-migrant ones. While this may reflect the positive influence of migration on living standards, it could partly be due to a selection bias in that only households with welfare above a certain threshold can move. Important migration flows continue to be directed to western regions, particularly large cities, where living conditions and jobs opportunities are better; these offer potential for poverty reduction but also challenges for the hosting regions (Figure II.9). New destinations in northern and rural western areas, where development projects for natural resources and agriculture are underway, have emerged recently as magnets for internal migration, potentially easing the challenges of migration for the main urban poles. However, recent migration movements are increasingly driven by family purposes rather than economic prospects, especially for women and the poor: about 65 percent of poor migrants move for family-related reasons or to marry, compared to 46 percent of non-poor migrants, and 72 percent of women move for family or marriage reasons, compared to only 28 percent of men. While this may reflect the fact that migration often evolves as a gradual process in which one member of a household moves to richer areas in search of employment and is later followed by others in the household, its sustainability as a way to improve economic conditions and facilitate welfare convergence is questionable. The family-driven migration pattern, coupled with the high concentration of the population in a few cities, may lead to higher urban fertility, rising

unemployment, particularly for women, and congestion diseconomies that could offset the benefits of agglomeration and urban concentration (Jedwab et al., 2017).

Figure II.9: Origin and Destination of Migrants, 2017 (percentage of adult population)



Sources: RGPL 2013 and EGEP 2017.

Notes: The population of reference is the adult population aged 15 years and older.

69. Moving to main cities may not fulfill migrants' expectations of better living conditions.

Those who migrated to rural areas and to secondary cities are significantly less poor than local residents, while the difference in poverty between migrants and non-migrants in main cities is negligible. The poverty rates of migrants in rural areas, other urban zones, and main cities are respectively 23 pp, 13 pp and 2 pp lower than non-migrants. This may be related to the different profile of migrants in the three areas. About 20 percent of those who moved to rural areas and secondary cities migrated for professional reasons, compared to only 8 percent of those who moved to main cities. Those who moved for professional reasons are the least poor among all migrants. The proportion of migrant job seekers is slightly higher in main cities, but they tend to be poorer than local residents while migrant job seekers in rural and secondary cities have lower poverty rates than the average in their new residence. This suggests that those who moved to large cities could only partly fulfill their economic prospects; even if they found jobs, they were not able to achieve higher living standards than the average where they moved, probably due to the higher cost of living there. Local conditions likely matter for migrant welfare, as households whose head migrated from the east or from foreign countries are least likely to be poor, while those who migrated from southern, and to a lesser extent northern, regions are much poorer than other

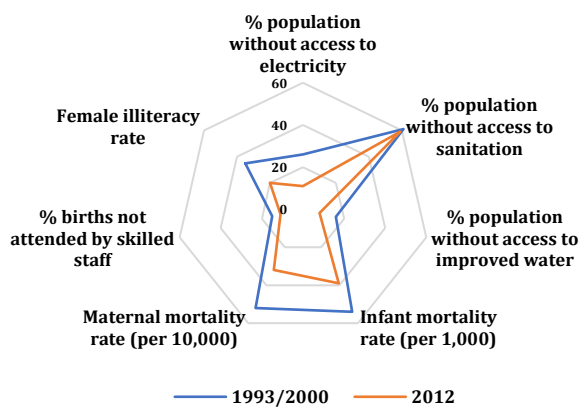
migrants. Recent migrants tend to be poorer than long-term ones, probably reflecting the shift toward family-driven migration.

C. Non-monetary Poverty and Deprivations of the Poor

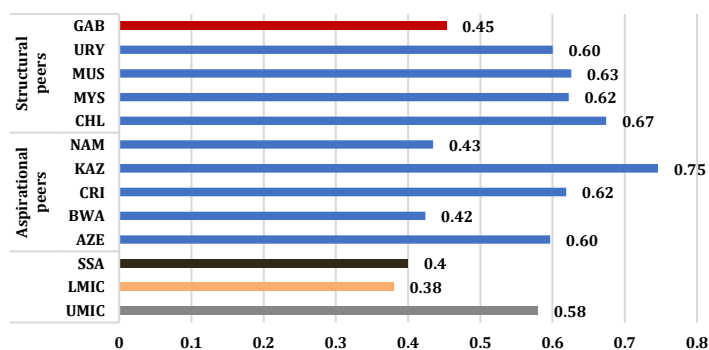
70. Despite some progress, the level of human development falls short of the economy’s potential. Gabon ranks quite low – 100th out of 156—in terms of the Sustainable Development Goals (SDGs), mainly due to important deficiencies in terms of health and decent work (Figure II.10). It also scores relatively low on the Human Development Index (HDI) and Human Capital Index (HCI), underperforming all its peers but Namibia and Botswana. Gabon’s HCI marginally improved since 2012 – from 0.44 to 0.45—but remains more comparable to SSA and lower middle-income countries’ averages, of respectively 0.4 and 0.48, than upper middle-income countries average of 0.58. All these deficits point to the lack of investment in efficient human capital development, which will likely continue to constrain the economic development, even if appropriate employment and poverty reduction policies are developed.

Figure II.10: Progress and Standing on Human Development

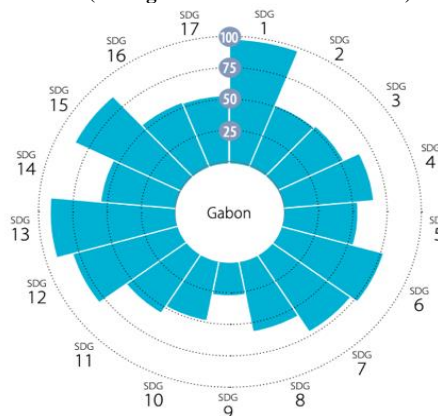
(a) Human Capital and Living Conditions Indicators, 1993/2000-2013



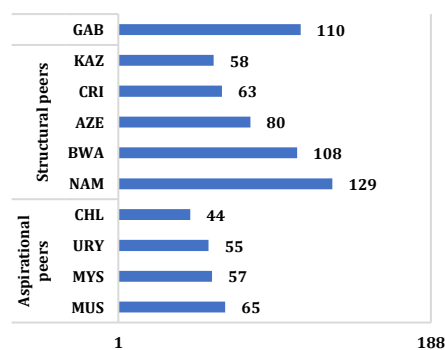
(c) Human Capital Index, 2017



(b) Relative SDG Performance, 2018 (average of indicators of each SDG)



(d) HDI Ranking, 2017



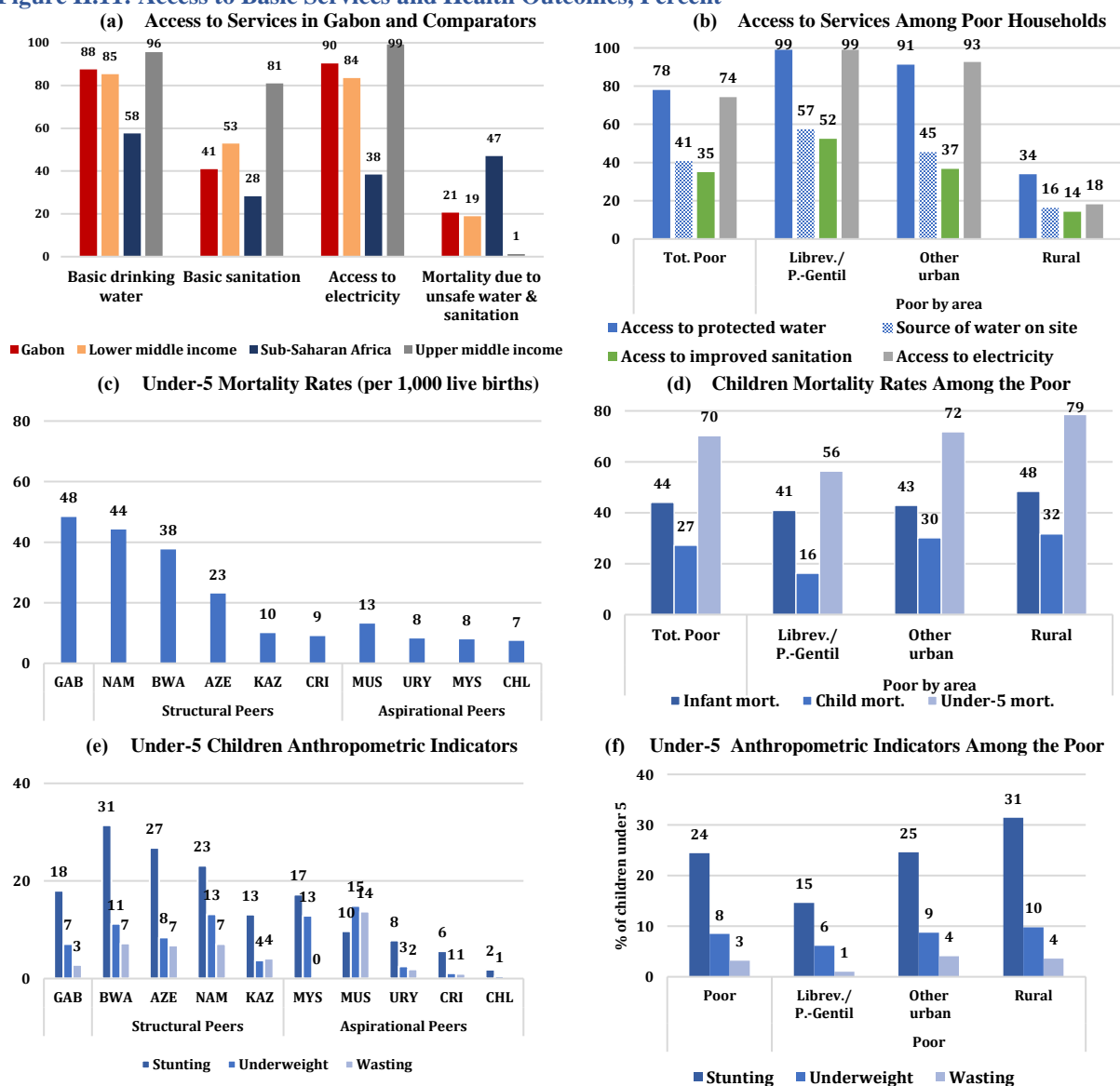
Sources: WDI 2019, SDG Index & Dashboards 2018, Human Development and Human Capital Index reports.

Limited access to basic services and its concomitant health outcomes jeopardize prospects for human development.

71. The provision of basic services is higher than SSA averages, but levels remain closer to those in lower middle-income countries than upper middle-income ones. Gabon compares favorably with some of its structural peers in terms of access to electricity and water but performs

significantly worse – except Namibia—in access to sanitation. Around 10 percent of the population have no access to any form of sanitation facility, and 40 percent rely exclusively on unimproved latrines. Access to water from protected sources remains limited compared to the country’s level of development and is a serious challenge in rural areas. Widespread use of unsafe sanitation and water have led to a high mortality rate attaining 21 per 100,000 population – only lower than averages observed in SSA countries. Child mortality, while improved, continues to lag behind levels in selected comparators (Figure II.11).

Figure II.11: Access to Basic Services and Health Outcomes, Percent



Sources: Demographic and Health Survey (DHS) 2012, EGED 2017 and WDI 2019.

Notes:

- The “poor” in the health-related graphs are those in the two lowest welfare quintiles.
- *Infant mortality rate* is calculated for children under one year of age; *Child mortality rate* is for children aged 1-5 years old; and *Under-5 mortality rate* is for all children under 5 years of age. All rates are per 1,000 live births.
- A child is defined as stunted, underweight, or wasted when his height-for-age, weight-for-age, and/or weight-for-height is more than two standard deviations below the WHO Child Growth Standards median.
- Mortality rate attributed to unsafe water, unsafe sanitation and lack of hygiene (per 100,000 population)

72. Access to basic infrastructure is limited among the poor. Around one quarter of poor households only use unprotected water sources. The challenge is particularly acute in rural areas both in terms of mean of delivery and the time necessary to access the source. Two third of rural poor households only use unprotected sources of water and a third of those having access to safe drinking water are located more than 30 minutes away from the source. Over half of poor households are deprived from improved sanitation facilities and access remains a luxury limited to urban ones. Despite widespread provision of electricity, one quarter of poor households do not have access and less than 20 percent of rural ones are connected to the grid.

73. Lack of access to health services and poor health outcomes disproportionately affect poor households. Data from the 2012 Demographic and Health Survey (DHS) shows that, compared to the population as a whole, the poorest quintile is much less likely to deliver a baby in a health facility (76 versus 90 percent) or seek treatment for a child under 5 with a fever (51 versus 67 percent) and is more likely to cite financial barriers as the reason for not seeking care among women of reproductive age (82 versus 70 percent). Teenage pregnancy is also much higher among girls in poor families, with 41 percent of those aged 15-19 in the poorest quintile giving birth, compared to 23 percent overall and 10 percent in the richest quintile, suggesting inequities in the access to family planning services among the poor. Limited access to basic services, such as safe water and sanitation and health services, resulted in higher prevalence of children mortality and nutrition deficits among the poor(Figure II.11).

74. A large part of the population suffers from food stress and nutritional deficiencies. Gabon's anthropometric indicators –i.e. stunting, wasting, and undernourishment—compare favorably with most peers, but stunting measures point towards the existence of nutritional deficits and repeated infections. These deficits are more common among children of poor households and are particularly acute among rural ones. Around half of the households report experiencing high food stress and 27 percent of the poor ones declare being unable to have enough to eat almost every month (Figures D.15 and 16).

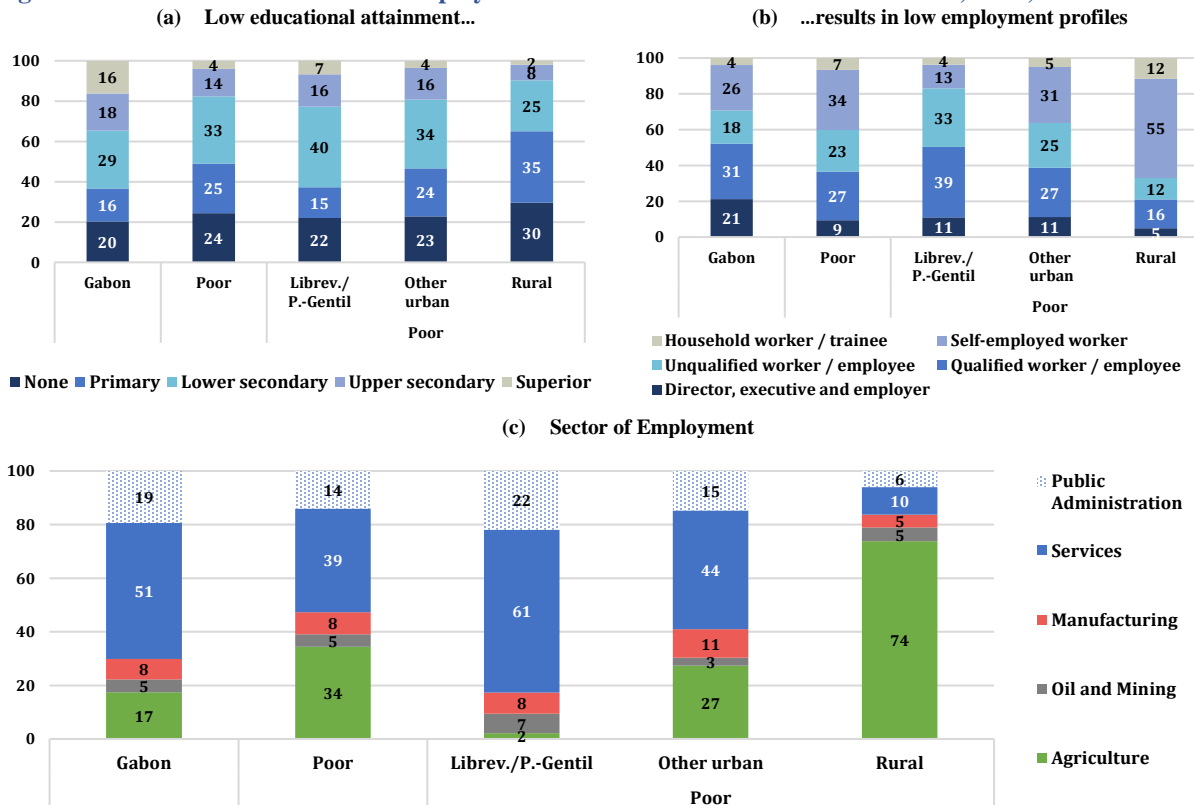
Low education levels limit economic opportunities, especially for poor people

75. Despite some improvements in educational levels, achievements remain insufficient. School enrollment and literacy levels improved since 2005. However, many children remain outside the school system or are not in the appropriate school-age group, with net primary and lower secondary enrollment rates of respectively 88 and 46 percent. Although these rates are higher than the average for SSA and similar to that for lower middle-income countries, Gabon lags far behind its income level peers and most of its selected comparators, particularly in terms of secondary school enrollment– which exceeds 70 percent in these countries. In 2017, over one fifth of the adult population has not received any formal education, and a total of 65 percent has never reached the end of the lower secondary cycle. The Ministry of Education estimates that although nearly all children attend school until the official mandatory age of 13 years, the drop-out rate amount to around 40 percent once passed that age.

76. Low educational levels limit access to productive job opportunities for the poor. One fourth of poor household heads have no education and less than 4 percent have tertiary education compared to, respectively, 19 and 20 percent of non-poor households. The level of education attained by of households' heads lowers as we move away from the largest cities, with rural poor heads presenting the lowest educational levels (Figure II.12). This translates into lower access to productive jobs. Overall, 64 percent of poor household heads work in unqualified jobs – i.e.

household, self-employed, or unqualified worker—compared to 44 percent of non-poor ones. This share rises to 79 percent for rural poor households. Such low status of employment is strongly associated with informal employment, which concentrates nearly two third of poor households’ heads compared to less than half of the non-poor ones.

Figure II.12: Education Levels and Employment Characteristics of Household Heads, 2017, Percent



Source: EGEP 2017.

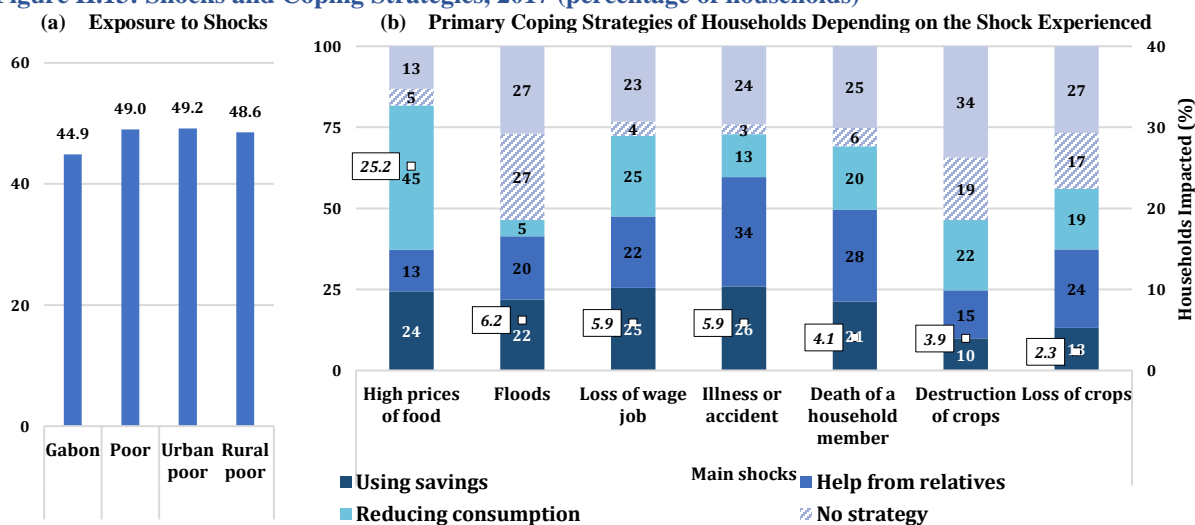
77. Likewise, there is a higher concentration of the poor in the informal service sector and agriculture. The poor and non-poor display similar unemployment rates, but unemployment is significantly higher among urban poor (19 percent) than rural ones (4 percent). About half of poor household heads work in the services sector, compared to a national average of 70 percent, with a larger concentration of the non-poor in public administration (Figure II.12). Conversely, the proportion of poor household heads working in agriculture is much larger than for non-poor ones. However, important discrepancies exist between urban and rural poor households, with the latter being overwhelmingly concentrated in agriculture and the former predominantly working in services, essentially informal services. The manufacturing as well as the oil and mining sectors, where revenues are higher, remain very low providers of jobs.

78. Poor households are more engaged in vulnerable businesses. Around 80 percent of nonfarm household enterprises belong to non-poor households. Only 15 percent of household enterprises owned by the poor are registered (at the commerce registry, have fiscal identification, and/or written accounting) and less than half operate on a year-round basis, compared to around 27 and 60 percent, respectively, for those owned by the non-poor. Seasonality of activity is among the main reasons preventing year-round operation of household enterprises, particularly for those belonging to the poor.

Poor households are highly exposed to shocks and have limited coping strategies

79. Around half of poor households have been exposed to at least one shock over the last 12 months with limited coping strategies. Most of these shocks are related to an increase of food prices (Figure II.13). Women-headed households are more exposed to shocks than men ones, with respective rates at 50 and 43 percent. Shocks related to floods rank second in terms of importance for men-headed households, while shocks related to death of a family member rank second for women-headed ones. The strategies adopted by the households to face the shock and mitigate its consequences have remained very limited. They mainly resort to non-sustainable coping strategies such as drawing on the household’s savings or reducing their level of consumption, the latter mainly referring to actions such as reducing the number of daily meals and cutting on some basic expenses. Many households also report not using any strategy to mitigate the effects of the shocks related to agriculture-related shocks such as floods and loss of crops. Women resort more than men to help from family and friends.

Figure II.13: Shocks and Coping Strategies, 2017 (percentage of households)



Source: EGEP 2017.

The drivers of poverty are mutually reinforcing and carry forward across generations

80. The poor start life at a disadvantage and many pass poverty on to their offspring. They are hobbled by, among other deficits, limited resources, malnutrition and health problems, poor access to social services and health care, and low education and skills. They lack income, save little for the future, are vulnerable to shocks, and have limited coping strategies. Lacking the skills to take advantage of job opportunities, they are generally limited to low-paid jobs. These deficits limit the upward mobility of their children, perpetuating intergenerational poverty. Gabonese of less-educated parents are more likely to be less-educated themselves, with educational mobility being particularly low among poor women, perpetuating low human capital and gender inequality across generations. Intergenerational mobility across economic sectors is also limited; the poor tend to have the same employment status, with jobs in similar sectors, as their parents.

81. Estimates of inequality of opportunity have found that about 17 percent of total inequality in consumption is due to circumstances outside the individual’s control. This is a quite significant share compared to other SSA countries, where inequality of opportunity is lower. Region of birth followed by parents’ employment have the most influence on children’s outcomes

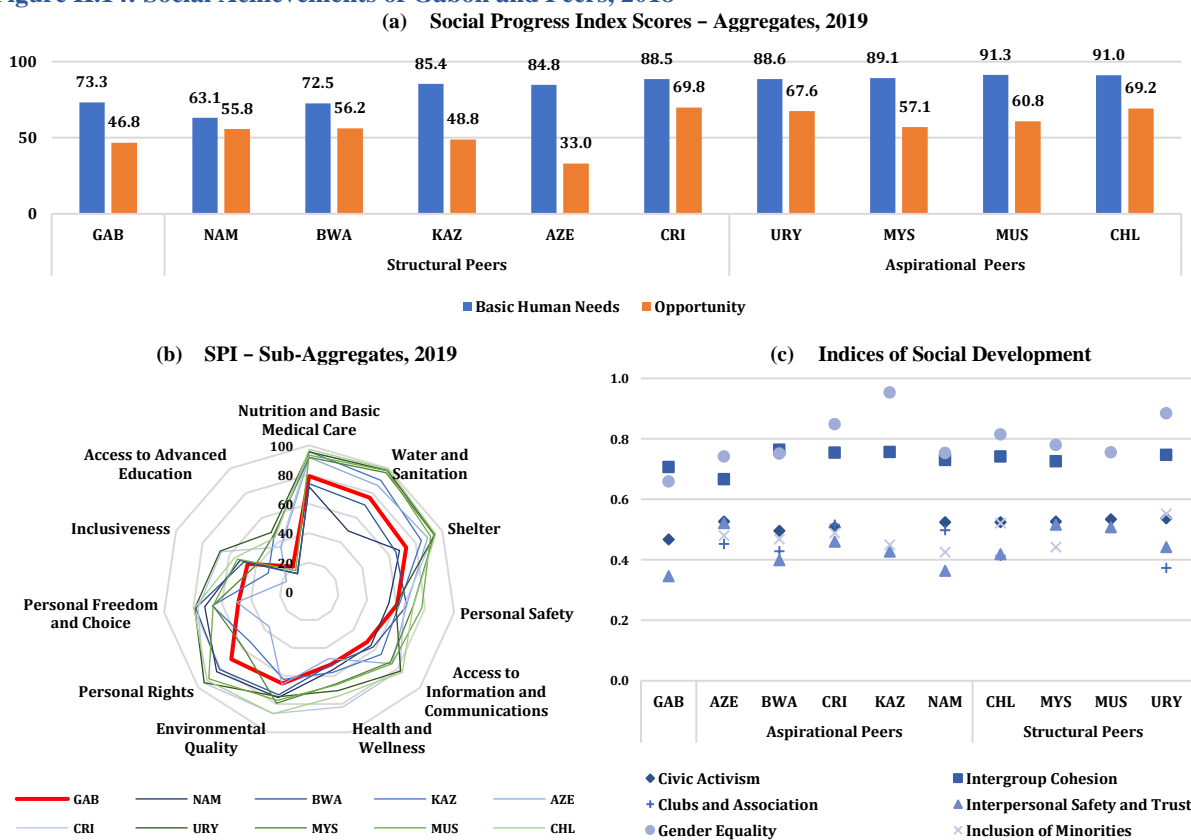
and opportunities for economic mobility. Apparently, even when people migrate, local conditions in their place of birth continue to depress their welfare. Inequality of opportunity is 40 percent higher in rural areas than in urban, which suggests that intergenerational transmission of inequality and poverty risks generating rural poverty traps.

D. Social Inclusion

Social achievements are promising, but progress is needed to catch up with peer countries

82. Gabon has achieved some progress in terms of social progress and social development. Based on the 2019 Social Progress Index (SPI), Gabon performs better than Namibia and Botswana with respect to basic human needs, and Azerbaijan in opportunity, but lags behind its aspirational peers (Figure II.14). Low performance can be observed in terms of nutrition and basic medical care, health and wellness, access to services, affordability of housing, personal rights and access to advanced education, where little progress has been made over time. The *Indices of Social Development* (ISD) show that Gabon scores low in indicators measuring the perception and incidence of crimes, as well as the use of media and protest behavior. The score in *Gender Equality* – measuring gender discrimination in home, work and public life—is also 18 percent lower than the average score of its peer countries, however this score does not capture the recent developments and ongoing reforms to empower women and close the gender gaps in the country.

Figure II.14: Social Achievements of Gabon and Peers, 2018



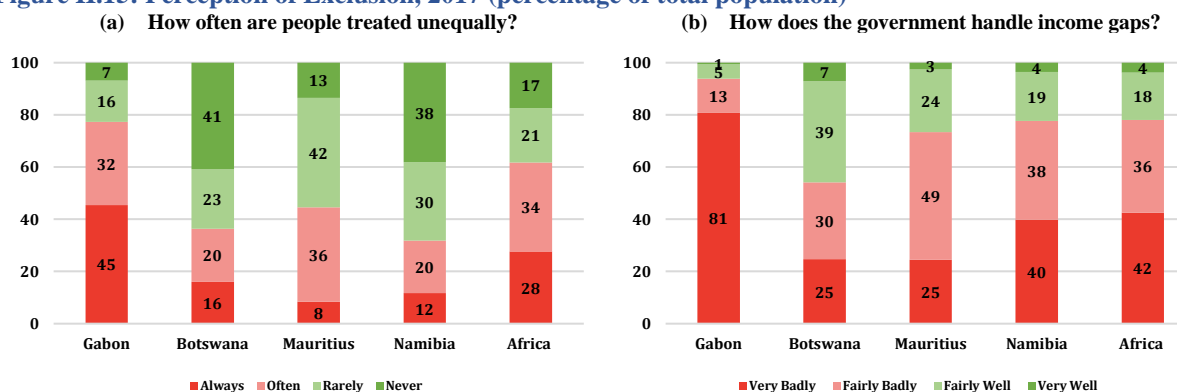
Sources: Social Progress Index 2019 and Indices of Social Development, 2018.

Notes:

- Last data available for the *Indices of Social Development* are from 2010 (last accessed November 2018).
- Scores for the *Social Progress Index* (main index and sub-indices) range from 0-100 (best).

83. Perception of unfairness remains high and citizens tend to consider the government as ineffective in addressing the country’s most pressing needs. Results from the *Afrobarometer*’s perception survey of 2017 show that the feeling of exclusion is high in Gabon (Figure II.15). While the sense of discrimination against ethnic groups and minorities is very limited, the feeling of being treated unequally is significantly higher than in comparable African peers. A large share of the population also reports important gaps in basic necessities, with half of the population going frequently without basic necessities. Around 90 percent of the population considers that the government handles jobs creations and improvements of the living conditions of the poor badly, compared to about 50 percent in Botswana and Namibia and an average of 70 percent in Africa.

Figure II.15: Perception of Exclusion, 2017 (percentage of total population)



Source: *Afrobarometer* 2017. “Africa” comprises the countries surveyed in Wave 6 of the *Afrobarometer*.

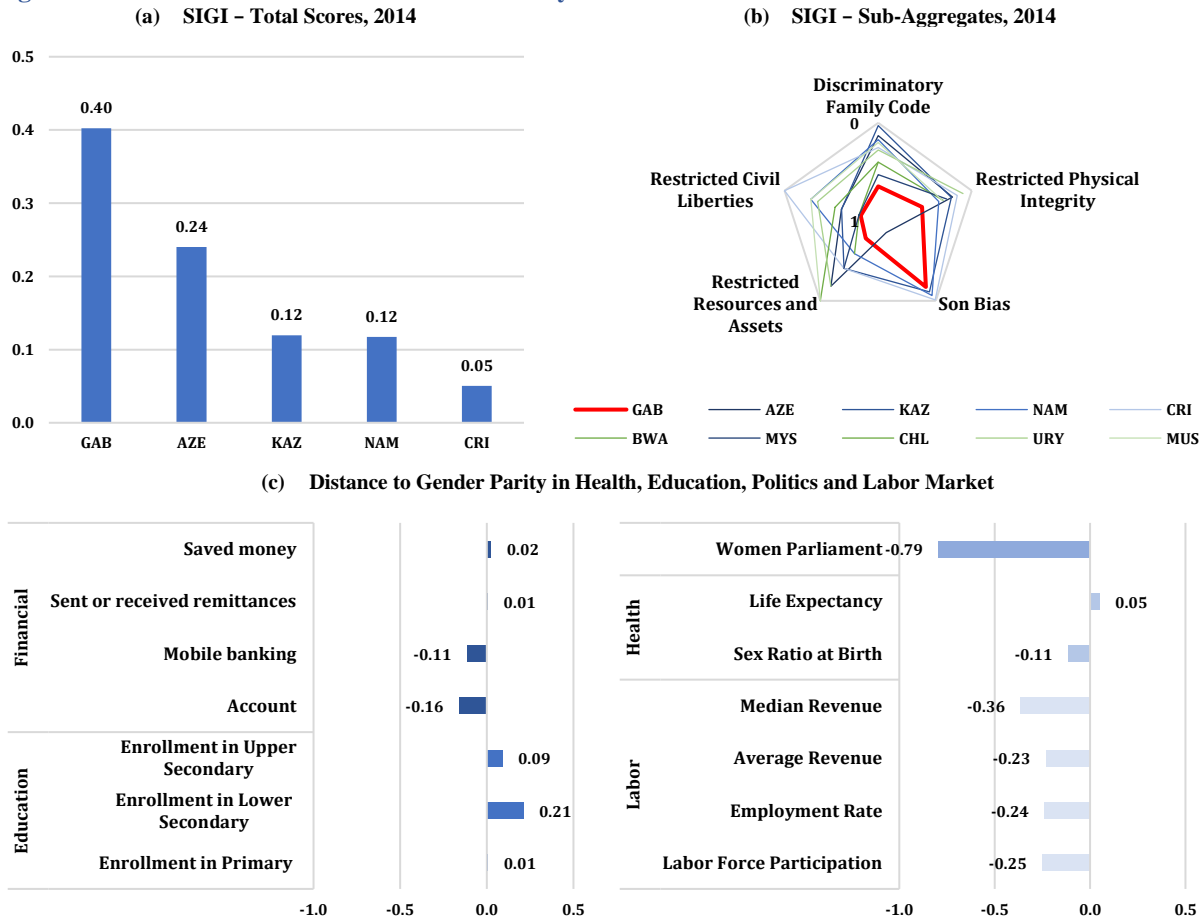
Gender gaps exist in different social sectors of the country, but perception about women inequality in access to opportunities is relatively limited.

84. Women are likely poorer than men. It is difficult to understand poverty by gender because household surveys assume equal distribution of consumption between members of a household. However, there are indications that poverty is more prevalent among women. The poverty rate for women-headed households is 36 percent, compared to 32 percent for men-headed households. This is due to a higher incidence of poverty among urban women-headed households (33.7 percent) than urban male-headed households (27.6 percent). In both areas, widows are poorer than widowers by about 10 pp. Women-headed households have less adult members, less education and work less in qualified jobs and productive sectors than men headed-households. The gender gaps are particularly important among poor households.

85. There are important gender inequalities in human development. According to the 2017 EGEP, 24.1 percent of women aged 15 years and older had no education at all and 21 percent of those who have some education did not go beyond primary, compared with, respectively, 19.7 and 15 percent of men. About 19 percent of women are unemployed, compared to 11 percent of men. Also, around 62 percent of employed women work in low profile jobs, such as household worker or self-accountant, compared to 46 percent of working men. The 2012 DHS shows that domestic violence disproportionately affects women with low education and those in poor households. Around 50 percent of women aged 15–49 agreed that a husband has the right to beat his wife for some reasons. The rate reaches 59 percent among women with primary education or lower and 63 percent among those in the lowest welfare quintile, compared to 40 percent and less among women with secondary education and those in the richest quintile.

86. Social discrimination against women remains fairly high, but the government is undertaking important reforms to address gender inequality. The *Social Institutions and Gender Index (SIGI)* measures the formal and informal laws, attitudes and practices that restrict women's and girls' access to rights, justice and empowerment opportunities. The results for 2014 point toward important social discrimination against women, especially compared to some of Gabon's structural peers (Figure II.16). However, the SIGI data has not been updated since 2014, therefore not accounting for reforms and changes that have been carried out since then. Following the liberalization of the Civil Code in 2011, most of the legal constraints and discriminations existing by law have been abolished. The remaining obstacles in terms of gender discrimination in education, access to jobs, and revenues are more culturally-driven and tougher to address. Gender parity ratios in education, health, politics, and the labor market reveal such existing constraints and inequalities. More recently, as part of the *Décennie de la Femme Gabonaise 2015-2025*, a report was given to the President of the Republic identifying all sources of legal discrimination against women (e.g., civil, social, penal – see Box II.1) and reforms aimed at further closing gender gaps are under implementation. A new revision of the Civil Code is currently under consideration and would likely address the remaining legal gender discriminations in the law.

Figure II.16: Social Institutions and Gender Parity



Sources: SIGI 2014, ENEC 2010, DHS 2012, EGEP 2017, Findex 2017 and WDI 2018.

Notes:

- The Social Institutions and Gender Index is multi-composite index that ranges from 0 (best) to 1 (worst).
- Fig. II.16-c present the distance to parity that is, for each indicator, the difference observed to a gender parity ratio of 1 (= distance of 0).

Box II.1: Gender Discrimination in Gabon

The legal condition of women in Gabon has greatly improved since 2011 and the revision of the Civil Code that stripped the law from most of its legal discriminations against women. Remaining constraints and discrimination are expected to be addressed in a second revision. However, Gabon's unofficial practices still severely constrain married women as cultural resistance to the changes implemented in the 2011 revision is strong, particularly in rural areas. For instance, married women are discriminated in terms of land and assets' property rights as they cannot own land independently. The weak property legal framework, still mostly based on customary practices rather than real property, further aggravates the existing gender discrimination with regards to access to land property. Further details can be found in the *2018 Women, Business and Law Report*, which underscores the fact that married women continue to face a number of social and cultural restrictions in different aspects of their lives (World Bank, 2018c).

87. The picture about gender inequality in control over assets and access to opportunities is relatively positive. The *2012 DHS* shows that about two third of women have complete control over the use of their revenues, however ownership of houses and land by women is very limited as nearly 80 percent do not have any of these assets. Most of the population think that women and men have equal rights in owning assets and accessing jobs and dispose of the same income opportunities, but half of the population think that the promotion of equal rights and opportunities for men and women is badly handled (Figure II.17). If bank account ownership still displays lower levels for women than men (64 percent of men vs 54 percent of women), the rapid development of mobile banking has allowed more and more women to have access to financial account. According to 2017 *Findex* data, 54 percent of women have an account, compared to 17 in 2011, while 41 percent of women have a mobile money account, compared to 6 percent in 2014. The discrimination based on gender identity also seems to be limited and significantly lower than in SSA countries but recent changes are worrisome (Box II.2).

Figure II.17: Perception About Gender Inequality in Access to Opportunities



Source: Afrobarometer 2017.

Box II.2: Discrimination Based on SOGIESC Characteristics

The World Bank approaches exclusion based on sexual orientation, gender identity and expression, and/or sex characteristics (SOGIESC) through its commitments on gender equality and social inclusion. The negative social and economic impacts of exclusion have been well documented and underline the importance of more inclusive programs and policies (World Bank, 2013). Though data is scarce, what is available from various countries suggests that sexual and gender minorities are disproportionately overrepresented among the poor (Badget et al., 2014 and Valfort, 2017). In 2019, Gabon enacted laws that criminalize same-sex activity. Article 402(5) of the Penal Code criminalizes “sexual relations between persons of the same sex”, punishable with up to six months’ imprisonment and a fine of up to 5 million FCFA.¹⁸ The new penal code further stigmatizes sexual and gender minorities in Gabon and has reportedly already led to the arrest of people based on their SOGIESC. This takes the country in a new, negative direction as previously Gabon was one of only 10 African countries to have signed one or more statements in support of LGBTI rights, or stating opposition to discrimination and violence against LGBTI people, either in the UN General Assembly or at the UN Human Rights Council.

¹⁸ Gabon Code Penal Loi n°042/2018 du 05 juillet 2019. <http://www.droit-afrique.com/uploads/Gabon-Code-2019-penal.pdf>.

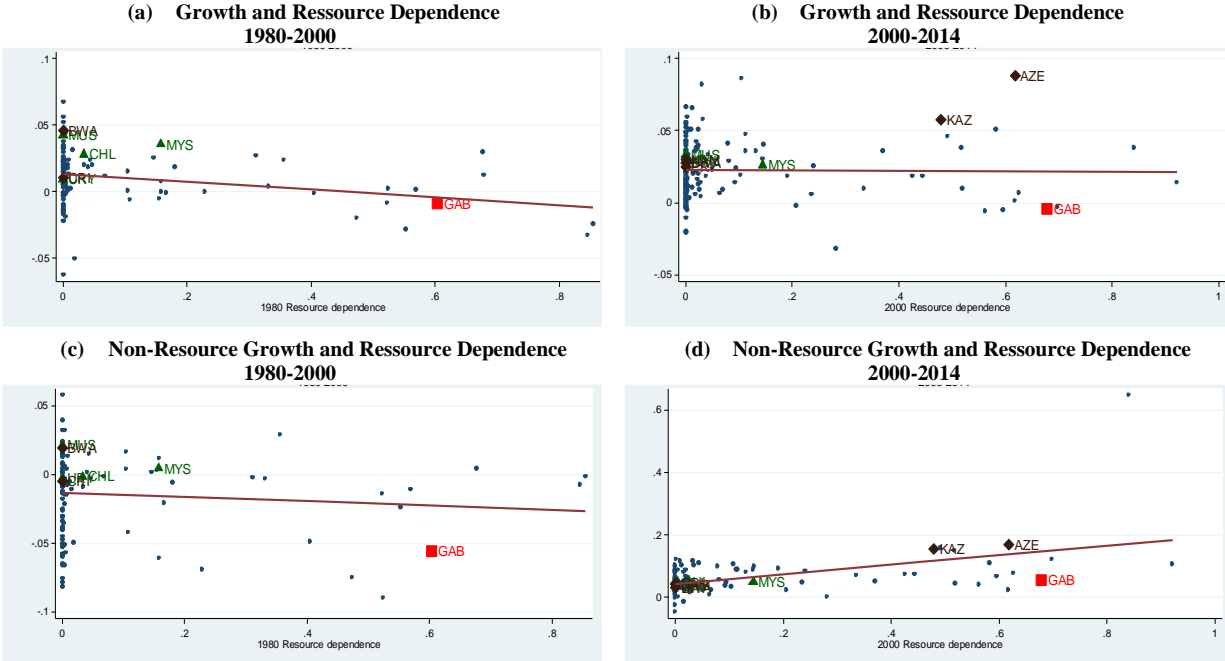
III. Economic Growth, Jobs, and Resilience

A. The Nature of Gabon Economic Growth

Heavy reliance on oil undermined economic growth and fiscal performance over the long term.

88. Resource dependence adversely affected Gabon’s economic performance. Most countries that were relatively resource-dependent in 1980 experienced a decline in GDP per capita over the subsequent 20 years, which reflects the downward trending of oil prices over this period. The recession was more severe in Gabon, where average growth underperformed that of countries with similar resource-dependence levels as well as that of comparator countries which were less resource dependent (Figure III.1). Even after the resumption of economic growth, during the oil price boom of the 2000s, Gabon continued to lag most of its peers. The slow economic performance mainly resulted from the decline of growth in the resource sector.¹⁹ Yet, the growth of the non-resource sector also remained relatively weak, underperforming most of Gabon’s peers during both oil prices’ busts and booms. Whether this is a result of the crowding out of non-resource growth-promoting industries by the resource sector, or the consequences of the lack of investments in these industries and policy failures, or a combination of both, remains difficult to assert.

Figure III.1: Growth of GDP per Capita and Resource Dependence, 1980-2000 and 2000-2014



Sources: Ross and Mahdavi (2015), Oil and Gas Data, 1932 to 2014 and WDI.

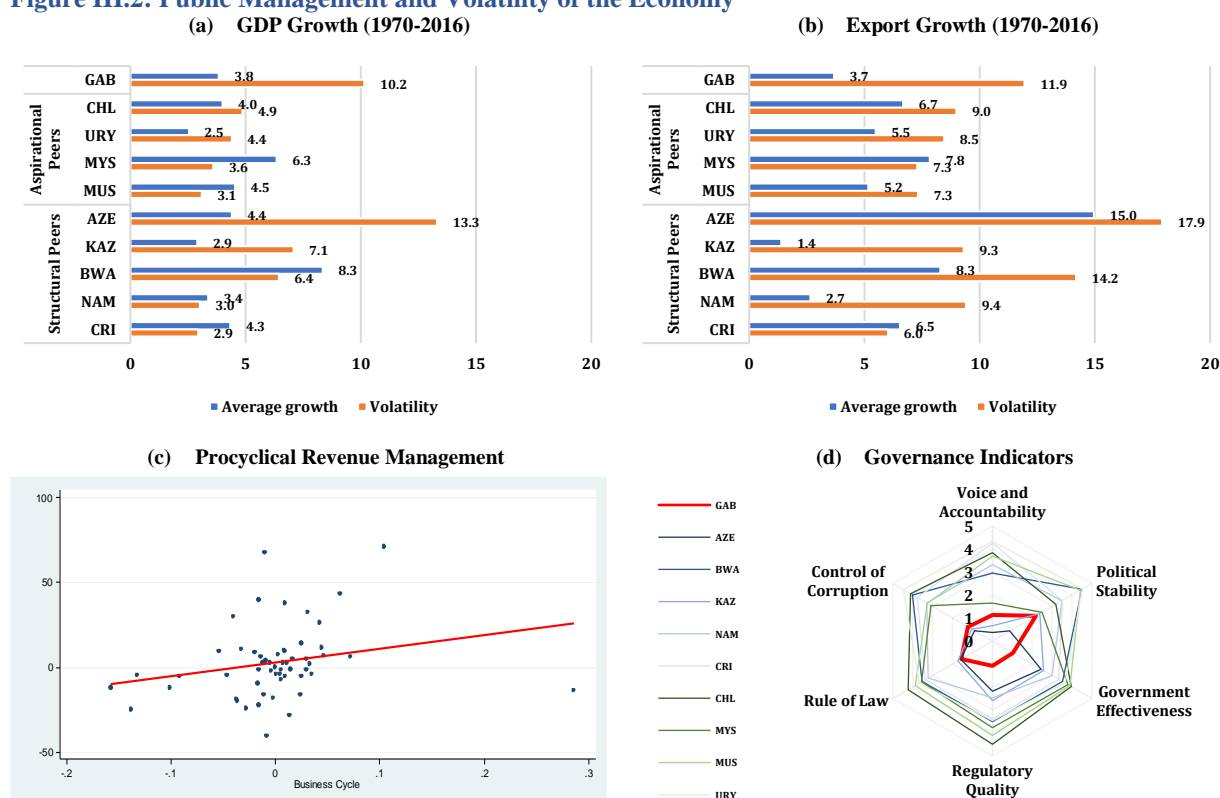
Notes:

- Estimations are based on James (2015). The growth rates are compound averages and resource dependence is the value of crude oil and natural gas production relative to GDP. Regressions include about 111 countries.
- Gabon’s overall growth as well as resource and non-resource sectors growth was outperforming most peer countries during the 1970’s, when resource dependence level was about 22 percent.
- The relationship between economic growth and resource dependence is negative and statistically significant during oil price busts. There is also a negative (positive) and statistically significant correlation between resource dependence and non-resource sector growth during busting (booming) periods.

¹⁹ Because growth is a weighted average of growth in individual sectors, the decline of the resource sector is disproportionately reflected in the economy.

89. Overreliance on oil exposed the economy to high volatility, undermining macroeconomic stability. Export and economic growth were both lower and more volatile than in most peer countries (Figure III.2-a and b). The dependence on oil also led to high volatility of export receipts and government revenue, weakening macroeconomic stability. Decreasing revenues during oil bust periods were accompanied by widening fiscal and current account deficits, along with declining international reserves, rising debt stocks, and accumulation of domestic and external arrears. Such volatility undermines savings and investment due to the instability of public spending on infrastructure, crowding out effects on private credit, and increasing risks for companies exposed to government arrears (IMF, 2018). Dependence on resource revenues is often self-reinforcing as it reduces the government’s incentives to collect non-resource taxes. Although it may be due to weak capacities in revenue collection, it is often used as an incentive to the non-resource sector or as a channel to distribute the resource rents (Gill et al., 2014).

Figure III.2: Public Management and Volatility of the Economy



Sources: WDI 2018 and WGI 2017.

Note:

- *Expenditure Cyclicity* is measured by the growth rate of government consumption in percent of GDP.
- *Business Cycle* is measured by the log deviation of GDP from its Hodrick–Prescott trend, using a smoothness parameter of 6.25 (following Alesina et al., 2008).

90. The absence of fiscal rules and the procyclical pattern of spending further contributed to the vulnerability of the economy to fluctuations. The disproportionate increase in government spending in the wake of resource booms signals weak fiscal performance and ineffective management of natural resource revenues, which increase the vulnerability of the economy to oil prices’ swings and hinder sustainable growth (Alesina et al., 2008, WDR, 2017). The evolution of government’s spending over the business cycle suggests a procyclical fiscal pattern (Figure III.2-c). In periods of economic growth, the excessive spending of revenue windfalls limits the

accumulation of fiscal buffers to dampen future cyclical fluctuations in resource revenues and narrows the fiscal space for sustainable productive investments, contributing to boom and bust cycles and hampering growth. Gabon's procyclical fiscal pattern is partly driven by the absence of fiscal rules as well as the lack of adequate institutions and of political incentives to insulate public spending from oil cycles.²⁰ The low ranking in *Government Effectiveness* suggests important constraints in the quality of public administration that might explain the existing weak fiscal management (Figure III.2-d).

91. Lack of effective investment of resource rents in produced and human capital contributed to below-par economic performance. Gabon has not been efficient in harnessing its resource wealth for sustainable development. In 2005, Gabon accumulated US\$ 18,885 per capita in manufactured capital and would have accumulated more than three times as much manufactured capital (US\$ 67,995 per capita) if it had reinvested all the resource rents from oil and gas since 1980.²¹ The country could have expanded its productive base substantially if it has compensated the depletion of its natural resources by investing in produced capital rather than using the rent for consumption purpose. Compared to its structural peers, Gabon has accumulated little produced capital, with only 17 percent of its wealth composed of produced capital (Figure III.3). Its wealth is also composed of only 31 percent of human capital, far from the levels of its aspirational peers. Overall, Gabon's wealth seems to rely principally on natural capital, which can prove unsustainable over the long-term, once the reserves are depleted. The genuine savings rate also indicates that the economy consumes more than it invests of its earnings from natural resources.²² Gabon did genuinely save in the 1980s, but the situation severely deteriorated in the subsequent decade and started improving again in the 2000s when the net savings turned positive. Yet, Gabon still lags most of its aspirational and structural peers, and the country will need to increase its savings by about 12 percentage points in order to maintain its wealth per capita (Figure III.4).

Figure III.3: Structure of Wealth by Form of Capital, 2014, Percent

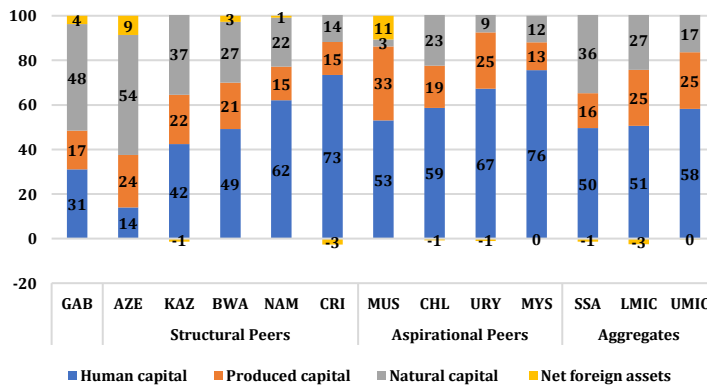
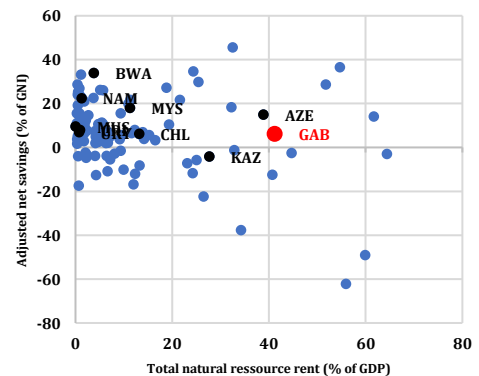


Figure III.4: Net Saving Rates by Resource Endowment



Sources: World Bank, Wealth of Nations database, 2014.

Source: WDI 2018.

Note: Last year available for data on Gabon in the 'Wealth of Nations' database is 2014.

²⁰ The quality of institutions tends to play a key role in shaping the cyclicity of fiscal policy (Dabla-Norris et al., 2010; El Anshasy and Katsaiti, 2013). The quality of institutions and transparency of the budgetary process are the most critical factors shaping the cyclicity of fiscal policy, however this data is unfortunately missing for Gabon.

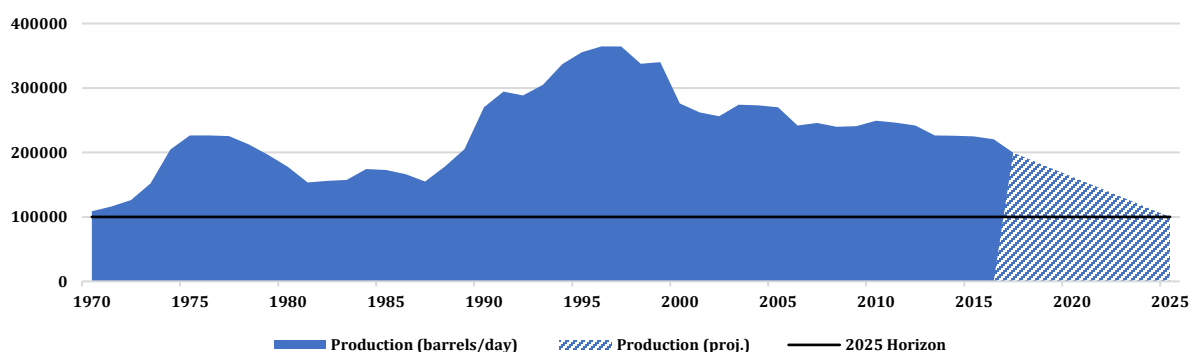
²¹ The hypothetical produced capital is the amount that the country could have accumulated if it had followed the Hartwick rule (World Bank, 2011c).

²² Genuine savings (or adjusted net saving) is defined as the rate of savings after due account is taken of the depletion of natural resources and pollution damages, adding investments in human capital.

92. Good governance and sound macroeconomic policies are needed for the management of resource rents to the benefit of the population and its investment in productive assets for sustainable income and jobs generation. The absence of sound fiscal policies and the lack of appropriate governance structures, as observed from the low ranking in *WGI* and *Doing Business* reports, among others, have resulted in the use of resource rents for consumption and inefficient public spending (including unproductive public sector jobs and high public sector wages) rather than savings and investment in human and produced capital to promote long term growth and poverty reduction. Reforms to strengthen governance capacity and macroeconomic policies for better managing resource revenues are essential to turn Gabon’s wealth into sustainable inclusive development (World Bank, 2018d).

93. As oil reserves continue to deplete and production to drop, the fiscal space is shrinking, urging the need for finding new sources of wealth. Since the peak of production reached in 1996-97, Gabonese production of oil in volume has constantly decreased until today (Figure III.5). Lower oil prices have coincided with a broader decline in Gabonese production due to maturing oil fields and a lack of new investments. The country produced around 200,000 barrels per day in 2017, short of the government’s objective of stabilizing the production around 250,000 barrels per day. The government’s outlook relies on increased output from offshore and a start in production from deep offshore blocks. However, according to official estimates, without any new discoveries and in a context of maturing oil fields, the production should progressively decrease to reach 100,000 barrels per day in 2025.²³ The extent of the country’s oil reserves will also strongly depend on the price of oil as the break-even point of potential new oil fields is quite high and therefore require a high international oil price to be operated.

Figure III.5: Daily Oil Production and Outlook, 1970-2025



Source: British Petroleum.

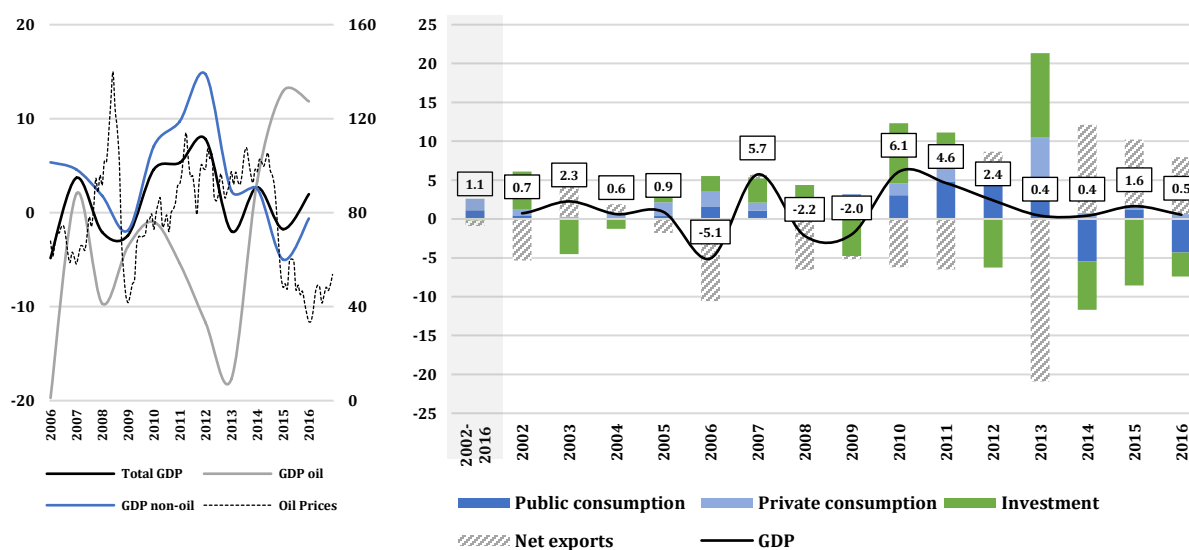
Despite some signs of recovery, economic growth remains volatile as the impact of the oil sector on the overall economy is still high.

94. Economic growth was erratic over the past fifteen years, compounded by the recent decline in public investment. After a heavy recession in the mid-2000’s (-5.1 percent of growth in 2006), amidst a massive drop in commodity prices and a global economic recession, the economy recovered in the wake of a surge in oil prices that bolstered the GDP growth rate at 6.1 percent in 2010 (Figure III.6). Public investment, backed by the implementation of a series of public works projects within the framework of the PSGE, made a significant contribution to

²³ Oxford Business Group: oxfordbusinessgroup.com/overview/age-exploration-new-discoveries-have-stoked-hopes-increased-production.

economic growth during this period (Figure III.7). However, since then, continuous slow down on the world commodity and steady decline of oil reserves decelerated GDP growth to 0.5 percent in 2017 and to an estimated 1.2 percent in 2018 (WDI, 2019). According to IMF, growth is expected to rebound to 3.4 percent in 2019, due to good performance in the oil, mining and timber sectors. With population growth, per capita GDP growth was negative over the past fifteen years. The commodity downturn that hit the global markets in 2014 deprived the government of important streams of revenues, resulting in a significant reduction of capital investment. Consequently, public investment sharply declined. The increased contribution of private investment and net exports during 2014-15 partly offset the lower contribution of public investment. The recent rebound of oil exports and new mineral extraction capacity have helped reduce the current account deficit. This contributed to stabilize imputed international reserves at the Central Bank of Central Africa States (BEAC), with the reserves decline moderating from a loss of 9 percent of GDP in 2016 to less than 1 percent of GDP in 2017.

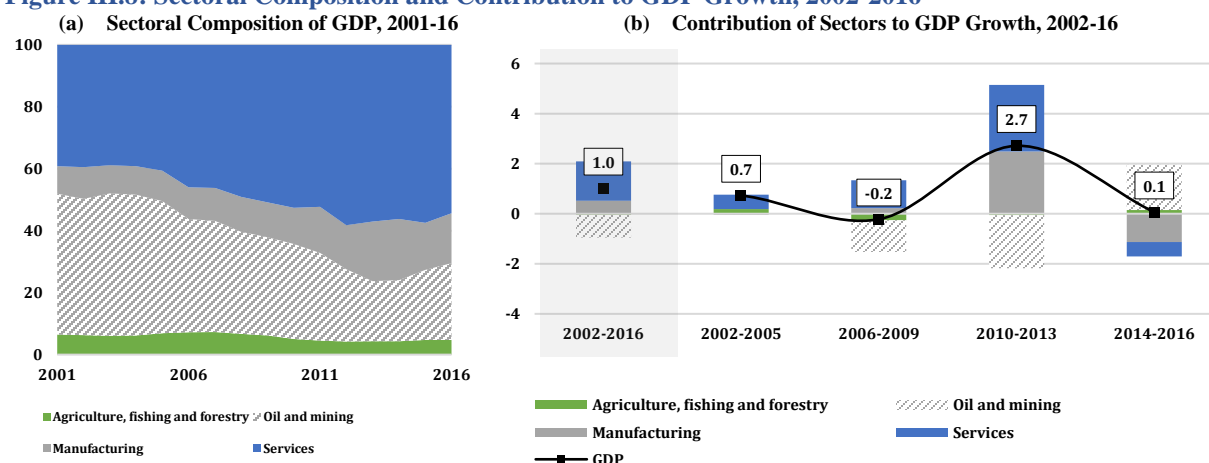
Figure III.6: GDP Growth Rates **Figure III.7: Contribution of Demand-Side Factors to GDP Growth, and Crude Oil Prices, 2006-16, 2001-16, Percent and US\$**



Sources: Direction Générale de la Statistique and Bloomberg.

95. Efforts to reduce the weight of the oil sector started to pay off, but at a slow pace. The contribution of oil and oil-derived sectors to GDP declined from 42 percent in 2005 to around 22 percent in 2016. The increase of the non-oil sector was essentially driven by services and to a lesser extent construction. Primarily driven by the telecommunications, transportation, and management, accounting and audit advisory sectors, the services sector rapidly developed since 2001, at an average rate of 5.1 percent annually, accounting for 50 percent of GDP in 2016 (Figure III.8). While the economy seems to be undergoing structural changes, the transformation may not be sustainable as it took the form of expansion of sectors dependent on public demand and oil rents, rather than a shift toward more dynamic tradable sectors. Recently, the fiscal tightening, the decrease of oil rent, and the subsequent reduction in public orders have negatively affected the non-oil sector, essentially manufacturing and construction, which decreased by 10 percent during 2013-16.

Figure III.8: Sectoral Composition and Contribution to GDP Growth, 2002-2016



Source: Direction Générale de la Statistique.

96. Promising sectors are emerging and could drive the transformation in the future. Since 2016, new sectors, such as agriculture and agribusiness, wood industries, and mining, have emerged thanks to significant private investment. While the economic weight of these sectors is still relatively small, they have experienced strong growth and are expected to continue on this trend (Figure D.5).

97. The short-term economic outlook appears challenging with shrinking resources and less-than-expected performances in terms of growth. The medium-term growth forecast up to 2021 is expected to stabilize at around 4 percent per year – a slowdown from the pre-crisis period. The limited resources available constrain the investment and the consumption capacities, which might further harm the overall growth. In the wake of the budgetary restrictions initiated by the government in collaboration with international donors – based on the 2017 PRE and 2018 finance laws– public investment, which historically constituted the primary form of investment, will likely further decrease.

98. In addition, the formal private sector remains underdeveloped and struggles to drive a sustainable transformation of the economy. Nearly 60 percent of Gabon’s private and self-employed labor force works in companies comprising less than 5 employees, and only 15 percent of the country’s labor force works in enterprises with more than 100 employees. Formal employment in the private sector represents only 25 percent of total employment. Private investment is picking up, but years of under-investment from the private sector in an economy that used to be historically dominated by the public and publicly-controlled extractive sectors have prevented the private sector from building its productive capabilities and, in turn, from contributing to a sustainable structural transformation.

The fiscal situation has worsened over the last five years, but some signs of recovery have emerged very recently.

99. In the wake of the IMF-led fiscal adjustment program, the fiscal situation improved but imbalances are still jeopardizing the macroeconomic stability. Although the government started to rein in spending as of 2014, which provided the government with fiscal surpluses, revenues subsequently fell faster than expenditures in the following years, widening the fiscal deficit (Figure III.9). The rigidity of the public wage bill – which increased by 70 percent between 2010 and 2015 and now represents about 36 percent of total public spending—kept expenditure

levels high and represents a major impediment to fiscal adjustment. Despite government’s efforts to reduce the public-sector wage bill, savings would fall short of budget target mainly due to high bonuses and salary.²⁴ Since 2015, and in the wake of the IMF-led adjustment fiscal program and the 2018 Development Policy Financing (DPF) supported by the World Bank, the primary objective of the government has been to come back to an equilibrium situation by cutting spending, freezing public sector recruitment and trying to stimulate fiscal revenues through a widening of the tax-base.

100. The scope for fiscal consolidation exists but is conditional to increasing revenues. Fiscal reform priorities identified with development partners focus on: (i) the management and containments of the public-sector wage bill; (ii) the collection of higher non-hydrocarbon revenue; (iii) the control of non-pro-poor tax expenditures; (iv) the modernization of customs and procurement procedures for public works; and (v) the improvement of cash management and the prevention of recurrent problems of arrears accumulation. The governments’ prudential macroeconomic policy has started to bear fruit as the overall fiscal deficit was reduced by 2.4 percentage points (pp) between 2016 and 2017. However, it was driven by a decrease of expenditures, which fell by 3.1 pp of GDP, while revenues also declined by 0.7 pp of GDP.

101. The nature of fiscal adjustments could hamper the prospects of growth if public investment continues to be curtailed. The fiscal adjustment primarily relied on a large decline in public investment that dropped to 1.5 percent of GDP in 2017 – i.e. a reduction of two-third compared to 2016. Moreover, the decrease in revenues primarily accrued to non-oil revenues, as the curtailing of public spending caused a slowdown of non-oil growth, while the overall fiscal revenue of the government benefited from a rebound of prices on the international oil market. However, the fiscal improvement started to show the result of structural reforms. The recent fourth and fifth IMF review of the EFF arrangement indicates that the non-oil primary basic balance, which is a direct measure of domestically-driven fiscal effort, improved to a deficit of 7.6 percent of non-oil GDP in 2018, compared to a deficit of 11 percent in 2016.

Figure III.9: General Government Revenue vs Expenditure, 2006-18, Percentage of GDP

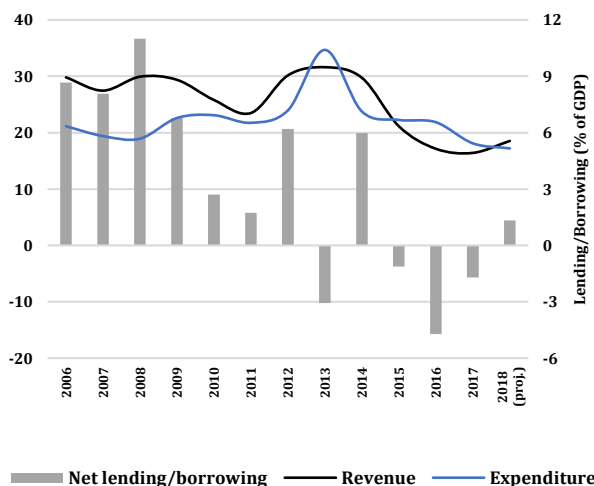
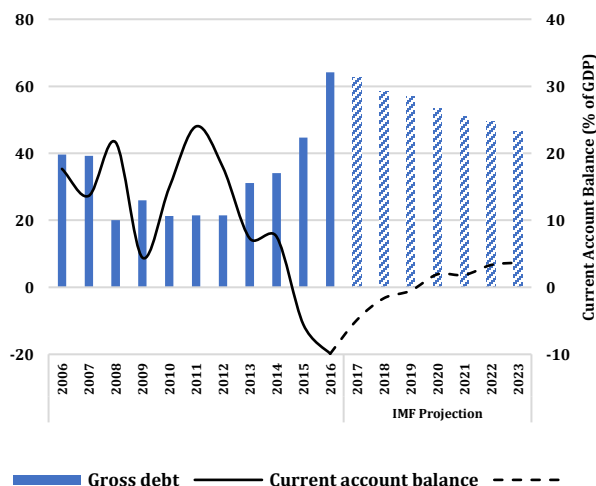


Figure III.10: Gross Debt and Current Account Balance, 2006-23, Percentage of GDP



Source: International Monetary Fund.

²⁴ According to the IMF Policy Note for the Third Review of the Extended Arrangement Under the Extended Fund Facility (EFF) bonuses represent 5 to 15 percent of total salaries, depending on the salary scale.

102. The gross debt has significantly increased over the past years, coupled with a worrying accumulation of loans and payments in arrears from the government, but some improvements were made recently. The public debt – both domestic and external—reached 64.2 percent of GDP in 2016, far above the government’s strategic threshold of 35 percent (Figure III.10). This was mainly driven by the increase of the external public debt, while the domestic debt slightly declined. There was also an important accumulation of arrears, stemming primarily from: (i) liquidity conditions generated by fiscal slippages; (ii) delayed budget support disbursements; and (iii) technical debt servicing difficulties related to the accumulated legacy arrears. In 2017, the total stock of external arrears reached CFAF 123.7 billion, i.e. 1.2 percent of GDP. Yet, despite new arrears accumulated during the past fiscal year for a total of CFAF 77.5 billion, the rate of arrears accumulation has declined from 44 percent in 2016 to 17 percent in 2017. IMF estimates that, in 2016-18, the external current account position improved, and public debt declined by almost 3.5 percent of GDP. But, the situation remains critical regarding domestic arrears. The fiscal crisis of mid-2010’s has left the State with more than CFAF 300 billion of payment toward the private sector in arrears, severely affecting domestic enterprises. The government took steps by initiating the creation of the *Club de Libreville*.²⁵ But SMEs, in particular those in the construction sector, which heavily depended on State-sponsored orders and which lack financial resources to face such failures of payment, have been severely affected.

103. The pursuit of a prudent borrowing strategy is expected to help maintain the public debt at a sustainable level. The government remains committed to reducing the debt below the regional target of 45 percent of GDP. According to the last debt sustainability analysis, the public debt-to-GDP ratio remains sustainable in the medium term. Under the baseline scenario, public debt is forecast to decline to about 43 percent of GDP by 2024, supported by ongoing fiscal adjustments and a prudent borrowing strategy. Stress tests indicate that public debt levels also remain sustainable against standard shock scenarios. Nevertheless, liquidity pressures are considerable with debt-service representing a significant share of revenues. Building a credible medium-term debt management strategy will be essential to addressing challenges related to elevated financing needs.

104. Weak Public Financial Management (PFM) constitutes one of the major obstacles toward efficient resources’ allocation and management. Weaknesses in economic forecasting, and the lack of a clear budget strategy and basic cash management are the major concerns affecting the predictability in the resource allocation and management. As part of the PFM reform, the government has introduced program budgeting since 2010, which became effective in 2015. While it contributed to introduce a performance-based budget management practice, its implementation has been limited. The program has recently been suspended and the government is considering solutions to make it more effective. Another area of concerns lies with the unavailability of a comprehensive picture of the arrears due to lack of accurate records in public accounts.

105. The ongoing public sector reform should reinforce more fiscal discipline and transparency and improve public sector performance. The government has undertaken several public sector reforms in the areas of tax policy and management, civil service, public financial

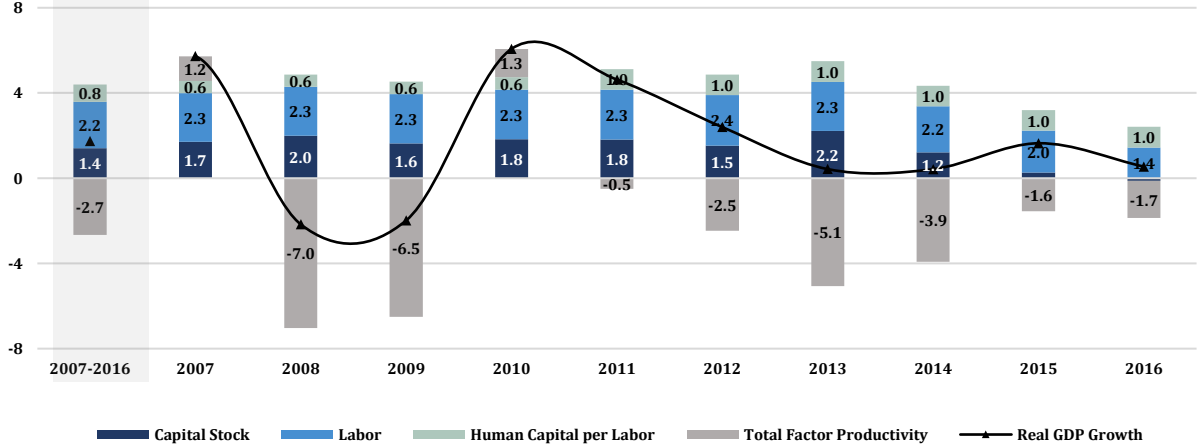
²⁵ The *Club de Libreville* is a banking pool that will buy the stock of public debt held by the private sector and will then spread over 5 to 6 years the reimbursements of the State to the banking pool. However, the initial buy-back of the *Club de Libreville* will only account for half of the stock of debt (CFAF 160 billion), holding the rest as a credit in favor of the private sector companies (see Bureau de Coordination du Plan Stratégique Gabon Émergent, 2018; Rapport de Suivi de l’Exécution du Plan de Relance de l’Économie, *Gabon Vision 2025*, 1, 30-37).

management, and procurement reforms. Since the early 1990s, several reforms have successfully modernized tax and customs administrations.²⁶ However, domestic resource mobilization outside of the oil sector has been hampered by several institutional challenges, while the multiplication of tax exemptions and the multiplicity of fiscal regimes granted to foreign investors reduce the effective tax-base and deprive the authorities of much-needed resources to invest in social sectors such as education, social protection and health. The government has also initiated substantive civil service reform to contain the wage bill while improving public sector performance by introducing strategic staffing and performance-based management across the government. The recent revision of the procurement code, the operationalization of the Public Procurement Regulatory Agency (ARMP), and the strengthening of the supreme audit institution were the major steps forward for transparent and efficient public resources management.

Productivity and innovation stagnated despite high spending in research and development.

106. The economy’s performance continues to be constrained by low total factor productivity. Economic growth has relied extensively on capital stock followed by labor growth, while Total Factor Productivity (TFP) contributed negatively to growth throughout most of the past decade (Figure III.11). Labor accounted for over 50 percent of growth over the 2006-2009 period, which mainly resulted from the natural growth of the population and the automatic entry of new workers on the labor market – the unemployment rate did not significantly change, remaining high. Public and private investments, which increased markedly since 2010, helped fuel important movement of capital accumulation, largely surpassing the contribution of labor to growth. Despite some recovery in the recent years, the total growth accruing to TFP remains limited and was mostly negative. Making a step change in productivity performance is necessary for accelerating growth and diversification.

Figure III.11: Growth Accounting Decomposition, 2007-16, Percent



Sources: Direction Générale de la Statistique, WDI and WB staff calculation.

107. Total factor productivity has remained stagnant over the last 30 years and innovation was limited. Based on the 2011 index, Gabon has made no gains in TFP in 30 years (Figure D.6). Although it appears to be the case for most of peer countries, some did increase significantly their productivity, such as Mauritius or to some extent Uruguay. On the innovation front, Gabon ranks

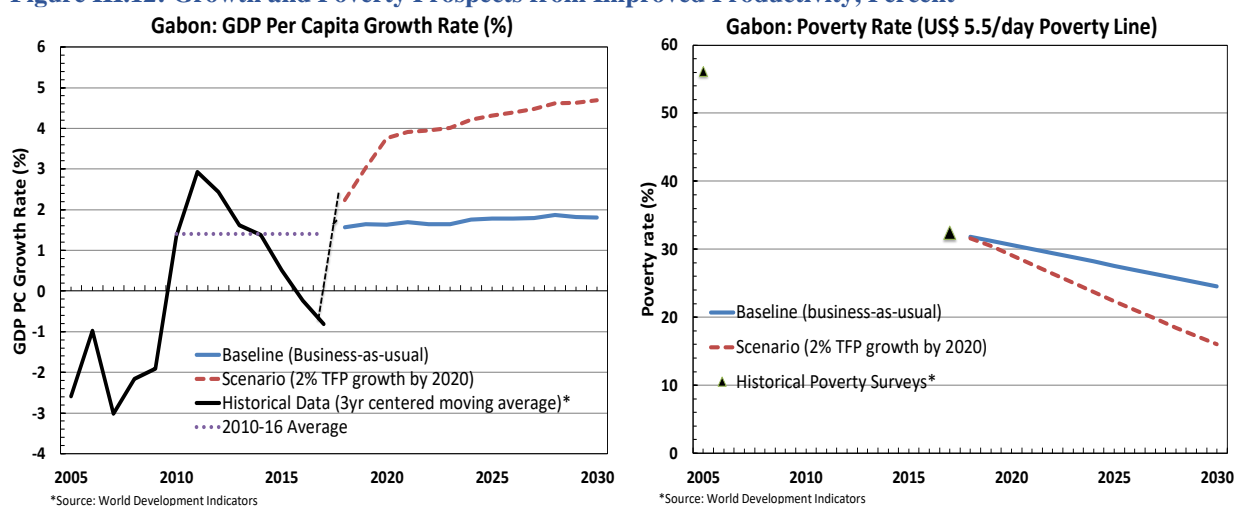
²⁶ Reforms include moving away from a functional model with separate departments for direct and indirect taxation; establishment of a unified tax department in 2009; and introduction of an administrative model based on the segmentation of taxpayer through the implementation of the Large Taxpayer Office in 2007.

fairly well in terms of research and development (R&D) spending. However, this does not translate into important high-tech exports, which represent only 0.06 percent of GDP, compared to 1.6 percent for Kazakhstan and 25.2 percent for Malaysia (Figure D.7). This suggests that Gabon's R&D spending are not accruing to sectors that could drive innovation and growth.

Higher productivity would boost both economic growth and poverty reduction.

108. An increase in TFP growth to 2 percent would accelerate GDP per capita growth to over 4 percent by the early 2020s and would halve poverty to 16 percent by 2030. If economic growth fundamentals continue at their recent historical trends through 2030, GDP per capita growth would average 1.75 percent and poverty would slowly fall to 25 percent (Box III.1). Faster growth and poverty reduction need to come from an increase in productivity.²⁷ However, a sustained increase in TFP growth averaging 2 percent over a decade is challenging, as few countries manage to sustain productivity growth this fast. Nonetheless, low levels of existing productivity create the opportunity for future rapid productivity growth. This could be achieved through: (i) a reduction in the misallocation of factors of production (e.g. misallocation caused by excessive regulation or corruption); (ii) better adoption of existing technology; and (iii) better infrastructure. The resulting fall in poverty, while rapid, remains attainable (Figure III.12).

Figure III.12: Growth and Poverty Prospects from Improved Productivity, Percent



Sources: WDI 2018 and simulations based on DEC-MTI Long-Term Growth Model

Box III.1: DEC-MTI Long Term Growth Model (LTGM)

DEC-MTI Long Term Growth Model (LTGM) allows the simulation of future growth and poverty paths for Gabon under business-as-usual, and the growth path required (assuming no change in inequality) to halve poverty to 16 percent by 2030.²⁸ In the baseline, growth fundamentals are assumed to continue at recent historical trends through 2030. Specifically, (i) the investment share of GDP is assumed to stay at 25 percent of GDP (WDI), (ii) TFP is assumed to remain stagnant (slightly more positive than in Penn World data); (iii) human capital is assumed to grow at 1 percent (Penn World); and (iv) Gini coefficient remains constant at around 50 percent – based on surveys inequality of income and assets. The model shows that an acceleration of overall growth to around 3.7 percent (and per capita growth at around 2 percent), through higher productivity, would allow a faster poverty reduction.

²⁷ Given high existing investment rates, there is limited scope for faster growth that does not involve TFP.

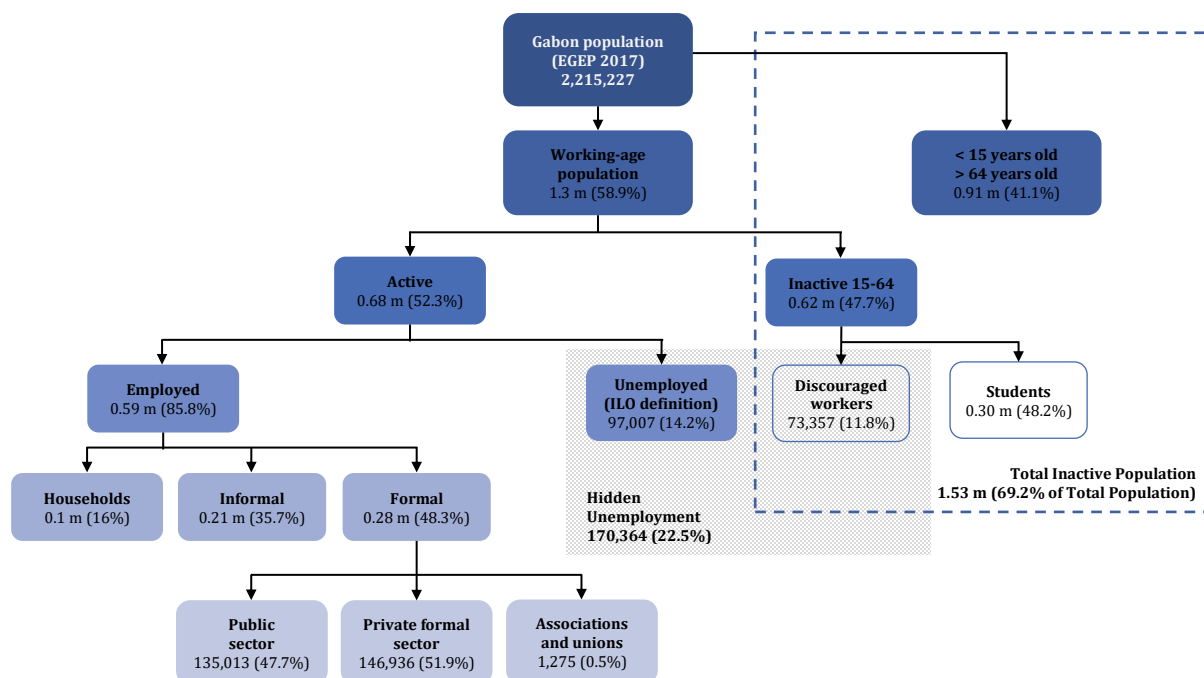
²⁸ The model is based on the Solow-Swan growth model and extended to include human capital, demographics, and other growth drivers (Loayza and Pennings, 2018). The Long-Term Growth Model. www.worldbank.org/LTGM.

B. Employment: the Challenge of Jobs Creation

Unemployment is elevated, particularly among the youth and women, partly driven by skills mismatch.

109. The economy is confronted with high unemployment. In 2017, the active population was estimated at 52 percent of the working-age population (Figure III.13). The strict ILO-based unemployment rate stood at 14 percent, rising to 23 percent when considering discouraged workers (hidden unemployment rate).²⁹ In comparison, the strict unemployment rate was 16 percent in 2005.³⁰ Overall, the unemployment rate is markedly higher in urban areas (around 16 percent) than in rural ones (around 4 percent), which given the high urbanization of the country, results in more than 9 out of 10 unemployed workers living in cities, mainly in Libreville and Port-Gentil.

Figure III.13: Structure of the Labor Market, 2017



Source: EGEP 2017.

Note: All percentages are in function of the upper category. Therefore, each line sums to 100 percent.

110. Unemployment lasts for a long time and primarily affects the youth, women and first-time job seekers. Around 50 percent of the unemployed are less than 30 years old and nearly one fifth of women are out of work – compared to 11 percent for men (Figure III.14). In addition, about

²⁹ ILO definition: working-age individual who is: (1) without work during the 7-day period preceding the survey; (2) currently available for work i.e. less than 2 weeks; and (3) actively seeking work. The hidden unemployment rate includes in addition discouraged workers who are not actively seeking employment or are not available immediately. The difference between the ILO-based unemployment and hidden unemployment may also reflect the presence of individuals willing to work but unfamiliar with the processes to find a job.

³⁰ The strict unemployment rate from the labor force survey (ENEC 2010) was estimated at 20.4 percent. However, as labor force surveys generally provide a more accurate measure of unemployment, these differences cannot be interpreted as a decline of unemployment.

half of the unemployed are first-time job seekers, underlying the difficulty for young generations and primo-applicants to access the labor market. The duration of unemployment is also long – 22.1 months on average—, particularly in rural areas – 34.5 months on average (Figure III.15). Such an unusual length of unemployment is primarily explained by the lack of training for unemployed workers; the discrepancy between the skills owned and those demanded by hiring companies; institutional deficiencies, particularly from work placement structures; and the limited creation of jobs. The skills mismatch is evidenced by the large number of discouraged workers, the prevalence of unemployment among educated people, and the low match to employment offers – two third of offers remain vacant due to the lack of suitable candidates.

Figure III.14: Age-Pyramid of Unemployed, 2017, Percentage of unemployed

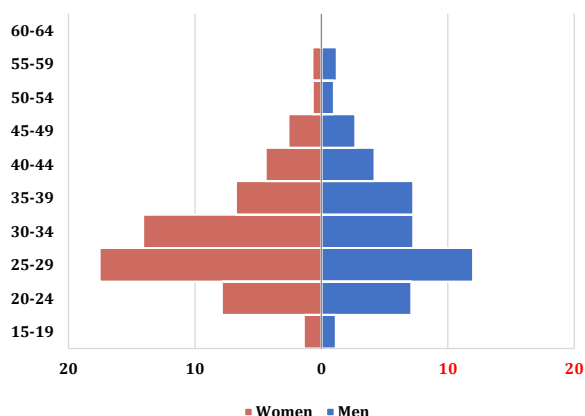
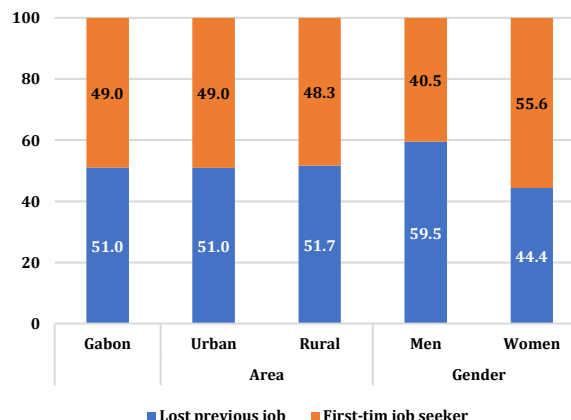


Figure III.15: First-time Job Seekers, 2017, Percentage of unemployed



Source: EGEP 2017.

111. Coping strategies remain limited as unemployed individuals primarily address their situation through informal channels, with little recourse to specialized institutions. Only 16 percent of the unemployed workers resort to the National Office for Employment (ONE), the official agency in charge of following unemployed individuals, placing them according to their skills, and proposing them training to answer the labor market demand. Conversely, the vast majority of the unemployed resort to their personal relations or apply directly without any job offer being advertised – respectively 85 and 70 percent.

112. The mismatch between labor market supply and demand has led to the multiplication of training programs, which lack coordination. The public training effort is mainly supported by the ONE, which launched a series of training programs essentially targeting the youth (Box III.2). Private economic actors attempt to address the skills mismatch through various in-house programs. Notorious examples include the case of the telecommunication company Airtel – 5,000-individual training program in cooperation with UNESCO—and SETRAG (Transgobonais Operating Company) – 2-year apprenticeship program in partnership with the ONE. Other public and para-public institutions – ANFPP, JA Gabon, the Ministry of Social Insertion, the Chamber of Commerce—run various training programs, but without a comprehensive and coordinated strategy to respond to the current and future labor market needs. Recently, Gabon signed a convention with Morocco in order for the latter to supervise the professional training of Gabonese workers in a large range of sectors, from agriculture to transport and logistics, adding another layer to the already complex professional training landscape.

Box III.2: ONE Mechanisms to Stimulate Employment

The *Office National de l'Emploi* (ONE) disposes of three main mechanisms to stimulate the youth employment and to encourage companies to recruit.

The first mechanism consists of a training youth contract (*Contrat d'apprentissage jeunesse*) which aims at providing graduated first-time job seekers aged between 16 to 35 years old with an internship within a private company of more than 50 employees. The ONE covers the cost of registering the intern at the CNAMGS but the internship compensation is supported by the enterprise. This mechanism is primarily a career-change mechanism that addresses the discrepancy between the nature of graduates and the demand on the labor market. Participants need to hold a degree, but the field of their internship can differ from the topic studied during their studies.

The second mechanism is a joint internship program with the World Bank targeting 16-to-34-year-old individuals that are already graduated in a specific field of competencies but lack their first professional experience. The ONE covers the internship compensation during 6 to 12 months, which allows participants to gain professional experience and to become more attractive and valuable on the labor market.

The third mechanism is a dual apprenticeship program targeting individuals aged between 16 to 24 years old without any degree nor professional training. The ONE places participants in a structure of training and finds them an internship over the course of 1 to 2 years. It serves as a pure insertion and professional training program for youth that have failed in the traditional educational system and can therefore rejoin the labor market. The latter appears as the most popular program of the ONE, channeling as much as some 250 new inscriptions per day and allowing a large part of the population without a proper degree to re-enter the job seeking process. However, the 24-year-old limit act as an impediment as the ONE receives many demands from 30-year-old individuals without degree and cannot integrate them to their programs. In additions, these profiles are usually more likely to take on manual jobs for which the demand from enterprises is higher.

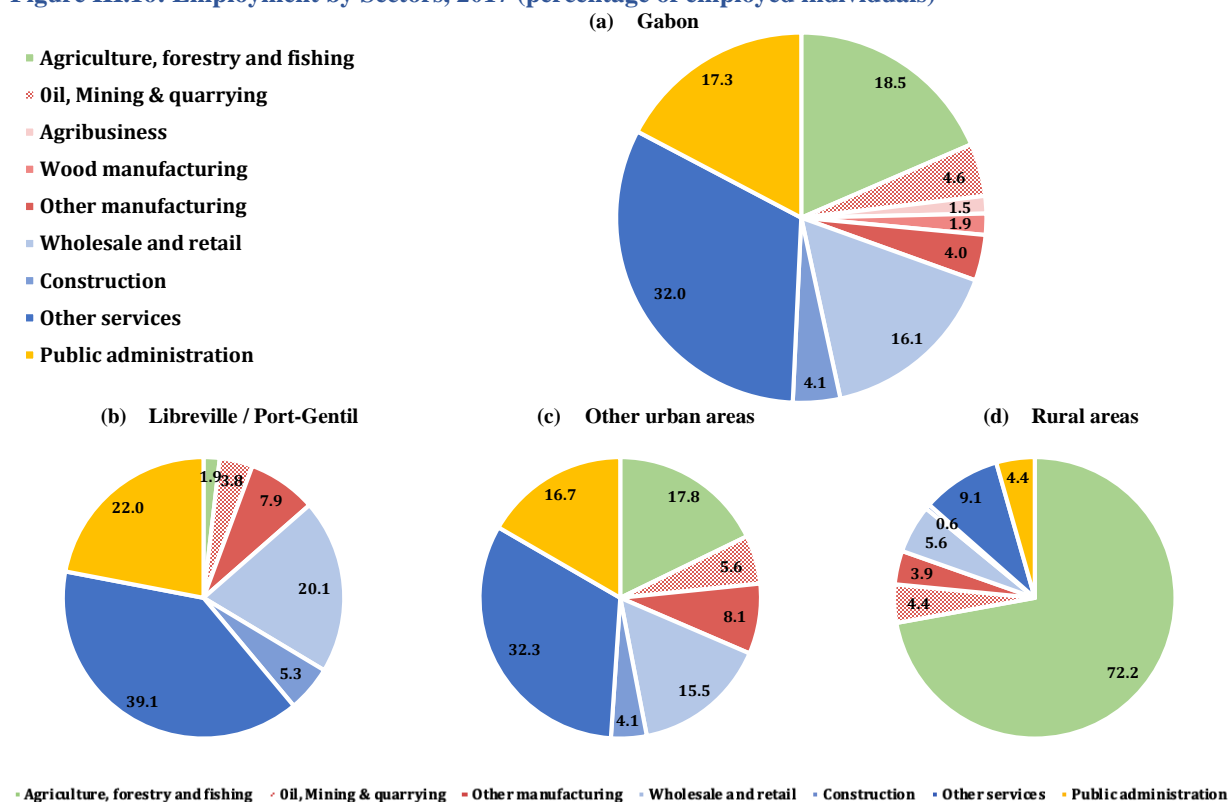
Employment is concentrated in the services sector and largely characterized by low job status and informality.

113. Most of the employment is in services, while the contribution of manufacturing and mining sectors to employment remains limited. There were no major changes to the structure of employment by sector since 2005. In 2017, more than two third of the country's employed workforce was in the services sector – a similar level than in 2005—and 18.5 percent in the agricultural, forestry and fishing sector, down from 25.4 percent in 2005 (Figure III.16). While the oil and mining sector weighs heavily into the country's GDP and is a major source of international currency through exports, it only employs 5 percent of the workforce – up from 2 percent in 2005. Public administration remains an important provider of jobs, particularly in Libreville, Port-Gentil and in some secondary cities, underscoring Gabon's historical tradition of large bureaucratic public sector. Important sub-sectors such as construction, wholesale, and retail are also concentrated in large cities and provide employment to a significant share of the urban population. Not surprisingly, the employment profile between rural and urban areas is completely different with nearly three quarter of the rural employed population working in the agricultural sector and only around 15 percent working in the private services sector and, to a much lesser extent, public employment.

114. Self-employment and informality are the most common forms of employment especially for women and the rural population. One third of the workers are self-employed (including household helpers and apprentices) and about a fifth are unqualified employees. In rural areas, household and self-employment reaches nearly 70 percent. Likewise, women tend to be confined to lower employment status with 43 percent of them working as a self-employed or a household helper. Formal private employment accounts for 25 percent, while informal private and household employment represent respectively 36 and 17 percent of total employment. Rural areas and secondary towns concentrate most of the informal employment, which also prevails among

people with primary and lower education and, to a lesser extent, woman (i.e. 60 percent compared to 47 percent for men). In addition, a large share of workers does not have written contracts – only 39 percent is employed with a contract including both employees and employers.

Figure III.16: Employment by Sectors, 2017 (percentage of employed individuals)



Source: EGEP 2017.

Notes:

- Wood manufacturing account for 2.4, 1.3, and 1.8 percent of employment in Libreville/Port-Gentil, other urban areas, and rural areas respectively.
- Agribusiness account for 1.3, 1.9, and 1.2 percent of employment in Libreville/Port-Gentil, other urban areas, and rural areas respectively.

Nevertheless, immigrants represent around one fifth of the labor force.

115. Foreigners represent a significant share of the country’s workforce and work mainly in services. Overall, foreigners account for 21 percent of the labor force and represent 23 percent of all the employed workers (Figure III.17). The presence of foreign workers compared to nationals is particularly important in the services sector – nearly 80 percent of foreign workers are employed in services (Figure III.18). Most of foreign employment is concentrated in both the formal and informal private sector (i.e. 77 percent of the foreigners work in the private sector, with more than half in informal jobs). Within the context of a high unemployment rate across the country, especially for nationals, it raises the question of foreigners coming into Gabon for a dual purpose: (1) to undertake jobs that Gabonese workers refuse to do; and (2) because local workers do not have the necessary qualifications, pushing firms to recruit foreign workers with the required skills. For instance, 35 percent of informal employment and 27 percent of household employment are performed by foreigners. On the other hand, one fifth of formal private sector workers are

foreigners, possibly indicating a phenomenon of labor importation due to their skills that cannot be found on the domestic labor market.

Figure III.17: Shares of Foreigners vs Nationals in Labor Market, 2017, Percent

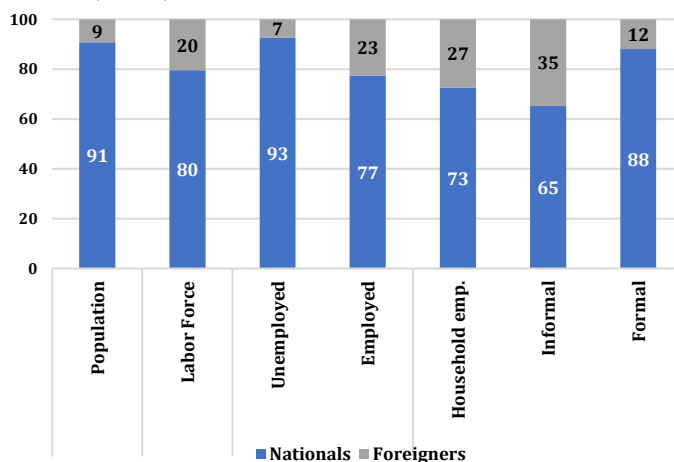
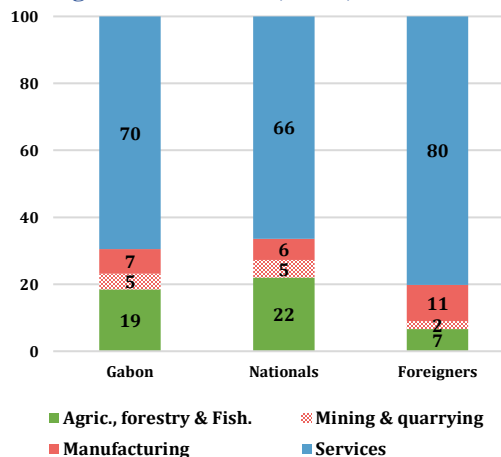


Figure III.18: Sector of Employment of Foreigners vs Nationals, 2017, Percent



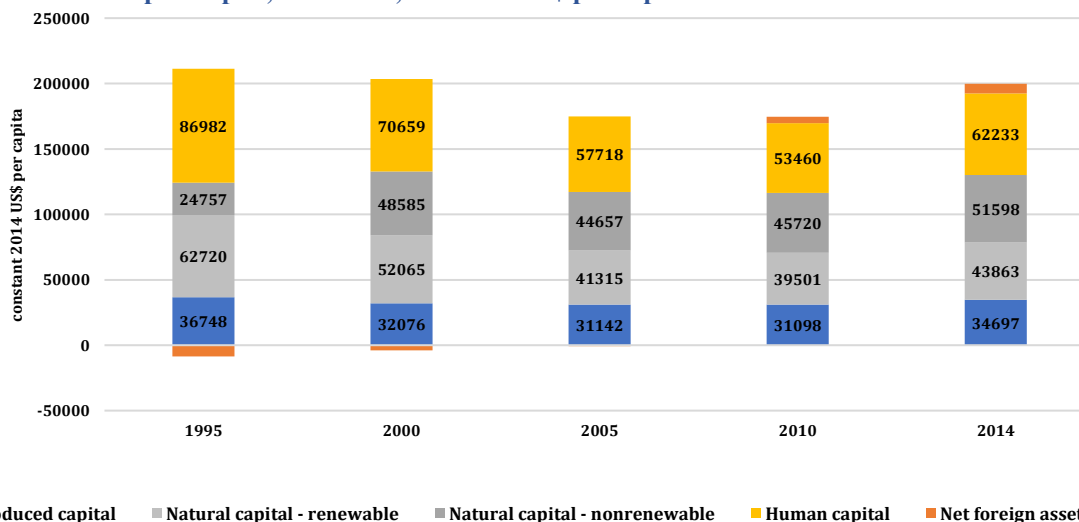
Source: EGEP 2017.

C. Climate Change, Environmental Sustainability, and Social Vulnerability

Most of Gabon’s wealth is based on the exploitation of natural resources, which carries associated environmental risks and requires publicly-driven mitigating strategies.

116. The exploitation of natural resources has constituted the main part of the country’s wealth accumulation. Wealth per capita and natural capital per capita has mostly been stagnant in Gabon over the last 20 years and are lower in 2014 than they were in 2000 (Figure III.19). In terms of natural capital per capita, forest values have decreased over time, whilst protected areas and cropland have increased in value. It is possible that these changes are being driven by land conversion from forest to pastureland.

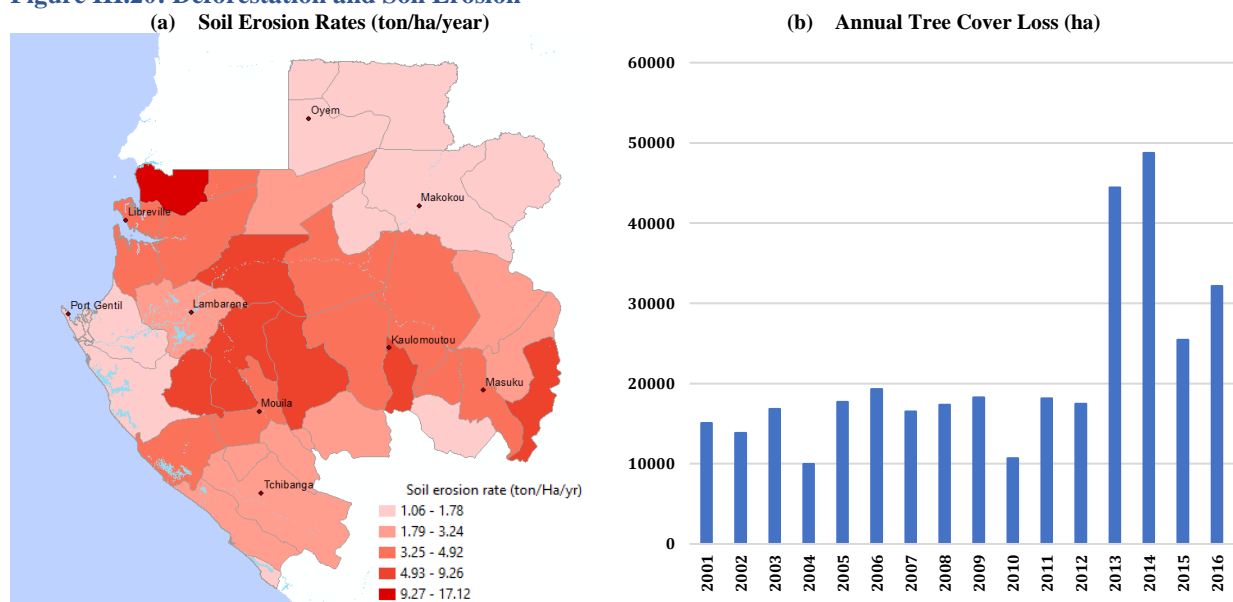
Figure III.19: Wealth per Capita, 1995-2014, Constant US\$ per capita



Source: Changing Wealth of Nations 2018.

117. The development of vast agricultural projects yields important consequences on the depletion of Gabon’s tropical forest, which increases the risks of soil erosion and calls for increased regulation. The recent development of large agricultural projects involving the growing of export crops such as bananas and palm induces heavy operations of deforestation (Appendix B), as evidenced by the acceleration since 2013 of the size of the surfaces cleared from forests (Figure III.20).³¹ Mineral projects inland, particularly around the region of Franceville, have also contributed to the general deforestation of the country. The loss of trees, which anchor the soil with their roots, causes widespread erosion. Combined with heavy rains, soil is washed away once no longer protected by the forest cover, thus inducing a potential rapid decline of crop yields. Increasing debris and sediments falling into the river also contribute in raising river beds and floods risks. Forest management is regulated by the Forest Code (Law No 16/01), enacted in 2001, which implements a rotation system for the exploitation of forests, ensuring that trees are regenerated during the 25-year fallow period. A revision of the Forest Code to adapt it to the new constraints and challenges faced by Gabon’s environment and forests is planned but still has not occurred.

Figure III.20: Deforestation and Soil Erosion



Sources: World Bank staff using Naipal et al. (2012), Hansen et al. (2013), NASA Earth Observatory (2017) based on Barbier et al. (2014), and Hidden Dimensions Database (2017).

118. The country’s strategy to curb its emission builds on Gabon’s unique profile. The country’s richness in forests made it play the role of a carbon sink, absorbing 4 times more CO₂ than emitting. The 2001 Forest Code and the creation of 13 national parks covering almost 11 percent of the territory has helped maintain this role. In order to take into account both its economic and population growth, Gabon refused to commit to an absolute value reduction of its greenhouse gas (GHG) emissions, but developed two different GHG emissions scenarios based on a set of assumptions:³² a business-as-usual (BAU) scenario corresponding to a “non-controlled” economic development; and a “controlled” scenario taking into account all public policies formulated after

³¹ Examples of such intensive export crop projects include Olam Gabon.

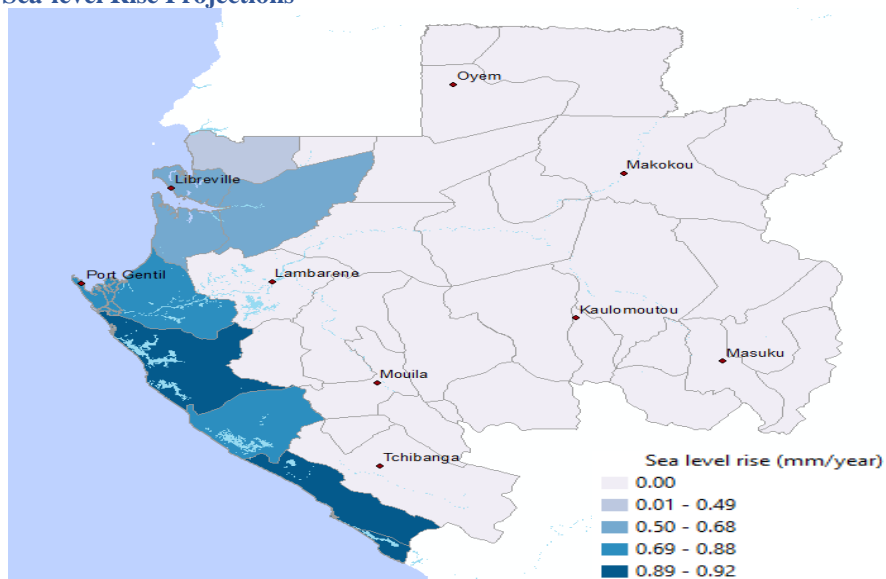
³² The assumptions chosen by the government are a yearly 2.5 percent population growth, and an economic growth (except for the oil sector) of 10 percent per year from 2010 on.

2000.³³ According to Gabon's Nationally Determined Contribution (NDC), under a BAU scenario, Gabon committed to a GHG emissions reduction of at least 50 percent by 2025, but current cumulated commitments should help curb GHG emissions by 65 percent over the 2010-2025 period

Climate change carries potential lasting consequences affecting Gabon's environment, economic activities, and causing increased social vulnerability.

119. Gabon is exposed to global warming and will likely experience rising sea-levels, affecting populations through coastal erosion, increasing floods, and pollution. Temperatures are projected to keep rising over the next century, likely jeopardizing Gabon's coasts that are highly vulnerable to rising sea-levels – from 0.13 to 0.56 meters by the 2090s, relative to the 1980-1999 sea-level (Figure III.21). Direct consequences will likely include: (i) the expansion of coastal erosion and coastal retreat's episodes – 4.5 meters on average, and up to 13 meters in the most vulnerable areas by 2050 (Government of Gabon, 2011); (ii) the intensification of episodes of floods affecting all low-level areas – notably through soil losses as well as habitat and infrastructure destruction; and (iii) the increase of physical and chemical pollution in the ground, aquifers, and on the surface (Figure D.10). As highlighted in Gabon's NDC, Libreville and Port-Gentil are particularly exposed to these risks and the latter could be entirely submerged.

Figure III.21: Sea-level Rise Projections



Sources: World Bank staff using Sheffield et al (2008), Brackenridge et al (2012), Halpern et al (2015), and Hidden Dimensions Database (2017).

120. Changes in the country's hydrographic profile combined with increased unpredictability of precipitations will cause lasting damaging effects on the environment, directly affecting local populations, and generating socio-economic losses. An analysis of water resources vulnerability revealed that climate change will result in damaging biophysical and socio-economic consequences such as disappearance of certain species, proliferation of

³³ Among other, the Forest Code includes the creation of national parks, the National Plan for Flaring Diminution, the National Climate Plan, the implementation of a market mechanism supported by the Law on the Orientation of Sustainable Development in Gabon, and the adoption of the National Land Distribution Plan (Gov. of Gabon, 2015).

mosquitoes, pathogenic germs and so forth.³⁴ The changes expected in the hydrographic profile will limit water-related economic activities such as fisheries; deteriorate the quality of vegetable gardens; degrade transportation infrastructures such as roads; and destroy the living environment of local population, affecting the most vulnerable population groups. Forecasts also suggest extreme variability in rainfall distribution between seasons as changes in precipitation would range from -22 to +25 percent by the 2090s. Models are consistent in indicating increases in the proportion of annual total rainfall that falls in *heavy*³⁵ events of up to 11 percent and tend towards increasing for all seasons (McSweeney et al., 2012).

121. Poor urban land management exacerbates the vulnerability of the urban poor to climate change effects. The absence of titling procedures leads to inadequate and haphazard settlement patterns and a precarious housing situation, with dwellings constructed in flood-prone areas. It also provides disincentives for people to invest in their dwelling. The most disadvantaged neighborhoods (*quartiers sous-intégrés*) are regularly flooded, and extreme precipitation can lead to loss of life and property.

122. Projected increase in precipitations and temperatures by the end of the century may negatively affect soils' normal activity as well as population's health. Temperature increase, variability in precipitations, and changes in soil productivity will likely affect agricultural yields of food crops such as cassava. Excess water infiltrating soils would lead to crops yield losses of 20 to 40 percent.³⁶ Unsanitary areas will develop with the projected increased incidence of diseases such as diarrhea, typhoid, bilharzia, onchocerciasis, and malaria as well as cases of blindness.

123. In order to respond to climate risks, Gabon has elaborated a set of institutional and legislative instruments. A number of institutions, supported by agreements and submissions, have been created to ensure the correct and functional implementation of various policy instruments:³⁷ the National Climate Council (NCC) created in 2010, that designed and published in 2012 the National Climate Plan; the publication in 2011 of the Environment and Sustainable Development Code; and the creation of the Designated National Authority for the Clean Development Mechanisms (CDM). Gabon was recognized as the first African country to submit an (I)NDC in April 2015, well before the Paris Agreement was adopted in November of the same year.

³⁴ The analysis was conducted in the First National Communication to the UNFCCC and focused on the Ogooué river and the town of Lambaréné, located at the intersection of Gabon's main hydrographic basins (Gov. of Gabon, 2004).

³⁵ A *heavy* event is defined as a daily rainfall that exceeded on 5 percent of rainy days in current climate of that region and season.

³⁶ Through reducing the micro-organisms activity consisting of disturbing the soil and converting organic matter into humus (which plants use to grow) and proliferation of weeds that will compete with plants for water, mineral salts, and photosynthesis (Government of Gabon, 2004).

³⁷ These instruments include the bilateral agreement with AFD to support the national climate plan elaboration; the multilateral agreement with Brazil and AFD for setting-up of a satellite images observatory to follow-up the forest cover evolution; the bilateral agreement with the Moore and Packard Foundation for the pilot study on the carbon stock assessment in the Lopé National Park; the agreement with the World Bank for supporting the Environment and Sustainable Development Code; and submission for the Forest Carbon Partnership Facility eligibility.

IV. Pathways to Poverty Reduction and Shared Prosperity

124. Gabon faces several challenges in accelerating poverty reduction and promoting shared prosperity. The analysis in the previous sections shows that the country's level of poverty compares favorably with those observed in SSA and lower-middle income countries but is higher than the average for both upper middle-income and non-African peer countries. Achievements in living conditions and human development fall behind what might be expected on the basis of Gabon's income level and are close to averages found in lower-middle income countries. The lack of population and economic density— with the concentration of population and economic activities in few urban centers— coupled with spatial inequalities in public services provision and natural barriers, resulted in wide geographic disparities in living standards and poverty. The heavy dependence on natural resources undermined economic growth and fiscal performance, exposing the economy to high volatility and widening deficits. This negatively affected public investment, private sector development and outlays to social sectors. The vicious cycle of low investments in human capital and inequitable provision of basic services exacerbated unequal opportunities and undermined prospects for productive employment and fast poverty reduction.

125. Gabon needs a shift in its development model to overcome these challenges and realize its vision of transforming into an emerging market economy by 2025. The country is at the crossroad of economic transformation and needs to better leverage its urbanization and agglomeration potentials. A long-term solution to the problems of unemployment and lack of productive job opportunities for the youth requires spurring non-resource-sector growth. Transition to a more diversified economy is key to the transformation required for revamping growth, increasing productivity and strengthening resilience to the vagaries of oil markets. This implies both a more diversified GDP structure and a diversification of exports. The former could expand employment and productivity, and diversify the tax base, while the latter reduces the vulnerability of the economy to resource busts and shields it from the effects of commodity price volatility on public revenues. The private sector is the main engine in this process, while the government plays a critical role by devising policies and regulations that facilitate private sector participation. To ensure all population groups benefit from economic transformation, to improve living standards for all citizens, and to even out chances to participate in the growth process, economic diversification needs to be coupled with more effective policies to equalize opportunities and expand human capabilities.

126. This SCD identifies two mutually reinforcing pathways to realize this vision and accelerate progress toward poverty reduction and shared prosperity: (1) economic diversification, and (2) equalized opportunities and expanded human capabilities. With its rich natural wealth and youthful labor force, Gabon can accelerate economic diversification by harnessing its resource endowments, building economic links between natural-resource-based sectors and higher-productivity activities, and leveraging agglomeration effects. The analysis under this first pathway explores how this transformation can be more effectively pursued and reflects on the factors that inhibit economic diversification. The second pathway examines areas for policy reforms to enhance human capital and to ensure more equitable access to productive assets. These two pathways are complementary and mutually reinforcing. Economic diversification is vital to increase and sustain growth. It opens up more economic opportunities for more segments of the population through jobs creation and more resources for investments in social services. Enhanced human capital and more equitable access to human development

opportunities, in turn, help to sustain and diversify growth by increasing productivity. The policy priorities are outlined in the final subsection.

A. Pathway One: Economic Diversification

Gabon made some progress towards economic diversification, but this needs to be consolidated and deepened.

127. Efforts to reduce the weight of the oil sector in the economy started to show potential, but expectations did not fully materialize. The Strategic Plan for Emerging Gabon – PSGE—sets an ambitious reform agenda to leverage the country’s abundant natural resources to catalyze economic transformation and move up on the exports value-added chain. The strategy relies extensively on PPPs, especially partnerships with Olam International (Box IV.1), and has started to bear fruits as suggested by the increased contribution of the non-oil sector to GDP (Figure IV.1).³⁸ However, these trends do not give the whole picture on diversification, as the non-oil share of GDP moves inversely to oil prices and its increase may be driven by the fall in oil prices – and subsequent reduction of the value of oil production—rather than a real progress towards diversification. While there is a real expansion of non-oil sectors, the progress remains fragile as many of these sectors still have only a limited gearing effect on the rest of the economy and many sectors are still dependent on oil income. This is supported by the relatively low economic diversification scores and heavy reliance on government spending for diversification. The export structure remains also highly concentrated around oil and oil-derived products while exports of non-primary products is still limited (Figures IV.1).

Box IV.1: Olam Gabon

Olam International is a multinational corporation based in Singapore and is a leading agribusiness operating in 70 countries worldwide. In 2010, Gabon and Olam entered into four PPPs to develop and operate two large-scale agriculture projects (palm and rubber), a Special Economic Zone (SEZ) specialized in wood processing in Nkok (near Libreville), and a fertilizer plant in Port-Gentil. These projects have since been expanded to include development of a smallholder-farming program (GRAINE). Olam has also invested in related infrastructure, including two ports (mineral and specialized bulk cargo terminal and a multipurpose terminal), rail stock in support of manganese and wood log transport (primarily locomotives and wagons), and transmission lines to support rural electrification. By 2022, Olam’s total investment in Gabon is expected to reach US\$ 5.8 billion, with US\$ 2.1 billion already executed between 2010 and 2017. Olam Gabon activities are part of a larger company initiative to build integrated valued chains in Africa as a potentially globally competitive supply source.

Industrial palm oil and rubber projects are established under a Joint Venture (JV) structure, with 60 percent owned by Olam group and 40 percent by the Gabonese Republic. The palm and rubber project costs are estimated at US\$ 1 billion and would cover respectively 100,000 hectares and 28,000 hectares. The monitoring of the PRE shows that the extension of agricultural areas for palm oil and rubber plantations reached respectively 32,000 and 28,000 hectares in 2018.³⁹ This is expected to have created 8,000 jobs, but there is currently no available statistical evidence to support this.

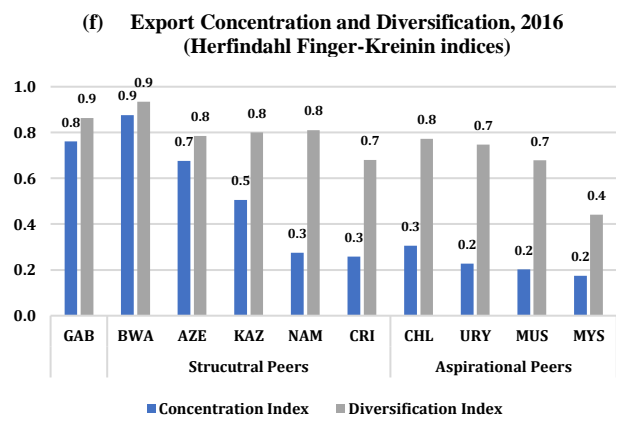
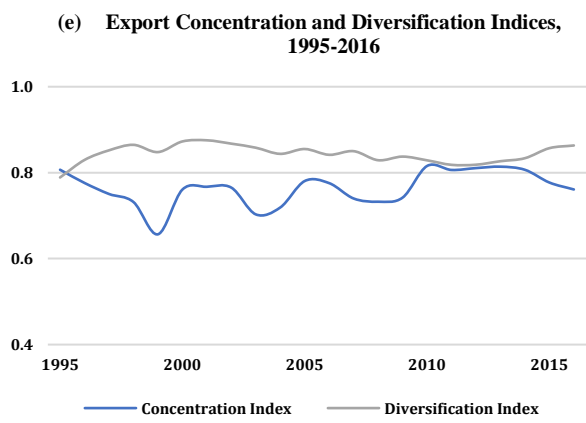
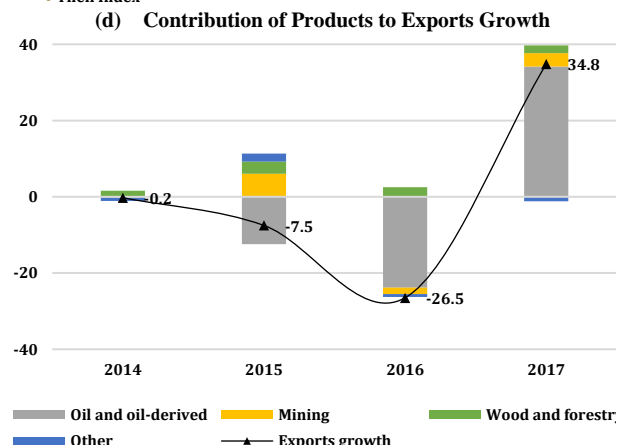
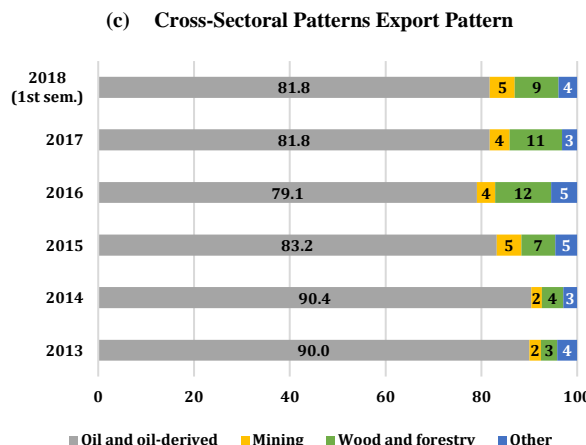
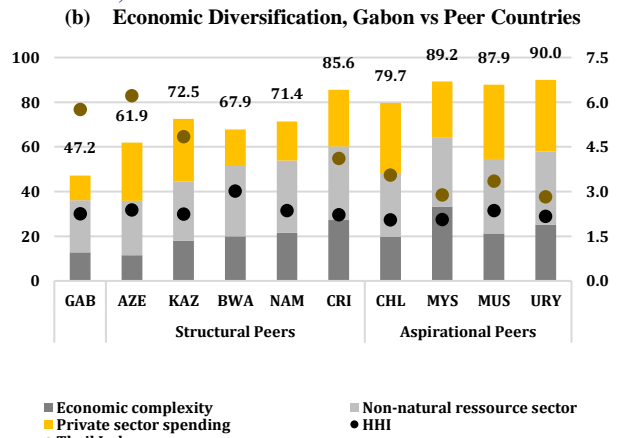
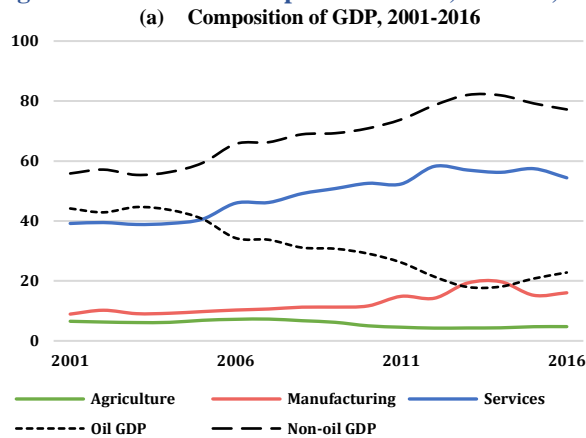
Olam has also invested US\$ 192 million in the fertilizer project, which is ready to be operational and would represent a significant gain in export revenue potential.

The SEZ of Nkok is a JV between Olam, the Gabonese Republic and Africa Finance Corporation, for the wood industry. Production in the SEZ started in 2012 and around 73 units are operating on the zone.

³⁸ During its first phase, the strategy has focused on investment in infrastructure and improvement of the business climate. Following the oil-price shock, and subsequent fiscal deficits, the government adopted the PRE 2017-19, which adapts the economic diversification agenda to a context of sustained fiscal consolidation.

³⁹ Bureau de Coordination du Plan Stratégique Gabon Émergent. (2018, April). Rapport de Suivi de l’Exécution du Plan de Relance de l’Économie. *Gabon Vision 2025*, 2, 82-95.

Figure IV.1: GDP and Export Structure, Growth, Concentration, and Diversification



Sources: Direction Générale de la Statistique, Direction Générale des Douanes, WDI 2018, UNIDO, COMTRADE and Atlas Media MIT.

Notes:

- Method of Figure IV.1-b is based on the Diversification Tracker in Gallagher et al. (2015).
- The Theil Index data are from the IMF, based on Papageorgiou and Spatafora (2012).
- Higher Theil and HHI indicate higher concentration and thus lower diversification.
- The export concentration index is based on the Herfindahl index of exports (Cadot et al., 2011). The index ranges from 0 (equal distribution) to 1 (high concentration).
- The export diversification index is based on the Finger-Kreinin measure of similarity in trade (Finger and Kreinin., 1979). The index ranges from 0 (lower divergence of the country's trade structure from the world's pattern) to 1 (greater divergence).

Rethinking Gabon's diversification: the sectoral perspective.

128. The manufacturing and service sectors have the highest potential for job creation, but overall effects remain low. Additional investment in wholesale & retail trade and in non-tradable services would have the highest positive effects on employment and revenue due to large employment-to-GDP elasticities and low cost of intermediate goods in these sectors (Figure IV.2). Some manufacturing sub-sectors such as agribusiness, wood and textile offer promising prospects for employment creation, particularly regarding women and poor people. However, high-productivity manufacturing industries tend to have low economic multiplier effects due to the large share of imported intermediate goods in these sectors. Agricultural production has a high GDP multiplier effect, with an average impact of US\$ 1.3 in GDP created for every dollar invested, despite weak backward linkages with other sectors. Given its labor-intensive characteristics, the sector has potential to create jobs, particularly for the rural poor, but investing in agriculture remains insufficient for generating productive jobs. Overall, additional investments across all sectors result in higher creation of informal jobs than formal ones and the expected global impact on GDP and employment remains lower than in other SSA countries (International Finance Corporation, 2018). Data limitations prevent a clear understanding of the underlying reasons, but potential causes could be related to the small size of the private formal sector and the limited productive base.

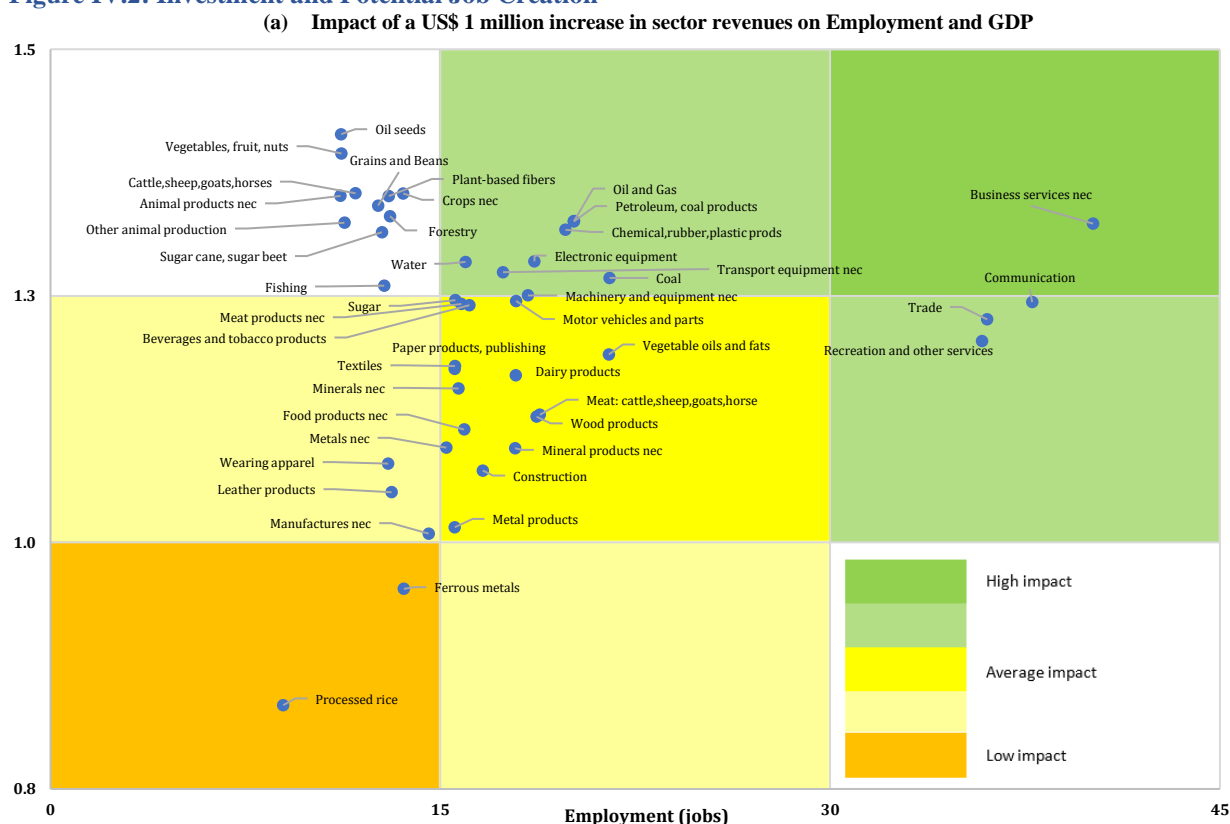
129. Encouraging developments have been made in the information and communications technology (ICT) sector and need to be carried on and extended. A 1,600 km national fiber optics backbone is being deployed across the country, bringing connectivity to inland cities and villages, and linking the country directly with the Republic of the Congo, Cameroon and Equatorial Guinea, enabling large-scale and cost-efficient regional telecommunications. Gabon possesses today the largest digital capacity of the region – ranked 6th among African countries by the International Telecommunications Union in 2017—and is way ahead of its neighbors in terms of equipment, retail prices for internet, and mobile internet penetration, which is near 130 percent.⁴⁰ However, the sector concentrates less than 4 percent of employment. Gabon's regional comparative advantage – advanced high-speed fiber optics networks—carries great potential to develop a national IT industry with a regional outreach and beyond, leading to jobs' creation (Figure IV.2) and transforming the country into a regional “digital hub”. The sector is also becoming more competitive and dynamic but continues to suffer from: the lack of funding available for small new disruptive entrants, which impedes the development of a local digital ecosystem with backward linkages between the different players; the inadequate training and education of the labor force that struggles to fulfill the needs of local digital actors; and the ongoing development of mobile banking that requires changes in terms of legislation, notably regarding the granting of banking licenses to telecom providers.

130. Agriculture, fishery, and agribusiness continue to make a weak contribution to the economy, despite their great potential, while reliance on imports remains high. After a constant decline in production value and investment over the past decades, the agricultural sector shows signs of renewed growth, stimulated by the palm and rubber projects, as well as the realization of the GRAINE program (see Appendix B). The sector plays a vital role in the

⁴⁰According to the national regulator ARCEP prices decreased by 63 percent in 2017. More than 60 percent of the adult population has access to mobile internet, while the penetration of mobile Internet in terms of unique users is estimated at 60 percent. See also: Bureau de Coordination du Plan Stratégique Gabon Émergent (2018, April); Rapport de Suivi de l'Exécution du PRE: *Gabon Vision 2025*, 2, 162-167; and GSM Association (2017).

countryside in terms of providing jobs and coverage of subsistence food needs. However, contribution to GDP remains limited at 4 percent for agriculture and less than 3 percent for agribusiness, with respective compounded growth rates of 1.8 and 6.8 percent over the 2006-16 period. Rural areas constitute a significant untapped potential with 5.2 million hectares of agricultural land, but less than 4 percent of it is currently cultivated. The government’s agricultural policy consists in: (1) developing rent cultures of tropical products such as palm oil, rubber, cacao and coffee destined to the export markets; and (2) revitalizing crop cultures of locally-consumed products destined to local markets, with the clear long-term objective of reducing the country’s dependence toward food imports.

Figure IV.2: Investment and Potential Job Creation



(b) **Job Creation Potential by Sector**

	Total	Women	Men	Formal	Informal
Agriculture	134.5	43.5	91.0	60.8	73.6
Mining	57.4	17.7	39.6	26.6	30.8
Manufacture	395.6	126.4	269.2	166.7	228.9
Construction	32.6	8.8	23.8	15.5	17.1
Services	149.8	50.7	99.1	64.8	85.0
Total	769.9	247.1	522.7	334.4	435.4

Source: International Finance Corporation (IFC), 2018.

Note: The figures show sectoral multiplier effects on GDP and employment in response to a \$1 million increase in sector revenues. These effects are computed using a Social Accounting Matrix (SAM) multiplier approach, based on GTAP version 9, which assumes that increases in revenue or output are driven by positive shocks related to investments or business model improvements across different industry sectors. It is important to note that the SAM multiplier approach is based on strong assumptions, including unlimited resources and supply responses in the economy, fixed prices, no substitution effects, and a static or unchanged structure of the economy with respect to technology. Results provides only orders of magnitude of potential economic impacts.

131. The agricultural sector faces many challenges that jeopardize its growth. First, Gabon’s high cost of labor compared to its regional neighbors, particularly in the agricultural sector, makes the country non-competitive on international markets.⁴¹ Second, it is not historically an agricultural country and therefore lacks the skills and capacities required. While the natural conditions exist, years of underinvestment combined with decades of wealth from oil exploitation have left the agricultural sector crippled. Over 80 percent of food products continue to be imported, driving prices up and crowding out local producers. The focus on the sector is only recent and would require years to manifest into sustainable job and wealth creation. Finally, public policies have heavily focused on the development of rent cultures based on PPPs agreements – notably with Olam Gabon—and have neglected connections to markets, distribution mechanisms, and capacities to transform raw production into higher-value products. The current difficulties of the *GRAINE Program* embody all the aforementioned challenges faced by agriculture (See Appendix B). Although Gabon is unlikely to become an agricultural exporter, local production may rise to reduce imports, but that would require better infrastructure to ensure connectivity to urban markets and reforms of land ownership.

132. The wood and forestry sectors display important potential but struggles to produce more added value. The forestry sector is still recovering from the downturn suffered in the wake of the 2010 governmental ban on raw log exports, designed to induce a structural change within the wood industry and to enhance operators to locally transform the product before exporting it. So far, only few benefits have materialized into real gains for local actors. While operators did climb up the value ladder, they stopped at the first transformation. Around 80 percent of wood enterprises only perform the basic activity of sawing before exporting, while the remaining 20 percent perform rotary cutting (second transformation). No company is involved in the third transformation – production of paper, furniture, and complex work—and only one Gabonese operator is involved in the second transformation, all the others being foreigners. The wood industry has successfully generated jobs, but local employees are confined to basic employment due to their lack of skills, while managerial positions are held by foreigners. These difficulties reflect the bottlenecks and constraints faced by the sector, namely (1) the lack of adequately trained local labor force to move on to the second and third transformation, (2) the lack of understanding of what type of product on which the country should focus its industrial effort, (3) the necessity to revise the legal framework and the Forestry Code that dates back to 2001, and (4) the difficulty for local operators to access finance which favors the establishment of foreign actors that benefit from advantageous conditions within the framework of the Special Economic Zones (SEZ)s. As of today, potential future developments include non-ligneous products such as climbing plants or bamboo.

133. Mining could play a critical role in economic diversification but would require increasing value-added and the development of trans-regional transportation systems. Supported by high international demand, the mining industry is growing at a fast pace, with many planned new projects and high potential to strengthen exports and to generate important fiscal revenues.⁴² However, the mining industry does not constitute a viable solution to stimulate

⁴¹ The *Bureau de Coordination du Plan Stratégique Gabon Émergent* estimates the average cost of a worker from Cameroon to CFAF 35,000 compared to a cost of CFAF 100,000-150,000 in the case of a Gabonese agricultural worker. These labor costs are compounded by higher transportation and scale costs. (Gabon, 2018).

⁴² The production of manganese in volume increased by 45 percent between 2016 and 2017 to reach historical peak of nearly 5 million tons, while revenue increased by 90.5 percent, bolstered by rising international prices.

employment as it primarily remains a capital-intensive activity – providing only 2,000 jobs in Gabon as of 2017.⁴³ The key challenge lies in climbing up the value ladder and transforming raw mineral products into added-value products. For instance, less than 10 percent of the extracted manganese ore was transformed locally in 2017. From its geographical position – one of the largest regional mining potentials of the world, and close to many isolated and massive deposits of Central Africa and Cameroon—Gabon ambitions to become a logistical mining hub. Such a strategy would require investing into a reliable and integrated trans-national transportation system.

134. The construction sector has not recovered from the domestic crisis and continues to struggle despite its potential to create jobs. The oil-related crisis and the subsequent drastic budgetary cuts severely affected the construction sector, which largely depends on public orders. Three years later, the sector continues to struggle: between 2016 and 2017, activity receded by 26 percent, employment went down by 23.4 percent, wages shrank, and the two main publicly-controlled operators are near-bankrupt. Nevertheless, as a typical labor-intensive activity, the sector could potentially constitute an important driver of employment, provided existing bottlenecks and constraints are overcome, particularly regarding urban planning. The challenge for the country would be to transition to a sector whose main axis are defined by the public power but whose operations and management are undertaken by independent private actors.

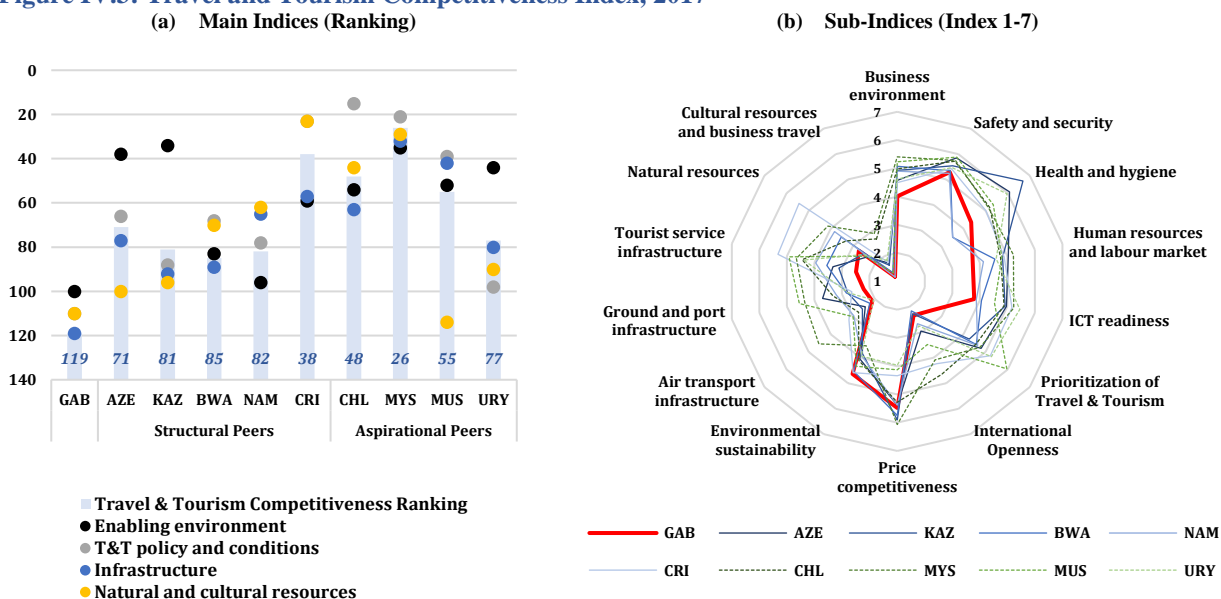
135. The tourism sector offers an important potential to unleash employment creation and inclusive growth, but the sector is still underdeveloped. The PSGE identifies tourism as a strategic sector to diversify the economy, to generate foreign currency, and to create jobs and promote more sustainable and inclusive development. To protect the country's unique environment and biodiversity, the strategy favors quality tourism and ecotourism. However, the contribution of the sector to the economy remains very low – around 1 percent to GDP and employment. The sector lacks competitive ability and development. Gabon currently ranks 119th out of 136 countries in the Travel & Tourism Competitiveness Index (TTCI), lagging behind all its structural and aspirational peers (Figure IV.3).⁴⁴ An enormous untapped potential exists, but important gaps remain to fill in order to fully leverage the sector as a mean to increase living conditions: low labor skills (123rd), underdeveloped infrastructure and high cost of travel (121st), and weak business environment (116th).

136. Given Gabon's low level of diversification and limited productive base, a diversification strategy focused on developing existing sectors could be more viable for short-term employment creation, productivity and growth. Gabon's economic diversification can first be oriented to developing existing sectors (such as wood, agro-processing, tourism) and the creation of slightly different products and services to increase jobs creation, competitiveness and productivity in non-oil sectors with important growth potential. The strategy can focus on establishing the productive capabilities (infrastructures, inputs, education and skills) and putting in place the mechanisms for facilitating creativity and innovation to prepare the diversification into new sectors.

⁴³ Bureau de Coordination du Plan Stratégique Gabon Émergent (2018, April). Rapport de Suivi de l'Exécution du Plan de Relance de l'Économie. *Gabon Vision 2025*, 2, 126-137.

⁴⁴ World Economic Forum. (2017). *2017 Travel & Tourism Competitiveness Report*.

Figure IV.3: Travel and Tourism Competitiveness Index, 2017



Source: Travel & Tourism Competitiveness Report 2017.

Note: The TTCI provides a comprehensive tool for measuring the set of factors and policies that enable the sustainable development of the travel and tourism (T&T) sector. The index measures four broad factors of competitiveness, enabling environment, T&T policy and enabling conditions, infrastructure, and natural & cultural resources, which are organized into sub-indexes and are further divided into 14 pillars.

The potential enablers of diversification include foreign investment, digital technology and private sector.

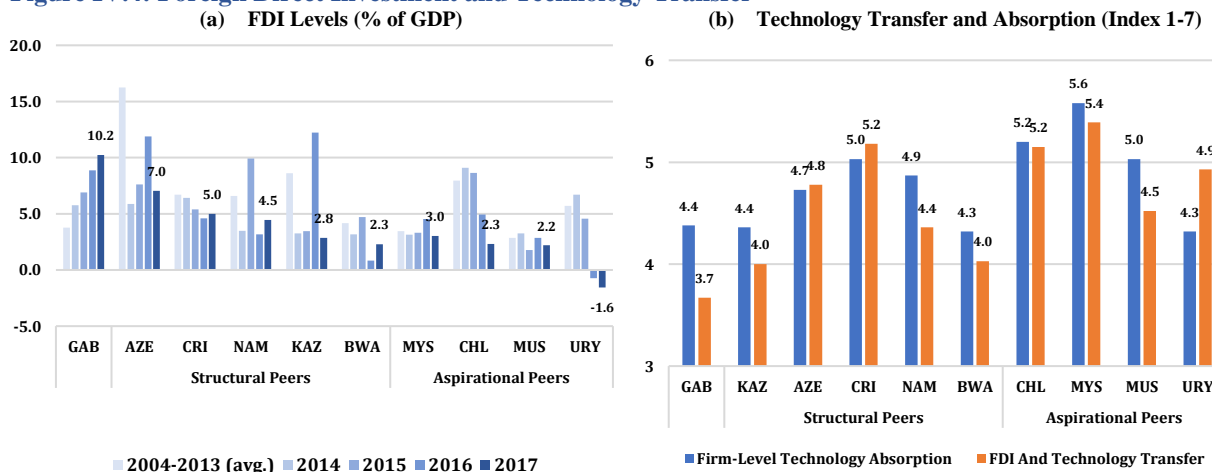
137. Foreign Direct Investment can be a key driver of diversification if properly overseen and promoted. Gabon’s capacity to attract FDIs strengthened since 2000 onwards with the country’s net inflows increasing from 1.5 percent of GDP in 2003 to around 10 percent in 2017. The international surge of oil prices combined with some efforts of economic liberalization bolstered foreign investment from US\$ 37 million in 2002 to US\$ 702 million in 2016, with a peak at US\$ 1,011 million in 2014. The share of FDIs in GDP is significantly higher in Gabon than in SSA and upper middle-income countries. Likewise, Gabon net inflows of FDIs are higher than for its aspirational and structural peers (Figure IV.4). However, FDIs were concentrated in a few sectors of the economy, mainly the exploitation of oil and other natural resources, which employ a highly qualified but limited workforce, further reducing their impact on the labor market. It also creates little spillovers to the other sectors of the economy. Technology transfers appear to be limited compared to Gabon’s peers and domestic enterprises seem to struggle to absorb new technologies. Recent foreign investments in cash crops and woods industry can help diversification to move forward if properly managed.

138. Existing Special Economic Zones require corrective mechanisms to enhance fiscal windfalls and spillovers to the local economy. In order to stimulate FDIs in the country, Gabon has implemented a strategy based on the development of SEZs – such as the Nkok SEZ, near Libreville, focused on high added-value export products, in particular transformed wood.⁴⁵ The incentive structure primarily consists of fiscal exonerations and financial advantages that act as a

⁴⁵ Gabon Special Economic Zone. (2018). Invest & Incentives. Retrieved from gsez.com. [Accessed March 2018].

powerful incentive for foreign investors, but also limits the government’s fiscal gains and reduces the potential economic, social, and financial spillovers for the rest of the economy.⁴⁶ In the current context of budget tightening, the terms offered under the tax-exempted SEZ are increasingly under scrutiny and are, according to international standards, probably too favorable to the private investors. This would require corrective measures from the government in order to guarantee sufficient fiscal windfalls and knowledge spillovers.

Figure IV.4: Foreign Direct Investment and Technology Transfer



Sources: UNCTAD, WDI, TCdata360.

Notes: FDI is in percentage of GDP. Technology transfer and absorption indices range from 1 (worst) to 7 (best).

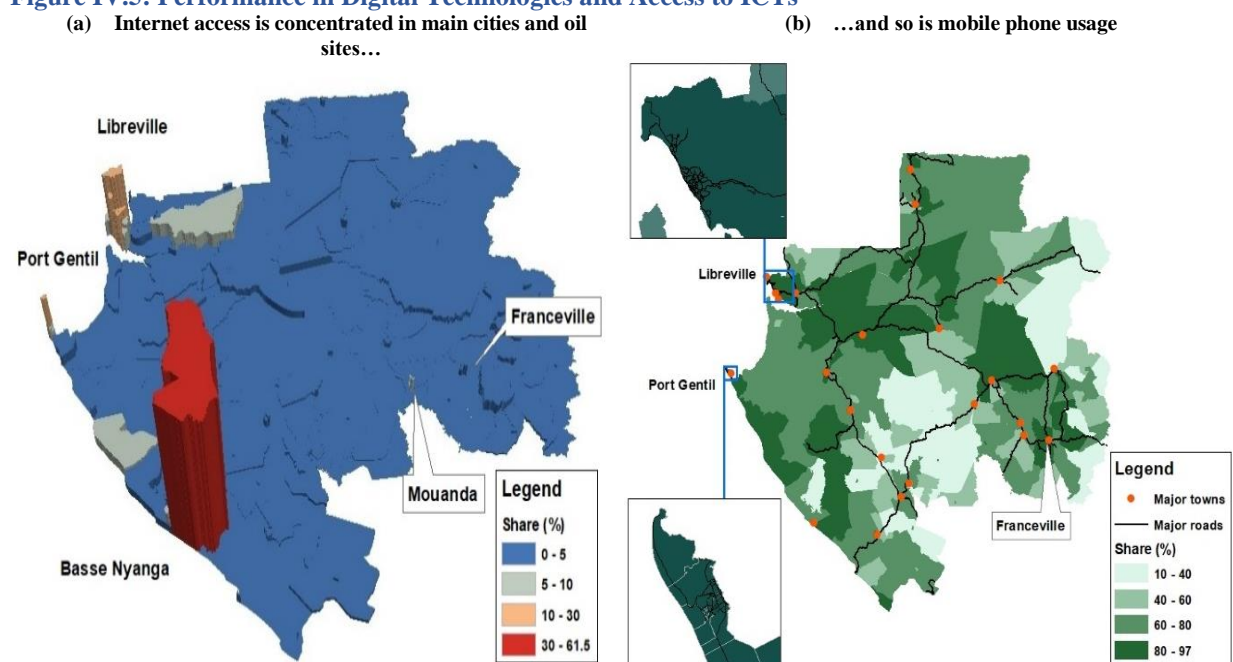
139. Digital technologies can promote economic and social diversification, enhanced access to public services, as well as shared growth. The e-Government project responds to the urgent needs to improve social services, support the most vulnerable population, mitigate social inequalities, and improve governance. As the backbone of the country’s digital transformation, it revolves around three main axes of development: (1) cross-cutting government management systems; (2) sector specific e-services; and, (3) improved relationship with users/citizens to ensure universal access to digital public services across the country. To this end, the government created the National Agency of Digital Infrastructure (ANINF) in 2011, and has introduced e-tax, e-VISA, e-education, and e-health to date. It also aims at further accelerating its implementation, with support from the World Bank, to efficiently coordinate different public services, particularly improve social sector services – education, health services, health insurance, and social security systems. The planned implementation of an integrated e-Government platform, and the introduction of an e-ID should provide important and efficient management tools to the different public services and should facilitate citizens’ access to public services and registration to the social protection system (CNAMGS). Finally, smart technology can also create the potential for the government to provide information, resources, and facilities to businesses and entrepreneurs, and to become the utility supplier of advanced services to a fast-growing private sector, generating economic spillovers to the entire economy.

140. Nevertheless, despite the progress made in digital technologies, further public support is required to leverage ICTs for increased competitiveness and generalized well-being. The

⁴⁶ Among other conditions, the Nkok SEZ guarantee to any foreign investor no taxes on dividends, no revenue taxes for a period of ten years, plus a preferential rate of 10 percent for the following five years, no corporate taxes, and the ability to transfer back their investment at any time under no penalty.

recent progress in the coverage of telecommunication services, concentrated around large cities Libreville, Port-Gentil and Franceville and resource sites (Figure IV.5). This created a “digital divide” between the urban population and the remote rural areas, where it is typically not economically viable for telecommunications operators to deploy and maintain telecommunications infrastructure: around 15 percent of the population still had no access to mobile telecommunications networks as of October 2017.⁴⁷ Such a “digital divide” requires public intervention to bring ICT services (e.g. mobile banking, e-learning, e-health, etc.) to these under-served areas as the economic and social benefits could massively compensate for the lack of physical infrastructures. As the sector matures with new incomers penetrating the national market⁴⁸ and the development of competition,⁴⁹ the authorities should continue their efforts to: (1) guarantee “universal access” to these services through dedicated policies and regulations; (2) promote fair competition in order to drive prices down and encourage innovation; and (3) implement a comprehensive strategy to leverage ICT in all sectors by relying on local talents and entrepreneurs. The 2016 Global Information Technology Report shows that Gabon has yet to reap the benefits of emerging technologies and to capitalize on the opportunities presented by the digital technologies. The country ranks 125th out of 139 countries in the Networked Readiness Index (NRI), trailing behind its structural and aspirational peers (Figure D.9).

Figure IV.5: Performance in Digital Technologies and Access to ICTs



Sources: RGPL 2013.

⁴⁷ ANPI-Gabon. (2017). www.anpigabon.ga.

⁴⁸ Axione Gabon, a subsidiary of the French group Bouygues Telecom signed in 2016 a 7-year contract for the operation of optical networks, acting as wholesale operator for all operators and internet service providers. It will also oversee state-owned optical infrastructure, including the Africa Coast to Europe (ACE) international submarine cable system, the national submarine cable system between Libreville and Port-Gentil, and the west-east terrestrial optical fiber link, built in 2016.

⁴⁹ Historically limited to one single publicly-controlled operator, Gabon Telecom, the entry of new operators on the local market has driven down the cost of mobile subscriptions for users. In 2016, according to the Oxford Business Group, Gabon Telecom retained 52.4 percent of the market share, followed by Airtel (42.4 percent), a subsidiary of the Indian company Bharti Airtel, and Azur Gabon (5.2 percent), a subsidiary of the Lebanese company BinTel.

141. The private sector is central to the diversification effort, but Gabon continues to have a narrow economic base and limited productive capabilities. As a country that has historically relied on its public sector to create jobs through the distribution of the oil rent, the development of the private sector would be key for Gabon to achieve the desired diversification and to spur a sustainable growth founded on the creation of value. However, currently the firm size distribution is skewed towards micro and small-scale businesses—less than 20 employees—while large firms represent only 10 percent of all enterprises. Small and medium enterprises (SMEs) can serve as a force for economic diversification, and an engine for employment generation and poverty reduction. However, SMEs represent 90 percent of total formal companies, but account for only 30 percent of the formal employment. Only 30 percent of firms operate in manufacturing, most are in the service sector, while activity of firms in knowledge-intensive industries is inexistent. Thus, the country’s diversification capabilities are limited and draw largely from wood extraction and processing (Figure D.8). Avenues to strengthen established industries present themselves in agribusiness, metals, rubber and other manufacturing.

142. Well managed urbanization serves as a key driver for Gabon’s structural economic transformation. To reap the benefits of an exceptionally high urbanization rate, cities must become more productive: they need to encourage firms to cluster and allow agglomeration economies in a spatially inclusive territory. Close spatial proximity has many benefits: firms located near each other can share suppliers, lowering input costs; thick labor markets reduce search costs, giving firms a larger pool of workers to choose from; and spatial proximity makes it easier for workers to share information and learn from each other.

143. The success of any chosen investment to boost diversification will require that cities are well managed. As rising uncertainties make it difficult to predict the specific sectoral opportunities for development, investments need to be generic, supporting many specific activities. Cities provide just such generic capital as virtually whatever niches prove to be viable, they will take place in cities and urban regions, and their success will require that they work efficiently, creating jobs as well as delivering infrastructure and services. Investing in Gabonese urban areas will be critical to allow for economic diversification, and for urbanization to propel structural transformation of the Gabonese economy.

Challenges to diversification.

144. Several challenges currently hamper economic diversification and competitiveness. Table IV.1 highlights the four most reported constraints, according to a range of investment climate measurement instruments: (1) governance, institutions, business climate and corruption; (2) SMEs constraints, access to finance and credit; (3) skills gaps and mismatches; and (4) infrastructure, connectivity and logistics. Addressing these constraints does not only mean a better environment for businesses, but potential windfalls and spillovers for the whole economy as well as for individuals. For instance, establishing a more inclusive financial sector can alleviate access to finance constraints for businesses and individuals alike. It can also help manage the fiscal risks associated with a financial sector that is prone to vulnerabilities and a source of contingent public liabilities. Likewise, more transparent and formal ways of managing land issues may also enhance domestic resource mobilization through taxes and fees as well as attract new investors.

Table IV.1: Constraints to Competitiveness and Diversification

Enterprise Survey (2009)	Doing Business (2019)	Global Competitiveness Index (2016-2017)
Access to finance	Registering property	Access to finance
Inadequately educated workforce	Paying taxes	Inadequately educated workforce
Corruption	Enforcing contracts	Corruption
Transportation	Starting a business	Inefficient gov. bureaucracy
Electricity	Electricity	Inadequate supply of infrastructure

Sources: World Bank, Enterprise Survey (2009); Doing Business (2019); World Economic Forum (2016/17).

Note: Similar colors indicate similar issues identified.

i. Governance, institutions, and business climate

145. Despite efforts to improve the business environment, several barriers continue to deter private investment. The country remains ahead of other oil African economies such as Equatorial Guinea and Angola in the *2019 Doing Business Report* of the World Bank. In addition, the report recognizes efforts undertaken by the government during the past years – a total of five reforms made in the last 15 years with an additional two positive reforms highlighted in the 2018 report (Box IV.2). Yet, Gabon still ranks very low – 169th out of 190 —in 2019, having lost two places compared to 2018, and trailing behind its peers that seem to have taken better steps to create an environment conducive to investments (Figure IV.6). Gabon’s worst scores are in areas critical to attract investors and favor a strong and stable business environment such as *Registering Property* (178th), *Enforcing Contract* (180th), and *Paying Taxes* (183rd). The multiple recent changes of the fiscal regime of private companies has created uncertainty for private economic operators. The absence of a skilled workforce trained according to the international best standards also constitutes a major impediment for investors. In the 2017 Global Competitiveness Index (GCI), 15.3 percent of the respondents ranked the inadequately educated workforce as the most problematic factor for doing business, second only to accessing finance.

Box IV.2: Doing Business Reforms

Reforms acknowledged by the *2018 Doing Business Report* include:

- **Starting a business:** Gabon made starting a business easier by reducing the paid-in minimum capital requirement and by making the notarization of incorporation documents optional.
- **Dealing with construction permits:** Faster dealing with construction permits by streamlining the process and increased transparency by publishing regulations related to construction online free of charge.

Reforms acknowledged by the *2019 Doing Business Report* were as follow:

- **Starting a business:** Gabon made starting a business easier by publishing a notice of incorporation with the company registration at the one-stop shop.
- **Dealing with construction permits:** Gabon made dealing with construction permit safer and less expensive by implementing decennial liability and by reducing the cost to obtain a fire safety approval.
- **Getting electricity:** Gabon improved the monitoring and regulation of power outages by beginning to record data for the annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI). Gabon also improved the regulatory framework of the electricity sector as the national regulator now monitors the utility’s performance on the reliability of supply.
- **Registering property:** Gabon made registering property easier by increasing the transparency of the land registry.
- **Enforcing contracts:** Gabon made enforcing contracts easier by adopting a law that regulates all aspects of mediation as an alternative dispute resolution mechanism.

146. The poor institutional framework constitutes one of the main factors weakening the business environment. All surveys point toward a weak institutional framework and the presence of a pervasive corruption across all layers of the economic system. Gabon's ranking in the *Worldwide Governance Indicators* (WGI) has deteriorated constantly over time, scoring far below the levels of its peers (Figure IV.7). Domestic entrepreneurs rank the inefficient government bureaucracy and corruption as respectively the fourth and fifth most problematic factors for doing business in the 2017 GCI. Gabon's ranks 123th out of 180 countries in the 2019 *Corruption Perceptions Index*, with worsening scores since 2014. The combination of inefficient bureaucracy and widespread corruption deters new investments and constrains domestic entrepreneurs from expanding their operations. Two major issues related to the institutional framework need to be urgently addressed: (1) the lack of commercial justice; and (2) the inexistence of a Land Registry and deficiency of official property documents.

Figure IV.6: Ease of Doing Business, 2019

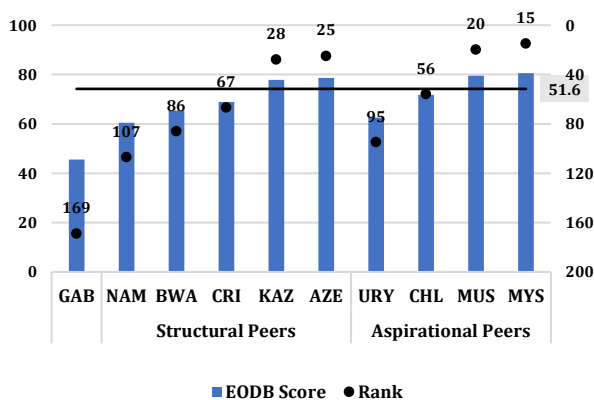
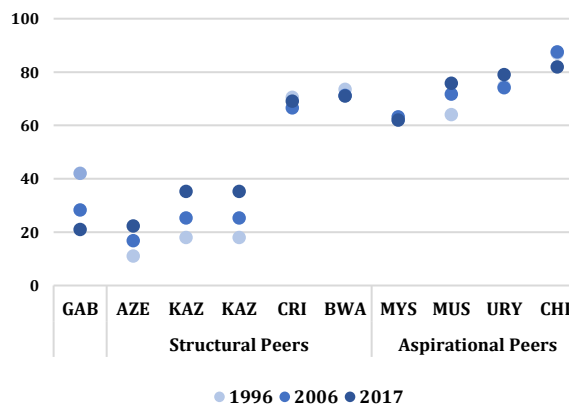


Figure IV.7: Worldwide Governance Indicator Score (percentile rank; 100 = best)



Sources: Doing Business 2019 and WGI 2017.

147. The multiplication of legal cases against companies hampers their activity and operations. Gabon has a weak historical record for its commercial justice, but the last two years have seen a deterioration of the situation with the multiplication of sentences from the domestic judicial system against private companies, particularly from the banking system.⁵⁰ Judges tend to quickly pronounce sentences and immediately grant penalties with penalties for each day of delay, therefore deterring companies from legally appealing the sentence. In addition, many local actors report instances of sentences enforced in the presence of a court bailiff that presents itself at the bank of the convicted entity and forces it to relinquish the amount of the penalty or else the bank itself could be prosecuted. Increasing reports of such accounts in the last couple of months underpin the complete inefficiency of the commercial justice system and point toward severe issues in terms of functioning of domestic courts, and design of procedures and laws. These sentences also put at risk the financial survival of convicted companies and deter new potential investors from entering the local markets.

148. The country also lacks a proper Land Registry, which constraints the development of social infrastructure and generates uncertainty for formal investments. Historically, the land belongs to the State – a consequence of the colonial era. Therefore, land property did not exist

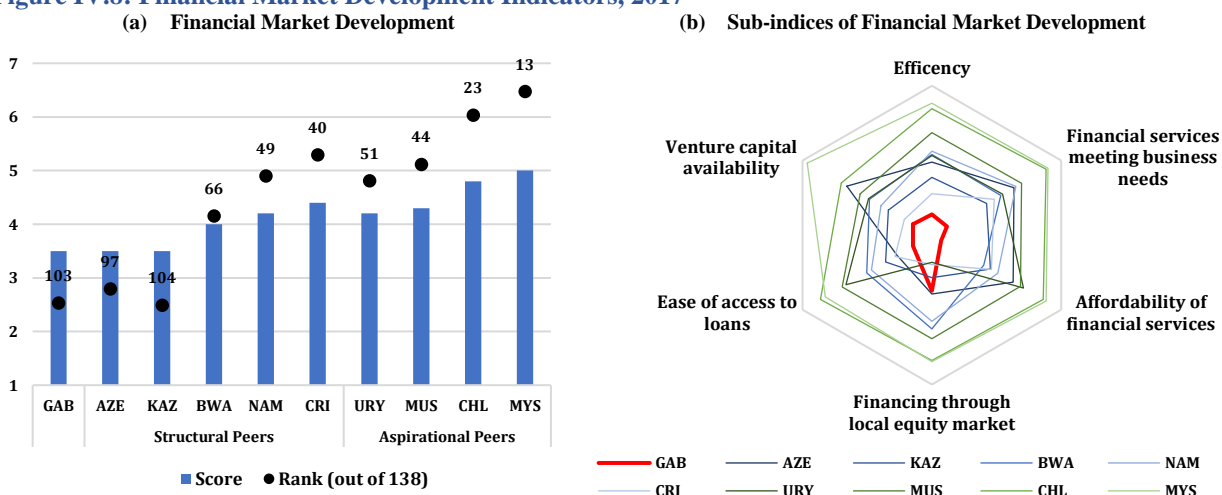
⁵⁰ Bureau de Coordination du Plan Stratégique Gabon Émergent (2018, April). Rapport de Suivi de l'Exécution du Plan de Relance de l'Économie. *Gabon Vision 2025*, 2, 45-46.

until recently, with individuals occupying the land and using it for their economic activity – for instance agriculture—but not formally owning it. The historical absence of a Land Registry and the concept of land property constitutes a severe institutional obstacle to investment (See Appendix C). The absence of a land property system hampers the development of projects for both economic and social infrastructure. The postponement of the Land Use Plan (PNAT) has delayed the assignment of the purpose of land plots, putting at risk investments already realized and delaying other planned ones.

ii. Access to finance hinders SMEs development

149. The private sector, SMEs in particular, is saddled with many challenges, which lay stress on its performance and prevent its capacity to drive the diversification process. Mostly young, these firms operate in sectors with low added value and struggle to grow. Confronted to immense difficulties to access finance, they remain trapped in small-scale operations and fail to expand their activity, which eventually leads to their decay and bankruptcy after a few years of operation. SMEs also face higher obstacles in terms of administrative and regulatory burdens than large firms. They are more dependent than large firms on their business ecosystem and, due to their internal constraints, are more vulnerable to policy and regulation inefficiencies.

Figure IV.8: Financial Market Development Indicators, 2017



Source: Global Competitiveness Index 2017.

Note: The Global Competitiveness indices range from 1 to 7 (best). Ranking is out of 138 countries. Figure (b) represents each country’s ranking in each sub-component of the *Financial Market Development* pillar, with lowest ranking (138th) at the center of the radar.

150. The financial system remains under-developed. Individuals’ financial inclusion has massively benefitted from the emergence of mobile banking (Box IV.3), but the development of the financial market remains limited compared to the selected comparators (Figure V.8). The country ranks 103rd out of 138 in the 2017 GCI, below all its peers except Kazakhstan (104th). In particular, it ranks low (118th) in *Ease of access to loans* and *Venture capital availability*, and in *Financial services meeting business needs* (122nd) (Figure IV.8-b). The constraints faced by local SMEs and individuals to secure a loan are very high and impede local entrepreneurs from expanding their operations and activities.

Box IV.3: Financial Inclusion and Mobile Banking

Per the findings of the 2017 *Global Findex*, financial inclusion (number of adults 15 and older with a bank account) is 59 percent, up from 33 percent in 2014 and 19 percent in 2011 (Figure IV.9). The progress of financial inclusion has been primarily driven by mobile banking that is currently exploding in Gabon, which yielded a considerable impact on the development of remittances sent and received through a mobile phone. From only 6.6 percent of the population with a mobile banking account in 2014, the share increased to 44 percent of the population in 2017 (Table IV.2). The country's progress has been the fastest of all its peers, allowing it to catch up with the upper-middle income countries' average level and to clear its previous gap.

Figure IV.9: Possession of Financial Accounts

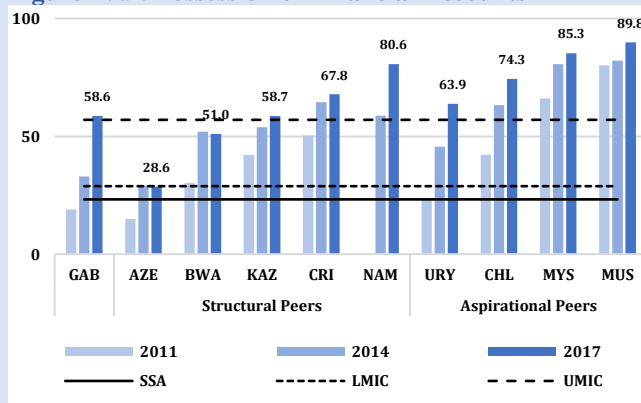


Table IV.2: Indicators of Financial Inclusion

	2011	2014	2017
Account	18.9	33.0	58.6
<i>Account (mobile)</i>		6.6	43.6
Remittances		48.7	60.9
<i>Remittances (through mobile)</i>		3.9	45.7

Source: 2017 Global Findex.

151. The current economic difficulties have weakened the banking system, resulting in a contraction of credit to the private sector. In the aftermath of the oil-price shocks, credit growth slowed down due to a combination of a rising risk aversion – following substantial deterioration of asset quality—and sluggish demand. From 2016 onwards, credit contracted and only started to slightly grow again by mid-2018 (Figures IV.10 and 11). The slowdown of economic activity, coupled with domestic credit contraction and the multiplication of debtors in default— in particular the State— have likely affected bank profits as well as the quality of bank assets, which in turns might threaten the financial stability of the country. The domestic banking system is fragmented between subsidiaries of international and regional banks that prefer to finance large economic actors and are reluctant to finance riskier projects carried by start-ups and SMEs. Three public banks – *Banque Gabonaise de Développement*, *Banque de l’Habitat du Gabon* and *PostBank*—are in financial distress and their situation has deteriorated since 2015. Two are in liquidation and the other under management (IMF, 2018). This involves heavy fiscal risks for the government that would jeopardize public finances.

152. The domestic capital market is embryonic, and the credit market provides limited financing to entrepreneurs and SMEs for their economic activity. Domestic credit provided to the private sector attained 10.4 percent of GDP in 2017, down from 13.6 percent of GDP in 2016.⁵¹ It is well below the levels in SSA where credit to private sector accounted for 45.4 percent of GDP in 2016, while it reached 130.1 percent of GDP for upper-middle income countries in 2017. Given low financial deepening, SMEs face lower access to finance than in peer countries, in particular because banks prioritize credit to large and safer corporations and because microcredit institutions only play a limited role. The main impediments to improving access to financial services and increasing financial intermediation are: 1) legal and judicial weaknesses in enforceability of claims

⁵¹ Data (WDI 2018) include credit provided by any kind of financial establishment, including but not limited to banks.

and property rights, which make provision of financial services to a broader segment of the population too costly; 2) deficiencies in corporate accounting and financial data; 3) weak payment systems; 4) the high percentage of the population engaged in informal activities that cannot meet the documentation requirements of financial institutions; and 5) low income and population density outside urban centers that make it costly for financial institutions to operate branches in rural areas.

Figure IV.10: Financial Credit by Bank, 2016-18

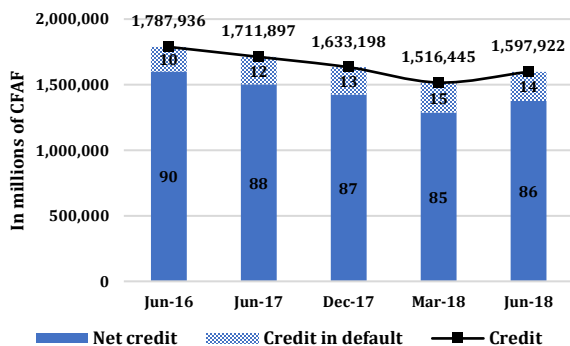
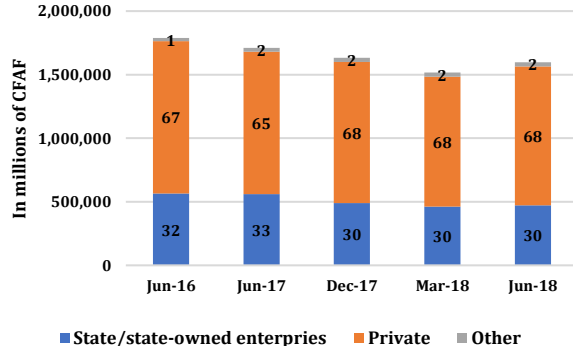


Figure IV.11: Financial Credit by Creditors, 2016-18



Source: COBAC 2018.

153. The strategy of the government has relied on the multiplication of dedicated funds and incubators with no coordinating strategies and limited results. To address the existing bottlenecks to private sector development, many incubators have been created recently, aiming at providing potential entrepreneurs with the skills and assets necessary to develop their activities (See Appendix C). However, the multiplication of these incubators and funds to support small income-generating activities – most of them are supported by government agencies and therefore funded by the country’s budget—without coordinating strategies creates an additional budgetary pressure. A large overhaul of these funds combined with a clear financing strategy of SMEs are needed in order to improve the impact of these financing instruments and to ensure that the allocated money yields real results on the development of a domestic SME ecosystem.

154. Could Gabon’s sovereign wealth fund enable faster progress towards diversification? Created in 2012, the primary mission of the Gabonese Strategic Investment Fund (FGIS) is to manage the sovereign investments of Gabon and its external participation in order to leverage the wealth accruing from the exploitation of the country’s natural resources and reduce the dependence of the country towards oil and mining revenue.⁵² However, the FGIS is yet to achieve a significant role in driving the diversification process. Equity investments by FGIS and new asset acquisitions seem to have contributed to the aggravation of the debt burden and fiscal slippage, and to have reduced government deposits at the central bank (IMF, 2018). Meanwhile, to channel the windfalls of natural resources into the real productive economy, the FGIS launched in February 2018 the *Okoumé Capital* fund (See Appendix C). However, the scope of action of this fund seems limited as it will finance a small number of actors – the initial objective is to favor the emergence of five domestic champions in their own sector—and only at a minimum equity participation threshold –

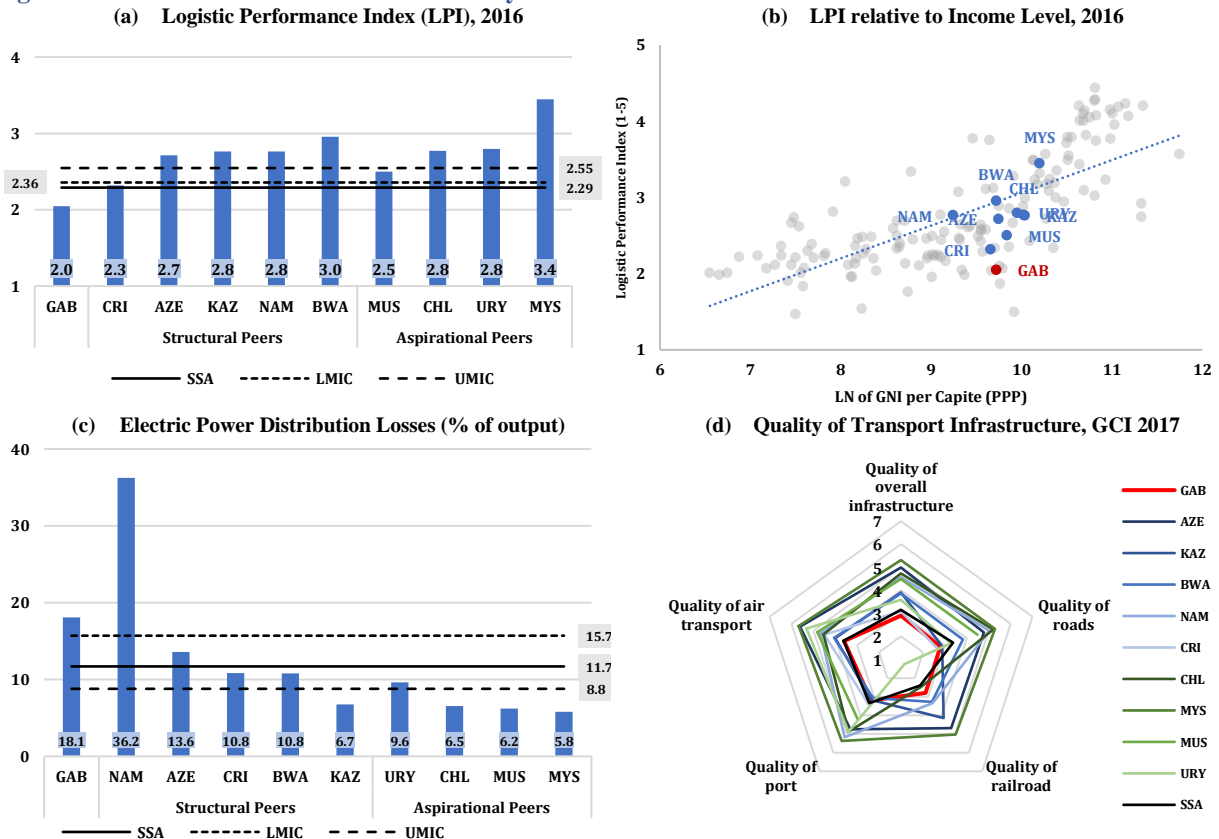
⁵² Sovereign wealth funds can help to generate long term economic benefits if appropriate budget and monetary policies are in place; fund's operations are properly integrated into a well-designed economic policy framework; and the funding and withdrawal rules are underpinned by well-framed corporate governance arrangements and clear accountability procedures among the different levels of the sovereign wealth fund governance, and to the public, in order to prevent misuse of public resources and to gain public support for the fund and its objectives.

the minimum participation ticket is CFAF 30 million and ranges up to CFAF 1 billion—that is unattainable for most of Gabon’s companies in need of financing.⁵³

iii. Infrastructure, connectivity and logistics

155. Gabon faces a critical infrastructure gap that the government has started to address through the initial phase of the PSGE, but efforts need to continue. The existing gaps in infrastructure experienced by the country have been identified by the PSGE and mitigating measures have been implemented. However, the realizations did not go as fast as planned and many bottlenecks persist. Three critical sectors of infrastructure have been identified and currently constrain the diversification process and economic growth: access to electricity and reliability of electric supply; poor state of all transportation infrastructures and slow advancement of projects; and poor state of education infrastructure that jeopardizes the entire educational system of the country.

Figure IV.12: Infrastructure and Connectivity in Gabon and Peers



Sources: WDI 2018 and World Economic Forum 2017.

Notes: LPI ranges from 1 to 5, 1 being the worst and 5 the best. Data for Azerbaijan and Mauritius are from 2014.

- The ranking of the Global Competitiveness Index ranges from 1 to 7, 1 being the worst and 7 the best.

156. Power supply, access, reliability, and service quality are limited, and the frequent and long outages impair the business environment. Despite a high national electrification rate of 83 percent, access to electricity in rural areas is low and expanding service is very challenging because

⁵³ Bureau de Coordination du Plan Stratégique Gabon Émergent (2018, April). Rapport de Suivi de l'Exécution du Plan de Relance de l'Économie. *Gabon Vision 2025*, 2, 26-61.

of low density and accessibility issues. Given Gabon's current generation capacity (466MW), shortages in electricity generation⁵⁴ are expected in the coming years – 2020-21. The country is confronted with several power cuts that stem from (1) the low level of margin capacity; and (2) the three isolated interconnected networks (Libreville, Franceville et Port Gentil) that do not allow to compensate supply from one region to another and induce important price differences between medium and high voltage customers.⁵⁵ In the 2017 GCI that assesses power reliability by measuring interruptions and voltage fluctuations, Gabon ranked 114th out of 138 countries in terms of quality of electricity supplied, far below the levels of its peers (Kazakhstan – 88th; Azerbaijan – 59th; and Namibia – 46th). In 2016, 18.1 percent of the country's electrical output was lost due to poor electric power transmission as well as distribution and commercial losses (Figure IV.12-c). Efforts to increase generation capacities are ongoing with the planned construction of four new dams – and potentially a fifth one—under PPPs agreements with Chinese and French investors, which are expected to enter into operation starting 2021.

157. Critical gaps exist in all types of transport infrastructure because of cost overruns, delays in project implementation, and very high unitary costs. Despite large allocation of investment budget to transport over the last decade, the overall development and quality of the trade and transport infrastructure remains below the average for the selected comparators (Figure IV.12). In the 2017 GCI, out of 138 countries analyzed, Gabon ranked beyond the 100th rank in all but one categories of transport, taking the 112th place in the aggregated transportation index. Likewise, Gabon's performance on the World Bank's *Logistics Performance Index* (LPI) is far lower than that of its structural and aspirational peers. Gabon's performance on the LPI is way below what might be expected given its development level, indicating an inefficient use of allocated funds compared to countries with a similar income level. Plans to expand the paved roads' network and to upgrade existing roads are delayed by cost overruns and excessive unitary costs.⁵⁶ This despite the fact that the country does not have to purchase raw materials for road construction – such as bitumen, gravel, and sand.

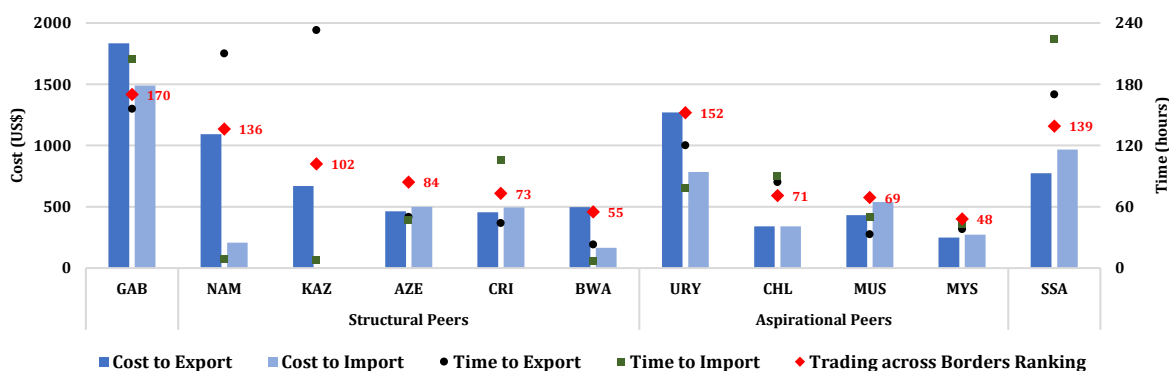
158. Infrastructure gaps prevent the country from exploiting regional and global trade opportunities. Gabon's high barriers to trade materialize through costs to export and to import, which are the highest among peer countries (Figure IV.13). Costs to import and to export are also respectively 54 and 137 percent higher than the SSA averages. In terms of logistics and cost of trade, Gabon is ranked 169th out of 189 countries in the *2019 Doing Business Report*. In particular, high costs of maritime transport and port services – the primary transportation channel for exports and imports—are driven up by existing monopolies in port operations and the distribution of the freight. The weak trade enabling environment of the country constitute a severe barrier to exploiting regional and global opportunities, which slows down the diversification process of the Gabonese economy as investors are more reluctant to invest in a country with low trade capacities.

⁵⁴ In 2016, the electricity sold was 1,908 GWh compared to a generation of 2,329 GWh. Over the period 2010-17, electricity consumption grew by 5.9 percent per year, much faster than power generation – 4.4 percent annual growth.

⁵⁵ The Ministry of Energy estimates that the average price ranges from 19 to nearly 250 CFAF/kWh. However, there is a lifeline tariff for electricity consumption based on two tranches corresponding to US\$ 0.1 and US\$ 0.16 per kWh, respectively. In addition, electricity is free of charge and subsidized by the government for customers under the lifeline tariff threshold and officially recognized as low-income Gabonese (GEF).

⁵⁶ The enlargement of seven kilometers of the N1 Highway into a dual carriageway in Libreville, due to be built between 2011 and 2013, was finally delivered in 2017, while the project cost US\$ 142 million compared to an initial estimation of US\$ 49 million – i.e. unitary cost of US\$ 20 million per km compared to averages of US\$ 700,000 per km in Angola, Burkina Faso, Mozambique, and Uganda (World Bank (2018) – Gabon Public Expenditure Review).

Figure IV.13: Cost and Time of Trading across Borders, 2018



Sources: Doing Business 2019.

iv. Skills gaps and mismatches

159. The economy is confronted with an important shortage of skills. The high unemployment rates of secondary and tertiary educated individuals point towards important discrepancies existing between the education provided and the specific needs of hiring companies. Meanwhile, about two third of job demand is unsatisfied due to lack of suitable candidates, underscoring the lack of alignment of the education provided with the needs of the labor market (World Bank, 2013). The country’s inadequately educated labor force ranked within the top four constraints for developing a business in Gabon (2009 Enterprise Survey). The expected growth in demand for high skilled workers, coupled with economic diversification, may not benefit Gabonese citizens if those with the required skills are not available. Although foreign labor is highly regulated (limited to 10 percent of a company’s workforce), permissions to import foreign workers have been granted given the shortage of qualified labor. This issue is discussed more extensively under the second pathway.

160. Dutch disease-like effects, via spending and high wages, may have contributed to skills gaps and high costs, putting the economy at a competitive disadvantage. The Real Effective Exchange Rate (REER) points towards unfavorable tradable price movements until the devaluation of the CFA Franc in 1994, suggesting that Dutch disease effects occurred through the appreciation of the exchange rate (See Appendix C).⁵⁷ From that period on, Gabon seems to have partially avoided Dutch disease through the resource movement and the appreciation of the exchange rate, but this was to see the problem emerge through high employment and wages in the public sector. The generous public pay-scale has been a wage leader at the lower end and has contributed significantly toward making Gabon a high-cost economy, crowding out entrepreneurial activity, dampening private investment, and causing Dutch disease-like symptoms (IMF, 2002 and PER, 2018). This has subsequently induced an uncompetitive relationship between wage rates and labor productivity. The public sector with its generous wage policy also reduced incentives for enrollment in scientific and technical fields, contributing to skill gaps and mismatches. This pattern diverges from the typical channels identified in the Dutch disease literature but causes similar effects.

⁵⁷ The CFAF is pegged to the euro (and previously French Franc), which may have also induced some negative effects on Gabon’s trade competitiveness due to the appreciation of the euro vis a vis the US dollar.

B. Pathway Two: Equalizing Opportunity and Expanding Human Capabilities

The educational system suffers from severe shortcomings that inhibit the development of human capabilities.

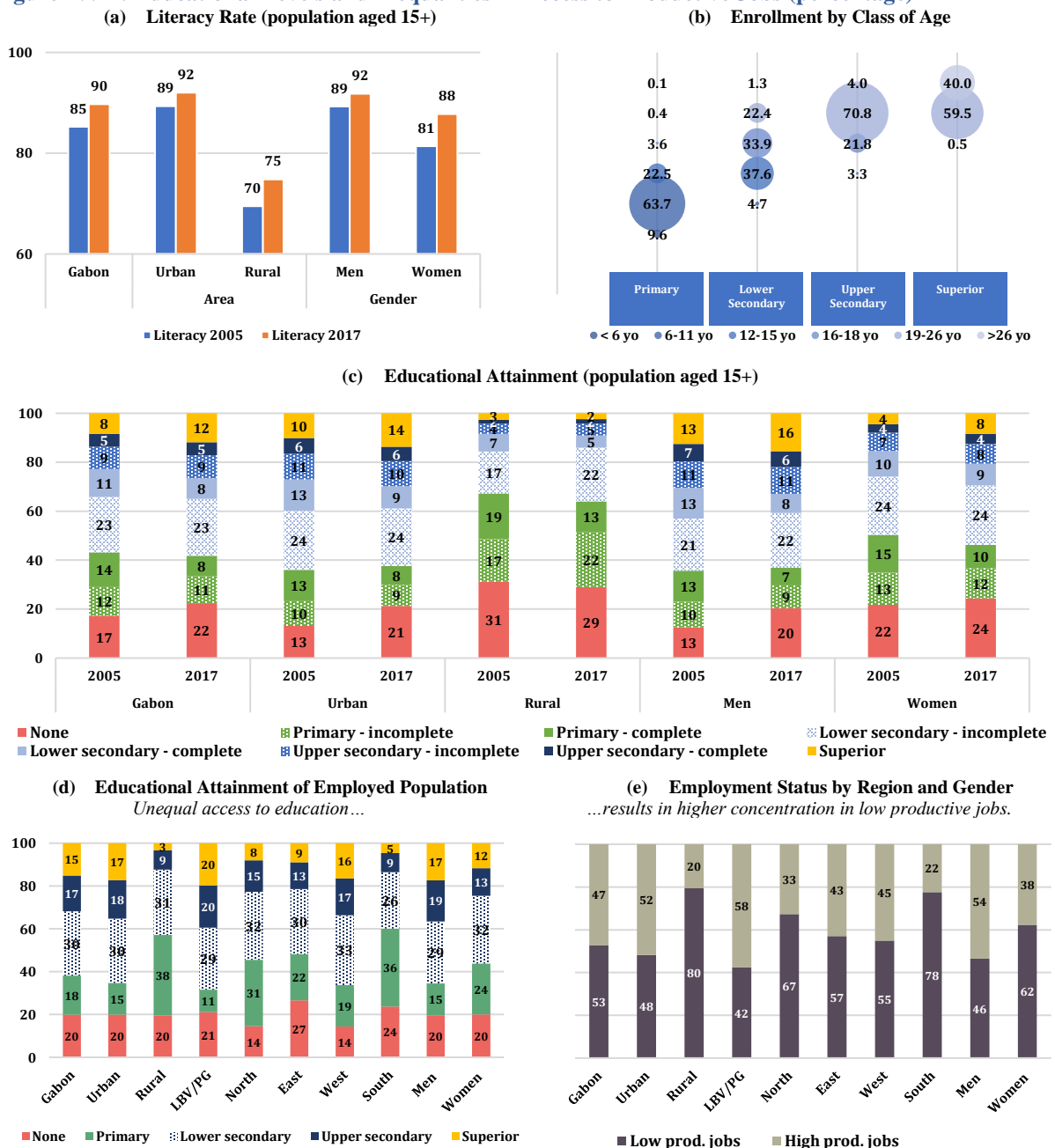
161. Low performance of education is a limiting factor in human capital. The components of the HCI indicate that Gabon lags most of its comparators in education. It scores only better than Namibia and Botswana in learning-adjusted years of school (6 compared to respectively 5.3 and 5.8 years). The simulated HCI that would have prevailed if Gabon's performance in the education component was at the same level as its peers, holding the other components constant, is 11 pp higher than the actual index (at 0.56 instead of 0.45). Applying the same to health components would only produce increases of the HCI by 1 pp. While it remains paramount to strengthen health outcomes, a faster increase of the HCI would come from improvements in educational attainment.⁵⁸

162. Progress in education was slow, with persisting gender and urban-rural gaps and repeated failure of classes. Gabon has experienced some progress in literacy and educational attainment over the past decade. However, inequality between gender and across urban and rural areas only slightly narrowed (Figure IV.14). Repetition of classes is a serious problem, increasing the risks of interruption of schooling and drop-out. Over 15 percent of students report they failed their class and many pupils are older than the expected age in their cycle. This issue starts early on and compound itself over the course of the academic career. At the primary level, more than 25 percent of students belong to older school-age group than 6-11 years. At the upper secondary level, around 70 percent are aged 19 to 26 years (around 4 years older than typical age), suggesting persistence of class repetitions over the course of education cycles.

163. Low enrollment in scientific and technical education contributes to the persistence of skill gaps and mismatches. The secondary educational system is divided in two main tracks – general and technical, the latter offering vocational training that gives direct access to the labor market. Most students enroll in the general track and follow a literary curriculum, with few engaged in scientific and engineering studies. The technical path has shown promising results in terms of employability after completion of the cycle but remains largely underused. In 2017, less than 1 percent of all students are enrolled in this track, and only 20 percent of those enrolled follow the professional sub-track that displays the most promising results. The main underlying reasons are related to the choice of fields that increase chances of employment in the public sector and to the lack of funds that prevent appropriate education and training of professional students.

⁵⁸ Gabon's harmonized test scores are slightly higher than comparator countries averages (456 versus 454), but it lags behind its peers in terms of years of schooling (8.3 years versus an average of 10.9).

Figure IV.14: Educational Levels and Inequalities in Access to Productive Jobs (percentage)



Source: EGEP 2017.

Note:

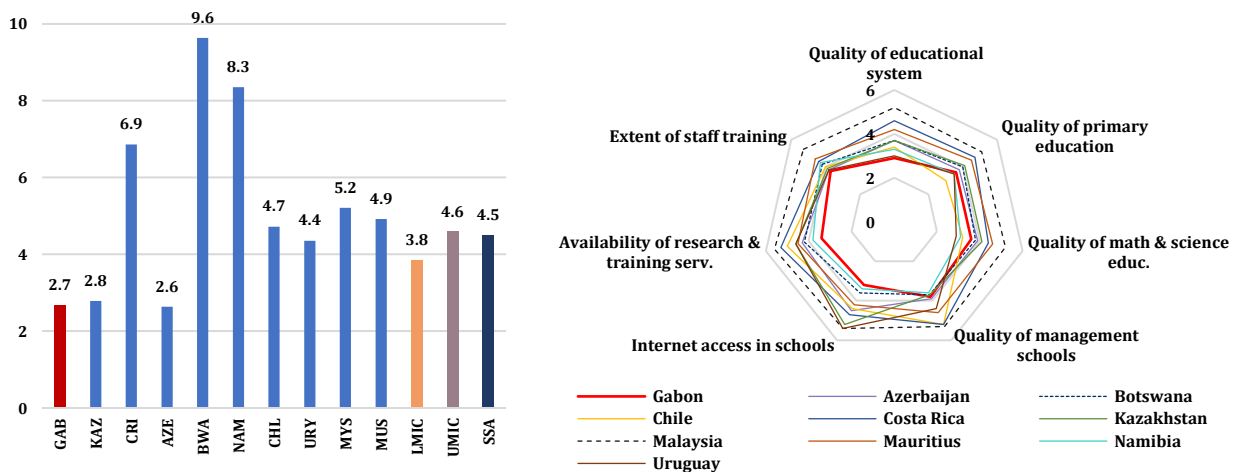
- The education system is modeled on the French one with three main cycles and two sub-cycles. The primary cycle lasts five years for children aged 6 to 11 on average. Completion is sanctioned by the *Certificat d'Étude Primaire* (CEP) and opens the way to the secondary cycle, which is divided in two sub-cycles. The lower secondary cycle lasts four years and hosts students aged 12 to 15 on average, while the upper secondary cycle lasts three years and is for students aged 16 to 18.
- Productive jobs include qualified workers and high employment status.

164. Unequal access to education across regions and between gender is coupled with high disparities in access to productive jobs. The proportion of workers with lower secondary and above is highest in urban areas and main cities, while it is lowest in the southern and northern

regions. In rural areas, nearly 60 percent of the employed population did not go beyond the primary level. Gaps between men and women are also quite large, with almost half of working women having primary or no education and only one fourth attaining upper secondary and higher levels - compared to respectively 35 and 36 percent for men. These discrepancies contribute to spatial and gender disparities in accessing productive jobs, as workers with low education levels and those without professional trainings tend to remain concentrated in low productive jobs (Figure IV.14). The absence of data does not allow to assess the inequity in the distribution of schools across regions, but the differences in distances to schools point towards such inequities.

165. Government spending on education and the quality of education have steadily declined over time. At less than 3 percent of GDP, Gabon’s spending on education is among the lowest in SSA and peer countries (Figure IV.15), and have been declining over the past two decades, in sharp contrast with the increasing trends in SSA and upper middle-income countries. The lack of funds and under-investment into adequate facilities have considerably downgraded the quality of the educational service provision. The Global Competitiveness Report shows that Gabon’s education ranks 116th among 138 countries for quality and 121st for higher education and training, underperforming all benchmarking countries. The limited skills of teaching staff and the lack of trainings are holding back the performance of its schooling system (Figure IV.16). The government needs to address the low quality of primary and secondary education, which shape the future of the entire education system; to raise the skills and knowledge of teachers; and to improve the quality of technical education to build a skilled workforce and a more competitive economy.

Figure IV.15: Education Spending (% GDP) Figure IV.16: Quality of Education



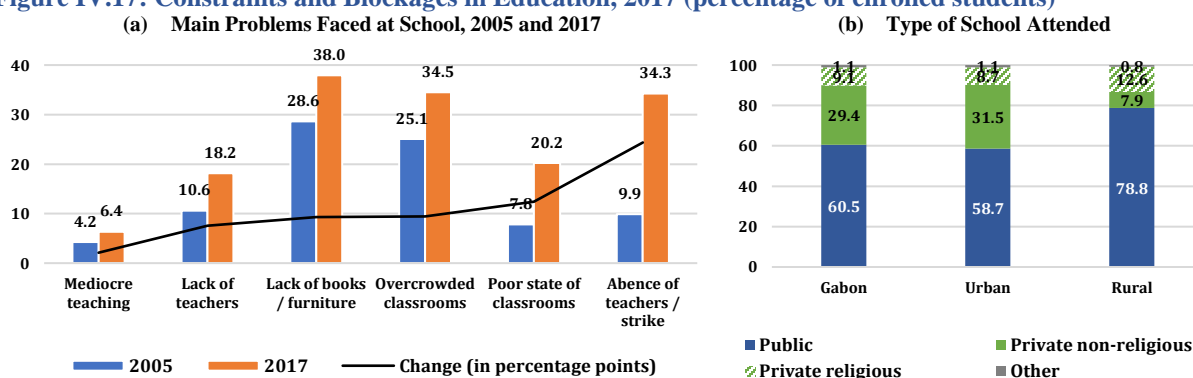
Sources: World Bank Edstats 2014, and The Global Competitiveness Report, WEF 2016-2017

166. Higher education accounts for a disproportionate share of education expenditures. Disregarding non-permanent staff salaries, pre-primary and primary education only accounted for 5 percent of education expenditures in 2015, while 21 percent were devoted to secondary education, and 66 percent were absorbed by higher education. Gabon’s high share of tertiary education spending makes it an outlier compared to its neighbors and peer countries. From 2010 to 2014, the country allocated 58 percent of its education budget to primary and secondary education, much lower than the 75 percent average for SSA countries and the average of many upper middle-income SSA countries such as South Africa (70 percent) and Mauritius (80

percent).⁵⁹ Conversely, Gabon allocated an average of 38 percent of its education budget to higher education during the same time period, much higher than many of its peers and upper middle-income SSA countries such as Namibia (23 percent).

167. The educational system is plagued by operational problems that have aggravated over the past decade. Overcrowded classrooms constitute one of the foremost problems of Gabon’s national education system. The Education Ministry reports average sizes of classrooms up to 80 students, sometimes reaching 130 students, with informal systems of rotation implemented to address the classroom shortage – the same classroom would serve for the primary cycle in the morning and lower secondary in the afternoon. The education infrastructure throughout the country is old and crumbling. The *internat* system, once the crown jewel of the Gabonese educational system, closed 10 years ago because of the incapacity of the administration to bear the costs of maintaining and operating the required infrastructure (Box IV.4).

Figure IV.17: Constraints and Blockages in Education, 2017 (percentage of enrolled students)



Source: EGEP 2017.

168. Land management severely constrain schooling utilities. Projects aiming at building new schools and renovating existing ones are all at a standstill, plagued by administrative issues regarding the allocation of land titles and by failure of the Gabonese counterpart to honor its commitments due to the current context of severe budgetary tightening.⁶⁰ Students – particularly those in rural areas and poor families—also suffer from severe shortages of books and educational equipment, absence of teachers and strikes, and poor schooling conditions (Figure IV.17). There is a wide perception that the education system and school environment have degraded since 2005. Despite the government’s claim to improve the education system and schooling conditions these issues will likely persist over time.

169. Despite specific laws covering civil servants in the education sector, Gabon does not have a coherent system to track the number of teachers in the country.⁶¹ In 2016, the number of school teachers was estimated at 8,355 for primary education and about 3,076 for secondary

⁵⁹ UNESCO data base (2010-2014).

⁶⁰ The PISE project (*Projets d’investissement dans le secteur éducatif*), which started in 2016, in collaboration with the French Aid Agency (AFD) aims at building 500 new classrooms (primary and secondary) in 17 different schools located in Libreville and Port-Gentil. This project would ultimately benefit 25,000 students, but the project has been on a standstill due to problems related to land titles for the new buildings.

⁶¹ Law No. 20/92 on March 8, 1993 deals with the status of civil servants that work in the education sector. Decree No.000904 on June 6, 1996 fixes the general system of remuneration of personnel performing the services of examinations and tests.

(general and technical) education.⁶² The Finance Law sets maximum ceilings on the number of staff allowed to be employed in each ministry, including teachers in public institutions, seconded teachers in private schools recognized as public utilities, and administrative staff at the local and central government level, which is counted against the wage bill for education. However, line ministries do not know the exact number of public or private school teachers recognized as public utilities which they are paying for, hampering the analysis of teacher allocation, distribution, and qualification.

170. The lack of statistical data is an important constraint to the efficient management of the country's education system. Without a reliable education management and information system (EMIS), adequate tools to measure and monitor learning and labor market outcomes, and efficient mechanisms to share information with schools, education authorities are unable to monitor progress and take informed decisions on policy reforms. A well-developed EMIS will help the government improve budget allocations and produce quality annual performance plans with better data on performance and actual needs.⁶³ The development of a reliable EMIS and assessment system should include: 1) strengthening the capacity of the departments in charge of planning and assessment (including at the provincial level); 2) reviewing data-collection formats and mechanisms; 3) developing assessment tools; 4) acquiring relevant applications for data analysis; 5) reviewing dissemination mechanisms (including an updated website for the ministry of national education and civic education); and 6) defining the roles and responsibilities of each entity in the system.

Box IV.4: The *Internat* System in Gabon

Lower and upper secondary education was historically structured around the system of *internat* (public boarding schools), where entrance was based on a combination of social and academic criteria. These establishments have been instrumental in providing both affordable education to students from poor families and affordable accommodation to those living far away.

The lack of funds and budgetary cuts have led to the closure of *internats* for more than 10 years, only opening temporarily during the period of the exams. This has resulted in several negative impacts, including the drop out from school of students from poor families who could not afford accommodation in cities, and reduced opportunity for students living in remote and rural areas to access better quality schools in urban centers. While efforts need to focus on expanding accessibility to schools in lagging communities, shorter-term strategies need to be initiated to accommodate students from poor households and remote areas.

Health outcomes fall below Gabon's corresponding level of development.

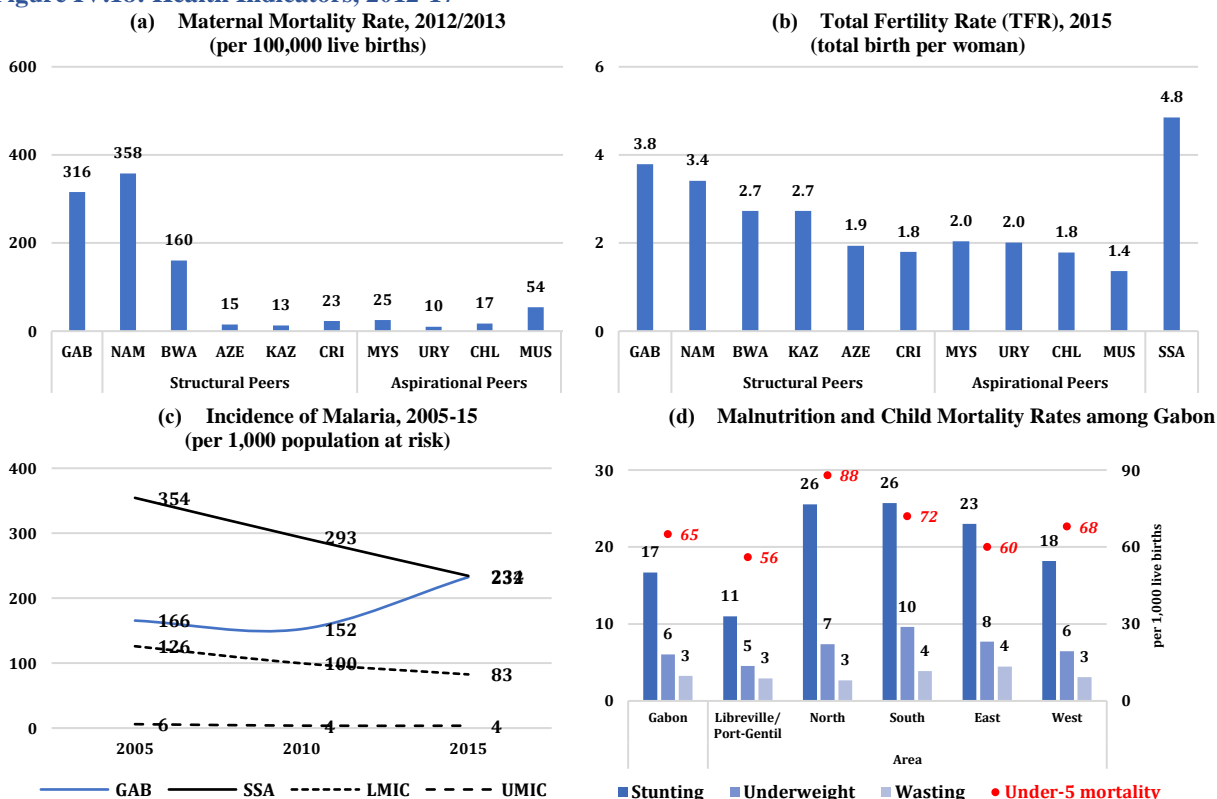
171. Performance in health outcomes is low with large disparities across the country. Gabon fares better than SSA in terms of health outcomes but trails behind upper middle-income countries and most of the selected comparators. Maternal mortality rate, at 316 deaths per 100,000 live births, is only lower than in Namibia. The malaria incidence rate has been trending upward since 2005, in contrast with the decreasing trend observed for the rest of SSA as well as upper and lower middle-income countries. The total fertility rate (TFR) is fairly high, although below the SSA's average. Despite Gabon's small population size, at the current fertility and population growth rates, the population will double by 2045, and the dependency ratio will still be at 69 percent by 2025, putting an even higher pressure on the health and education systems. Child

⁶² Data derived with the support of donors to justify the additional recruitment of secondary teachers.

⁶³ MENE does have records of enrollment at secular private education providers in addition to its overall teacher force.

mortality and malnutrition and stunting are quite prevalent in the country, with large disparities across urban and rural areas and among provinces. With a stunting rate of 26 percent and an under-5 children mortality rate over 70 per 1,000 live births, northern followed by southern provinces represent the regions with the highest burden of undernutrition and lack of health cares (Figures IV.18 and D.17).

Figure IV.18: Health Indicators, 2012-17



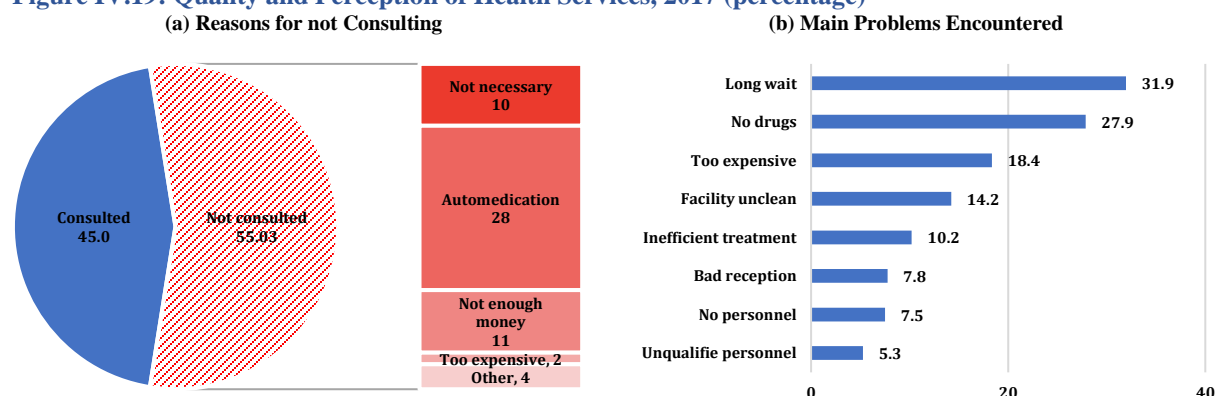
Sources: DHS 2012 and WDI 2018.

Note: Year of reference of data points for *Maternal mortality ratio* vary from one country to another. Main year of reference is 2012 except for Namibia (2013), Botswana (2010), Kazakhstan (2013), Costa Rica (2011), and Malaysia (2013).

172. Governance and management issues result in poor coverage and quality of health services and significant geographic disparities. Available resources are disproportionately allocated to curative care – hospitals in particular—and the distribution of health staff and facilities is skewed towards larger cities. Rural-urban differentials are particularly important with respect to coverage of maternal health services (about 94 percent of urban women deliver in a health structure compared to 70 percent of rural women), and relevant diagnosis and treatment of child’s fever (70 percent in urban areas compared to 54 percent in rural zones). Gaps between the main cities – Libreville/Port Gentil—and other towns are also important. Overall, immunization levels remain low, with only one third of children receiving appropriate vaccination. The poor quality and high cost of public health services prevent people from consulting specialist physicians, act as a major impediment for the improvement of health indicators, and discourage the informal sector from obtaining health insurance, keeping Universal Health Coverage (UHC) increasingly out of reach. The main problems include long wait times, lack of drugs and the high cost of the consultation (Figures IV.19 and D.12). Many of these problems are the result of inadequate management and

support structures, including at the central, regional and district levels. Long distances to health facilities in rural areas – where over 60 percent of the population lives more than 10 kilometers away from a health facility—accentuate the delivery gap between rural and urban areas.

Figure IV.19: Quality and Perception of Health Services, 2017 (percentage)



Source: EGEP 2017.

173. Gabon’s primary healthcare system is underdeveloped. The geographical coverage of public primary health facilities is relatively equitable, though some remote areas do not have enough facilities to serve the local population. However, even in areas where health centers are widespread, they are often not functional. Rural facilities face especially serious challenges in retaining health staff and accessing pharmaceuticals and other supplies. Even when staff is available, the level of training and supervision is not adequate, leading to poor quality of care. No programs (e.g. retention or location incentives) appear to be in place to address these issues.

174. Many health facilities also lack basic equipment, including an adequate cold chain for vaccinations. Public health outreach programs are not sufficient to address the country’s high rates of communicable disease, and preventive services are largely not covered by the health insurance system, leading to such services being given a lower priority. Because cost-effective preventative health services and community outreach efforts are typically provided at the primary level, the underdevelopment of primary facilities significantly reduces the overall efficiency of health spending.

175. Resources are concentrated in urban areas and wealthier regions. Some concentration of health resources is inevitable in a country with a low population density, a poor road network, and a population that is nearly 90 percent urban, but the inequalities observed in Gabon go beyond the constraints of geography and demographics. The distribution of health resources reflects hospital locations rather than the population health needs. There is no apparent relation between health spending and poverty, and indeed per capita spending is generally lower in the poorest regions. Consequently, the lack of clear criteria for distributing public health resources across regions exacerbates geographic inequalities and ultimately reduces the allocative and technical efficiency of health spending. This underscores the governance and leadership challenges within the health system and the need to re-orient the system to focus on improved service delivery and better meeting population health needs.

176. The Samu Social attempts to overcome part of the shortcomings of the health system but is confronted with severe lacks resources. Many of the poor and vulnerable Gabonese (*Gabonais Economiquement Faibles*, GEF) do not receive appropriate treatments from the public health system, either because they do not have the necessary resources to cover the costs of medical

expenses, or because public medical centers are not properly equipped in terms of material and human resources, particularly in rural areas. The *Samu Social*, created in 2017, aimed at bridging this gap through multi-disciplinary centers for consultations coupled with medically-equipped ambulances that tour the poorest neighborhoods. The organization relies entirely on pro-bono assistance from hospital-based doctors who volunteer their free-time to provide care and medical ambulatory aid to people in social distress. The *Samu Social* operates in five cities (Libreville, Port-Gentil, Franceville, Mouila, and Oyem) and handled over 70,000 consultations since its creation.⁶⁴ However, the organization receives very little public funds and relies principally on private donations, prompting questions of its viability and expansion. While it officially benefits from a budgetary line in the government budget, no withdrawals were made due to lack of funds.

177. Reform strategies are underway to address some of the gaps of the health system.

They rely on the new National Plan for Health Development 2016-2021 (PNDS) combined with a Performance Based Financing (PBF) reform. Under the PNDS, the government plans to invest substantially in operationalizing the health districts and regions as well as the primary health care system. The implementation of a PBF scheme would orient budgetary resources to decentralized levels of the health system and strengthen primary care system. This would shift the focus from inputs to outcomes and would result in wider coverage and better quality of essential health services. The PBF model involves the purchase of health services on the basis of a predefined list of services and prices; a robust verification system that relies on a systematic and detailed review of health facility registry data; an increase in the autonomy of health facilities; and a number of tools and mechanisms to improve the management of health facilities. Expected to start by the first quarter of 2018, the PBF's pilot phase has been delayed because of the lack of financial resources from the Ministry of the Budget.

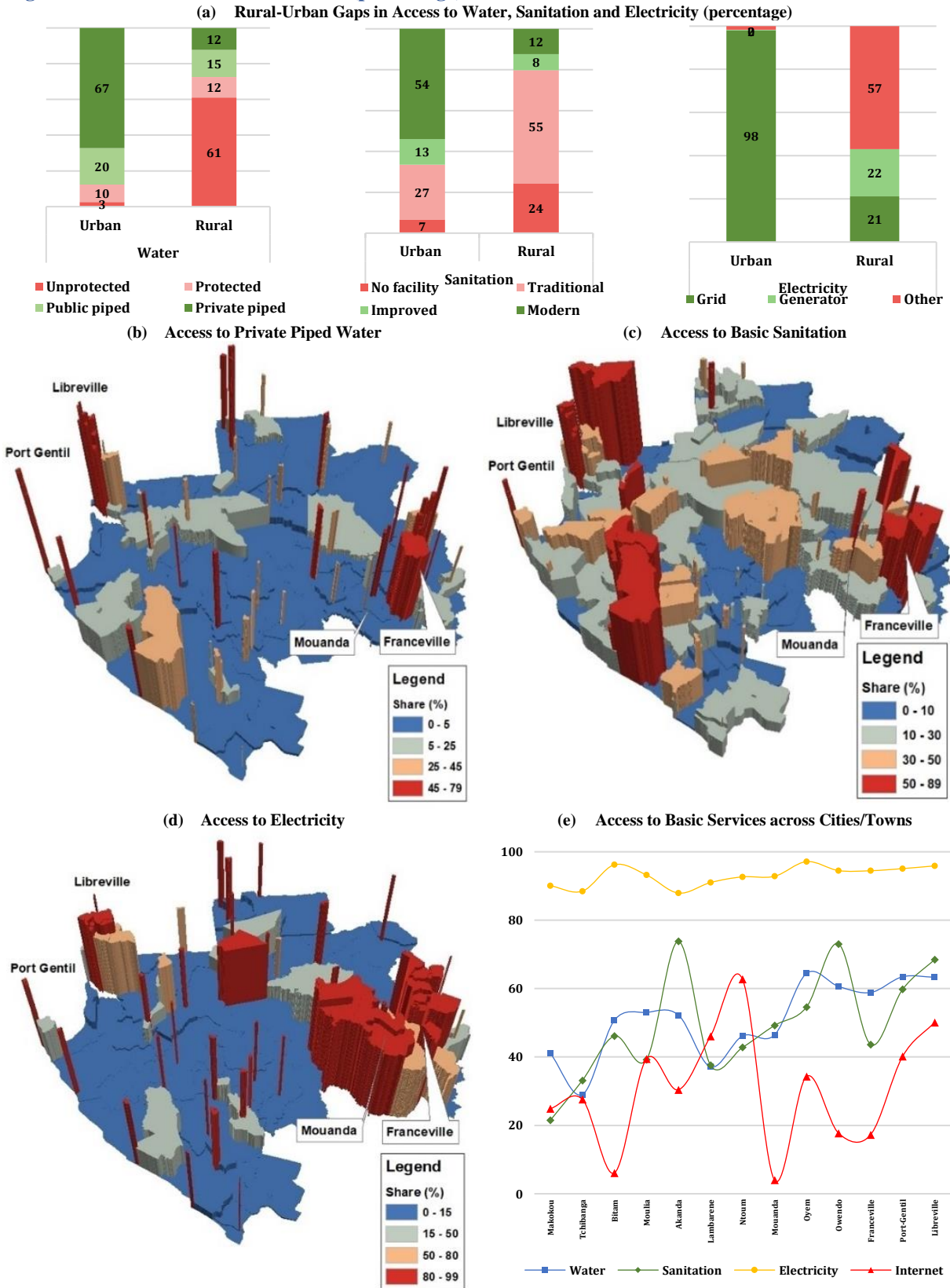
Geographic disparities in service provision dampen prospects for equal opportunity.

178. Spatial differences in public service provision contribute to wider inequalities in capabilities and opportunities, and thereby to diverging living standards across regions.

Access to basic services is essential to building human capital and to shaping people's abilities to translate their capabilities into enhanced well-being (World Bank, 2013). However, a large part of the country remains underserved in basic amenities. Spatial disparities in terms of service coverage and accessibility are more marked in Gabon than in comparator countries. In rural areas, and northern and southern provinces, more than one-third of households use water from unprotected sources and over half have no sanitation facilities or use unimproved ones. These households also suffer from longer distances to access water sources. Most rural dwellers rely on generators or inefficient lighting sources and so do around a third of households in the north and south. (Figure IV.20). Areas with limited service delivery tend to have lower human capital outcomes, worse employment rates and higher poverty incidence.

⁶⁴ The vast on-the-ground experience of the organization reveals the multiplication of certain types of diseases in the poorest areas, such as paludism, arterial hypertension, skin diseases related to the lack of hygiene, and the increase of cardio-vascular cases due to the poor quality of food.

Figure IV.20: Access to Basic Services (percentage)



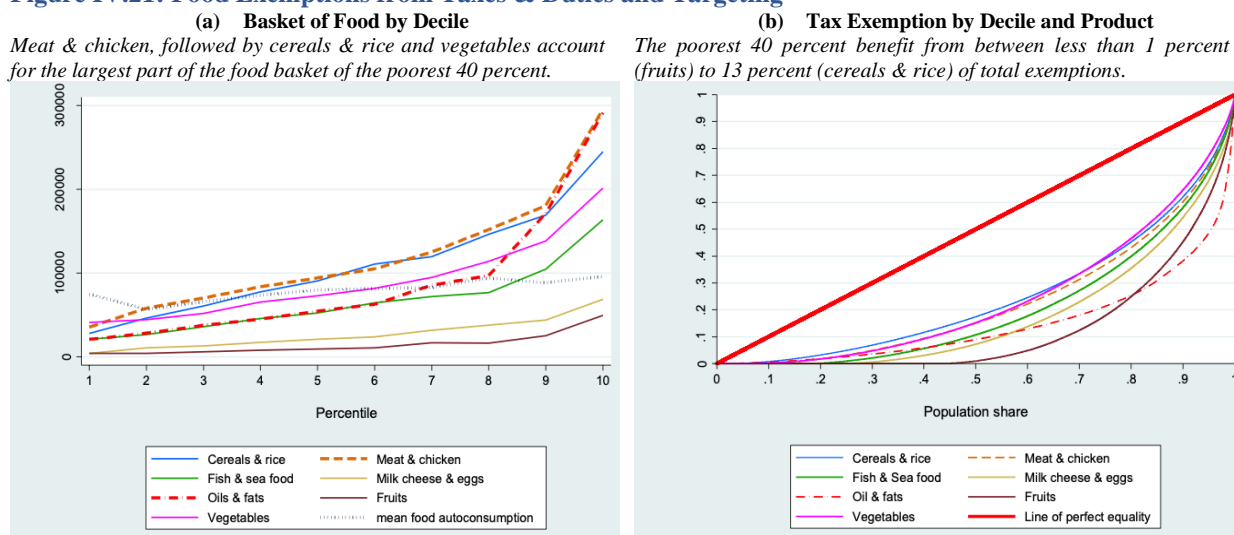
Sources: WDI 2019, EGEP 2017, RGPL 2013 and Airtel database.

179. Equitable basic service provision across and within cities and regions is pivotal for narrowing spatial disparities and promoting inclusive development. The highest service provision is concentrated in large cities and resources sites. Most towns with a population of greater than 100,000 people have higher access rates to electricity, water and sanitation – averaging more than 75 percent. By contrast, access to services, particularly piped water and improved sanitation, is less than 50 percent in cities with 10,000 inhabitants and less; and reaches as low as 10 percent in towns with an average size of less than 5,000 people. Rural areas distant to towns tend also to have very limited public services provision, indicating insufficient investment in scarcely-populated and remote areas and towns (Figure IV.20). Low population density compounded by natural barriers poses a challenge to service delivery. Yet, not addressing the spatial differences in services provision, would further widen spatial discrepancies in living standards and inequality of opportunities. Improving livability in main cities, through better coverage and quality of public services, is crucial to better materialize the agglomeration benefits of urbanization and enhance economic integration. These cities offer the possibility for economic and social mobility through a range of new opportunities. However, in many instances the growth of these cities was unplanned, creating serious problems of service provision and congestion, and exacerbating the overall economic inefficiency. Improving the functioning of these cities through more effective institutions related to land, property rights and basic services, and more efficient coordination would allow a faster structural transformation and a wider diffusion of the benefits to the overall economy. Separate agglomeration benefits can arise out of secondary cities, which may also serve as an important entry point to rural poverty reduction given their tighter connection to rural hinterlands. Laying the foundations to stimulate the growth of secondary cities and small towns can be considered as a driving force to reduce poverty. This may in turn constitute an important pillar within a larger strategy to alleviate rural poverty. Nevertheless, the cost of infrastructure provision may be very high in some small towns – given low population density and natural barriers—and further analysis, including cost-benefit analysis, are required to identify cost effective strategies to promote faster poverty reduction and spatial integration.

The national social protection system suffers from severe coverage gaps and measures to contain the cost of living appear ill-targeted.

180. Poorly targeted tax exemptions benefit more to the richest than poor groups, but reforms should be managed with caution. In an effort to mitigate the negative effects of the expensive cost of living and to safeguard the purchasing power of the population, the government granted value-added tax (VAT) and tariff exemptions on a selection of consumer goods. These exemptions, while costly to the government, lack a clear rationale in terms of containing food-price inflation and reducing the cost of living of the poor. They seem to benefit more the upper income-classes and only very small amounts (between 1 percent and 13 percent depending on the food item) benefit the poorest 40 percent (Figure IV.21). In particular, exemptions on products in fruits, milk, cheese and eggs groups have very small benefits to the poor. Moreover, the poorest groups tend to rely on self-produced food –which represents around 25 percent of the food consumption of the poorest 20 percent compared to only 9 percent of the richest 20 percent— which reduces potential benefits from the exemptions. While these fiscal measures seem to carry significantly lower benefits on the poor than expected and could be replaced by more effective incentive measures to enhance local food production, their reform needs to be managed very carefully and should be based on robust analysis of the direct and indirect effects on the living standards of poor and vulnerable groups.

Figure IV.21: Food Exemptions from Taxes & Duties and Targeting



181. The health protection system provides limited coverage to the population. Only half of the population, and 58 percent of the poor, is registered at the CNAMGS, excluding half of the population from the national formal health protection system (Box IV.5). The CNAMGS is supposed to provide full coverage for the poor and vulnerable populations, based on their categorization as GEF. However, the GEF classification does not fully match the definition of basic needs poor. The update of the definition of GEF and revision of the list of beneficiaries based on 2017 EGEP are ongoing. The current system also prevents informal workers (except GEF) from being covered by health insurance. The absence of formal identity (ID) and the difficulty to understand the process and requirements in order to properly register constrain the registration to the CNAMGS.⁶⁵ The coverage of medical expenses for those registered is also very low, as only 20 percent of the registered population, and 16 percent of the registered poor, have their medical expenses covered (Figures D.13 and 14).

Box IV.5: The Social Protection Landscape in Gabon

CNAMGS

The *Caisse Nationale d'Assurance Maladie et de Garantie Sociale* (CNAMGS) is the central and most important element of the health and social protection system in Gabon, primarily in charge of health insurance and allocations to the poorest.

The CNAMGS is structured around three main funds that target different profiles of workers –the fund for private sector employees, the fund for public sector employees, and the fund for Gabon’s Economically Weak (GEF) – which automatically excludes workers involved in informal activities or self-employed to the exception that they are GEFs. To address this problem of exclusion, the CNAMGS is currently going through a large overhaul, which should lead to the creation of a fourth fund targeting the former individuals.

The CNAMGS is confronted with important problems of funding related to the way contributions to the health and social protection system are undertaken. All contributions go through the government, which then redistributes them to the different funds of the CNAMGS, leading to important losses of resources during the process.

⁶⁵ Around 2 percent of the population could not register to CNAMGS because they do not have a formal ID, but this share may be underestimated. The EGEP 2017 asks the question about the possession of a formal identity only within the context of registration to the CNAMGS, which induces a selection bias. In addition, as individuals without formal identity are probably marginalized and not registered in the census, they are likely left out of the survey design.

CNSS

The *Caisse Nationale de Sécurité Sociale* (CNSS) is a private organism, under the tutelage of the Social Affairs ministry, in charge of pensions and family benefits in Gabon.

FNAS

The National Social Assistance Fund (FNAS) aims to help low-income households develop income-generating activities and become economically self-sufficient by facilitating access to funding and offering technical assistance. Based on the micro-credit model, the FNAS provides credits to small business of GEFs at a preferential rate of 8 to 9 percent (compared to 12 percent for commercial banks, and 18 to 22 percent for microfinance institutions) and gives grants. It also provides technical support throughout the business evolution (e.g., assistance for formulation of business plans, accounting and bookkeeping, formalization of the activity).

Since its inception in 2016, the FNAS has financed 40 business activities, of which 20 are still in activity and generating profits.

182. Gaps in birth registration and ID limit opportunities for better health and social protection coverage. According to the 2013 population census, over one fifth of the population is not in the civil registry and do not have formal ID. The problem is particularly acute in rural areas and southern provinces, where nearly 30 percent of the population is not registered. However, the high birth registration rate of under-4 children, suggest progress in addressing the problem over time. Results from empirical regressions underscore various ongoing dynamics intertwining poverty, birth registration and social protection coverage. The poorest areas have lower rates of birth registration. While this does not impact negatively on registration in CNAMGS, it does severely affect enrollment in CNSS. This point towards a lack of retirement planning from the poor and limited opportunities for better health and social coverage due to absence of formal IDs.

183. The social protection system also suffers from severe lack of funding and qualified human resources. The social protection system, also managed by CNAMGS, directly target GEFs through various social safety net programs. The two main programs –cash transfers and school kits– have been suspended since 2015 due to lack of funds. The FNAS, which aims to enhance self-reliance among vulnerable people through supporting income-generating activities for GEFs, faces several challenges (Box IV.5). The main challenges are the absence of a strong and sustainable financing mechanism and the lack of human resources—constraining its capacity to meet its objectives in terms of reach and level of funding. The program relies primarily on public budget endowments, which remain insufficient to meet its needs. In the midst of the current budgetary crisis, all public disbursements towards the FNAS have been cut. While the FNAS secured financing last year for its ongoing projects, no budget disbursements occurred, severely compromising its activities. The program’s human capacities are also undersized and cannot properly meet the current level of demand, particularly in terms of technical assistance.

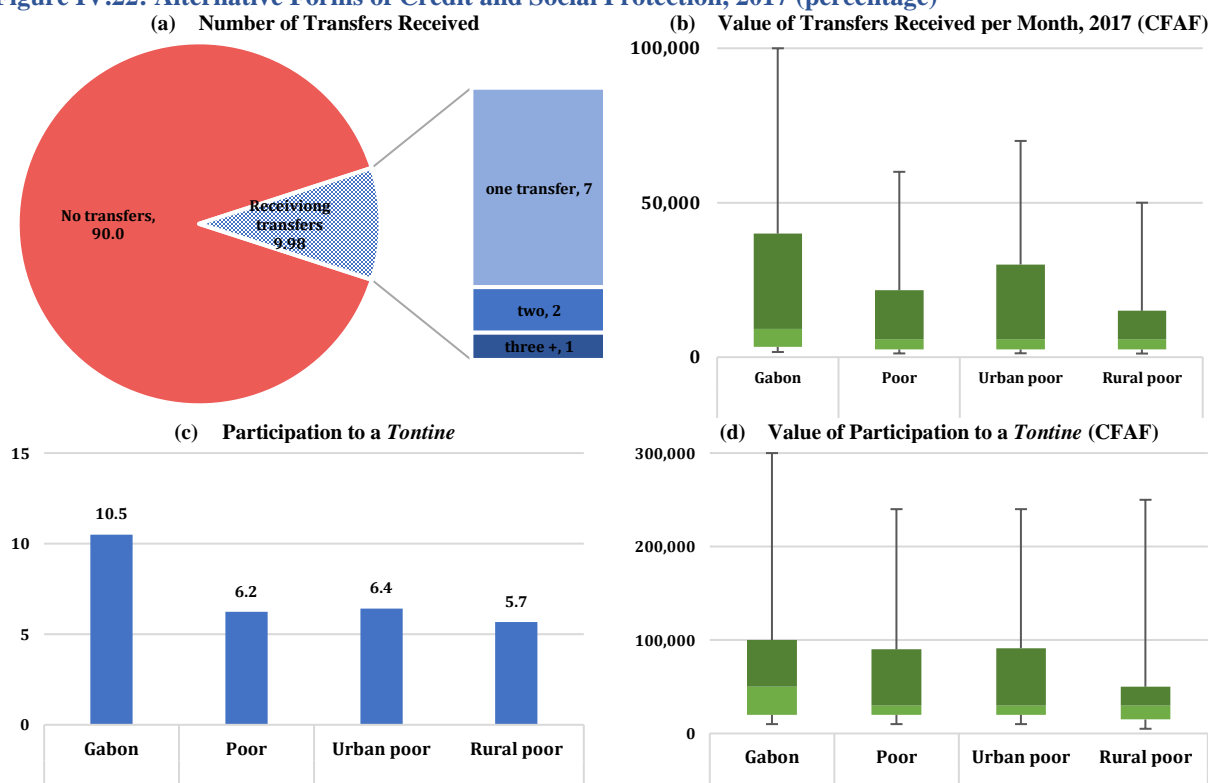
Informal saving schemes are emerging to overcome shortcomings of the social protection and financial systems.

184. Assistance from family and relatives appears as the primary source of support for households in economic difficulties. Around 40 percent of households indicate they would turn to family in case of serious financial difficulties, while 52 percent would turn to neighbors. While the 2017 EGEP shows that only 10 percent of the population benefit from interhousehold transfers,

other data sources indicate a significantly larger share at nearly 50 percent (Figure IV.22).⁶⁶ Implications of primarily resorting to extended family and friends instead of the official social protection system are multiple. First, the heavy reliance on family and relatives support networks tend to disincentivize employment and to increase social burdens. Second, there is a phenomenon of “hidden” demand for social protection schemes – many people would potentially use a well-designed system but are not actively asking for it as their familial network covers it. Consequently, the country’s real needs in terms of social protection remain unknown and largely underestimated.

185. Limited access to finance for income-generating activities increased propensity to resort to informal financing schemes such as *tontine*. Around 11 percent of the population subscribes to an informal saving scheme known as *tontine* (See Box IV.6). The participation rate is higher among the non-poor – 12 percent—compared to the poor – 6 percent (Figure IV.22), underscoring the larger capacity of non-poor individuals to set aside resources and to invest in an informal saving schemes, while the poor, and especially extreme-poor, face difficulties in freeing extra resources for this purpose. Individuals’ participations to *tontines* of the non-poor (median amount of CFAF 50,000 per month) are also larger than for the poor (median of CFAF 30,000 per month).

Figure IV.22: Alternative Forms of Credit and Social Protection, 2017 (percentage)



Source: EGEP 2017.

⁶⁶ According to *Global Findex*, 61 percent of the population aged 15+ received or sent domestic remittances in 2017 (47 percent received domestic remittances; 39 percent sent domestic remittances), compared to 10 percent of the population receiving transfers per *EGEP 2017*. The startling discrepancy raises the question of the appropriate measurement of the indicator. The rapid emergence of mobile-banking appears to have bolstered the growth of remittances as the share of the population sending or receiving remittances through mobile phone went from 4 percent in 2014 to 46 percent in 2017, representing 75 percent of all the remittances sent or received in 2017 (Global Findex, 2017).

186. Nevertheless, the impact of such schemes on the creation of business activities remains limited. Out of all non-agricultural household enterprises, only 1 percent of them have been primarily financed with capital mobilized through a *tontine* scheme, while only 0.1 percent have mobilized capital through a banking loan. The overwhelming majority of these household enterprises (87 percent) have been financed by personal and own equity, and 6 percent of them with capital loaned by a family member.

Box IV.6: Mechanism of a *Tontine*

Tontines (local name for Rotating Savings and Credit Associations-ROSCAS) are semi-formal group savings and microcredit schemes that work as savings clubs in which each member makes regular payments and is lent the common pot in turn. They are wound up after each cycle of loans.

The *tontine* starts with a group of individuals who first agree on a fixed amount for the different payments as well as the frequency of these payments. Subscribers are then required to contribute the agreed-on fixed sum to the common pot and take turns collecting the money after an agreed period. The scheme goes on for as many turns as necessary until all members have received once the content of the common pot.

When a member receives the content of the pot, he/she is free to invest it in whatever income-generating economic activity that he/she sees fit. Such a system therefore leads to various outcomes and windfalls:

- The *tontine* system forces the members to save on a regular basis in order to be able to cover for their required payments to the common pot. It reduces the risk of consuming the money or to lose it as it is not physically owned until receiving the whole pot once per cycle.
- When one member receives the content of the common pot, the large sum received is generally sufficient to serve as a kick-off investment for an income-generating activity, bypassing the usual collateral requirements of traditional lenders (bank, micro-credit institutions, etc.) as well as the necessary interest rate coming with traditional loans.
- The *tontine* schemes usually involve an internal agreement stating that the common pot can only be used as an investment in income-generating activities. That is to avoid members who just consume the sum received and then are not able to pay their future contributions.

C. Poor policy planning, limited fiscal space, and poor budget execution prevent Gabon from walking these pathways.

187. Strategies to diversify the economy and to develop human capital suffer from deficits in coordination and appear over-ambitious given the country's fiscal constraints. Confronted with the urge to diversify the economic base of the country, the government has developed several multi-sectoral strategies over the last couple of years, often resorting to outside consultants to design them. However, these strategies were often over-ambitious and not adapted to the fiscal reality of the country. Lack of coordination between different government agencies and among various programs affected the adequacy and implementation of reforms. Despite a clear commitment from the government, during the recent years, to address social challenges, the initiated development strategies and reforms lack prioritization, sequencing, and alignment with budget constraints. Social sectors – healthcare, social protection, and education—continue to suffer from low budget allocation, and even when they secure financing the allocated budget lines are often not executed.

188. Large investments are underway to build opportunities and enhance territorial development, but they lack coordination and sequencing. The National Infrastructure Master Plan (NIMP) developed in 2012 aimed at supporting Gabon's development program throughout the national territory. The NIMP identifies possible development corridors with fairly high population, natural resources and industrial development potential that need to be connected by transport, energy and telecommunications networks to respond to national development priorities in terms of job creation and equity.⁶⁷ These corridors respect both topography and ecologically-sensitive zones and incorporate existing infrastructure and socio-economic factors to increase economic opportunities and spatial integration. The NIMP pinpointed several shortcomings in the existing infrastructure, including the inadequacy of the road network with the economy and population needs, the isolation of Port-Gentil from the rest of the economy despite its high concentration of natural wealth, and the inefficiency of the Transgabonais corridor. Different options for development corridors were examined, with recommendation to prioritize the modernization of the Transgabonais corridor linking Libreville and Franceville,⁶⁸ the creation of an intermodal transport center at Ndjolé, and the completion of west-north and west-east corridors, which concentrate around 70 percent of the population and include the railway line and most of the natural resources. A north-south corridor was also considered given the recent developments in agriculture and potential expansion of fishery sector (Figure IV.23). While the NIMP was never implemented given its prohibitive cost⁶⁹, large investments with foreign investors and

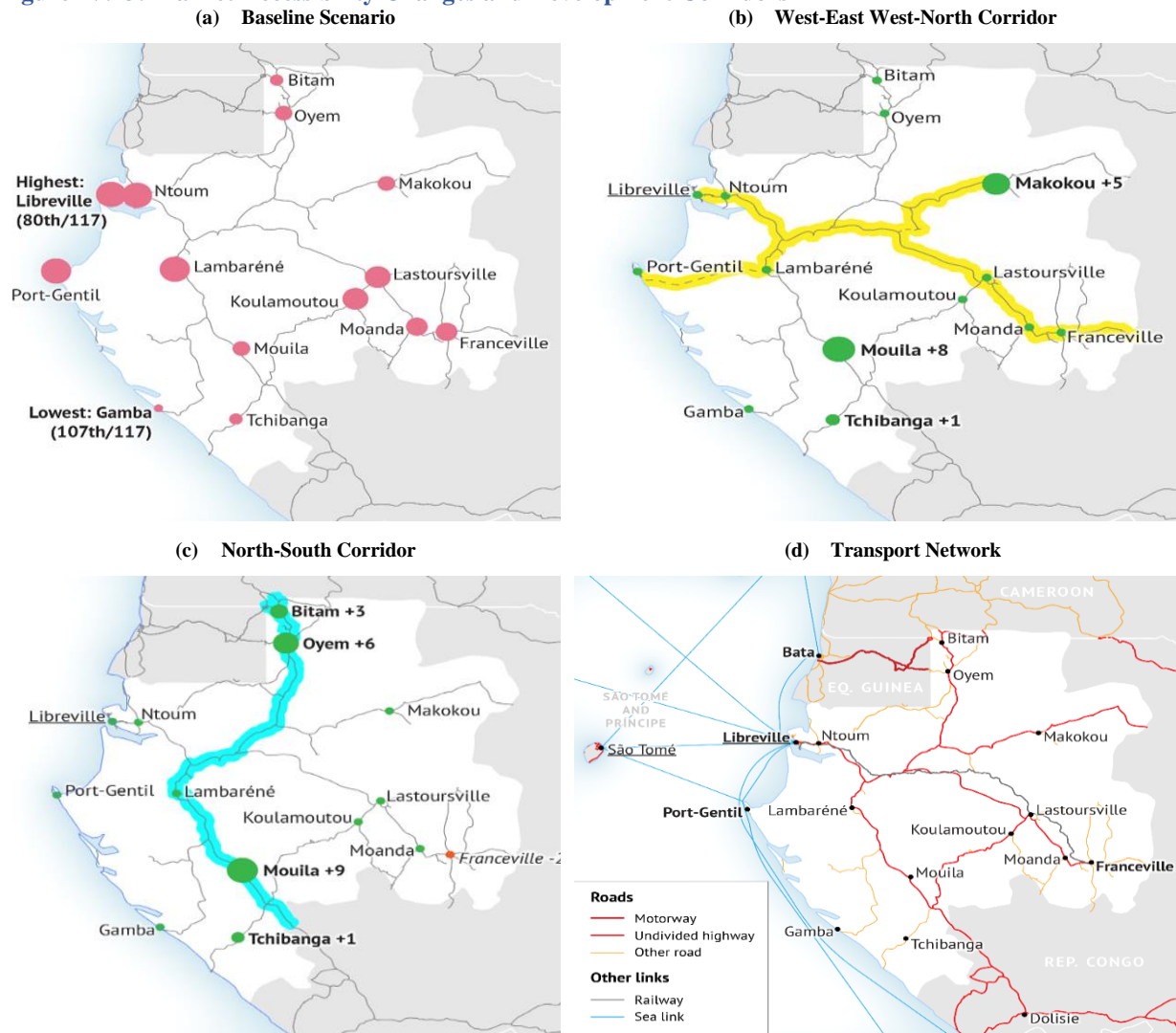
⁶⁷ A corridor is a geographical area linking major centers of economic activity through existing or potential communication infrastructures (transport, power or telecommunications).

⁶⁸ The rehabilitation of the rail infrastructure is carried out under a 20-year concession agreement (2015-35) attributed to SETRAG, a 100 percent subsidiary of COMILOG, itself a subsidiary of the French mining conglomerate ERAMET. The IFC is supporting the SETRAG, providing nearly EUR 200 million of debt in support of the EUR 400 million rehabilitation of the rail corridor which is underway. Completion is expected by 2022 with operational improvement of more than 30 percent in terms of productivity already achieved, and actual reduction of tariffs of more than 10 percent since 2015.

⁶⁹ The NIMP was developed by Bechtel firm. The overall cost of the projects in the NIMP, excluding the health and education budget, and including investment over 2012-25 was estimated at 7,403 billion FCFA, giving an average annual investment budget of around 5 percent of GDP.

development partners are ongoing along these lines. However, these investments are not part of a more comprehensive and coordinated territorial development framework.

Figure IV.23: Market Accessibility Changes and Development Corridors



Sources: NIMP 2012, RGPL 2013, EGEP 2017 and OpenStreetMap.

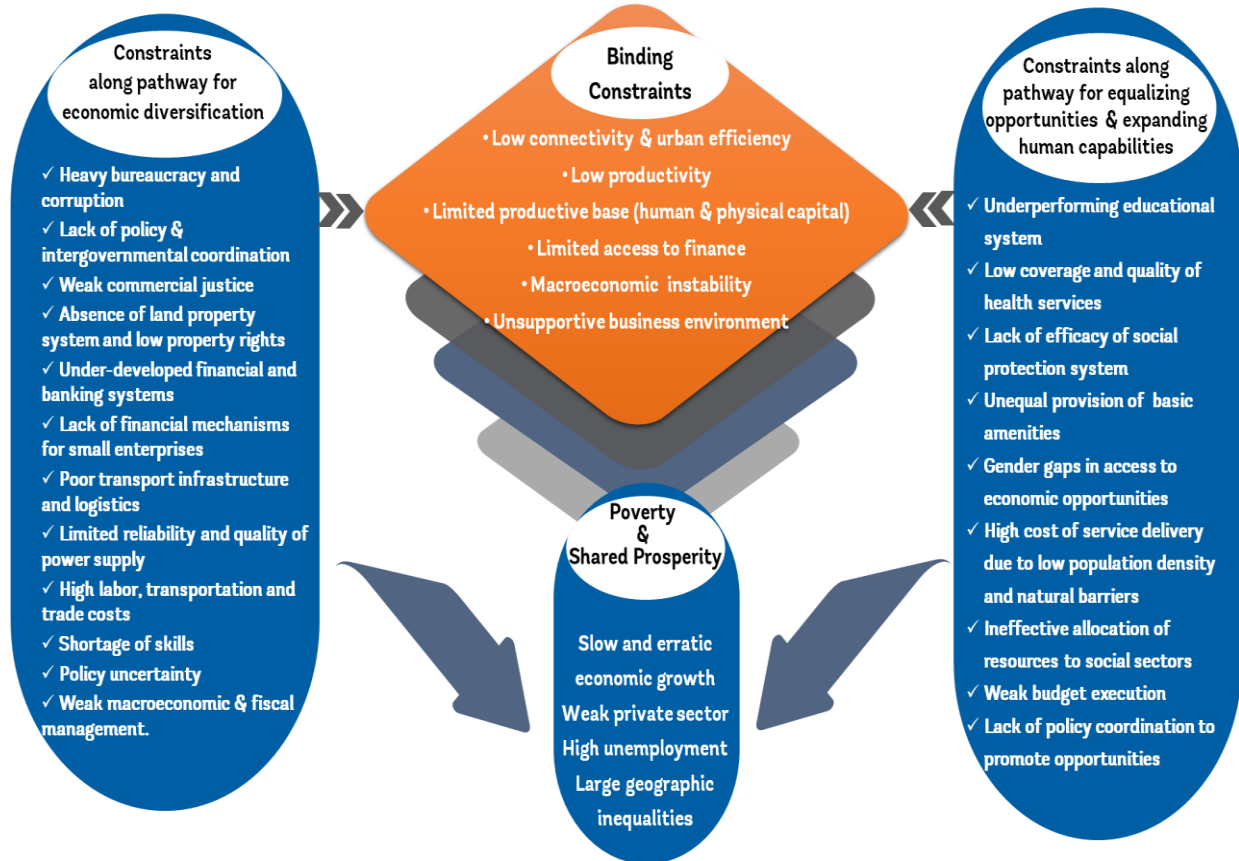
Note: Cities ranking is based on the market accessibility index within 117 cities in Central Africa and Gulf of Guinea countries. 1 is the best and 118 the lowest. The analysis uses the Donaldson and Hornbeck (2016) model.

189. Establishing the institutional foundations and tailoring policies and investments to the heterogeneity of local challenges would increase the benefits of infrastructural investments. It implies that policies and investments are tailored to the severity of local development challenges; and a coordinated package of complementary interventions is delivered in specific places to overcome key development constraints. There is very little impact of spatially locating sector specific investments in one place if the complementary sectors are not addressed in sequence or at the same time. For instance, the analysis of the expected changes in market access through west-north and west-east development corridors or north-south corridors shows that the investments may not bring the expected benefits. Accessibility will only marginally increase in few cities given the small size of cities (in terms of low economic and population density) and the difficulty to access markets in neighboring countries such as Cameroun and Congo (Figure IV.23).

D. Policy Priorities

190. Analysis of the two pathways identified several sets of constraints along the route to priority reform areas. Among them are (1) low connectivity and urban inefficiency, which limit diffusion of the benefits of urbanization and agglomeration to the economy as a whole; (2) a narrow productive base (in terms of human and physical capital) that keeps productivity low and prevents diversification of the economy; (3) limited access to finance; (4) macroeconomic instability; and (5) an unattractive investment climate. The result has been slow and erratic growth, a weak private sector that creates few jobs, and large spatial disparities in living conditions (Figure IV.25). The areas of intervention can be grouped and ranked according to the potential impact they could have in lifting the identified binding constraints.

Figure IV.24: Binding Constraints to Poverty Reduction and Shared prosperity and Derived Policy Priorities



191. The prioritization process is evidence-driven and responds to information from consultations. Among approaches considered in identifying how priority reforms might affect poverty reduction and shared prosperity were modeling approaches (e.g., Computable General Equilibrium models, empirical regressions) and qualitative surveys, but these were limited by several factors, including the lack of data, lack of resources, and hypotheses of the modeling methods. The prioritization process therefore consisted of three phases: (1) the diagnostic exercise discussed earlier, which consisted of a thorough review of literature and operational knowledge, new descriptive and empirical analysis based on recent data, and comparison of Gabon's performance with peers; (2) structured discussions within the country team; and (3) in-country consultations with national authorities and a variety of local stakeholders.

192. There were three criteria for selecting priorities: (1) their relative short- to medium-term contributions to poverty reduction and inclusion; (2) complementarities and sequencing between reforms; and (3) capacity to implement given the available resources.

193. Priority reforms can only be effective if there is a coherent mix of transformational and foundational policies. The SCD classifies priority actions as (1) *transformational*, where concerted efforts by the government and other stakeholders over the next three to five years would boost progress in poverty reduction and shared prosperity; and (2) *foundational*, because they are prerequisites if policies are to result in higher and sustained inclusive growth. These reforms are complementary and mutually supportive.

194. The basic selection criteria were informed by extensive consultations with stakeholders, among them government officials, development partners, and representatives of research institutes, civil society organizations, local community groups, and the private and informal sectors. The SCD and Gabon country teams met several times to validate the selection of priority reforms (see Table IV.3) that would enhance progress toward promoting poverty reduction and shared prosperity, goals integral to national development priorities.

Table IV.3: Pathways and Key Related Priority for Action.

Pathway	Priority Area	Impact	Complementarity	Implementation capacity
Economic Diversification	Improve connectivity with main urban centers and markets.	High	High	Low
	Improve land management and address coordination failures in advanced urban areas.	Medium	High	Low
	Ensure reliable power and accelerate digital connectivity.	Medium	Medium	Medium
	Increase the productivity of the informal economy and facilitate transition to formality.	High	Medium	Medium
	Build up the financial sector and expand access to finance.	High	High	Medium
Equalize Opportunity and Expand Human Capabilities	Build the foundational capabilities, both cognitive and noncognitive, of those expected to enter the labor market.	High	Medium	Medium
	Improve the quality of education, prevent school drop-outs, and expand access to higher education.	High	High	Medium
	Upgrade the skills of workers through better technical and vocational training that prepares them for the changing nature of work.	High	High	Medium
	Improve the quality, coverage, and accessibility of primary health care and social protection systems.	High	High	High
	Ensure universal access to essential social services	High	High	Low
	Strengthen capacity of women and improve their economic opportunities.	High	High	Medium
Foundational Area				
Improve macroeconomic management and ensure fiscal stability.				
Enhance economic governance and improve policy coordination and implementation.				

195. The policy priorities delineate six areas for action:

Transformational priorities:

1. Improve urban management and inland connectivity to reduce economic distance, increase density, and reduce disparities in living standards.

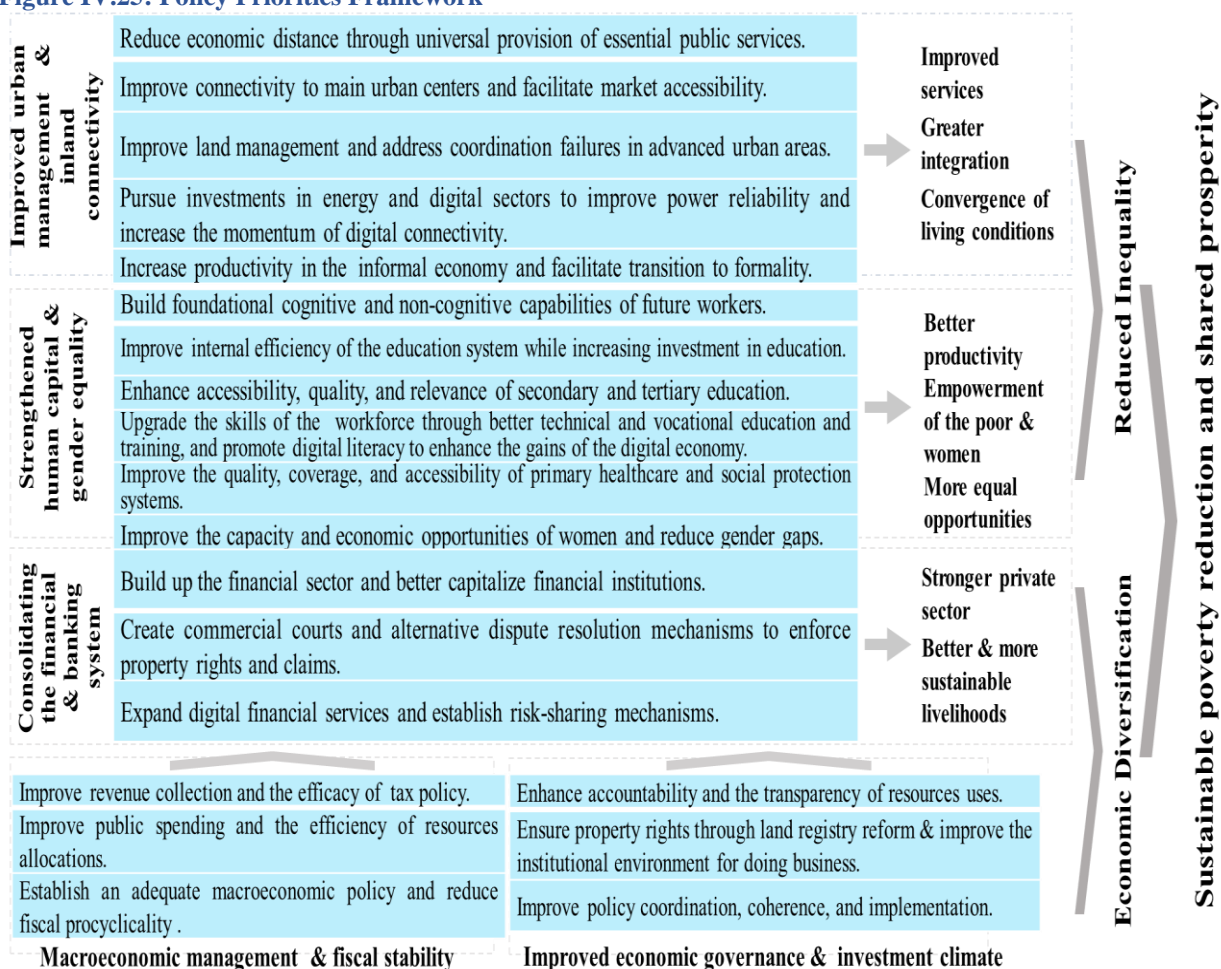
2. Strengthen human capital to increase the productive potential of the labor force, reduce opportunity gaps, and support Gabon’s trajectory toward an emerging and diversified economy.
3. Enhance gender equity to promote inclusive development.
4. Consolidate the financial and banking sector to promote financial inclusion and private domestic investment.

Foundational priorities:

5. Adopt a robust fiscal framework and sound macroeconomic policies to keep the economy stable and manage resources more effectively.
6. Improve the investment climate and economic governance to attract and support private investment and the creation of productive jobs.

Figure IV.25 summarizes priority interventions that are aligned with both reform areas identified by the government and the main problems identified in the 2017 Afrobarometer survey (Figure D.19).

Figure IV.25: Policy Priorities Framework



Transformational Priorities

Improving urban management and inland connectivity.

196. Gabon’s high urbanization offers significant opportunities to reduce poverty, but most cities have yet to realize the benefits of agglomeration due to spatial fragmentation, lack of economic density, and lack of investments in connective infrastructure within cities. Cities could be a powerful force for growth that generates positive spillover effects to the rest of the economy, but that will depend crucially on whether cities can exploit the benefits of scale and specialization that agglomeration can produce.⁷⁰ Despite Gabon’s high urbanization, like other SSA cities, its urban development is deterred because most of its cities are disconnected and costly (World Bank 2017). The lack of planning by most cities, which is exacerbated by lack of access to transportation and underinvestment in connective infrastructure, results in spatial fragmentation between firms as well as between firms and workers. This undermines the potential gains of urbanization by raising both transportation and input costs for firms and the costs associated with the provision of public services and market goods. As a result, the cost of living surges, productivity is lowered, and firms become less competitive, minimizing the potential agglomeration benefits. Moreover, inadequate enforcement of property rights in the main cities has resulted in the proliferation of informal settlements, further challenging livability.

197. With policies to promote economic density, Gabon would be well-placed to more fully realize the benefits of agglomeration. Formalizing land markets is crucial to ease their distortions. Government investment in formal ownership records, clear laws, and a transparent process for land registration and transactions would encourage private capital investments and investments in infrastructure; formal recognition of property ownership also allows the owners to use their land as collateral for financing entrepreneurship and business opportunities. Policies that enhance urban planning and regulation, such as clear zoning laws and building codes, are also crucial so that cities can allocate land so as to maximizes productivity and efficiency, reduce the costs to both firms and workers, and capitalize on the information and knowledge spillovers that can accrue from spatial proximity. They would also reduce the problems caused by the proliferation of informal settlements. Investments in infrastructure and transportation that increase connectivity between firms and improve the delivery and quality of clean water, electricity, and sanitation would significantly improve the quality of life and functionality of cities, raising living standards of the Gabonese. This in turn would attract more firms, increasing economic density. The thick labor market resulting from high urbanization also facilitates job market pooling in cities, enabling better matching of workers and jobs. If realized, the benefits that accrue from agglomeration could spur growth that produces spillovers to the rest of the economy, creating more employment and income opportunities and deepening the resource base from which the government can draw to finance public service delivery and infrastructure projects in more remote and sparsely populated rural areas.

⁷⁰ Agglomeration benefits can enhance physical proximity between firms, which can lower both transportation and input costs due to economies of scale; promote entry of similar and complementary firms, which can tighten both forward and backward links; facilitate job market pooling, which encourages more efficient matching between jobs and workers; facilitate information exchanges and knowledge spillovers between workers and firms, which spurs both productivity and innovation; and reduces the cost to government of providing public goods, owing to scale economies in service delivery and infrastructure investments in densely populated areas.

198. More effective policy planning and better management of local revenues are necessary to improve how cities are managed. Urbanization has evolved in Gabon without proper planning, resulting in inefficient cities. Strategic planning for urban development, land use, and transport is either lacking, ineffectual, or ignored. The Urban Development and Transport Policy (carried out with World Bank support in 1996–2001) and data monitoring through the urban observatory could inform the design of urban policy to guide urban development more effectively. Passage of the decentralization law promulgated in 2015 and its practical implementation would improve the capacity of cities to achieve their functional potential, especially if it is coupled with better resource allocation and more effective management by local governments. Studies in preparation for the Infrastructure and Local Development Project II PDIL2 (Box IV.7) indicate that, although provincial capitals have fairly substantial revenues, investment consumes only 10–30 percent of total resources because 54–87 percent of municipal budgets go to payrolls. Most cities are overstaffed and their personnel are inadequately qualified; even main cities are left with limited financial resources to provide adequate services and invest in infrastructure.

Box IV.7: The Bank’s Gabon Infrastructure and Local Development Project Phase 2 (US\$100 million)

PDIL2, which supports urban services delivery, gives priority to building municipal management capacities in target cities. Major goals are to address access to basic services in specific underserved neighborhoods and to build the capacity of municipal administrations to execute their decentralization mandate to deliver services. This approach builds on synergies from investing in infrastructure, establishing consultative budget and planning processes, and supporting the cities in heightening own-source revenues and constructing at least some urban infrastructure. The project has begun to lay institutional foundations for the shift from a highly centralized political and administrative system to an effective decentralized system of service delivery.

199. Government prioritizing and sequencing policies can facilitate inclusive urbanization and spatial integration. In some of Gabon’s cities (Libreville, Port-Gentil, and Franceville) urbanization is quite advanced, in others (Owendo, Oyem, Mowenda) it is at an intermediate stage, and in others (Lambaréné, Mouila, etc.), the process has just begun. Economic activity is concentrated in a few agglomerations, mainly Libreville and Port-Gentil, and these tend to be made up of mono-functional and poorly interconnected urban areas. Thus, the strategic questions revolve around how the government can address the needs of a large urban population scattered across the country, especially those in disadvantaged areas, and how can it help each group of cities address their specific needs while benefitting from the opportunities of economic agglomeration. The 2009 WDR and World Bank (2017) have identified tools that can guide the prioritization and sequencing of policy actions to increase urban inclusion and help spatial integration depending on local development challenges.

200. The policy sequence differs with the degree of urbanization. The foundation of inclusive urbanization and integration efforts should consist of universal provision of basic services within Gabon’s territory and addressing the institutional and regulatory constraints affecting cities. Examples are regulations affecting land, labor, trade, and such basic social services as education, health care, social protection, safe drinking water, electricity, and sanitation. Depending on the stage of urbanization, institutions need to be complemented with connective infrastructure (roads, railways, airports, harbors, and communication systems) that facilitates the movement of goods, people, and ideas, and targeted interventions to reduce disparities in living standards and promote inclusive development. Such interventions may range from slum reduction to fiscal incentives for manufacturing firms.

201. In cities where urbanization is nascent, the main challenge is to reduce economic distance. In these areas, provision of essential social services should always be a policy focus. Because the poor are widely distributed across the country, much of the policy response should be spatially neutral, with special efforts to ensure equal and universal access to public services for all Gabonese. Another policy should be to correct land market distortions and build up property rights. Secure land tenure would help promote investment in land and shelter, improve the ability to transfer land, boost land values, and enhance access to credit. Strengthening institutions and reducing economic distance in these nascent cities would create a rural-to-urban migration gradient, relieving pressures on overcrowded primary cities. That may also be an important entry point for reducing rural poverty, because such cities are more closely connected to rural hinterlands. However, the cost of providing infrastructure may be very high in some small towns with low population density and natural barriers; further analysis, including cost-benefit analysis is necessary to ensure effective sequencing of investments.

202. In cities with intermediate urbanization, spatially neutral institutions that ensure universal provision of basic services must be coupled with policies to improve access to markets for entrepreneurs in distant areas. Better connecting infrastructure would allow some activities to flourish in cities characterized by medium urbanization. For instance, it would help integrate peripheral markets in cities like Owendo with national markets in Libreville. Because such cities have the potential to become economic hubs for their regions, the influx of migrants will continue, and congestion will likely worsen. Increasing access to markets, improving city management and building more human capital are therefore imperative for intermediate cities. Investments in connectivity between main and intermediate cities will shape urban development for decades. Early installation of infrastructure is wise to enable cities to expand over time. It is also less expensive and easier to install infrastructure before squatters settle.

203. Institutions, infrastructure and interventions are needed in regions where urbanization is advanced. As cities grow, they must provide roads and other amenities—elements that usually drive urban planning. However, in Libreville, where in only 20 years the population grew from 420,000 to over 700,000, and in Port-Gentil, the soft side of urban planning has been generally overlooked. It is necessary to plan early for urban expansion, drawing up blueprints that allocate land for future roads, water, sanitation, electricity networks, and other amenities. Such planning would make large cities more livable, heighten productivity, and help align investments with financing opportunities. Lack of planning drives informal property rights and the proliferation of slums.

204. Concentration of the poor in regions where urbanization is advanced requires sustainable pro-poor urban planning. Rapid population growth in these cities and their peri-urban areas, exacerbated by problems related to climate change, resource depletion, poor housing conditions, and poor quality infrastructure, require specific pro-poor and inclusive interventions that give creation of better livelihoods a central position in urban planning. The objective of urban management policies should not be to replace the market but to correct its inefficiencies and externalities and promote the efficient functioning of cities. Peri-urban areas, where poor people look for a foothold in cities while avoiding the costs of urban living, may create belts around cities that prevent diffusion of agglomeration externalities to the national economy. These areas can be difficult to plan and service, in part because they are fragmented; they require customized planning approaches. Realistically, these problems cannot be resolved in the short term, but short- and medium-term interventions can help to contain them. Ultimately, they need to be tackled as part

of a comprehensive intersectoral policy. For example, attempts to solve the housing problems of the urban poor that are not coordinated with programs to promote employment, skills, and education could produce sites where successive generations of unemployed, under-educated, and poor people are concentrated. Problems from other sectors of the economy spill over to affect poor urban planning and how well cities function. For instance, addressing rural development would help minimize factors pushing rural emigration.

205. Rural development initiatives to equalize opportunities can counteract the intensifying pressures of push-driven migration. Poverty is twice as high and three times deeper in rural than in urban areas. Even though significantly more poor people live in urban than in rural areas, rural areas still host one-fourth of the poor and about half of the extreme poor. The spatial differences in public service coverage and accessibility widen urban-rural inequalities in capabilities and opportunities. These disparities, which are more obvious in Gabon than in comparator countries, severely depress human capital and worsen rural employment and earnings and living conditions. Perpetuated over time, these deficits heighten the risk that generation after generation of the rural poor will be trapped in poverty. Even when people migrate, conditions in their place of birth continue to affect their prospects for a better life. That is why providing economic opportunities and ensuring access to basic social services and infrastructure for all rural households should be central to Gabon's strategy for alleviating poverty and for inclusive development.

206. As part of these efforts, the country should intensify its efforts to ensure reliable power. The government should accelerate investments in PPPs to increase the electricity generation capacity and power quality. It should also finalize and execute the agenda for reforming the energy sector.

207. It will be important to take advantage of the momentum created by investments in digital infrastructure and advances in digital technologies to expand service delivery and connectivity. Advances in the ICT sector and expansion of digital technologies offer a chance to unlock new pathways for job creation, access to services, and connectivity to markets. Interaction between institutions and digital technology opens up opportunities to improve delivery of health care (e-health), education (e-learning), and utilities on the basis of performance-oriented methods. Internet and mobile phones offer great potential to improve access to information, markets, and financial assets through mobile banking and micro-lending.

208. Promoting productivity in the informal economy and preparing its transition to the formal sector could help boost productivity. Informal economic activity, which is pervasive in Gabon, tends to be survivalist rather than entrepreneurial. Many productivity gains can be achieved through transition to formality. However, the process should be managed carefully as it may lead to destruction of informal jobs rather than creation of productive jobs (Oviedo et al. 2009). Based on the literature and international experience, a comprehensive policy package, rather than single isolated reforms, would strengthen formalization and reinforce the relationship between private businesses and public institutions. This package could create incentives to increase formality, such as simplifying taxation for micro and small firms; facilitating registration through fewer and cheaper procedures; and increasing growth opportunities by offering these businesses counseling and other support, facilitating their access to financing instruments and connection to markets, and promoting financial literacy.

209. The decision to formalize has several potential benefits but these may not appeal to many informal firms in Gabon. Formalization can increase access to the justice system when there are disputes, open up access to credit, and allow greater access to markets both domestic and abroad. This should appeal to SMEs looking to grow their businesses, but there are significant negative tradeoffs. Formal firms must respect labor laws including paying high minimum wage, which is driven by Dutch disease and often exceeds productivity. Formalization heightens the administrative burden and requires making tax payments. Small businesses with narrow margins will have difficulty borrowing given the limited access to credit for SMEs and businesses unlikely to grow. Paying taxes and formal wages is a risk to business survival and keeping records may be quite difficult for illiterate workers. Encouraging firms to formalize by lowering the costs of formalization is unlikely to be effective. Elsewhere, reducing barriers to formalization, such as offering E-registration, and providing incentives and tax and banking support have not proven to be cost-effective even when offered all at once. Firms recognize rational tradeoffs in deciding to become formal that go beyond the short-run costs of formalization itself.

210. A concentrated effort to improve productivity through skills upgrades and creating a favorable ecosystem for small businesses is likely to promote formality. As Gabonese firms become more productive and look to expand, formalizing will become an appealing option by opening access to credit and markets. Informality gives firms a ‘safer’ place to incubate but limits their growth opportunities. Supporting firm acquisition of skills so that they can grow and opening up their access to credit would encourage formalization. Technology adoption will likely increase productivity and combined with mobile banking and credit access will naturally lead to greater formalization as firms with growth potential become productive. In the long-term, strengthening the justice system to resolve disputes and increasing access to credit for informal SMEs beyond what the digital finance offers will likely encourage more formalization.

211. There is an important economic impetus to increase regional integration, but facilitating regional integration should give priority to tackling soft failures, such as the absence of trade facilitation measures and policies, ineffective and tangled bureaucracy, and lack of customs facilities at borders and ports. Gabon could endorse regional trade agreements and enact existing agreements; regulatory reforms should address areas that currently restrict the cross-border flow of goods and services. The goal should be to implement policies that will result in stronger markets, enhanced trade integration, and sustainable growth to benefit the entire population.

Strengthening human capital.

212. Gabon needs to invest in human capital to improve its productive capacity so it will support it on the path to an emerging and diversified economy. Because such investments are structural, meeting the ultimate goals will require a five-pronged reform strategy: (1) expand early childhood development services to build the foundational capabilities, cognitive and noncognitive, of future workers ; (2) improve the internal efficiency of the education system and increase investment in it; (3) undertake initiatives to increase school attendance and improve the quality of education; (4) improve the capability of those entering the labor market and strengthen the capacity of all workers to adapt to the changing nature of work; and (5) upgrade the skills of the existing workforce by strengthening the technical training system. The first has a long-term agenda, while the rest are short- to medium-term solutions. These reforms should be part of a cohesive and sequenced policy agenda that is aligned with economic development needs, addresses future as well as current needs for skills, and is fiscally feasible. They should be complemented by

interventions to improve the quality and accessibility of primary health care and social protection systems, which will raise productivity and empower people, particularly those who are poor and vulnerable.

213. Better childhood development services will prepare children for learning. The education system suffers from a lack of quality and relevance. Public spending on education, which in any case is low —both by international standards and compared to Gabon’s level of income— is not used efficiently; there is no clear development vision, and governance is poor. An essential step is to increase the supply and quality of both pre-school and basic education to build early childhood cognitive skills, enhance abilities and motivation for learning, and sustain learning throughout schooling and beyond. Expanding access to schooling is not enough. Learning outcomes in basic education are still low even though access is universal, translating into high dropout rates and severe shortcomings in worker skills (WDR 2018). The fact that both boys and girls have relatively few years of schooling is a major factor in Gabon’s low HCI ranking.⁷¹ Any actions to increase the number of years of schooling should be complemented with programs to improve teaching, increase accountability through regular learning assessments and better alignment of incentives to performance, and more efficient school management.

214. Setting children on high-development trajectories requires fostering cognitive and noncognitive capacities for all through better nutrition, health care, and access to basic services, essentially safe water and basic sanitation. Deprivations in terms of nutrition, unhealthy environments, or lack of basic amenities impair infant learning and development and have long-lasting effects on their socioeconomic achievements. Preventing malnutrition is possible with a sound combination of targeted social services (e.g., nutrition, income support), community monitoring, and parental education. To support child development it is essential to expand access to health care; provide safe water and adequate sanitation to all Gabonese, and mainstream health and nutrition interventions. The recent Ministry of Health initiative to operationalize health districts (*départments sanitaires*) and gradually introduce results-based financing in primary health care is promising. PPPs in education and health can be encouraged to increase allocations and the efficiency of public spending.

215. It will also be crucial to make education and technical training more responsive to the labor market. Addressing endemic unemployment and bridging the skills gaps require systematic efforts to enhance the accessibility, quality, and relevance of both technical and vocational education and training (TVET) and tertiary education. In expanding access to higher education, it is essential that both general and vocational tracks endow graduates with the strong general skills demanded in the labor market. TVET might provide a fast route for training mid-level skilled workers to meet immediate labor market needs, but they may not give graduates a sufficient foundation of general skills that makes them adaptable to changes in labor market requirements. On the other hand, graduates from the general track who do not enter tertiary education likely lack sufficient job-relevant skills. It is important that both tracks provide the right skill mix and that they are permeable enough to ensure that graduates have a range of opportunities to continue to acquire skills. Currently, the general track through tertiary education is heavily biased toward the social sciences and humanities. The dearth of science, technology, and engineering graduates intensifies the skills shortage in high-value-added sectors. Quality and accountability mechanisms are also needed to monitor the performance of both university and non-university tertiary

⁷¹ See the HCI discussion in Section IV pathway two, pp. 88.

education. Gabon needs to expand the range and relevance of technical training, which is the most direct way to build the skills of current workers. Here again, higher quality standards, certification of technical programs, and accountable training institutes could help. Better coordination with private employers is also crucial to design market-relevant curricula and course offerings and to provide financial and technical support that better responds to the needs of growing sectors of the economy.

216. More science and technology graduates are essential to diversify the economy and raise the productivity of all workers. Increasing the pool of graduates with STEM (science, technology, engineering, and mathematics) skills could mitigate persistent skills gaps and mismatches, respond to the demand for workers in high value-added sectors, and also alleviate Gabon's high youth unemployment. If the government is to reach its goal of making the country a center of excellence in high-value-added services and a digital pioneer, it is crucial that it invests in producing STEM graduates to build a critical mass of skilled inventors of technological innovations that enhance the productivity of all Gabonese workers .

217. Investments in improving the quality and expanding the pool of Gabonese STEM students need to be strategically targeted. Because designing first-rate STEM programs requires hiring highly qualified professors, building supportive infrastructure, and subsidizing promising students to attract them to STEM fields, the costs could be substantial. Although the government faces budgetary constraints, there are a number of ways to deal with the shortage of STEM students (Choi, Dutz, and Usman 2019). One is to enter into regional partnerships, like the African Center of Excellence (ACE) project, another is scholarship schemes like The Returning Experts Program that helps students study STEM fields abroad and provide them with incentives to return home once they graduate. Another model for the short term would be to invest in a relatively small number of research center and university programs for promising STEM students and scale the program up in the medium and long terms.

218. Building digital skills is also crucial if all workers are to benefit from the opportunities afforded by technology to better adapt as needed to the changing nature of work. While a critical mass of innovators and entrepreneurs will allow all workers to leverage the opportunities opened up by technological innovations, the country also needs to ensure that all workers, even those in low-skilled occupations, have the basic digital literacy and numeracy skills to leverage digital technology to improve their lives and raise their productivity. Investments in adult learning and education could also allow them to make the most of the nonwork opportunities that digital technology can provide, such as access to financial products for the unbanked.

219. Given its young population, ensuring that students have solid foundational skills before they leave school is critical to Gabon's growth prospects. Equipping students with the skills they will need at each stage of the lifecycle means building (1) critical cognitive and socioemotional skills in early childhood; (2) ICT and higher-order skills for children and youth; and (3) technical and job-specific skills for young adults; doing so will help mitigate any disruptions digital technologies may bring about.

220. Giving students and their families timely and accurate information about the types of skills the labor market needs could help alleviate high unemployment and persistent skills mismatches. Given generous public wages, students currently choose fields they believe will help them secure and retain jobs in the public sector. However, there is a clear disconnect between the knowledge and the skills that new graduates have and the skills that the labor market needs, and

this is reflected on the composition of the unemployed in the country, where 49 percent are first-time job seekers, and the largest proportion of the unemployed are youth between 25 to 29 years old with lower secondary education level. The government and the private sector have tried to mitigate labor market mismatches through retraining programs that help fill current gaps in the labor market, but these are short-term solutions that may not be sustainable. Giving students accurate data on the skills employers are seeking and on employment outcomes before they choose secondary education programs and tertiary fields of study could help them make more informed and market-responsive decisions. The government and the private sector need to cooperate in identifying skills gaps that constrain productivity and growth and in coordinating strategies to address current mismatches in the labor market.

221. Investments in high quality entrepreneurship programs and building a more enabling environment for entrepreneurs are also crucial to building a critical mass of skilled inventors. Developing high-quality tertiary programs that give students the knowledge and skills to identify opportunities and start businesses after graduation is critical to realizing the benefits of emerging technology for job creation. Equally as important is an environment that offers startup funds for entrepreneurs, business incubators that help match innovators and entrepreneurs, and the infrastructure that ensures access to reliable and affordable electricity and Internet connectivity.

222. Major reforms are required to boost the quality and efficiency of the health system. The recently released Public Expenditure Review (PER) shows that rising spending on public health has not generated commensurate improvements in health indicators, suggesting both technical and allocative inefficiencies in the use of resources.⁷² Moreover, spending on health appears to generate less value for money in Gabon than in comparable countries. For example, maternal and child mortality rates are significantly higher in Gabon than in most countries with similar per capita health spending. With fiscal consolidation, it will be especially important to enhance the efficiency of health spending by, e.g., (1) reorienting expenditures to preventive care and public outreach by primary and secondary care facilities; (2) operationalizing the governance and management of health districts; (3) improving referral systems, reinforcing pharmaceutical management, and setting transparent criteria for allocating resources; (4) establishing oversight mechanisms to ensure that planned investments are fully implemented; and (5) adopting more efficient budget-management and incentive systems, such as performance-based payments.

223. Social protection programs also need to be made more effective by better targeting, more effective management of resources, and ensuring that reforms are effective and sustainable. Because the social protection system is underfinanced and highly fragmented, it has limited capacity to support the poor. The CNAMGS drafted a five-year strategic plan (2018–22) to address social protection deficiencies that has three main objectives: universalize health insurance coverage; digitize the health sector; and better target social benefits to the most vulnerable population groups. The planned reforms include sustainable financing of social protection systems by reinforcing contributory schemes and revenue collection, managing operating costs more effectively, transforming CNAMGS digitally to improve its efficiency, and introducing more effective methods to empower the groups most vulnerable to poverty (e.g., single mothers, widows, the elderly) and to provide medicines and health care equitably throughout the country. The 2018–22 strategic plan seems too ambitious to be realized in five years. Undoubtedly,

⁷² Although public spending per capita in 2014 was 2.5 times higher than it was in 2000 (\$335.90 vs \$136.40), maternal mortality fell by only about 39 percent, and under-5 mortality by about 23 percent.

it will also require more resources than the current government budget allocation of about 0.5 percent of GDP. Moreover, its success will depend on careful prioritization, sequencing, and alignment with fiscal constraints. The following must therefore be priorities:

224. *Better target social protection programs and establish a reliable and transparent social registry.* Many of the poor have been excluded from social protection schemes due to inconsistencies between the GEF definition and their actual poverty status. The government has been moving to overhaul targeting, shifting away from a declarative approach to poverty-based criteria. The Ministries of Economy and of Social Protection, in collaboration with the Department of Statistics and CNAMGS, plan to validate a new targeting approach based on the revised definition of GEF and an updated database of about 500,000 potential beneficiaries. Once completed, this exercise will be the foundation for a social registry that could help target interventions to address poverty more effectively and efficiently, combined with geographic targeting to channel resources specifically to the communities that are most in need. The poverty maps in this SCD can be helpful for understanding the geographic dimensions of poverty and tailoring antipoverty policies to the specifics of each community. Cost-effective social transfer interventions can rely on a combination of geographic targeting and socioeconomic selection of beneficiaries to limit leakage to nonpoor households.

225. *Expand the coverage of social safety nets and revisit program design to respond to human capital deficits, poverty challenges, and spatial considerations.* The five-year strategic plan itemized instruments to support and empower single mothers and better assist the elderly, disabled, orphans, and widows, particularly in rural areas. It would also increase the amount and coverage of school allowances (which will rise gradually with education through high school); provide universal free childbirth services; set up a national network of 20 mobile clinics; and expand the provision of medicines. A related goal is to better collect information on multidimensional aspects of poverty. With more data, Gabon can explore new policy options and evaluate their impact to ensure better human development outcomes. Close coordination between sectors (education, health, labor/employment, and rural development) will be necessary for policy coherence and more efficient use of resources.

226. *Streamline social protection interventions and improve program monitoring and evaluation.* The strategic plan is fragmented and overly ambitious. The policy interventions it mentions are not part of a costed action plan and not sequenced. Like many of Gabon's previous development strategies, it risks failure when implemented. Functional social protection requires a more systematic approach that promotes coordination and resource-sharing and exploits synergies between instruments and sectors to deliver comprehensive and sustained assistance to all who need it. It will be necessary to (1) draft a realistic budget and cost plan for proposed policies, taking into account the resources available and competing strategies; (2) put in place careful monitoring and evaluation to track progress, measure results, promptly identify potential problems, and ensure that systems are developed iteratively based on lessons learned; (3) formulate a clear, realistic, and time-bound schedule for carrying out the strategic plan; and (4) use simulations to analyze alternative options and rank them by their relevance to different vulnerability profiles, their expected impact on human capital and poverty outcomes, and their cost-effectiveness.

Maximizing gender equality

227. *Despite government efforts to reduce gender gaps, inequalities between men and women persist in all socioeconomic domains.* Women now make up over 50 percent of Gabon's

population and about 43 percent of its active workforce, which suggests the socioeconomic gains that can be achieved through maximizing equality of gender access to capacity-enhancing assets and economic opportunities. Gabon has made significant progress toward gender equality in access to education and gender parity in enrollments, with girls outnumbering boys in both primary and secondary education. However, Gabonese women still fall behind in earnings, productivity, and access to productive resources. Unemployment is significantly higher among women than men, and more women work in low-productivity, low-profile occupations. About 28 percent of men have a bank account, compared with only about 16 percent of women, and more men than women have access to productive communication and transportation means. Participation of women in education and employment creates economic assets and can catalyze economic production and productivity—creating positive spillovers for family incomes and the welfare of children.

228. Current gender gaps are the result of sociocultural norms and the time it takes for the benefits of reforms to materialize. Most legal discriminations against women were abolished when the Civil Code was liberalized in 2011 and the remaining discriminations are being addressed in its revision. Although these reforms create a solid foundation in law for gender equality, cultural norms continue to entrench gender differences in access to assets and economic opportunities. For instance, married women cannot own land independently. The weak legal framework for property, still mostly based on customary practices rather than modern property law, further aggravates the existing gender discrimination with regards to access to land property. Women are still subject to unacceptable rates of physical and psychological violence. Gender parity in education enrollment has not produced gender equality in attainment and the benefits may take time to be realized.

229. Further progress on gender equality will be essential if Gabon is to accelerate poverty reduction and shared prosperity and achieve its development goals. While more data and analysis are required to fully understand the incidence and nature of barriers to labor market and productive opportunities that Gabonese women face, based on the consultation process and the policies set out in the 2012 WDR, a number of policy options can already be identified. Priorities are to facilitate participation of women in the labor market through more access to child care and better parental leave policies—in informal as well as formal employment—and infrastructure that can bring women closer to basic services and markets to relieve constraints on their time. Equally important are enhancing women’s access to economic assets, correcting discriminatory laws, equalizing women’s property rights with men’s, ensuring rights to job-related benefits, and improving their access to credit. Technology can help expand the reach of services and information to women. Education policies now need to give precedence to opening up access to higher education for girls, particularly those in disadvantaged families and regions. Only 2 percent of girls in rural areas and 7 percent in poor families are enrolled in upper secondary, compared with 11 percent of boys. Investing in education and skill-building for women, particularly adolescent girls in vulnerable families, would also help to reduce fertility rates and the strain that high dependency ratios put on social services. Expanding access to tertiary education and accelerating the acquisition of STEM and digital skills could open up job opportunities for women in fast-growing sectors, particularly in ICT, and help to empower them. Greater access to health care and addressing early pregnancy can complement these actions. Especially important is effective enforcement of the legal reforms in the Civil Code to protect women and eliminate gender discrimination.

230. Policies to expand capacity and economic opportunities for women must be supplemented by reforms to foster their societal, political, and economic representation.

Sustained progress toward gender equality can only happen if women are represented at all levels—for example through mandatory quotas—and are provided with capacity building and mentoring to enhance their ability to participate in political and economic life. This can also enhance women’s voices within the household and would help to shift attitudes and cultural norms, breaking down gender stereotypes.

Consolidating the financial and banking systems.

231. The financial and banking sector needs to be thoroughly reformed so that it can provide the financial tools to support the diversification of Gabon’s economy. The financial sector is still vulnerable to fiscal risks and its weak regulatory framework has further compromised both its capacity to bear risks and the access of Gabonese people and firms to finance. Reforms should therefore aim to (1) strengthen the banking system through increased capitalization and enhanced competition between banking actors; (2) implement the appropriate regulatory and side mechanisms to ensure that private small and micro businesses can access the financing instruments necessary to their activities; (3) create commercial courts to expedite the enforceability of claims and property rights and make available alternative dispute resolution mechanisms; (4) enhance financial inclusion by expanding digital financial services and introducing agency banking as a means of reaching sparsely populated rural areas; (5) improve access to credit for micro and small enterprise by developing public or private risk-sharing mechanisms and instruments such as a movable collateral registry; and (6) support the rapid development of mobile banking with the appropriate legislation to generalize the access of individuals to financing instruments.

232. The first step is to conclude the ongoing restructuring of the banking system. The three public banks are in financial distress, with two already in liquidation and the other one under management. The process of liquidating these liabilities should conclude with the technical support of the IMF in order to minimize the cost for the government. Cleansing the public banking system is both necessary and urgent before any other restructuring of the whole banking system can be considered. Concerns have been raised about the government’s increased participation in the BICIG, the third largest Gabonese bank, and the subsequent cost it represents for public finances in the context of budget tightening. Overall, it raises the question of public engagement within the banking system. The restructuring of the banking sector and the liquidation of the current public banks in disarray should be followed by a change in the strategy: the government would step away from any participation in banks to focus on its regulatory role.

233. Restructuring of the banking system should be supported by new regulations to facilitate access to credit for micro and small businesses. Limited by necessary strict regulations in terms of capital stock requirements, and within the current context of economic uncertainty that automatically increases the level of risks, private banks are reluctant to lend to small and micro businesses and prefer to orient their funds to large economic actors that bear less risk. The most pressing actions entail mechanisms to lower the interest rates and to relax the requirements of small enterprises to access credit. The existing project of implementing a global outstanding rate (*Taux d’Encours Global* – TEG) which would be based on the average of all rates given to the commercial banks by the central bank, and that would be available to all economic actors of the country, should be a first step.

234. The government should also fully harness the rapid development of mobile banking to generalize the access to financing instruments. The regulatory environment for mobile banking remains embryonic. Mobile operators still need to be associated with a banking operator

to operate their mobile banking system. A change in the legislation is under revision, which would allow mobile operators to apply directly for a banking license and therefore expand their mobile banking services and lower the associated operating costs for the customers. Government efforts should focus on the regulatory environment, and particularly the inherent potential fraud and security risks that come with mobile banking, given that allowing mobile operators to apply for a banking license poses important regulatory questions such as deposit guarantees, capital requirements, and data protection.

235. In parallel, the government should focus on creating appropriate financing mechanisms to support micro and small business as part of its efforts to diversify the economy. Currently the multiplicity of actors creates confusion and dilutes the effects of any funds directed to economic support of small and micro enterprises. It also generates overlaps between programs, which testifies to inefficient allocation of funds. Centralization could be structured around the FNAS but the rules would need to be relaxed. The current system is too rigid: the FNAS can only finance individuals registered as economically weak (GEFs), even though it receives many requests from non-GEFs to finance income-generating activities. At the same time, the FNAS suffers from severe budget and staff shortages. Centralizing the resources for the current variety of programs within a single national public SME-financing program would free up resources, improve allocative efficiency, and generate synergies.

Foundational Priorities

236. Weakness in Gabon's governance and its institutions undermines its services to citizens and businesses. Non-transparent management of public resources jeopardizes service outcomes, citizens' trust, and state capacities. Political patronage has facilitated persistent corruption within the administration and has failed to redistribute oil and natural resources wealth to the poor, which has resulted in massive inequality in society. Recent analyses have confirmed major issues in Gabon's management of its public finances, public investment, procurement, and human resources. More efficient and transparent management is therefore crucial, particularly because the current tight fiscal situation limits government ability to mobilize resources. Inadequate budget control and management of fiscal risks, especially risks related to debt, leads to frequent deviations from the approved budget and the accumulation of arrears. To restore public confidence in the government, it will be critical to ensure that public services are effective and public institutions are accountable.

237. Sound economic management and enhanced public sector governance are prerequisites for transforming the economy and fostering social inclusion. Good governance and economic management—especially a solid fiscal framework and cautious macroeconomic policies supported by sound PFM—are necessary to insulate the economy from oil price volatility, ensure that public spending is efficient, lay the foundation for economic diversification, and address inequalities in Gabonese society. That calls for a citizen-centric approach to how public resources are allocated, the productivity of the public sector, and the accountability and transparency of government activities. Such an approach will ultimately strengthen public services, mitigate inequalities, and foster public trust. It will help to diversify the country's assets beyond natural capital, notably through thoughtful investment in human and physical capital. Such reforms will also encourage the private sector by relieving concerns about the quality of economic governance, establishing a supportive business environment, and removing regulatory barriers to competition.

Robust macroeconomic management and fiscal sustainability.

238. The lack of effective planning for long-term economic development has made it more difficult for Gabon to manage its spending and align public revenues and expenditures, which in turn has eroded the efficiency of government spending and public investment. Inefficient management of natural resource windfalls, e.g., through procyclical fiscal policies, has prevented strategic investment in human and physical capital. As a result, Gabon is not fully prepared to deal with its current macroeconomic challenges, with a low-skilled labor force, paltry savings, and a narrow base of installed infrastructure. Expansive public sector employment, with generous wages, has crowded out employment in the formal private sector, reduced the efficiency and productivity of the economy, and created a high wage bill. To more closely align government policy priorities, resource allocation, and performance, it is also critical that tax policy and administration be more efficient, transparent, and fair, and that public investments are better managed. Reforms should focus on (1) improving revenue collection and consolidating the fiscal system by eliminating numerous tax exemptions and providing fiscal certainty to economic actors; (2) spending more efficiently and rationally through improved budget planning and execution, and public investment management; (3) engaging the private sector to fund the implementation of investments to support the growth strategy; and (4) moving to a more countercyclical fiscal policy stance, which implies safeguarding potential fiscal windfalls for downturn periods. Overall, the government needs more effective planning tools, including forecasting models and database systems, as well as the modernization of revenue-collecting administrations for a better monitoring and control of revenue.

239. Gabon can collect more revenue by eliminating costly tax exemptions, shoring up the revenue base, and lowering its dependence on oil. The government has adopted measures to enhance nonoil revenues collection, through the creation of the e-tax platform, the upgrade of customs service information systems, and the increase of customs inspections. However, deficiencies in tax and customs administrations continue to undermine collection efforts and erode the tax base. Short-term priority measures to address these deficiencies and increase the fiscal space include: rationalizing tax expenditures for both custom duties and the VAT, with the elimination of the multiple ad-hoc existing tax exemptions, particularly within the context of the development of the SEZs; increasing the rate of some excise taxes to generate additional fiscal revenues; introducing new taxes on luxury products and fund transfers; and widening the tax base by immediately starting to tax public entities that have been exempted until then. The targeting of fiscal programs could also be refined; for instance, rather than being eliminated, as planned, the *La Vie Chère* tax exemption program should be revised to leave pro-poor items in the list, add some new ones, and ensure that the benefits of the program accrue to the poorest. Replacing it with a cash transfer program targeting the poor should also be considered.

240. Ramping up public investment in infrastructure, energy, health, and social protection should be supported by structural reforms of public spending. The authorities should give particular attention to program budgeting, to ensure sound economic management. Critical reforms here are to align fiscal planning with the Medium-term Expenditure Framework (MTEF); prepare and execute budgets more methodically; use more comprehensive and accurate fiscal reporting to tighten controls; monitor and evaluate spending; and increase the availability and access to data. Improved PFM systems and processes will minimize budget deficits and help reduce payment arrears and public debt. The Integrated Financial Management Information Systems (IFMIS) is a

critical support for evidence-based decision making and policy development and can effectively link budget processes to the national strategy.

241. By optimizing resource use, an effective public procurement system contributes to substantial macroeconomic gains, fiscal economy, and the efficiency and sustainability of citizen-centric investments. Though Gabon has laid the foundations for public procurement reform, the system still has persistent problems that reduce the optimization of public spending (World Bank 2019c). If the government is to optimize the use of public resources and be accountable to citizens, aiming for public procurement efficiency, economy, rigor, profitability, sustainability, transparency, and credibility, reforms should be directed to enhancing governance and accountability, notably through strengthening the regulatory framework, ensuring public access to information, and implementing an electronic procurement transaction system.

242. Better human resources management would improve public sector performance and help contain the wage bill. Civil servants motivated by appropriate incentives and with the right skills mix are essential for improving public sector performance and productivity. In the current civil service budgeting reform, the government should pursue its efforts to introduce performance-based management and strategic staffing—supported by tighter control of payroll and HR management, removal of ghost workers, development of the HR management information system (HRMIS), and potential compensation reform to contain the high wage bill. The fiscal space created could benefit such government priorities as more effective social programs and a diversified economic base.

243. Attracting more funding from the private sector and leveraging investments and service delivery through PPPs would help to reduce public spending and ensure fiscal sustainability. Connective and digital infrastructure, energy generation and overall service delivery could be improved by opening up opportunities for private investments through PPPs. Efforts in that direction are ongoing and should be intensified. Reforms to support private investments (e.g., ANPI-Gabon, PPPs support unit and revision of the of legal and regulatory framework for PPPs) need to be strengthened and supplemented by reforms to accelerate the Doing Business reform agenda and the improvement of the overall investment climate.

244. It is also urgent to adopt a countercyclical fiscal policy framework to insulate the economy from the fluctuations of natural resources' prices. Macroeconomic policy has so far been procyclical, increasing expenditure in periods of economic growth and additional fiscal windfalls while cutting back on public investment and other expenditures during downturns, as fiscal revenue decreased. Such policies are counter-productive, particularly in a country highly dependent on natural resources revenue, whose revenues are therefore strongly subject to international price cycles. Authorities could consider lessons from international experiences and successful practices to put in place efficient countercyclical policies that can smooth out economic volatility and create the conditions for sustainable and broad-based growth.

Transparent public resource management and a more attractive business environment .

245. Effective governance structures and strong public institutions are critical to channel natural resource revenues to support diversification and promote long-term pro-poor growth. Compensating for the depletion of natural resources by investing in productive capabilities depends on the institutional context and the quality of governance (WDR 2017; World Bank 2018d). Little of Gabon's natural wealth has been saved to invest in human capital and productive assets. Although the country established a Sovereign Wealth Fund, FGIS, in 2012 to

address these concerns, so far it has done little to facilitate a smooth and stable investment inflow and achieve stable growth. Gabon and its institutions have not made the necessary commitment to safeguard natural resource revenues and create an environment conducive to broad-based development.

246. All available measures of governance and institutional quality identify severe shortcomings. For instance, Gabon ranks in the bottom 20 percent of countries in the 2018 WGI control of corruption index and the 2017 *Afrobarometer* survey found that 88 percent of Gabonese felt that the government is “doing badly in fighting corruption”. A wide spectrum of reforms will be required to transform public institutions and create a modern administration capable of enforcing the rule of law, regulating economic activity, and providing essential social services.

247. Modernizing the public sector and improving governance in the education and health sectors require a firm commitment to merit-based hiring, performance evaluation, and results-based management of public services. Reforms that enhance the accountability and transparency of national and local government and increase citizen participation in the management of public resources and services will build trust in state institutions. The necessary reform to improve governance of health and education sectors must recognize the specific roles of officials, administrators, medical staff, other care providers, teachers, students, and families. The reform should be combined with new ways of financing and governing health care centers and schools in order to build human capital and maximize its returns.

248. The difficult governance environment, inadequate institutions, and limited bureaucratic capacities inhibit the creation of a business environment conducive to private investment. The dominance of powerful business groups, mainly operating in the resource sector; regulatory barriers to firm entry; and delays in improving the business environment deter competition. The creation of SEZs might be a way to build competitiveness and attract FDI for non-resource sector development; however, the model followed so far has been based solely on fiscal and financial incentives without either analysis of demand or planning to integrate SEZs into the local economy. The institutional capacity for greater coordination to manage competition and industrial upgrading remains non-existent. Development strategies are too broad and lack prioritization, sequencing, and alignment with budget constraints. Limited data and statistical evidence to guide the planning and targeting of policies has prevented proper assessment, monitoring, and evaluation of how strategies actually perform. Reforms should therefore give priority to (1) improving governance and accountability and addressing the lack of commercial justice and the multiplication of near-racketeering cases; (2) ensuring property rights through land registry reform; and (3) better coordinating policy and adopting realistic and consistent policy-making processes that respond to budgetary constraints. To attract more private investment Gabon should also sustain the effort to raise its *Doing Business* indicators.

249. Enhancing governance and accountability will depend on drastic reform of the justice system. The authorities are aware of its deficiencies, as reflected in such recent reports as the 2018 evaluation of the progress of the *Plan de Relance de l'Économie*, but the government needs now to move urgently to address the problem. Commercial courts can be transformed by appointment of independent judges responsive to clear regulations enacted by Parliament. As envisioned by the government, cooperation with countries like France, the UK, or the USA on programs for training judges could help raise the accountability of the courts, but nothing has yet materialized. The government should also move against clear abuses of power in order to restore confidence and send a clear message both to both civil servants and investors.

250. Reforms to ensure property rights and the achievement of the process of land titling are urgently required. The lack of a proper land registry prevents investors from securing land titles and causes severe delays in investments. Initial steps were undertaken with the publication of the PNAT and the constitution of the CNAT in 2017. However, delays in the decision-making process of the CNAT has left the country without a proper land registry so far, further delaying all the investment plans of many private actors. It is critical for the country to establish a clear mapping of its parcels, particularly in urban areas where informal occupation of land is widespread and often collides with formal projects of land development. The establishment of the land registry should also be combined with a reinforcement of the legislation protecting property rights.

251. Additional priorities are improving inter-governmental coordination so that policy-making is better aligned with budgetary constraints. Two major concerns are (1) the failure of different administration entities to coordinate their activities, as evidenced, for instance, by the multiplication of programs to support income-generating activities; and (2) overly ambitious strategies that are rarely consistent with the budgetary constraints, so that budget lines are often not executed. Government departments thus cannot meet the ambitious initial objectives, which generates a sense of failure to achieve targets and undermines confidence in the government: Unrealistic strategies put heavy pressure on department time, resources, and morale.

252. Gabon should also intensify its efforts to improve all its *Doing Business* indicators. Here the role of the high-level government committee created in November 2018 to follow up on priority reforms would be central. As the 2018 and 2019 *Doing Business* reports acknowledge, Gabon has made progress, but its current ranking is a powerful deterrent to investors who do not know the country well. Despite their flaws, international rankings constitute the first glimpse of the local business environment that investors have. It is therefore urgent for Gabon to continue its commitment to climbing in international rankings. Improving the business environment would stimulate competition, a critical step on the path to economic diversification.

Critical Data and Knowledge Gaps and Directions for Additional Analysis

253. The SCD has drawn from a scarce number of completed and ongoing studies. Until very recently, the quality of data available for Gabon remained very poor, severely constraining any economic, social, and demographic analysis of the country, particularly its most vulnerable inhabitants. The achievement of the SCD has revealed a variety of data and knowledge gaps that, if filled, would be particularly helpful toward making progress in sustainable poverty reduction and improving shared prosperity in Gabon.

254. The primary knowledge gap relates to the general quality of data available and the statistical capacities of the country. In 2017, the results of the households' survey EGEP were finally published, nearly 12 years after the last comprehensive and national household survey carried out in Gabon. The lack of follow-up combined with the country's weak statistical capacity constitute major impediments to any proper data-driven policy-making process. The government has already undertaken initial steps with the support of the World Bank. In 2017, the World-Bank-financed Gabon Statistical Development Project started, which aims at reinforcing and structuring Gabon's capacity in terms of collection, analysis, and dissemination of national statistics. It is critical for Gabon to pursue its efforts to strengthen its statistical capacity with the support of international donors, and particularly the World Bank. A central aspect of this commitment would be to ensure that different types of surveys are undertaken at regular intervals. The 2017 EGEP should only be the start of a series of surveys that are similarly designed in order to allow comparison between the different waves and to accurately track the evolution of key indicators such as poverty rates, access to services, employment, etc.

255. Closely related to previous gap, the scarcity of empirical evidence regarding the impacts of a variety of public policies on the welfare of the poor constrains any assessment of the existing programs and policies. Strong results-based M&E systems accompanied by rigorous impact evaluation are rarely used effectively in the all areas of the government, and particularly in the social protection sector. There is remarkably little available evidence on the impacts of public policies aimed at promoting secondary and tertiary education, strengthening training and vocational programs, increasing access to early child education, increasing worker productivity through TVET programs, providing support to income-generating activities through incubators, or increasing the quality of service delivery in education and health. The implementation of strong results-based M&E systems in all of these areas, would allow Gabonese policy makers to learn from current actions and properly assess the cost-effectiveness and impacts of policies so that results can systematically inform policy decisions and program expansion, or possible contraction, in the context of a tight fiscal space. Finally, closely related to the above, it will be important to systematize data on the link between public spending and quality of public services.

256. As economic diversification constitutes one of the primary challenges of the country as a whole, and the government in particular, understanding the private market with strong data-driven evidences would be critical. As Gabon's private market appears plagued with many constraints that prevent local enterprises from exploiting their full potential, the nature of these obstacles and constraints remain poorly known. The country lacks a proper enterprise survey as well as an employment survey that would allow to understand the mechanisms at stake on the labor market. The employment survey would also allow to have a better understanding of the current reach of labor laws – including skilled-workers immigration laws—and how they shape the labor

market. The informal market is also poorly known, which constitutes a massive knowledge gap in a country where informal employment concerns 35.7 percent of the employed population, and household employment represents 16 percent of the employed population. In this particular segment, the lack of data-driven evidence prevents the government from implementing the necessary corrective measures and limits the possibility of designing well-adjusted policies aiming at reintegrating informal players within the formal market. For instance, little is known on the dynamics and the underlying mechanisms at stake when enterprises pass from the informal to the formal sector.

257. In addition, as the country continue to face important infrastructure gaps, little is known on the actual local capacities. Severe data gaps continue to exist regarding key infrastructure such as road network. In a country sparsely populated, these data would be critical if the government wants to achieve a harmonious spatial development through networks linking secondary cities and hinterlands to the main urban centers. The quality of roads appears to remain a severe constraint but any analysis on the topic cannot be supported by hard data, which automatically weaken any sort of recommendation formulated. The World Bank in particular has no current engagement in the transport sector and an opportunity to conduct a transport public expenditure review would be timely. The availability of transportation data would also allow to identify potential bottlenecks and to determine if the real issue is low investment or rather operation inefficiencies.

258. In many other areas, additional analysis could help refine public policy. In partnership with the authorities, as well as the range of existing Gabonese academic institutions and civil society organizations, the next CPF of the World Bank will provide an opportunity to address several of the remaining knowledge gaps. As part of the planned CPF, a gender discussion will be required. As no Country Gender Assessment (CGA) currently exists, the preparation of one will be necessary. To that extent, any future data collection should include and prioritize gender-disaggregated data necessary to the elaboration of such a CGA. The SCD has provided the foundation for a discussion on future priorities for Gabon. The next step in the elaboration of a new CPF will be to identify those areas where the World Bank Group can most effectively contribute through its global knowledge, its experience, and its various instruments of financial support.

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Appendix

Appendix A: Definition of Peer Countries

In order to compare Gabon's performance and structural features, five groups of peers were considered: (i) upper-middle-income countries, (ii) lower-middle-income countries, (iii) Sub-Saharan Africa's countries, (iv) structural peers, and (v) aspirational peers. Structural and aspirational peers were identified based on the following criteria:

Table A.1: Selection Criteria of Comparators

Aspirational Peers	Structural Peers
<i>This classification includes countries that provide good examples of development for Gabon. These countries are selected using the following criteria for the period 2000–2016:</i>	<i>This selection considers countries with similar characteristics to Gabon. It is based on the following criteria for the period 2000–2016:</i>
<ul style="list-style-type: none"> - Upper middle-income to high-income countries (GNI per capita of \$8,000 or more) - GDP growth higher than 4 percent - Export concentration index <0.5 - Investment to GDP higher than 15 percent 	<ul style="list-style-type: none"> - Upper middle-income to high-income countries (GNI per capita between \$3,956 and \$12,235) - Population between 1 million and 15 million - Resource abundance (nat. res. rent %GDP) ≥2 - Commodity exporter - FDI as a share of GDP ≥3

Note: The selection also takes into account the regional distribution of countries.

Table A.2: Aspirational Peers

	Population (millions)	GNI p.c (2016)	GDP growth 2016	GDP growth (2000-2016)	Export Concentration (2000-2016)	Investment (2000-2016)
Chile	15	13,540	1.6	4.0	0.32	22
Malaysia	23	9,860	4.2	5.0	0.19	26
Mauritius	1	9,770	3.8	4.2	0.48	22
Uruguay	3	15,230	1.5	4.9	0.19	18

Sources: WDI and World Economic Outlook (WEO) indicators.

Note: Population is in million, GNI per capita in USD, and Investment in % of GDP.

Table A.3: Structural Peers

	Population	GNI p.c (2016)	GDP growth 2016	GDP growth (2000-2016)	Rent (2000-2016)	FDI (2000-2016)
Gabon	2	7,210	2.3	3.3	34.6	3.4
Azerbaijan	8	4,760	-3.1	11.1	30.7	17.2
Costa Rica	4	10,840	4.3	4.3	1.2	6.0
Botswana	2	6,750	4.3	4.3	4.3	3.8
Kazakhstan	15	8,810	1.1	5.9	21.1	8.5
Namibia	2	4,640	1.1	4.8	2.1	6.1

Sources: WDI and World Economic Outlook (WEO) indicators.

Note: Population is in million, GNI per capita in USD, and Rent and FDI in % of GDP.

Appendix B: Agriculture and Fishery Sector

The GRAINE Program

The program GRAINE (*Gabonaise des Réalisations Agricoles et des Initiatives des Nationaux Engagés*) constitutes the backbone Gabon's local agricultural development and aims at creating a balanced agricultural economy and addressing food security issues by enabling rural communities to become more self-reliant in food production. The program is designed as joint venture, the equity of the vehicle SOTRADER (*Société Gabonaise de Transformation Agricole*) shared between Olam (49 percent) and the Gabonese Republic (51 percent). The government provides land and financial resources while Olam leads in the development and management of the nucleus and smallholder plantations.

The GRAINE's scheme identifies, allocates and transfers parcels of land to co-operatives of Gabonese who have undergone plantation management training to grow crops. The GRAINE project comprises an export crop component (essentially palm) and a subsistence crop component (banana and cassava), which are respectively managed according to estate- and village-based cooperatives. Cooperative members are awarded a land title, giving them the security of owning their production, an allowance of CFAF 100,000/person/month during 12 months, and benefit from training, agricultural inputs and improved planting materials. To date, total investments in GRAINE amount to about US\$ 161 million, mostly executed by Olam as government participation was constrained by the difficult fiscal situation. The program has registered about 838 cooperatives in 2018 —834 in subsistence farming and 4 in palm oil. About 10,000 hectares were planted to date, among which 75 percent for palm oil and the rest for cassava and banana.

So far, the program has produced mixed to negative results:

- The initial land preparation and clearing of cooperatives participating to GRAINE was executed by Olam and proved unproductive as the land was scratched with construction machinery not adapted to agriculture, which left the soil short of its most fertile superficial layer of soil.
- The interruption of the CFAF 100,000/person/month initial allowance given by the SOTRADER to the participants during the first year has led to the rapid demobilization of nearly 50 percent of them.
- The lack of a proper land registry has created land and legal conflicts slowing down the development of GRAINE. Only 18 percent of the total planned land surface has been developed and the attribution of new agricultural land has stopped since mid-2016, pending on the decision of the *Commission Nationale d'Affectation des Terres* (National Commission for Land Attribution).
- The first harvests of the program in 2017 proved largely below the initial expectations with 1,093 tons of manioc (10,000 tons initially planned), and 46 tons of banana produced (7,200 tons initially planned).

In 2017, confronted with the difficulties of GRAINE, the government requested a loan from the African Development Bank (AfDB), which consecutively allocated CFAF 64.7 billion. The loan is pending ratification of Gabon's parliament and would require a financial compensation of CFAF 11.4 billion. In parallel, the AfDB executed a grant of CFAF 1.2 billion in favor of the SOTRADER and is considering an additional loan directly to the SOTRADER for an amount of CFAF 100 billion.

The Fishery Sector

Fishery resources from both inland waters and marine are very rich. Gabon's Exclusive Economic Zone (EEZ), which covers 213,000 km², is the most productive area for tuna species in the Eastern Atlantic. The fishing fleet in Gabon consists of: (i) an artisanal fleet largely dominated by an expatriate community (from Benin and Nigeria); (ii) an industrial trawler fleet exploiting the continental shelf, and (iii) a foreign tuna industrial fleet operating seasonally in the EEZ under fisheries agreements or private license. The PSGE recognizes the importance of the fisheries sector for the diversification of the economy and for food security, and acknowledges that the fishing potential in Gabon is still poorly known and poorly valued. Since 2013, the *Gabon bleu* program has initiated several changes in fisheries management, resulting in a reduction of fishing capacity and effort in Gabonese waters, the modification of fishing areas, and the establishment of marine parks and aquatic reserves (covering 26 percent of the Gabonese maritime area).

While the PSGE sets a vision for developing sustainable fisheries, a processing industry, and a strong domestic added value and for making Gabon an exporter of value-added fish products to regional and international markets, challenges to the sustainable development of the sector include: (i) lack of information on the status and potential of fishery resources; (ii) poor collection and production of fishery statistics; (iii) lack of onshore infrastructure and a weak processing sector, which prevents capturing the value added of fish products and also discourages industrial vessels to fish in Gabon; (iv) Illegal, Unreported and Unregulated (IUU) fishing; (v) the disorganization of the artisanal sector, which has increased by over 50 percent in the last 10 years and where a significant number of boats operate without authorization or in non-controlled areas; and (vi) lack of concertation with the industry in the formulation and implementation of new reforms, including concerns by the private sector about the problematic access to fishing zones and interaction with the creation of the new marine protected area network under "Gabon bleu".

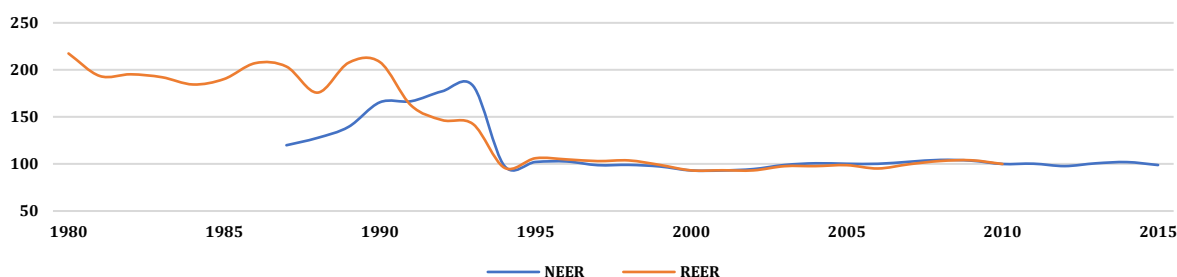
Appendix C: Challenges to Diversification

Dutch Disease Channels

The Dutch disease operates through two main channels: the resource movement effect and the spending effect (Corden and Neary, 1982). The first occurs when the booming resource sector draws capital and labor away from other sectors, including the non-resource tradable sector. This drives up wages, reduces traded sector competitiveness and crowds out growth-promoting industries (Sachs and Warner, 2001). The spending effect occurs as a result of the extra revenue derived from booming resource rents, which leads to an increase in demand, and thus prices of non-tradable goods, thereby causing an appreciation of the real exchange rate.

The Real Exchange Rate (REER) points towards unfavorable tradable price movements until the devaluation of the CFA Franc in 1994, suggesting that Dutch disease effects occurred through the appreciation of the exchange rate (Figure C.1).⁷³ This effect is corroborated by the positive and statistically significant correlation between oil prices and REER during this period. However, from mid-1990s onwards the REER was managed to fluctuate within a relatively narrow range. The estimation of the excess appreciation of the REER indicates an overvaluation of about 9 percent over the period 1980-2014. The average degree of overvaluation was 25 percent during 1980-93, while the last two decades show a slight undervaluation of around 2 percent.⁷⁴

Figure C.1: Index of Nominal and Real CFAF Exchange Rate, 1980-2014



Source: Global Economic Monitor.

Notes:

- 2010 = 100
- The correlation between oil price and REER is 0.29 and is statistically significant at 10 percent

Gabon seems to have partially avoided Dutch disease through the resource movement and the appreciation of the exchange rate, but this was to see the problem emerge through high employment and wages in the public sector. There was a deliberate policy to spread some of the benefits of oil and gas wealth through public sector employment and generous wage policy during the resource boom in the 1970s, when the economy was marked by full employment driven by the government's expansionary budget policies.

Currently, the public sector continues to be a large provider of formal employment, with around half of the formal-sector workforce employed in this sector. Average wages in the public sector

⁷³ The CFAF is pegged to the euro (and previously French Franc), which may have also induced some negative effects on Gabon's trade competitiveness due to the appreciation of the euro vis a vis the US dollar.

⁷⁴ The measure of excess appreciation or overvaluation is based on departures from long-run PPP. Following Johnson, Ostry and Subramanian (2007) and Rajan and Subramanian (2011) we regress the price level of GDP from the Penn World Tables (6.1) on real GDP per capita (in PPP terms). The deviation of the actual price level from the estimated price level is used as a measure of excess appreciation.

largely exceed those offered in the private sector and spending on civil service pay accounted for about 36 percent of government expenditures in 2015, way beyond SSA and even CEMAC averages. Data from the National Survey on Employment and Unemployment (ENEC) of 2010 survey shows that average salaries in the public sector are 65 percent higher than in the formal private sector and 92 percent higher than in the informal private sector. Public sector pays scales are compressed – higher at the lower end and lower at the higher end—thereby contributing towards making Gabon a high cost economy. The minimum wage in Gabon is very high compared to structural and aspirational peers. Data from ILO and national sources show that Gabon’s official annual minimum wage is respectively 11 percent and 26 percent higher than those of Costa Rica and Malaysia, and 151 and 409 percent higher than those of Kazakhstan and Botswana.

The problem in Gabon seems to result from a resource movement effect towards the public sector with its generous wage policy. Natural resources rents may have crowded-out entrepreneurial activity through the expansionary fiscal policy and high wage levels, creating incentives for potential entrepreneurs to seek entry into the public sector rather than investing in growth-promoting activities. This pattern diverges from the typical channels identified in the Dutch disease literature but causes similar effects.

Land Reform

Gabon has engaged a reflection for a more rational planning and sustainable use of its land as part of its contribution to the climate change agenda and its desire to diversify the economy. The realization of a National Land Use Plan (PNAT) has been included as a priority in the National Strategic Plan.

The process has been initiated since 2013 by the National Climate Council with the setting up of an intersectoral commission composed of technical and legal committees. The work carried out by this commission made it possible to (i) assess the current land uses by sector and also to produce bio-geophysical and socio-economic baseline data; (ii) to compile these data into a mapping platform linked with an online data portal (www.pnatgabon.ga) and to identify the overlaps of land use; and (iii) to analyze, in the context of a legal approach, the compatibility of uses and possible conflicts.

The second phase of the process was launched in July 2017 with the creation of the National Land Use Commission (CNAT) under the supervision of the Ministry of the Economy and Sustainable Development. The CNAT is putting in place mechanisms to: (i) resolve the problems and inconsistencies of the assignment of lands and (ii) to facilitate future planning and land allocation with the support of a dedicated unit for the management of technical studies and data carried out during the first phase. The CNAT plans to publish a first version of the PNAT in June 2018 but, so far, no results have been published and issues of land occupation continue to arise.

Financing of SMEs and Income-generating Activities

The landscape of income-generating in Gabon is complex and very strongly influenced by the duality of the economy between the formal and informal sector. On the one hand, formal SMEs struggle to secure loans and credit lines because of the high interest rates (average of 15-18 percent for SMEs) and the important requirements in terms of collaterals. On the other hand, the informal economy has no access at all to the official banking system. Individuals willing to start an income-generating activity, even at a small scale, cannot raise the necessary capital for the initial investment and lack capacities to survive the initial entrepreneurship phase. They mostly rely on

love money⁷⁵, funds raised in regional and/or international innovation challenges and competitions, and eventually on formal loans.

Many institutions – more or less linked to the government and the administration—currently try to square the circle by opening dedicated centers and incubators for SMEs that provide all the necessary capacities and support to start an activity; by bridging the gap between informality and formal banking; and by setting-up financing funds whose proceeds are directly allocated towards the financing of income-generating activities of poor and vulnerable Gabonese (*Gabonais Economiquement Faibles*, GEF).

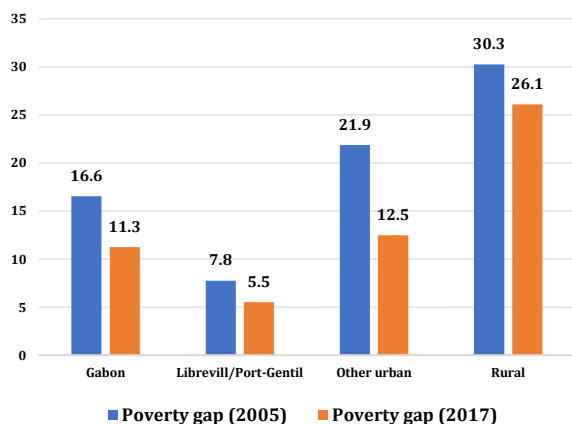
- The ONE has developed its own fund *ONE Entreprendre*. For each internship funded by the ONE within the framework of its programs, the ONE debits 18 percent. In particular, 5 percent goes directly to the *ONE Entreprendre* fund. This fund finances the inception of new income-generating businesses, but also serves as a refinancing establishment in case the business unit needs additional financing to realize further investments.
- The FGIS (*Fonds Gabonais d'Investissement Stratégiques*) has created a subsidiary, *Okoumé Capital*, in charge of financing Gabonese SMEs through equity and quasi-equity participations in the most promising domestic SMEs. *Okoumé Capital* will also assist the selected start-ups in their development and management practices. The fund is endowed with an initial investment capital of CFAF 20 billion (US\$ 35 million), with a minimum participation stake of CFAF 30 million (US\$ 520,000), and a ceiling of CFAF 1 billion (US\$ 1.7 million).
- The DG Investment has its own SME division that manages two incubators.
- The Ministry of SMEs has launched region-oriented incubators that are set in various regions of the country and specialize according to the socio-economic profile of the region – for instance, the incubator of Franceville focuses on metalworking industry. The ministry has also set up a Guarantee Fund for SMEs that is financed by international donors and that will lend money, through the banks, to SMEs.

The Ministry of Communication and digital Economy has opened an incubator (*SING – Société Incubatrice des activités du Numérique du Gabon*) dedicated to digital entrepreneurship, in partnership with the World Bank (e-Gabon project). The Okoumé capital is expected to complement the technical assistance provided by the SING and other private incubators, but these partnerships have not been formalized. A start-up fund with the support of the FGIS also provides financial, technical and administrative supports to digital projects. Several private sector-led initiatives, including incubators, accelerators and SME hubs have mushroomed to support digital and other enterprises across the country, for which Government oversight is necessary.

⁷⁵ Love money is usually given to entrepreneurs by family or friends when there are no other financial options available to start a new business or when an injection of capital is required.

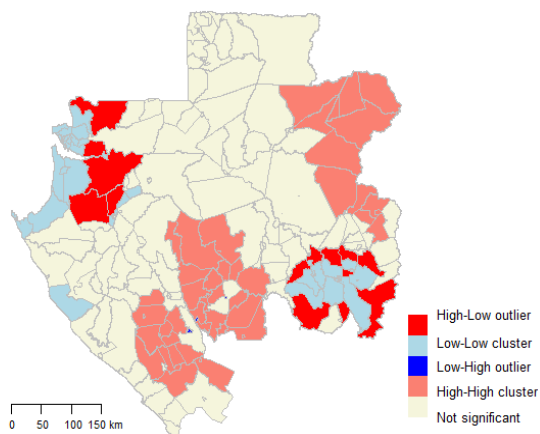
Appendix D: Selected Social and Economic Indicators

Figure D.1: Depth of poverty (percentage)



Sources: EGEP 2005 and EGEP 2017.

Figure D.3: Spatial Typology of Counties



Sources: EGEP 2005 and EGEP 2017.

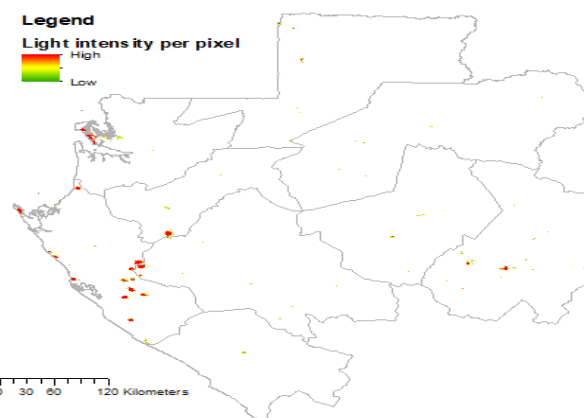
Note: Pink areas constitute the core of the lagging clusters. Areas shaded in bright red identify lagging cantons close to leading areas. Areas shaded in bright blue are leading cantons close to lagging ones.

Figure D.5: Selected Growth, Weight and Contribution to GDP Growth of Sub-Sectors, 2002-16

	Growth					Weight of sectors (2002-2016)	Contribution to growth
	2002-05	2006-09	2010-13	2014-16	Overall: 2002-16		
Agricultural products for exportation	37.9	6.1	21.5	-1.1	17.8	0.3	0.05
Wood manufacturing	8.7	-3.5	9.8	7.5	8.9	1.3	0.12
Non-metallic mineral products	-5.0	11.0	6.3	1.4	7.9	0.5	0.04
Beverage industry	3.1	2.8	11.7	-0.2	7.3	1.0	0.07
Construction	-1.4	6.3	25.3	-10.9	6.0	1.2	0.00
Services to companies	3.9	3.4	6.9	-1.0	5.1	8.3	0.42
Mining extraction	17.2	-18.9	-0.9	8.3	4.9	1.7	0.08
Public administration	0.5	2.5	9.0	1.9	4.6	14.6	0.67
Repair shops	4.8	1.2	0.2	-1.9	2.5	0.7	0.02
Trade	3.1	1.0	2.5	-4.5	1.2	5.8	0.07
Accommodation and food	-0.5	2.7	-4.3	-10.1	-1.5	1.0	-0.02
Oil extraction	-0.6	-2.9	-8.9	8.1	-3.1	30.9	-0.97
Forestry	5.4	-9.6	-19.6	3.5	-12.5	1.3	-0.16

Source: Direction Générale de la Statistique.

Figure D.2: Economic Density (Nighttime Lights)



Source: National Oceanic and Atmospheric Administration (NOAA) Earth Observation Group's website.

Figure D.4: Employment in Oil and Mining (percentage)

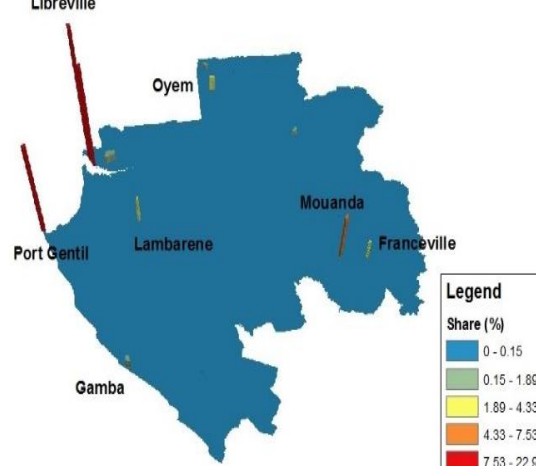
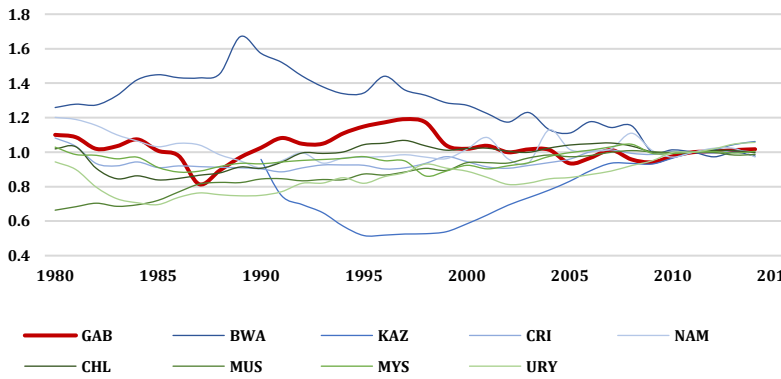


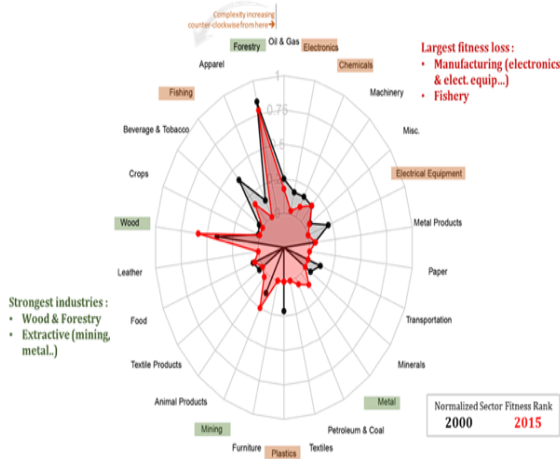
Figure D.6: TFP at Constant National Prices, 1980-2014 (Index 2011=1)



Source: FRED, Federal Reserve Bank of St. Louis.

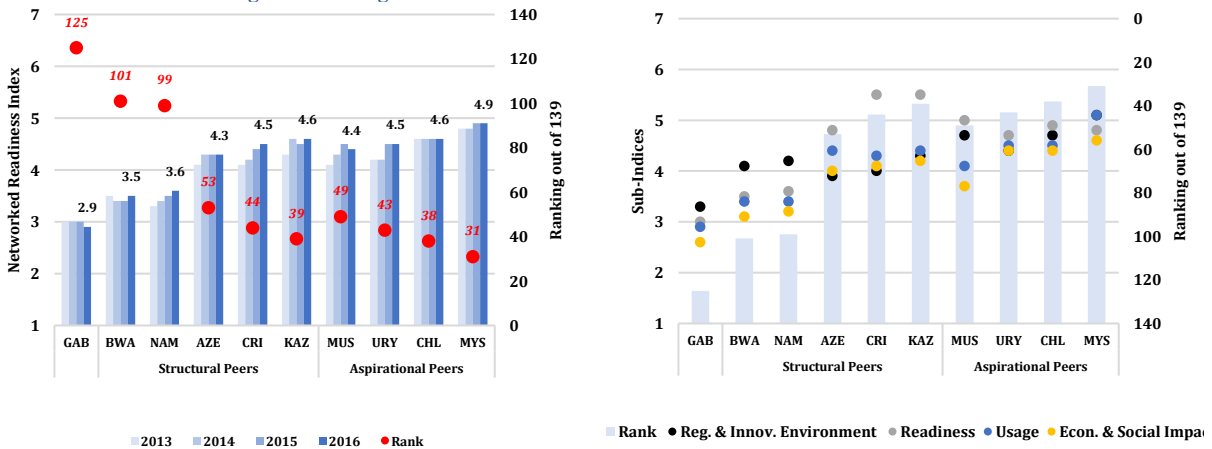
Figure D.8: Gabon and Peers' Opportunity Spotlight

Gabon's Opportunity Spotlight is limited...



Source: International Finance Corporation (IFC) – Country Opportunity Spotlight

Figure D.9: Performance in Digital Technologies and Access to ICTs



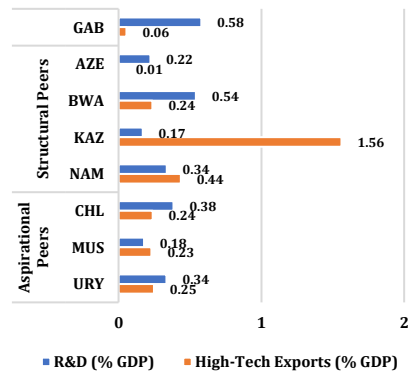
Sources: Global Information Technology Report 2016.

Note: The NRI is a composite indicator made up of 4 main sub-indices, 10 pillars, and 53 individual indicators:

- the Environment sub-index includes *Political and regulatory environment* (9 indicators) and *Business and innovation environment* (9).
- the Readiness sub-index includes *Infrastructure* (4 indicators), *Affordability* (3), and *Skills* (4).
- the Usage sub-index includes *Individual usage* (7 indicators), *Business usage* (6), and *Government usage* (3).
- the Impact sub-index includes *Economic impacts* (4 indicators) and *Social impacts* (4).

The NRI may not capture the fast improvements that occurred in 2017.

Figure D.7: Key Innovation Indicators, 2009



Source: WDI 2018.

... lower than weakly diversified structural peers and behind aspirational ones
Azerbaijan Malaysia

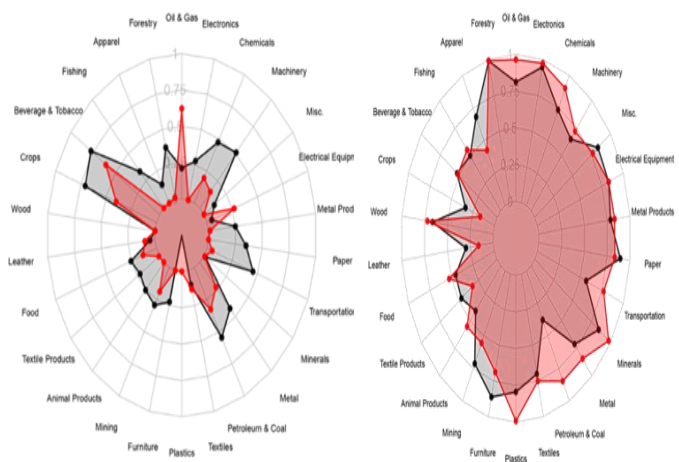
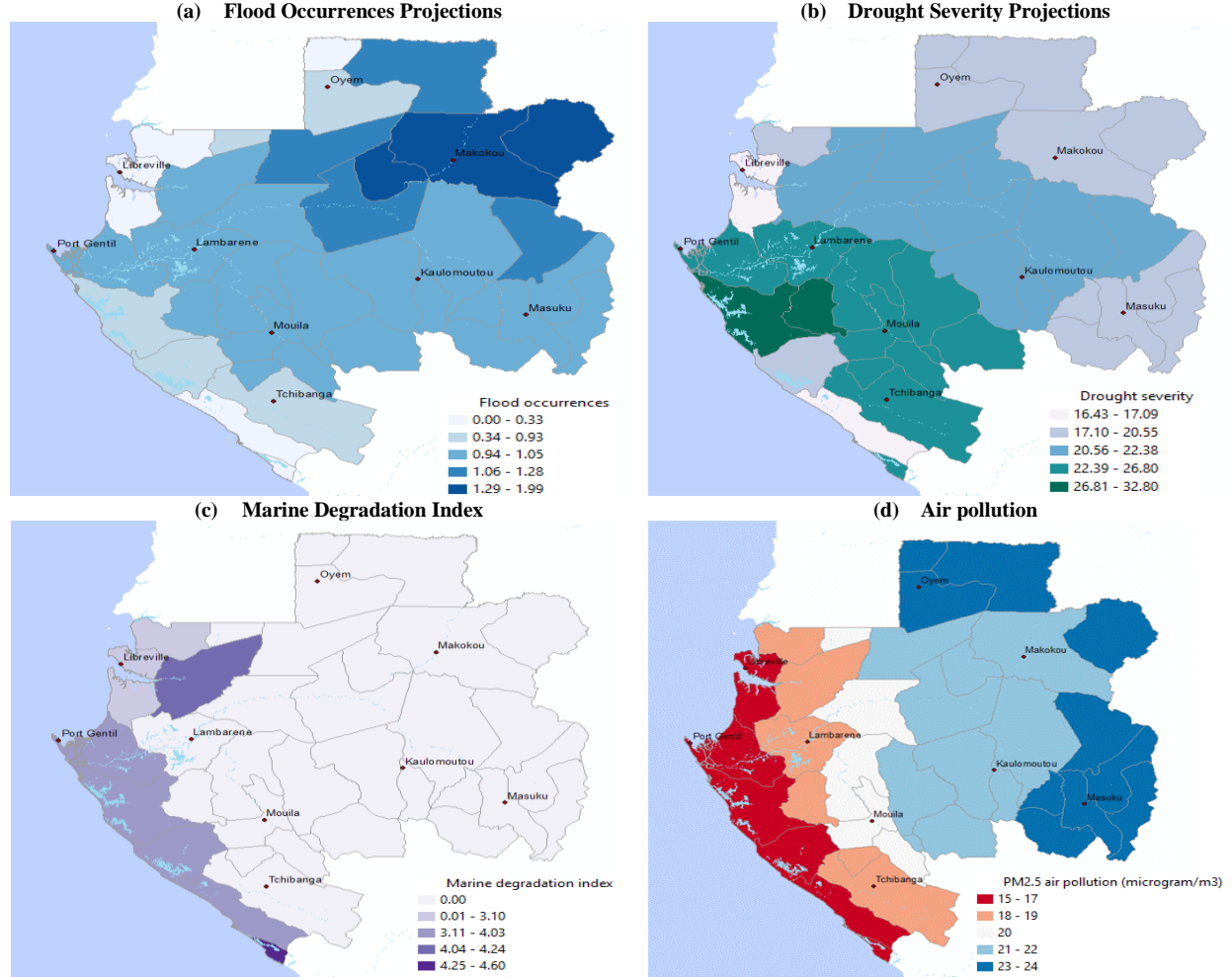


Figure D.10: Projections of Climate-Change-Related Events



Sources: Sheffield et al (2008), Brackenridge et al (2012), Halpern et al (2015);Donkelaar et al (2017) and Hidden Dimensions Database (2017).

Figure D.11: Enrollment in Education and Gender Parity, 2017 (percentage)

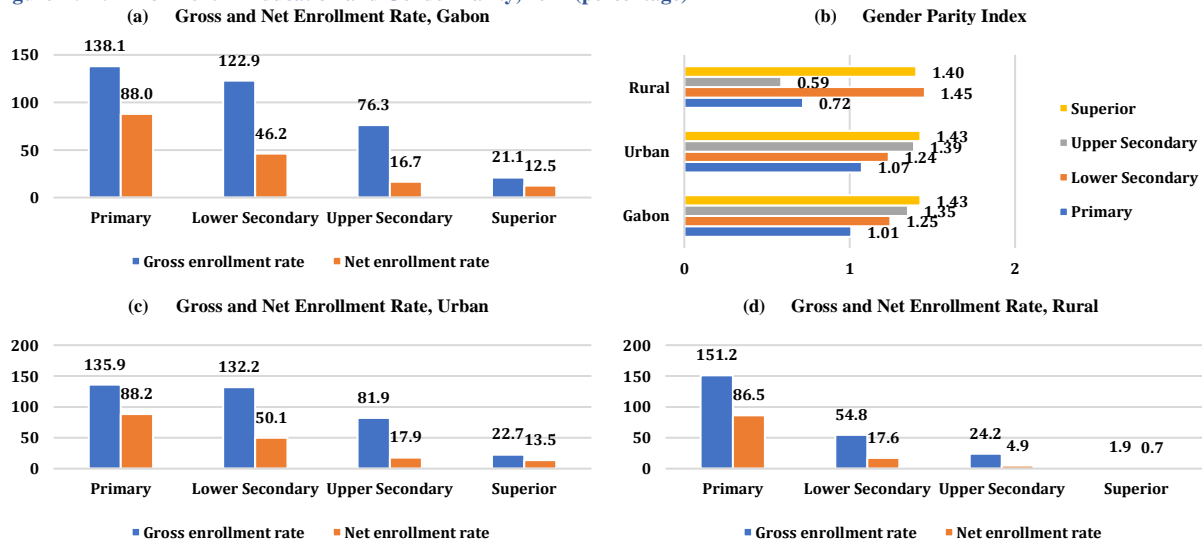


Figure D.12: Quality and Perception of Health Services, 2017 (percentage)

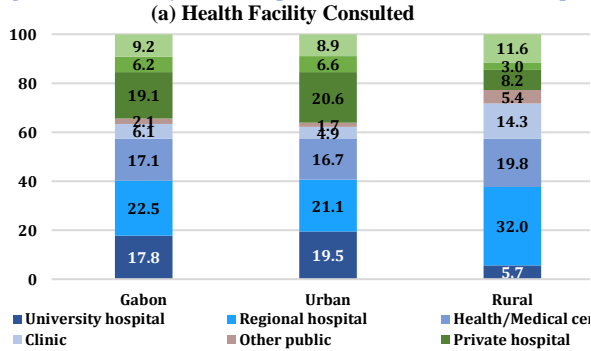
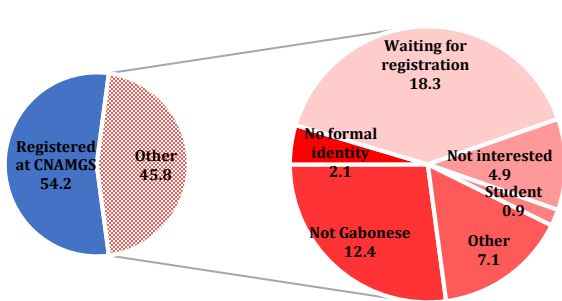


Figure D.13: Reasons not registered at CNAMGS (percentage)



(b) Distance to Consultation

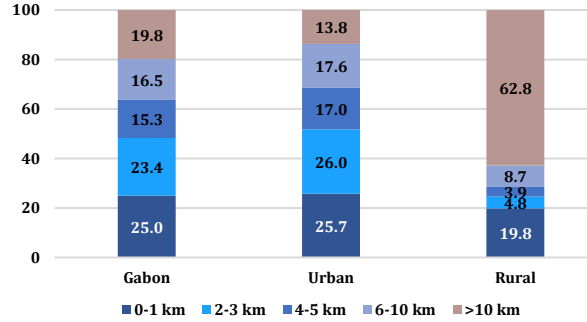


Figure D.14: Coverage of Medical Expenses (percentage)

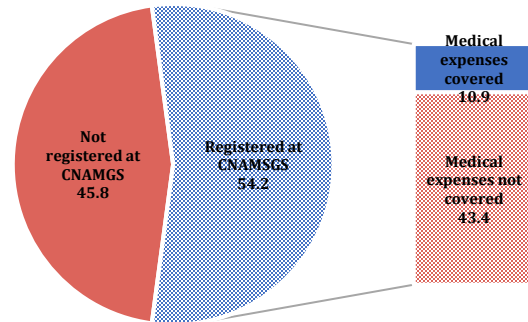


Figure D.15: Food Security Perception (percentage households)

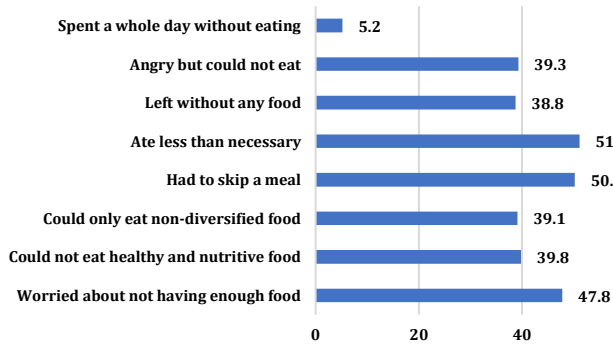
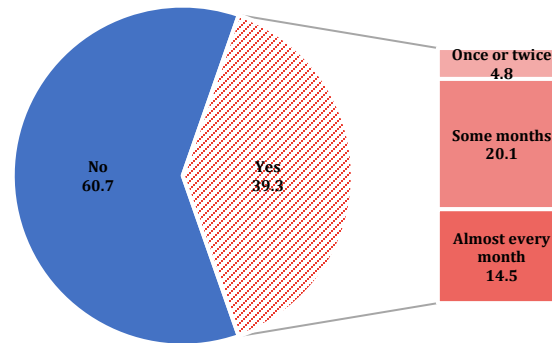
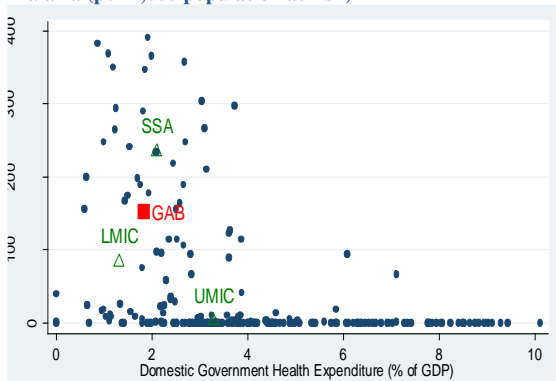


Figure D.16: Hungry (percentage of households)



Source: EGEP 2017.

Figure D.17: Expenditures on Health and Incidence of Malaria (per 1,000 population at risk)



Sources: Afrobarometer 2017, EGEP 2017, UNESCO, IMF databases and WDI 2018.

Figure D.18: Investment in Infrastructure (percentage of GDP) and Roads Quality (percentage)

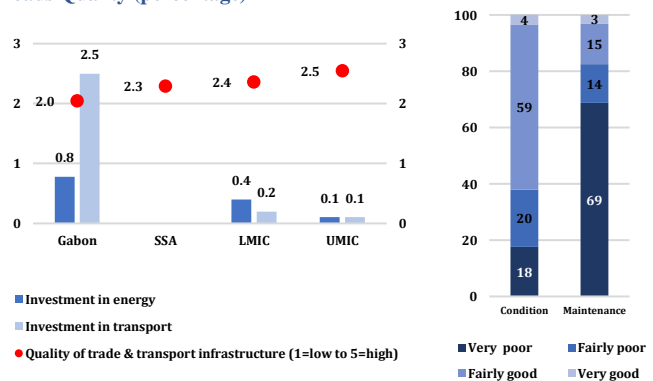
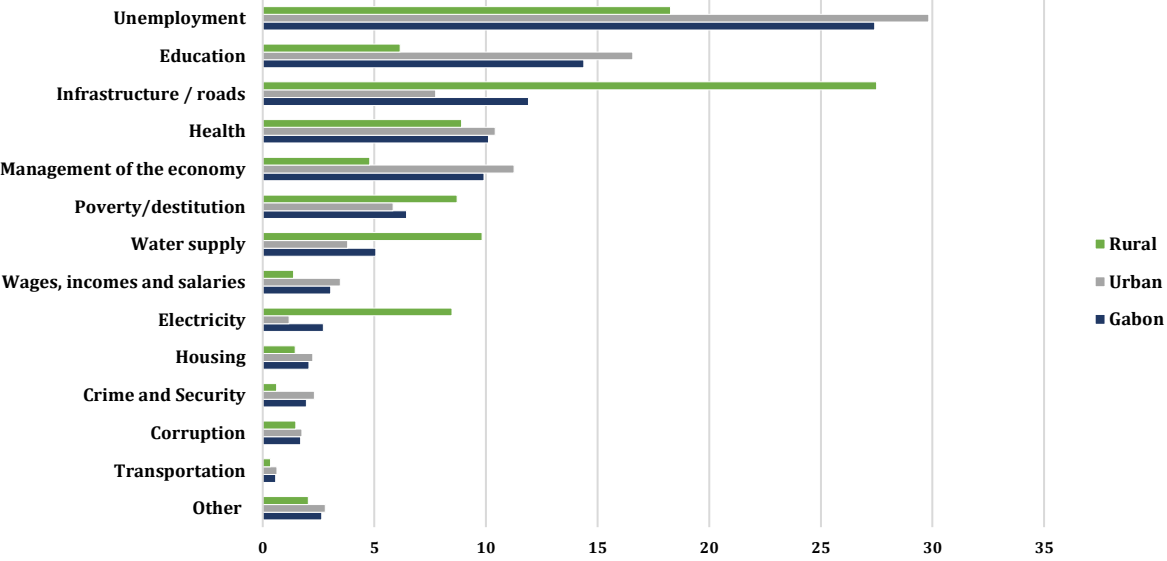


Figure D.19: Most Important Problem that the Government Should Address (percentage)



Source: Afrobarometer 2017.

Appendix E: Summary of Consultations

Consultations to inform the preparation of the Gabon SCD took place from 5-14 September, 2018, in Libreville and Owendo. Meetings were organized with different stakeholder groups, including: education sector; academics and intellectuals; private sector; youth and NGOs; representatives of donor agencies; the Central Bank; ministries, directorate generals (DGs), and other representatives of the government of Gabon; and the BCPSGE in charge of coordinating the 2009-2025 PSGE (*Plan Stratégique Gabon Émergent*). The World Bank team that participated to the discussions was composed of Nadia Belhaj Hassine Belghith (TTL), Sonia Barbara Ondo Ndong, and Pierre de Boisséson.

The consultations confirmed the preliminary SCD analysis, which identified education and training, macroeconomic and fiscal management, and the traditional heavy weight of the public sector as core binding constraints. During the course of the consultations, it became increasingly clear that this last binding constraint would be better formulated in terms of constraints to private sector development that remains very limited. Whereas this largely reflects previously-identified constraints, it also covers the lack of skills and puts emphasis on the importance of moving towards a private-sector-led model of growth, as opposed to a state-led model.

Lack of justice, unstable fiscal regime, heavy budgetary constraints, non-execution of budgetary lines, and deficiencies in infrastructure were highlighted in several meetings. Frustration about the lack of private sector development, bureaucratic inertia and fragmentation were regularly voiced. The main underlying reasons that were cited all pointed towards a severe lack of commercial justice, the inability to maintain a stable fiscal regime conducive to long-term investment, and the important skill mismatch between the education offered and the real needs of the labor market. Regularly it was pointed out that much of the bureaucratic inefficiency should be attributed to the poor coordination between government entities as well as the lack of data-driven monitoring and evaluation of policies.

The consultations made clear that the government's PSGE and the priorities identified by the World Bank, as expressed in the draft SCD, are well aligned, though some differences exist. The PSGE is formulated in terms of achieving the transformation of the country's economy from its historical rent model to an open and diversified economy by 2025 and primarily focuses on structural transformation of the economy – with poverty reduction a secondary objective. For the World Bank, poverty reduction and shared prosperity are essential, while structural transformation is an instrumental variable to attain it. Consequently, the SCD analysis puts more emphasis on service delivery to rural and secondary cities' areas, redistribution, social mechanisms, bridging the gaps between education, technical training and the labor market, and rather less on large-infrastructure-investment-led growth.

Specific feedbacks from the various sessions are presented below:

The education sessions put much emphasis on the inadequate provision of education with severe mismatches between the skills taught and the real needs of the labor market. There was a large consensus between all actors of the country regarding the inefficiency of a system once considered the best of the continent. The core of the problem lies in both the quality of the education and its content. Multiple sources of inefficiency were pointed out, including overcrowded schools; absenteeism of teachers; the existence of parallel training courses organized by

the private sector; and the dogma of literary curricula versus technical and engineering education. Greater coordination and collaboration with the private sector – notably through potential PPPs schemes—were deemed desirable, as was creating a culture in which not all students vie for public sector jobs. Private actors underlined the lack of properly educated candidates on the labor market, leading them to undertake in-house training programs. Stronger leadership, including from the World Bank was identified as highly desirable, as it could help solve coordination issues.

Meetings with social protection stakeholders, including NGOs and associations, underlined the flaws of the current system in terms of access to healthcare and social services, but also highlighted the ongoing necessary reforms. The team noted the ongoing efforts that were made to improve the social protection system, particularly regarding the coverage of the population and the informal workers that were excluded from the system until then. The main concerns from all stakeholders related to the lack of fund allocated to public social services' delivery. Critical agencies, such as the FNAS, report severe budgetary constraints, with non-execution of budgetary lines, which virtually ceases their activities. Consensus from all stakeholders, both from government departments and from the civil society, is the drastic reduction in fund allocations suffered by sectors such as health and social programs. Main urban areas are particularly concerned with the development of slums and areas out of the reach of social services, forcing the civil society (e.g. the *Samu Social*) to undertake the traditional role of the State, but with limited resources.

A series of meeting with different private sector representatives identified bureaucratic inertia, lack of judiciary accountability, fiscal uncertainty, land issues, difficulties with contract enforcement, and lack of private-sector culture as main constraints to doing business. Participants agree that Gabon is plagued by a historical over-dominance of the public sector that translates into young educated workers seeking public sector sinecures rather than joining the private sector. The mismatch between the skills of these young workers and the demand of the private companies is also a critical challenge, forcing many companies to develop in-house training programs. Some private actors are trying to partner with government agencies (e.g. the ONE) or with international organizations such as the UNESCO. Private actors lament the domination of the natural resources' activities in the economy, seeing it as a barrier to the development of more productive services' activities. The interaction between the private sector and the public authorities is a key issue as many signs of distrust are growing. The two main points of contentions concern (i) the fiscal uncertainty with taxation rates changing too often and therefore jeopardizing the long-term forecasts of private investments and deterring new investment; and (ii) the state of the commercial justice with almost all interlocutors reporting cases of near-racketeering from judges, with a recurring similar pattern involved. Judges quickly pronounce the sentence and immediately grant penalties with provisions stating that each day of delay gives way to additional penalties, therefore deterring companies from legally appealing the sentence. In addition, many local actors report instances of sentences enforced in the presence of a court bailiff that presents itself at the bank of the convicted bank and forces it to relinquish the amount of the penalty or else the bank itself could be prosecuted. Increasing reports of such accounts in the last couple of months underpin the complete inefficiency of the commercial justice system of the country and point toward severe issues in terms of judges' nomination, functioning of domestic courts, and design of procedures and laws. These sentences have also put at risk the financial survival of certain convicted companies.

Meetings with the finance ministry, the central bank, as well as international donors shed a light on the difficult macroeconomic situation of the country. A wide range of topics was discussed, including the importance of land issues; the current budgetary constraints; the provision of social and health services; tax reforms; the downsizing of the public sector and the shift towards more efficiency; the importance of big investment projects, particularly in digital capacities and access to electricity; the need to invest in transportation networks (roads, ports, and rail) to strengthen Gabon's regional logistics function; and the lack of monitoring and evaluation processes in the public sphere. All stakeholders agreed on the dire need to diversify the economy to prepare the post-oil-revenue era and highlighted the central role that the private sector would need to play to achieve this goal. Yet, many interactions revealed the persistence of a rent-based mentality, symbolized by the hope of exploiting new natural resources' sources (mining deposit in the east and north, wood). Public authorities appeared very conscious of the difficult macroeconomic situation of the country and willing to cooperate with international donors and development organizations. However, if the bottlenecks appear to have been correctly identified – lack of adequate training, poor supply of electricity, dominance of the public sector, unstable fiscal regime, and lack of accountability—the corrective measures implemented suffer from severe design flaws and lack of coordination between the different public entities. Many departments undertake the same tasks, launch similar projects that would gain in efficiency being merged, or do not know that initiatives have been taken in other departments that could serve their own agenda. Specific discussions with Ministry of Economy focused on the issue of public arrears and its ongoing mitigation. However, interactions revealed that the main solution contemplated to remedy to the lack of resources is to make an increasing use of PPPs schemes, not always knowing what such mechanisms entail in terms of commitments and compensations.

Banking representatives confirmed the issue of public arrears and the problems of commercial justice. A series of meeting were held with bankers and banking representatives, who insisted on the problem of public arrears and confirmed the existence of severe wrongdoings in terms of commercial justice. The issue of the State's arrears and its transfer, through the *Club de Libreville*, to Gabon's commercial banks, combined with increasing credit lines from the State, has automatically increased the equity-ratio of these banks. The consequence is that banks have been unable to increase their credit levels to the rest of the economy, particularly to the private sector, effectively drying up private companies' financing options. Banking actors also underlined the low capitalization of Gabonese banks as a constraint to inject more credit within the economy, and stressed out that almost all banks in Gabon are merely international branches from foreign banks, which are usually more interested in financing large natural-resources-based projects than SMEs and services' private companies. Regarding the commercial justice issue, banks are trapped in a situation where they have to comply with the sentence and to immediately release the funds from their clients' bank accounts or they would expose themselves to severe financial penalties.

Across all meetings, it was acknowledged that youth is deeply frustrated by a lack of economic opportunities and growing unemployment. All stakeholders insisted on the growing levels of youth unemployment and the potential adverse consequences it could yield in a near-future. Many pointed towards a combination of lack of skills and a tendency to seek at all cost public sector's employment perceived as well-paid and lifetime-long jobs.

Finally, the members of the BCPSGE noted the close alignment between the PSGE and the axes identified in the draft SCD. They recognized the slow pace of the reforms and realizations so far, stressing the importance to go faster and to continue towards more transparency, efficiency,

and accountability, notably through the development of monitoring and evaluation processes within the administration. Members of the BCPSGE stressed the corrective measures taken to put back the PSGE on its original tracks, in particular the implementation of 3-year periodic reviews. The BCPSGE also underlined the lack of coordination between the public and private sectors, stressing that the reports on the ongoing state of implementation of the different projects that are part of the PSGE are well-disseminated at the public level but do not reach adequately the private sector, which is therefore not able to correctly follow the development of the PGSE and to identify potential opportunities. In the current context of budget tightening, the BCPSGE is progressively transitioning from heavy investments in infrastructure to social investments, pushing for the development of more PPPs for the former. The current vision of BCPSGE is to seek donors' help in the field of social investment, alongside two main axes: education and health. Finally, it was pointed out that the issue of land and property registration was critical if any more advancements were to come to fruition.