

December 2015 Number I

GABON ECONOMIC UPDATE

PROTECTING THE POOR DESPITE SLOWER GROWTH



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Protecting the Poor Despite Slower Growth

Macroeconomics and Fiscal Management
(MFM) Global Practice

December 2015 Number I

TABLE OF CONTENTS

Acronyms and Abbreviations.....	5
Exchange Rate	5
Acknowledgments	7
KEY MESSAGES	1
PART I: RECENT ECONOMIC DEVELOPMENTS	4
Growth –Slower Expansion.....	4
Labor Market – increase of formal private employment.....	9
Monetary policy and inflation – slowdown of inflationary pressures	11
Fiscal developments – Reduced Revenue and Expenditure.....	12
External sector – Deficit of the current account in 2015.....	16
Business Environment – High Cost of Doing Business.....	18
PART II: MACRO POVERTY OUTLOOK.....	18
Macro Poverty Projections – Positive Outlook	19
Poverty Eradication Projections – Slight Reduction Only.....	20
Risks Ahead – Keeping an Eye on Oil Prices and Managing Volatility	21
PART III: BUILDING SOCIAL PROTECTION SYSTEMS	23
Social Protection Systems – Why Build Them?	23
Benchmarking Gabon – How do social outcomes compare?	27
Social Protection in Gabon–What are the main challenges?	35
Moving Forward–What should be addressed first?.....	39
DATA ANNEX	41
BIBLIOGRAPHY	42

ACRONYMS AND ABBREVIATIONS

ANGT	Agence Nationale des Grandes Travaux (National Agency for Major Works)
AGR	Activités Génératrices de Revenus (Revenue Generating Projects)
BEAC	Banque des Etats de l'Afrique Centrale (Bank of Central African States)
CEMAC	Communauté Economique et Monétaire de L'Afrique Centrale (Economic and Monetary Community of Central Africa)
CFA	Central African Franc
CPI	Consumer Price index
GDP	Gross Domestic Product
GEF	Gabonais Economiquement Faibles (Gabonese with Low Income)
ONE	Office Nationale de L'Emploi (National Employment Office)
PSGE	Plan Stratégique Gabon Emergent (Strategic Plan for an Emergent Gabon)
SEEG	Société d'Energie et d'Eau du Gabon (Gabonese Society for Energy and Water)
SNLS	Société Nationale du Logement Social (National Social Housing Company)
US\$	United States Dollar



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KEY MESSAGES

Part I: Recent Economic Developments

- Following softer commodity prices (most significantly oil) and reduced public investment, growth decelerated from 5.6 percent in 2013 to 4.3 percent in 2014 and is projected to further decrease to 4.1 percent in 2015. Growth in 2015, as in 2014, is mainly driven by services. Although still significant, the contribution of the oil sector (crude oil, oil research and services and refinery activities) in GDP considerably declined from 46.5 per cent in 2010 to 28% of GDP in 2014.
- Reduced economic growth in 2014 followed four previous years of strong growth averaging 6.1 percent per annum. Previously high global oil prices had funded an expansion in large public works projects since 2010, guided by Gabon's strategic plan, 'Plan Stratégique Gabon Emergent' (PSGE)¹.
- Pressure on food prices observed at end-2013 and in 2014 which had led to an overall inflation of 4.7 percent, measured by the Consumer Price Index (CPI), 1.7 percentage points above the maximum set as convergence criteria for the CEMAC zone has slowed down during the first semester of 2015. The harmonized price index for consumption of households (HPIC) stagnated at end-June 2015 against an increase of 6.5 percent over the same period in 2014.
- Data from the Ministry of economy shows that the slowdown in growth did not affect the formal labor market. Formal private employment level would have increased by 4.4%, mainly due to the creation of 2,100 new jobs by the Singaporean multinational OLAM and the increase by 959 of the number of the mining company Comilog's staff that would have offset decreases recorded in the construction, services and other industries sectors.
- In response to declining oil prices, the Government adjusted the initial 2015 budget and revised the revenue assumptions. Oil revenue assumptions were reduced following a lower estimated oil price (falling from US\$80 a barrel in the initial budget to US\$40 at the point of revision). Consequently, projected oil revenues are now 42 percent lower than in the 2015 Initial Budget Law.
- As a result of the drastic fall of oil revenue, and the willingness of the Gabonese authorities to maintain a level of public investment that does not compromise growth, the overall fiscal balance for 2015 is projected to record a deficit (3.3 percent of GDP) for the first time since 1998. To cope with the financing gap, the Government successfully issued a Eurobond of US\$500 million in June 2015 with a maturity of ten years at a rate of 6.95 percent.
- In the first half of 2015, the balance of trade recorded a surplus of CFAF 710.3 billion, 45.9 percent down compared to the same period in 2014 due to further declines of the international oil price. The external balance is estimated to switch to a deficit of 3.2 percent in 2015 from a surplus of 12.1 in 2014.

Part II: Macro Poverty Outlook

- In spite of expected lower oil prices, economic prospects remain positive over the medium term. The non-oil economy (mainly manganese, wood-processing, agribusiness and services) will

¹ The PSGE aims to propel the country to emerging market status by 2025.

continue to be the major driver of growth in the forthcoming years. GDP growth is projected to reach 5.2 percent on average in 2016-2017 and given the decline in oil prices, inflation is expected to remain on average at 2.6 percent in 2016-2017.

- In spite of lower oil revenues, the fiscal deficit is projected to decline from 3.3 percent of GDP in 2015 to 2.5 percent of GDP in 2016 and 0.6 percent of GDP in 2017. This is expected on the account of the enhancement of revenue collection capacities, the reduction of discretionary tax exemptions and the adoption of a budgeting methodology based on budget spending targets.
- These positive economic prospects underlie a projected continued decline in poverty reduction by an average of 0.8 percentage points per year during the next two years. Thus, the moderate poverty rate (share of people living with less than \$3.1 in purchasing power parity) is projected to reach 22.0 and 20.2 percent respectively in 2015 and 2017.

Part III: Building Social Protection Systems

- Despite mineral wealth and a GDP per capita of US\$ 10,6607 (2014) a significant proportion of Gabonese households face low incomes, unemployment, illness and struggle to protect themselves and their families against shocks. The poor are the most vulnerable to these swings, typically more exposed to economic shocks such as the drop in the price of raw materials.
- Gabon has stated its intention to introduce a modern social protection system, however it has not yet reached the objectives set by the Government. It still faces five major challenges to be addressed: (i) a lack of data; (ii) coordination of the system; (iii) ensuring fiscal sustainability; (iv) effective targeting of beneficiaries; and (v) building lesson-learning into policy.
- To meet these challenges we recommend to focus on the following in 2015 and 2016: (a) deepen the analysis of poverty and vulnerability; (b) conduct an institutional audit; (c) formulate a deployment plan; and (d) simulate roll-out options.

PART I: RECENT ECONOMIC DEVELOPMENTS



Growth –Slower Expansion

Following softer commodity prices and reduced public investment, growth decelerated from 5.6 percent in 2013 to 4.3 percent in 2014, and projected to 4.1 percent in 2015. As in 2014, the growth in 2015 is driven by the service sector, which includes Government investment and consumption. Global oil prices have plummeted, after three years of average prices above US\$100 per barrel, constituting a shock to the economy.

A return to a US\$100 barrel is not expected over the medium-term due to the underlying structural changes in supply as well as weak global demand from major oil importers, such as China (Figure 1). The economy remains dependent on oil production, although non-oil natural resources (principally manganese and timber) also contributed to growth.

Data available at June 2015 reveal that strong contraction in construction and public works output growth and related activities led by the reduction and delay in the implementation of the 2015 budget have been offset by a better than expected extractives industries production and continued expansion of services. These developments allow estimating a continued slowdown in GDP growth from 4.3 percent in 2014 to 4.1 percent in 2015, the negative growth of the construction sector caused by the reduction and the late implementation of the 2015 budget that was revised to reflect the context of declining oil prices.

At end of June 2015, construction and public works output recorded a contraction of 10 percent that led to the decline of related activities. The production of wood industries also recorded a decline of 4.3 percent resulting mainly from lower demand from Gabon's trade partners.

Negative growth in construction, public works and wood processing were offset by a better than expected extractives industries production and continued expansion of services. Oil and manganese recorded increases of 6.6 and 19 percent respectively at the end of the first half of 2015. Trade expanded by 6 percent, and the rail transport sector grew by 20 percent due to improvements of mining activities.

Lower economic growth in 2014 followed four previous years of strong growth averaging 6.1 percent. High global oil prices and a better mobilization of

non-oil revenues helped finance the implementation of public works projects from 2010, in the context of the implementation of Gabon's strategic plan, '*Plan Stratégique Gabon Emergent*' (PSGE)².

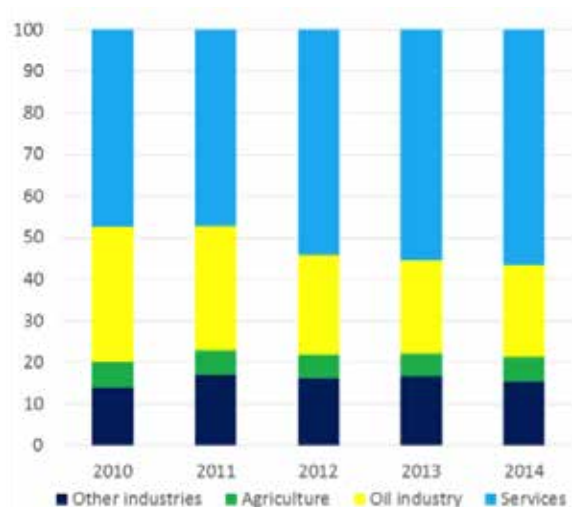
Following lower oil revenues, from reduced prices and production, and lower non-oil revenue, the Government reduced public expenditure from 26.7 percent of GDP in 2013 to 23.6 percent in 2014. Despite this, both Government 'wages and salaries' and 'goods and salaries' increased leaving public investment to bear much of the brunt of the expenditure cuts resulting in only half of planned public investment being realized.

FIGURE 1: Global Oil Prices (Brent Crude, Monthly US\$ Per Barrel)



Sources: World Bank Global Economics Prospects Database.

FIGURE 2: National Income by Sector (%)



Sources: Government of Gabon and World Bank Estimates.

Although declining slightly, the services sector remained an important driver of growth in 2014, contributing 3.5 percentage points.

² The PSGE aims to propel the country to emerging market status by 2025.

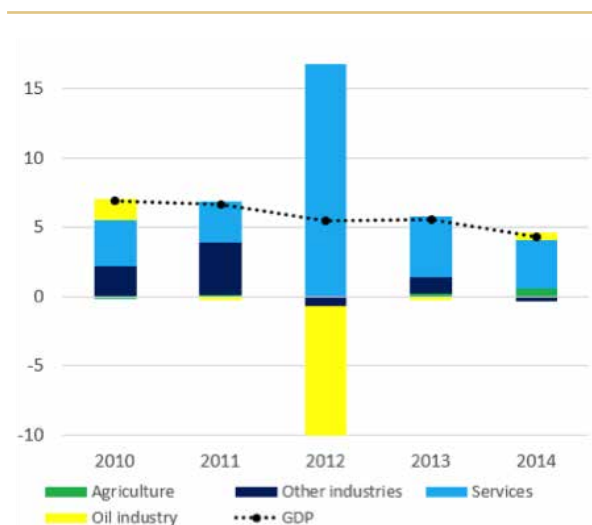
In 2014 public investment declined by 35 percent dampening the expansion of output. Prior estimates of 2014 growth were initially around 6 percent and the reduction in public investment led to the loss of 2 percentage points of growth. (Further details on revenue and expenditure are provided in the **Fiscal Developments** section).

The structure of the Gabonese economy in 2014 (figure 2) reveals a strong dominance of services which account for 57.8 percent of real GDP, followed by oil industry (20.6 per cent), other industries (15.4 percent) and agriculture (6.3 per cent). However, services remain indirectly dependent on the oil sector through the application of the State.

Although declining slightly, the services sector remained an important driver of growth in 2014,

contributing 3.5 percentage points (Figure 3). The expansion of the sector started in 2012 with the increase of mobile phone companies. In 2014, they increased their number of subscribers by 11 percent following network improvements. An expansion of transport services, by 8.3 percent in 2014, also made a key contribution to the sector's growth. The air services industry recorded the arrival of two new companies, Tropical Air Gabon and Allied Limited, which increased the number of passenger by 3 percent. Also in the sector, business services continued to benefit from the rising demand in management, accounting and audit advisory services. The sector's contribution would have been higher if the rail transport activity was not impaired by technical issues that led to a 6.5 percent decline in freight carried by the national railways operator SETRAG.

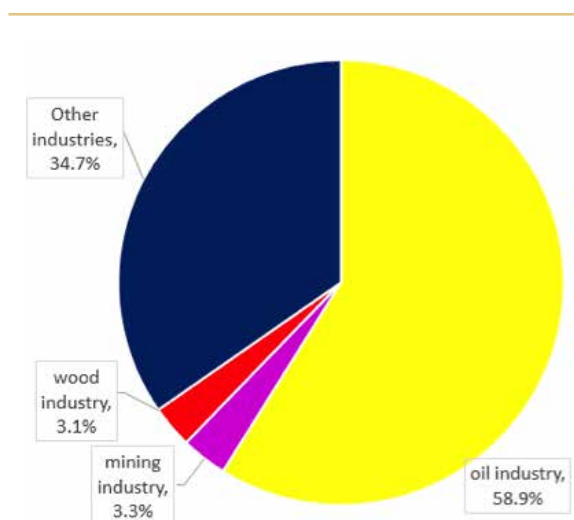
FIGURE 3: Sector Contributions To Real GDP Growth



Sources: Government of Gabon and World Bank Estimates.

The oil industry provided 0.6 percentage points of GDP growth in 2014, despite a fall in prices in the second half of the year. Although still representing a large share of industrial production (Figure 4), oil production has declined since 2010 (Figure 5) following the ageing profile of key oil fields³, and further disruption in December 2014 following a strike organized by the national union for oil sector employees (ONEP). (Further information on Gabon's oil industry is provided in Box 1.).

FIGURE 4: Composition of industry sector 2014 (%)



Sources: Government of Gabon and World Bank Estimates.

The contribution of non-extractives and wood industries (manufacturing, construction, electricity, water, and refining) essentially domestic market oriented and therefore limited by the size of the economy, significantly decreased following the fall of construction and public works activities in relation to reduction of public and private investments.

³ Anguille, Total's main deposit has been operating since 1960 and Rabi Kunga, the largest oil field ever discovered in Gabon operated since 1991.

FIGURE 5: Oil Production (in Million of Barrels)

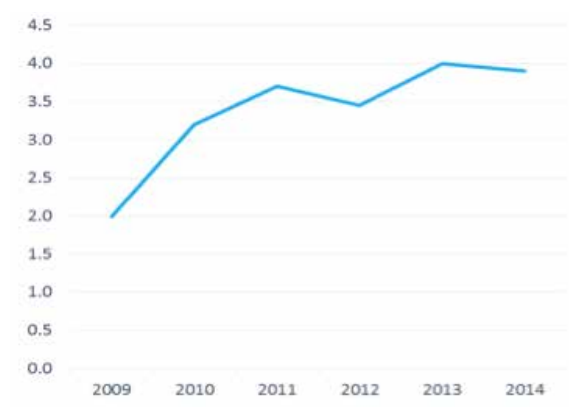


Sources: Government of Gabon and World Bank Estimates.

In the mining sector, with a production of 4 million in 2013, Gabon is among the world's largest producers and exporters of manganese (Figure 6). In 2014 the production of manganese declined by 3 percent, compared with 2013, following a technical incident that restricted rail freight traffic on the *Transgabonais* route, the only means by which ore can be transported to Libreville for export. Gold production in 2014 also declined following reduced global prices.

Conversely, production in the wood processing industry increased by 10.9 percent in 2014 following a better supply of logging to factories. Agro-industrial production increased by 17.2 percent

FIGURE 6: Manganese Production (tons million)



Sources: Government of Gabon and World Bank Estimates.

after the rehabilitation and the modernization of the production chain of the national brewery SOBRAGA, albeit from a low base. The production of energy also increased by 4.6 percent following the introduction of new generating capacity, via thermal power from *Alenakiri* (in the south of Libreville) and the *Grand Poubara* hydroelectric dam (in eastern Gabon) that have allowed the national utility concession³ to meet stronger energy demand from household and industrial customers.

In the Agriculture sector, food and vegetable production increased by 7 percent in 2014, primarily due to higher demand from restaurants and hotels.

BOX 1: Gabon's Oil Sector

Gabon's oil sector is made up of seven companies (Perenco Gabon, Addax Petroleum, Maurel & Prom, Vaalco Gabon, Total Gabon, Shell Gabon, POGL) across three fields. Service activities related to the oil sector include logistics, drilling operations, onshore and offshore oil rig construction and maintenance. These activities are concentrated in the area of Port-Gentil.

Oil production decreased between 1997 and 2002, but efforts to reverse the decline in production led to stable production between 2003 and 2005. Since then oil production has contracted and current oil reserves are estimated at 3.7 billion barrels. In August 2014, the oil and economy ministers announced seven new contracts for the sale of offshore blocks. These sales were expected to attract investments of around US\$ 863 million according to the Government. However, lower oil prices since then have put planned investment in jeopardy.

A new hydrocarbons law was adopted in 2014. It was intended to increase the Government's share in and control over hydrocarbon resources and activities. Gabon will hold an increasingly large stake in all new operations for exploration and extraction, via the national Gabon Oil Company (GOC), created in 2011. The new law also introduces a regulatory regime for midstream and downstream activities. Oil companies (both senior and junior) have voiced complaints about the tax provisions of the new law, which will reduce potential profits, and have suggested they might reduce future investment. The industry also finds the provisions on the award of petroleum rights (based on competing petroleum agreements and petroleum authorizations) confusing, and the nature and duration of petroleum contracts and petroleum authorizations for exploration and production activities are not well aligned. These changes may make it harder for Gabon to realize new investment in the sector, but if successful, Government's share of the profits will increase.

³ Société d'Énergie et d'Eau du Gabon or Gabonese Society for Energy and Water) (SEEG).

TABLE 1: Formal Private Employment, 2012-2014

	2012	2013	2014	var 14/13
Formal Private employment	61 517	67 766	70 776	4,4%
Agriculture	2 209	2 972	5 285	77,8%
Oil	4 262	4 304	4 457	3,6%
Mining	1 679	1 810	2 251	24,4%
Wood	7 536	10 263	10 650	3,8%
Agro-Industries	3 310	3 472	3 649	5,1%
Others industries	1 937	1 917	1 857	-3,1%
Water, Electricity and Refinery ,	2 051	2 056	2 154	4,8%
Construction and Public works	5 425	6 715	5 669	-15,6%
Transport and ICT	11 465	11 484	11 869	3,4%
Services	11 062	12 073	11 780	-2,4%
Commerce	7 844	7 900	8 240	4,3%
Banks and Insurance Assurances	2 737	2 800	2 915	4,1%

Sources: General Directorate of Economy and Tax policy, Gabon

Overall, the agriculture sector has increased its contribution to GDP following the launch of an emergency plan for food security based on the promotion of agro-pastoral products (cassava, banana, rice, vegetables, poultry and pork), and fruit farm development programs. Despite this, the sector remains underdeveloped with its potential constrained by infrastructure and logistical bottlenecks; especially limited access to credit. Consequently, Gabon remains largely dependent on the import of basic goods, such as wheat and rice.

Labor Market – increase of formal private employment

Data from the Ministry of Economy shows that the slowdown in growth did not affect the formal labor market (see table 1 below). Formal private employment increased by 4.4% at end 2014 compared to the previous year. Job cuts recorded in the construction and public works sector (-15.6%), services (-2.4%) and other industries (-3.1%) would have been largely offset, mainly by the increase from 700 to 3000 of the firm OLAM staff, the creation of 959 jobs by Comilog, a subsidiary of the multinational Eramet. Furthermore, in the oil sector, the decline of the oil research and services companies have been offset by new recruitments by junior crude oil operators. Numbers of employees of domestic trade

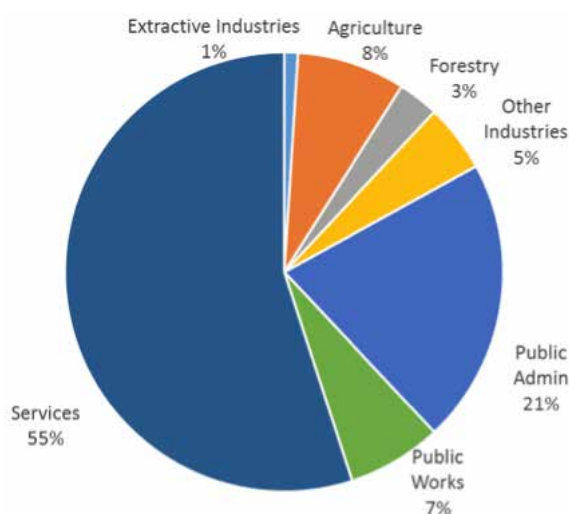
enterprises, banks and financial services, wood and food industries would have also recorded increases.

The public sector remains an active provider of employment opportunities. In 2014, despite a fall in oil and non-oil revenue, public sector employment increased by 5.5 percent to 109,050 employees.

Almost half the working population (47 percent) are considered to be working in the informal sector, and when workers employed in households and associative businesses are considered this figure reaches 57 percent. Informal employment in Gabon is dominated by the service sector (transport, food, sewing, mechanical repairs, etc.) and represents 38 percent of total employment in the informal sector compared to 29 percent in trade and 19 percent in agriculture (Figure 7 and 8). Industries and public works and civil engineering (mainly construction) are 9 percent and 5 percent respectively. Informal activities are carried out largely by a working immigrant population which is mainly present in retail markets and shops, urban and intercity transport and agriculture. Nationals are more visible in construction, carpentry, and services.

Providing 21 percent of jobs, the public sector is the largest formal employer, proving considerably more employment than the formal private sector (16

FIGURE 7: Distribution of Total Employment by Economic Sector [%]



Sources: National Survey on Employment and Unemployment (Enquête nationale sur l'emploi et le chômage) 2010

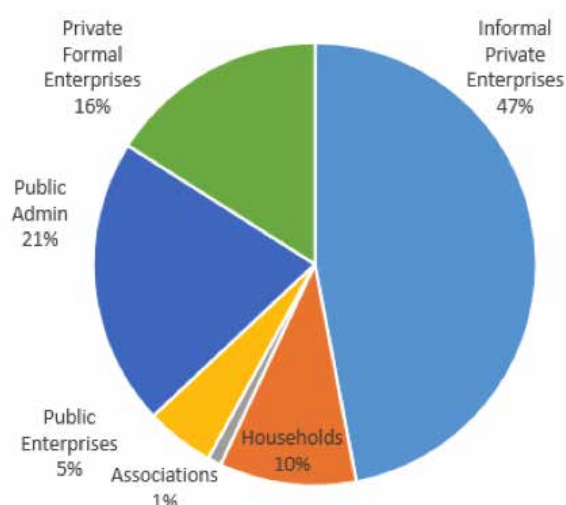
percent). Public employment includes permanent employees of the civil service, local Government staff, and non-permanent Government workers. The share of agriculture employment is small at 8 percent and Gabon's population is predominantly urban (85 percent).

Monetary policy and inflation – slowdown of inflationary pressures

Pressure on food prices observed at end-2013 and in 2014 which had led to an overall inflation figure of 4.7 percent, 1.7 percentage points above the maximum set as convergence criteria for the CEMAC zone has slow down during the first semester of 2015. The harmonized price index for consumption of households HPIC stagnated at end-June 2015 against an increase of 6.5 percent over the same period in 2014.

As a member of the Economic and Monetary Community of Central Africa (CEMAC), Gabon's monetary policy is determined by the regional central bank, the Bank of Central African States (BEAC). The BEAC conducts monetary policy consistent with the

FIGURE 8: Distribution of employment by Institution [%]



Source: National Survey on Employment and Unemployment (Enquête nationale sur l'emploi et le chômage) 2010

peg of the CFA Franc to the Euro, which has helped anchor prudent macroeconomic management. Pressure on food prices observed at end-2013 persisted in 2014. The food price index increased by 3 percent in 2014, leading to an overall inflation figure of 4.7 percent, measured by the Consumer Price Index (CPI) (Figure 9). This rate is 1.7 percentage points above the maximum set as convergence criteria for the CEMAC zone. Along with higher food prices, inflation was driven by higher prices for housing and transport that increased by 7 percent, and 4.8 percent respectively. Higher housing prices result from a large deficit in the supply of housing, especially in Libreville where the deficit is estimated to be around 140,000 dwellings. In order to address this challenge, the Government in 2013, created the National Social Housing Company (SNLS) that has already built 2,000 houses. By contrast, Health services prices fell by 12.4 percent in 2014 despite the general increase in prices.

The harmonized price index for consumption of households (HPIC) stagnated at end-June 2015 against an increase of 6.5 percent over the same period in 2014. This stability is explained by the fall in prices of health services (17.4 percent), housing (-9.1 percent) and communications (2.8 percent) while clothing and food and non-alcoholic beverages prices increased by 23.8 and 1.7 percent respectively.

FIGURE 9: Inflation, 2010-2014



Sources: Gabon CPI

Monetary developments in 2014 were characterized by a deceleration of credit provided to the economy which reached only 15 percent of GDP, compared to 23.6 percent of GDP in 2013, in part as the result of slower growth in 2014.

Fiscal developments – Reduced Revenue and Expenditure

In response to declining oil prices, the Government adjusted the initial 2015 budget and revised the revenue assumptions. Oil revenue assumptions were reduced following a lower estimated oil price (falling from US\$80 a barrel in the initial budget to US\$40 at the point of revision). Consequently, projected oil revenues are now 42 percent lower than in the 2015 Initial Budget Law. As result, the overall fiscal balance for 2015 is projected to record a deficit (3.3 percent of GDP) for the first time since 1998. Last year's balance was a surplus of 2.5 percent of GDP. To cope with the financing gap, the Government successfully issued a Eurobond of US\$500 million in June 2015 with a maturity of ten years at a rate of 6.95 percent. It also took fiscal adjustment measures to adapt to a lower price environment, including a 21 percent reduction in goods and services, the creation of a Stabilization Fund of revenues from Extractive Industries of Gabon (FSREG in French), which aims at helping the Government maintain necessary public spending even in times of low oil prices.

The stabilization fund will receive an annually-fixed share of oil and mining revenues, with the objective of reaching US\$500 million over the next four years. The fund will receive: (i) 5 percent of total oil and mining revenue; (ii) any excess of actual revenue about budgeted revenue; and (iii) 25 percent of the proceeds

from tax disputes between the Government and oil or mining companies. It will be operated according to international standards, in agreement with the BEAC, and will invest in short-term liquid assets (as is the case for all other comparable stabilization funds). The Government has also put in place in July 2015, a new system of remuneration of civil servants aiming at redefining the management of the civil service and to better monitor and control the payroll.

In 2014, total Government's revenue declined significantly to 26.1 percent of GDP compared to 30.2 per cent in 2013. Consequently, total expenditure were reduced by 26.7 per cent of GDP in 2013 to 23.6 percent of GDP in 2014. Despite the fall of revenue, a budgetary surplus (commitments basis) was recorded. However, the Gabonese authorities have also had to rely on accumulation payments and VAT arrears to cope with the sharp decline in oil revenues.

A decline in oil revenue (4 percent of GDP) and non-oil revenue (0.1 percent of GDP) negatively affected the fiscal accounts in 2014 (Table 2). The decline in oil revenues resulted from both reduced global prices and production. Despite the global oil price shock, non-oil revenues fell by greater extent in 2014. This was on account of increased customs and tax exemptions and a strike by the customs and tax departments after the suppression of special allowances previously allocated to financial administration officials. Recent increases to customs and tax exemptions, closely linked to the oil industry and public investment, resulted in revenue collection following short of its potential. A World Bank study in 2013⁴ estimated that tax exemptions are equal to half of potential customs revenue and a quarter of potential tax revenue.

Despite the reduction in total expenditure in 2014, Government wages and salaries increased from 6.4 percent of GDP to 7.7 percent.

Lower revenue mobilization led to declining total expenditure, which fell from 26.7 percent of GDP in 2013 to 23.6 percent in 2014. The largest reduction was observed in public investment that fell sharply

⁴ World Bank (2013), 'Tax Burden on Investments and the Effectiveness of Tax Incentives in Gabon', Libreville.

TABLE 2: Fiscal Indicators [% GDP]

	2011	2012	2013	2014 E
Total revenue	29.0	30.1	30.2	26.1
Oil revenue	15.9	17.5	15.5	11.5
Non-Oil Revenue	13.13	12.6	14.7	14.6
Total Expenditure	27.4	26.6	26.7	23.6
Current expenditure	14.8	16.3	16.3	15.3
Wages and salaries	5.2	5.9	6.4	7.7
Goods and services	3.5	3.7	2.7	2.9
Transfers and subsidies	5.1	5.7	5.5	4.6
Interest payments	0.9	1.0	1.7	1.2
Capital expenditure	11.6	11.4	10.6	6.7
Overall balance (commitment basis)	1.5	2.5	1.8	2.5
Primary balance	2.5	3.5	3.5	3.8

Source: General Directorate of Economy and Tax policy, Gabon

to 6.7 percent of GDP from 10.6 percent in 2013, resulting in only half of planned public project financing being realized (Figures 10 and 11). This decline was in part caused by lower revenue receipts, but also difficulties in implementing the planned projects. This decline also followed a period in which public investment had increased from 5.6 percent of GDP in 2009 to 11.4 percent of GDP in 2012 following the Government's adoption of a US\$13 billion infrastructure master plan (linked to the PSGE), for implementation over 2013-16, aimed at providing Gabon with the requisite infrastructure for socio-economic development and diversification of the economy. The strategy comprises 21 major projects, with the National Agency for Major Works (ANGT) responsible for implementation (Box 2).

Despite the reduction in total expenditure in 2014, Government wages and salaries increased from 6.4 percent of GDP to 7.7 percent, and goods and services from 2.7 percent to 2.9 percent. Salaries and wages increased due to the regularization of administrative situations of civil servants, the introduction of a new premium, *prime d'incitation à la performance* (PIP) and new recruitments of civil servants which went from 57,402 in 2012 to 86,555 in 2014. Overall Total public sector staff (Permanent, non-permanent staff and "staff of local collectivities") increased by 8.6% from 100,442 in 2012 to 109,050 in 2014.

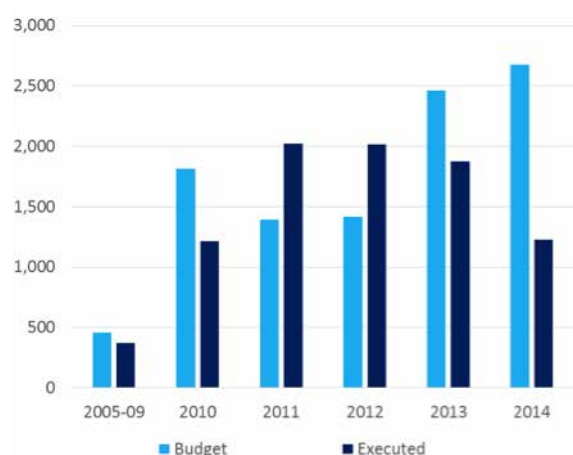
These increases were largely offset by a decline in transfers and subsidies that reduced from 5.5 percent of total GDP to 4.6 percent of GDP in 2014 as a result of the partial elimination of industrial diesel subsidies and lower global oil prices. Overall budgetary execution recorded a surplus in 2014 despite the fall of prices of oil and the decline in non-tax revenues. However an accumulation of arrears of payments was observed at end December 2014.

In 2014 the public debt reached 29.5 percent of GDP of which 27.5 percent is external.

In 2014 the public debt reached 29.5 percent of GDP, of which 27.5 percent is external. The level of public debt remains below the CEMAC ceiling of 60 percent of GDP (Figure 12) and the increase since 2011 is linked mainly to the issuance of a US\$1.5 billion Eurobond in 2013, intended to finance infrastructure projects in the PSGE. This operation also helped reduce the price of the Government's debt, as the 2013 Eurobonds carry an interest rate of 6.3 percent, lower than the 8.2 percent of the 2007 Eurobond⁵.

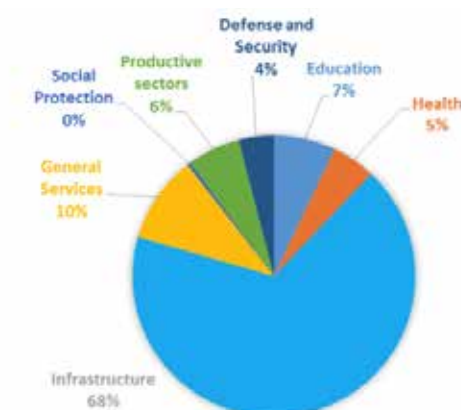
⁵ The 2007 Eurobond proceeds (\$1 billion) were used to buy back at a discount of 15 percent the country's outstanding debt to Paris Club creditors.

FIGURE 10: Public Investment (US\$ Million)



Sources: Government of Gabon, World Bank and IMF

FIGURE 11: Public Investment by Sector



Source: Government of Gabon, World Bank and IMF

BOX 2: Public Investment

In order to implement the PSGE, the Government decided to raise the capital budget to US\$1.54 billion in 2010 (representing three times the average annual budget allocated over the period 2006 to 2008) to address infrastructure bottlenecks. Consequently, capital expenditure which stood at 5 percent in 2008 increased to 15 percent of GDP between 2009 and 2012. The sector distribution of the investment budget shows the predominance of public works and energy infrastructure, the share of which has increased from 51 to 67 percent of the budget between 2009 and 2013. The capital spending is guided by implementation of a US\$13 billion infrastructure masterplan adopted in 2012 for the period 2013-16. The main projects of the master plan include: Power – Infrastructure (US\$3 billion), Transport – Infrastructure: roads, railways, ports (US\$3.5 billion), development of the mining sector (US\$3.3 billion), and development of the tourism sector (US\$85 million).

To cover its financing needs, the Government successfully issued a US\$500 million Eurobond in June 2015. As result, in 2015, public debt will increase to around 37 percent of GDP in 2015, but Gabon's debt level remains well below the regional CEMAC threshold. The Eurobonds do carry foreign exchange risk as they are issued in US\$. The CFA Central African Franc (CFA) is tied to the Euro, which depreciated by 10 percent against the US\$ over the course of 2014 increasing the repayment cost in local currency.

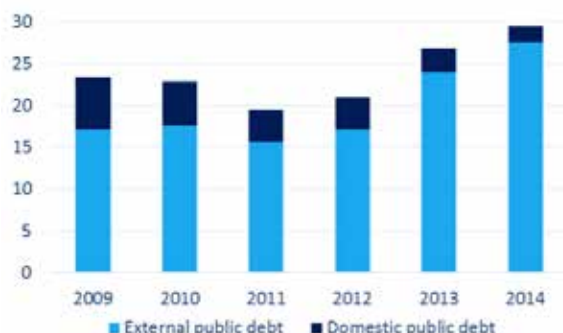
External sector – Deficit of the current account in 2015

In the first half of 2015, Gabon's balance of trade recorded a surplus of CFAF 710.3 billion, 45.9 percent down

compared to the same period in 2014 due to further declines of the international oil price. That allows to predict that the external balance will switch to a deficit of 3.2 percent in 2015 from a surplus of 12.1 percent in 2014.

Gabon's current account surplus is estimated to have declined to 12.1 percent of GDP in 2014, from 14.8 percent in 2013, following the decline in oil prices. The value of merchandise exports fell by 10.3 percent in 2014, following a downturn in the sales of two main exported products, oil and manganese, which fell by 11.2 percent and 17.9 percent respectively. The two products represent more than 90 percent of Gabon's exports.

FIGURE 12: Debt Evolution [% of GDP]



Source: National authorities and IMF

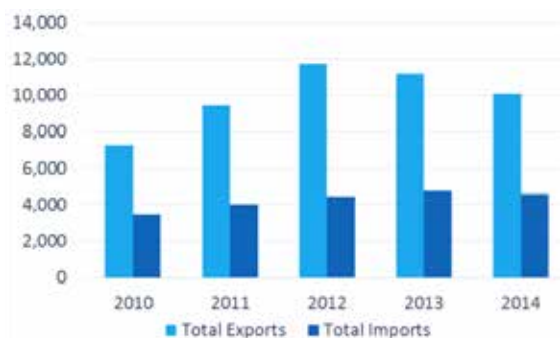
Exports fell by 10.3 percent in 2014, following a downturn in the sales of oil and manganese.

Imports decreased by 5.1 percent over the same period, following a 16 percent reduction in goods linked to the construction sector (mainly tools, machinery, and mechanical appliances) (Figure 13). Imports of used vehicles also declined following the Government's measures to prohibit the sale of vehicles older than three years. Imports of final goods decreased by 3.7 percent, due to the improvement of the supply of locally produced food livestock, agriculture and fishing). Furthermore, imports of intermediate consumption products increased by 8.2 percent.

In 2014 China became Gabon's major trading partner, with a trade volume estimated at US\$ 1.3 billion

In 2014 China became Gabon's major trading partner, with a trade volume estimated at US\$ 1.3 billion (up from US\$ 0.91 billion in 2013), followed by France (US\$ 0.90 billion) and the United States US\$ 0.69 billion). Providing 25 percent of Gabon's imports, France remains Gabon's largest supplier, followed by Belgium (15 percent), China (9.0 percent), and the United States (6.4 percent). Conversely trade with the CEMAC region slowed in 2014, with exports destined to other CEMAC countries accounting for only 1 percent of the total (compared to 2.1 percent in 2013), suggesting weak integration of the CEMAC economies.

FIGURE 13: Exports and Imports [US\$ Billion]



Source: Gabonese Authorities and World Bank.

Business Environment – High Cost of Doing Business

The poor quality of Gabon's business climate stands as a major constraint to the non-oil private sector and diversification of the economy. The country ranked 162th (out of 189 countries) in the World Bank's 2016 Doing Business survey.

Gabon is among the 27 economies worldwide where the business climate is the most challenging. Specific challenges include:

- Limited financial intermediation. Lending to the private sector is equivalent to just 15 percent of GDP, well below the average for emerging-market peers.
- Low flexibility of the labor market. While there is relative ease in hiring, there is rigidity in the number of hours worked.
- Registering property is cumbersome and takes a very long time. Gabon is in 173 place as it requires six procedures, 103 days and costs 10.5 percent of property value.
- Application of the legal framework for securing property rights and contracts is hampered by time consuming (38 procedures) and costly procedures (equal to 34.3 percent of the claim).

PART II: MACRO POVERTY OUTLOOK



Macro Poverty Projections – Positive Outlook

The fall in world prices led to slower growth in 2014 and 2015. However, in spite of expected lower oil prices, economic prospects remain positive over the medium term. GDP growth is projected to reach 5.2 percent on average in 2016-2017 and given the decline in oil prices, inflation is expected to remain on average at 2.6 percent in 2016-2017.

Construction and public works are expected to rebound, progressing to an average of 8 percent over the period 2016-2017 in connection with the acceleration of the work of preparation of Nations Africa Cup of 2017.

The growth in non-oil sector should also benefit from the development of the sector of wood processing in which the private sector and the state invested to

build 12 new plants since 2010. Similarly, manganese production is expected to grow on average by 6.1 percent during the 2015-2019 period, thanks to the exploitation of the deposits near Franceville (for JMG Cement) and Moanda Metallurgical activity Complex (MMC) which was inaugurated in June 2015. The MMC has two factories producing respectively metal manganese and silicomanganese (metal alloy), and has an annual production capacity of 65,000 tons of silico-manganese and 20,000 tons of manganese metal. Public-private partnerships between the State and the Gabonese multinationals OLAM (oil palm and rubber) and Mauritian IBL should also boost agro-industry and fisheries.

The stronger growth in mining and wood processing will likely have a positive impact on the transport sector, given that 90% of transport activities are related to these industries. Efforts are also underway to support the agriculture sector via the implementation of a national agricultural investment and food security and nutritional plan and the

TABLE 3: Macro Poverty Outlook (Annual % Change)

	2014	2015p	2016p	2017p
GDP, at constant market prices	4.3	4.1	5.1	5.3
Private Consumption	5.5	2.1	4.2	4.5
Government Consumption	1.6	-4.9	3.5	0.5
Gross Fixed Capital Investment	-5.0	-5.5	12.5	3.5
Change in Inventories, % contrib	0.3	0.3	0.3	0.3
Exports, Goods and Services	-0.6	0.0	4.2	5.3
Imports, Goods and Services	-3.7	-5.9	8.0	8.0
GDP, at constant factor prices	4.3	4.1	5.1	5.3
Agriculture	7.0	7.0	7.0	9.0
Manufacturing	0.6	1.1	2.5	2.1
Services	7.3	6.3	6.9	7.2
Inflation (Consumer Price Index)	4.7	2.1	2.5	2.7
Current Account Balance, % of GDP	12.1	-3.2	-0.8	0.4
Fiscal Balance, % of GDP	2.5	-3.1	-1.0	-0.6
Poverty rate (\$3.1 a day, PPA terms)	22.7	22.0	21.1	20.2

Source: World Bank. Note: Historical poverty data, include data emanating from individual surveys and World Bank estimates derived from POVCALNET for intervening years and recent history: a = Annual percentage change; f = forecast; b = Projection using Median Regional Elasticity for SSA, with pass-through= 0.63 based on GDP constant.

GRAINE program (*la Gabonaise des réalisations agricoles et des initiatives des nationaux engagés*) whose objective is to increase Gabon's agriculture production from 5% to 20% in 2020.

In spite of lower oil revenues the fiscal deficit is projected to decline from 3.3 per-cent of GDP in 2015 to 2.5 percent of GDP in 2016 and 0.6 percent of GDP in 2017. This is expected on the account of the enhancement of revenue collection capacities, the reduction of discretionary tax exemptions and the adoption of a budgeting methodology based on budget spending targets.

Poverty Eradication Projections – Slight Reduction Only

There are no accurate and up-to-date poverty numbers for Gabon due to a lack of survey data. However, World Bank staff estimates suggest that poverty still affects 22.7 percent of the population. Improved data is required to make an accurate assessment and enhancing the quality and coverage of Government statistics should be a priority in 2016.

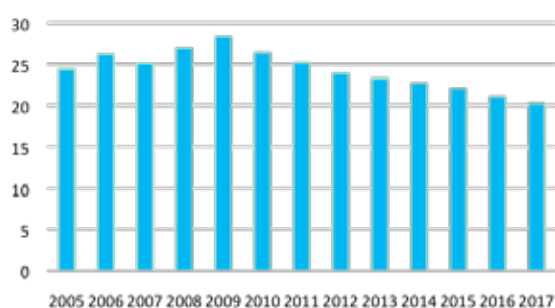
The World Bank's Statistical Capacity Indicator (SCI) scores the Gabonese systems across three categories (methodology, source data and periodicity)⁶. In 2014 Gabon ranked below the average for Sub-Saharan Africa in terms of source data. Other key statistical gaps that need to be filled to catch up with other African countries include a poverty survey and agricultural census.

⁶ See: <http://datatopics.worldbank.org/statisticalcapacity/SCIdashboard.aspx>

Despite the lack of hard data, projections of macroeconomic prospects and poverty from the World Bank (Table 3) indicate that poverty, estimated at a rate of 3.1 dollars a day (in PPP) will experience a slight decrease of 22.7 percent in 2014 to 22.0 percent in 2015 which would continue gradually to 21.1 percent in 2016 (Figure 14).

Risks Ahead – Keeping an Eye on Oil Prices and Managing Volatility

FIGURE 14: Poverty Incidence (%), 2005-2017



Source: World Bank Estimates.

There are upside and downside risks regarding oil price as projections from the global oil market face significant uncertainty. If growth falls below the medium-term projections then the expected decrease in poverty will likely not materialize unless a more effective social protection system can be developed.

Gabon's medium-term growth prospects are subject to risks from both domestic and external sources. There are upside and downside risks regarding oil prices as projections from the global oil market face significant uncertainty. Oil prices fell by 50 percent in the second half of 2014 and have been volatile in 2015. As the market continues searching for a new equilibrium price, Gabon needs to stand ready to react accordingly. If prices drop into a lower bound then the 2015 budget assumptions may need to be revisited for a second time. A further decline in prices

would impact on the economy as Gabon does not have sufficient fiscal buffers to endure a significant fall in oil revenue. A further decline in oil prices would certainly reduce available resources for financing the implementation of structural projects and the wider PSGE.

A further decline in prices would impact on the economy as Gabon does not have sufficient fiscal buffers to endure a significant fall in oil revenue.

If oil prices rise once again then there is an opportunity to ensure sizeable primary deficits are avoided and a more sustainable fiscal framework is pursued in 2015 and 2016. Most forecasts suggest a return to a US\$100 barrel is very unlikely. China is the largest importer of Gabon's manganese exports and with China's lower growth projections for 2016 might come reduced appetite for manganese.

On the domestic front, relaxed fiscal policy and weak public investment management capacity are the main risks facing Gabon, plus potential economic uncertainty from the 2016 elections. For the coming years Gabon will remain reliant on crude oil for growth and revenues.

If growth falls below the medium-term projections then the expected decrease in poverty will likely not materialize. Structural reforms are needed to mitigate lower economic growth, accelerate improvements of the business climate to support the non-oil private sector and diversification of the economy. Furthermore, there remains a key need to protect the poor from the volatility brought on by dependence on oil brings and the prospect of slower economic growth over the medium-term. Global experience shows that social protection can be a powerful way to promote growth and fight poverty in many emerging economies if a well-designed system is put in place. Further discussion of social protection measures takes place in Part III: ***Building Social Protection Systems.***

PART III: BUILDING SOCIAL PROTECTION SYSTEMS



Social Protection Systems – Why Build Them?

Despite mineral wealth and GDP per capita of US\$ 10,660 (2014), a significant proportion of Gabonese households face low incomes, unemployment, illness, and struggle to protect themselves and their families against shocks. Volatility in the economy, emanating from an acute dependency on oil production and export, is passed down to citizens. The poor are the most vulnerable to these swings, typically more exposed to risk and less able to access opportunities.

The McKinsey Company, in the context of the preparation for the 'social pact', conducted a study on poverty in Gabon which estimated at about 30%

the Gabonese population living with an income below the minimum wage guarantee (80 000FCFA/month) in 2013. Similarly, the national survey of employment and unemployment (ENEC) conducted by the Ministry of economy in 2010 estimated the national unemployment rate at 20.4%.

The Demographic and Health Survey conducted in 2012 General Directorate of Statistics revealed that one-third (32%) of the Gabonese population is living in precarious habitats, i.e. non-durable housing, and where access to drinking water, sanitation and living space are unhealthy.

The 2012 Demographic and Health Survey (DHS) also revealed that the rate of infant and child mortality (children less than 5 years) is still very high (65 per 1,000 live births) as well as the maternal mortality rate that was estimated at 316 per 100,000 live births.

There remains a need to protect the livelihoods of low-income households in Gabon, especially given slower economic growth. Global insights gathered by the World Bank suggest the importance of building a social protection system. The World Bank Group defines social protection and labor systems, policies, and programs as those that help individuals and societies manage risk and volatility and protect them from poverty and destitution—through instruments that improve resilience, equity, and opportunity (see Box 3). Instruments include safety nets, pensions, insurance, labor programs and access to services; that can each impact on economic growth and poverty reduction via the national economy (macro level), local economy (meso level) and via households directly (micro level).

There remains a need to protect the livelihoods of low-income households in Gabon despite slower economic growth.

Social protection is no longer the preserve of developed countries and systems are being built across the world in almost every country to help people and families find jobs, and invest in health, education, and well-being of their children.

Recent swings in global commodity prices and increased vulnerability to financial crises has encompassed job loss, financial turmoil, and volatility in food and fuel prices.

Increased interdependence, risk, and vulnerability are central features of today's global economy. Recent swings in global commodity prices and increased vulnerability to financial crises has encompassed job loss, financial turmoil, and volatility in food and fuel prices. These challenges are increasing risks to individuals and families, while urbanization, migration and modernization are changing individuals' and

BOX 3: Social Protection Definition and Goals

Social protection and labor systems, policies, and programs help individuals and societies manage risk and volatility and protect them from poverty and destitution—through instruments that improve resilience, equity, and opportunity. As such, social protection and labor systems have three intertwined goals:

1. Resilience against the impact of drops in well-being from a range of shocks. Key sources of resilience are social insurance programs that minimize the negative impact of economic shocks on individuals and families—such as unemployment and disability insurance, old-age pensions, and scalable public works programs. Complementary programs in other sectors are also extremely important for resilience—such as crop and weather insurance and health insurance. Private and informal arrangements (such as savings, assets, and family or community-based support) are vital, too.

2. Equity for the poor through protecting against destitution and promoting equality of opportunity. Social assistance programs (also known as safety net programs—including cash transfers and in-kind transfers, such as school feeding and targeted food assistance) address chronic poverty. They also protect poor individuals and families from irreversible and catastrophic losses of human capital (nutrition, health, and education). They also lay the foundation for equality of opportunity, notably by helping families feel secure enough to invest in their future and their children.

3. Opportunity for all through promoting human capital in children and adults and “connecting” men and women to more productive employment. Institutions that promote opportunity are often integrated with those supporting resilience and equity. Cash transfers incentivize investments in human capital by promoting demand for education and health and by helping address gender inequalities. Public works programs provide cash payments to the poor, while increasing physical capital investments. And labor market programs provide unemployment benefits, build skills, and enhance workers' productivity and employability.

Source: World Bank (2012), 'Resilience, Equity and Opportunity', Washington D.C.

families' traditional sources of resilience against these risks. A long-term increase in prosperity has welcomed many to the rising middle-class, but many others continue to confront deep poverty and inequality and remain disconnected from opportunity because of a lack of skills, information, or finance. This lack of access to opportunity affects human development outcomes and is a source of inequality. Persistent shortfalls experienced by many in Gabon remain in nutrition, education and health (notably maternal and child health).

Main benefits of social protection

Social protection and labor systems, programs and policies buffer individuals from shocks and equip them to improve their livelihoods and create opportunities to build a better life for themselves and their families. This is especially important for a country dependent on natural resources.

While social protection systems and labor policies and programs are designed for individuals and families, they can also be broadly transformative – by providing a foundation for inclusive growth and social stability. These policies and programs help create opportunities essential to save lives, reduce poverty, and promote inclusive growth.

Social protection systems and labor policies and programs can be broadly transformative –by providing a foundation for inclusive growth and social stability.

A lesser known feature of social protection systems is that they provide a foundation for inclusive growth, which can have a transformational effect on people's lives. There is evidence that social protection systems support growth outcomes through five pathways: (i) building and protecting human capital; (ii) empowering poor individuals to invest or to adopt higher risk-higher return activities; (iii) promoting greater labor market mobility; (iv) acting as stabilizers of aggregate demand or enhancing productive assets and infrastructure (for example, through public works

programs); and (v) reducing inequality in society and making growth-enhancing reforms more politically feasible.

The strongest evidence on the relationship between social protection systems and growth is from improving the functioning of the labor markets and thus improving access to productive opportunities, and for allowing families to invest in human capital. Countries around the world are increasingly aware of these effects, and, therefore, are incorporating them into program design, although successful models are not yet well established. Evidence is more limited in other areas—such as the role of the social protection in improving savings, and the early evidence on how they can increase entrepreneurial activities by reducing downside risk.

Social protection measures are also increasingly recognized as a vehicle for ensuring social stability and implementing social contracts to ensure that rights and state obligations are fulfilled and social cohesion is strengthened.

Despite their strengths, social protection systems should not be regarded as a panacea. These systems will achieve optimal outcomes only if first they function well and second they are complemented by the provision of basic social services of an appropriate quality. While cash transfers may increase the demand for such services, it is vitally important that the Government meets this demand with high quality public service. While social protection systems may be a vital component in a well-designed program to support low-income households, the program must remain part of a realistic and integrated budget strategy. There are many important lessons that can be gathered from international experience (for example from South Africa; Box 4).

BOX 4: South Africa's Social Grant System

South Africa boasts the largest cash transfer program in Sub-Saharan Africa. It includes several types of means-tested grants targeted to the elderly, poor families with children, foster families, people with disabilities, and war veterans. Roughly 15 million people receive a social grant (about 30 percent of the national population). The child support grant (CSG) reaches about 10 million people, while the old age grant, which applies to poor people over 60 years of age, reaches about 2 million people. According to household survey data, social grants make up over 60 percent of the income of the poorest 20 percent of recipient households, with child grants being the largest contributor. Children who were enrolled in the CSG at birth completed significantly more grades of schooling and achieved higher scores on a math test than children who were enrolled at the age of six. These effects were particularly significant for girls. Enrollment in the CSG reduced the likelihood of illness among children by 9 percentage points. The main effects on adolescents were reduced sexual activity and teen pregnancies and less drug and alcohol use.

Source: Woolard, Ingrid and Murray Leibbrandt. (2010) "The Evolution and Impact of Unconditional Cash Transfers in South Africa." Southern Africa Labour and Development Research Unit, University of Cape Town⁷.

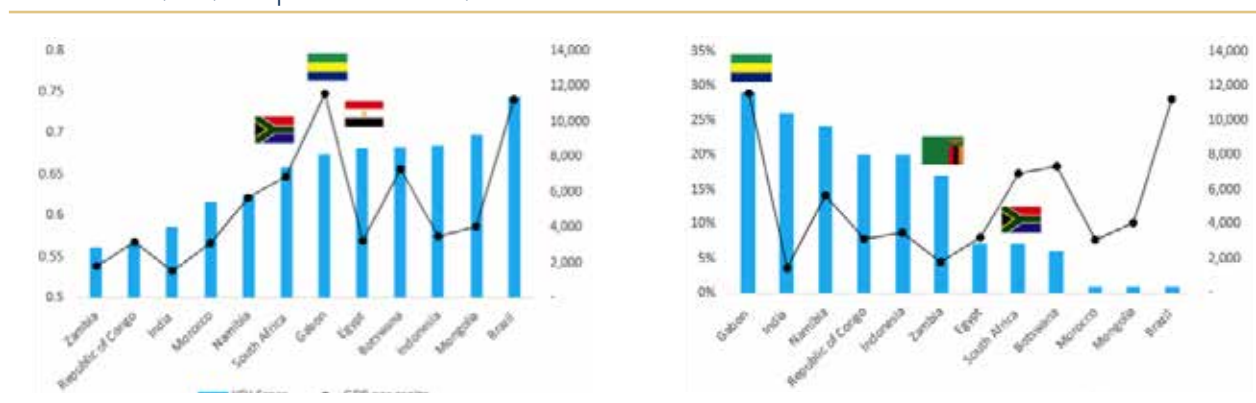
Benchmarking Gabon – How do social outcomes compare?

Gabon is an upper-middle-income country, with life expectancy of 63 years, far below the average for upper-middle-income countries of 74 years. Health outcomes are also closer to those seen in low-middle-income countries. Among the reasons cited for Gabon's poor health outcomes are poverty and limited social protection programs. This underscores the need for a functioning social protection system in Gabon as a priority.

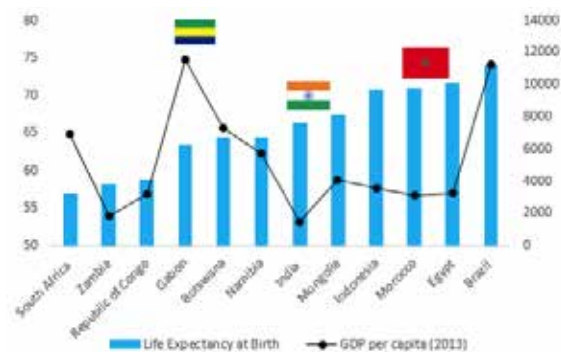
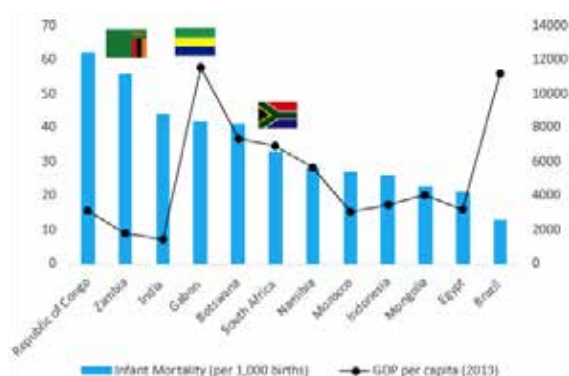
When Gabon is benchmarked against other countries with similar per capita incomes, it stands out a poor performer in terms of human development and particularly in terms of its citizen's health (Figure 15). Many countries achieve the same outcomes with lower-income per capita or higher outcomes with similar levels of income.

A 2014 World Bank study on health financing in Gabon helps make sense of the poor performance. It finds that while the Government has set an ambitious goal for itself, several challenges exist in meeting these objectives in the medium term. These include: sustainable financing; improving equity in access and delivery of health services; with a particular focus on

FIGURE 15: Global Comparison of Social Outcomes



⁷ Summary accredited to: World Bank. 2012a. Managing Risk, Promoting Growth: Developing Systems for Social Protection in Africa—The World Bank's Africa Social Protection Strategy, 2012–2022. Washington, D.C.: World Bank



Source: World Development Indicators, World Bank and UNDP Human Development Index.

primary care, public health program, and quality of care; and increasing the population's coverage under existing social protection programs.⁸

Social Protection in Gabon – Aspirations and current Architecture

Gabon has stated its intention to introduce a modern social protection system, but it still has not yet achieved the objectives set by the Government.

The Aspiration for Gabon's Social Protection system

The path of supporting Gabon's low-income households (GEF)⁹ is defined by the Human Investment Strategy¹⁰ (SIHG), launched in December 2013. The strategy has four components:

1. Economic safety nets and cash transfers – to support the poor in meeting their dietary, health, educational minimum needs (involves conditionality).
2. Revenue generating projects (or AGRs)¹¹ – with an objective of helping GEFs to become economically self-sufficient.

⁸ Saleh, Karima, Bernard F. Couttolenc, and Helene Barroy. Health Financing in the Republic of Gabon. World Bank Studies. Washington, DC.

⁹ From the French language term: Gabon économiquement faibles.

¹⁰ Stratégie d'Investissement Humain du Gabon

¹¹ Activités Génératrices de Revenus (AGR).

¹² As referenced in the Stratégie d'Investissement Humain du Gabon.

3. Ensuring minimum access to the social services- to reduce inequalities in access to public services to avoid further marginalization of the GEF.

4. Policy targeted economic and social integration aiming to ensure better economic / social integration of rural and peri-urban populations (for example quality of housing, mobility and connectivity).

The SIHG relies on weak data but considers 95,000 households as GEF; approximately 30 percent of the population.

The SIHG relies on weak data but considers 95,000 households as GEF; approximately 30 percent of the population¹². The SIHG further suggests that 55 percent of GEF live in six departments that are essentially urban. And that the 17 *departments* with a poverty rate greater than 50 percent are predominantly rural.

With the SIHG the government has shown its determination to develop an integrated social protection system capable of providing economic and social assistance to GEFs, but also help those who have the ability to become economically self-sufficient. To this end, two types of intervention are considered: social transfers and labor programs for employment. These interventions are complemented by two geographically targeted components, one to improve the supply of social and public services in the 25 departments estimated to be below the national average and the

other for better economic integration of remote rural areas and semi-urban areas.

Taking into account the experience and global trends on social transfers, the SIHG essentially envisages the introduction of conditional cash transfers with conditionalities based on the use of education and health services (education, medical care). Such transfers would be granted to GEFs via 7 programs, each targeting a specific vulnerable group. It should be noted that, given the nature of the target group, the transfers would not be conditional in the case of widows, elderly and street children and orphans. In terms of employment assistance,

grants for starting income generating activities (IGA) are identified as the way to take 10-20 percent of the GEF to become micro-entrepreneurs. In the interests of sustainability, this approach would be accompanied by support for the development of microfinance.

The SIHG quotes financing requirements ranging from US\$133 to 182 million per year (CFA 80 to 110 billion) each year until 2016.

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TABLE 4: Human Investment Strategy Financing Requirement

Component	Objective	Key Components	Proposed Annual Financing Range
Economic safety nets and cash transfers	Double the income of the poorest 95,000 GEFs to meet their needs and nutritional care, health and education	7 conditional aid programs (e.g. to families with children, single mothers, the elderly, widows, the disabled, young people aged 18-25, and the education of street children). Conditionally granted to encourage beneficiaries' autonomy.	US\$ 77 to 94 million plus investment over US\$ 34 to 42 million (excluding land to build 15-20 reception facilities)
Supporting revenue generating projects (AGR)	Allow about 10% to 20% of the GEF to become micro-entrepreneurs and develop 8,500-11,000 projects in the territory in 5 years	Project portfolio in 3 key areas: agriculture, livestock and fisheries (65% of income-generating activities), tourism and crafts (30%), services and small-scale processing (5%). Average project size: CFA 1.5 million.	US\$ 3 to 5 million
Ensuring minimum access to the social services	Reduce inequalities in access to social services and public services between poor areas and prosperous areas	Upgrading of the 25 most precarious departments on all dimensions considered: health, education, access to water, electricity etc. Requires the deployment of innovative models such as the sharing of services, mobility or social services employee local recruitment	US\$ 34 to 42 million
Policy targeted to economic and social integration	Ensure better economic and social integration of rural pockets of poverty and peri-urban	Projects set-up in rural areas. Support to the peri-urban poor, via the introduction of low-cost housing and the development of mass transit systems.	US\$ 17 to 34 million

Source: SIHG.



each year until 2016, depending on the extent of the social protection to be provided. Only broad information is provided on how the funds would be split across the four components (Table 4). To meet the SIHG's financing requirements, US\$ 8.3 to 9.9 million (CFA 5 to 6 billion) would be required from the Ministry of Health and Social Welfare; US\$8.3 to 11.6 million (CFA 5 to 7 billion) from the Ministry of Education and US\$ 16.6 to 33.1 million (CFA 10 to 20 billion) from the Ministry of Public Works.

The Current Architecture for Gabon's Social Protection system

The SIHG provides recent guidance for social protection, although Gabon has been working on establishing a functional Social Protection system since the 1950s¹³. The current major actors of the social protection system are:

The SIHG provides recent guidance for social protection, although Gabon has been working on establishing a functional social protection system since the 1950s

— The Ministry of Health and Social Welfare (MoSPS)¹⁴, responsible for the SIHG. It governs the policy framework in the sector and regulates active institutions.

— The National Health Insurance and Social Guarantee Fund (CNAMGS)¹⁵. It was set up in 2007 to provide compulsory health insurance and social security. The CNAMGS recently absorbed responsibility for tasks carried out by the National Social Security Fund (CNSS)¹⁶.

— The National Social Assistance Fund (FNAS)¹⁷. It has been operational since October 2013.

— NGOs and religious entities also provide various types of assistance to vulnerable groups, but there is limited Government monitoring, regulation, coordination or assessment of their work.

It is hard to accurately gauge total Government expenditure on social protection.

TABLE 5: Size of Selected Social Protection Systems

Country/ Description	Number Beneficiaries (million)	Coverage (% population)	Annual Ave. Household Benefit (US\$)	Fiscal Incidence (cost % GDP)
South Africa: all social security grants	15	30%	450 to 2,000	6%
Ethiopia: productive Safety Net Program	8	10%	137	1.2%
Rwanda: Mutuelles de santé	10	91%	235	1.2%
Brazil: Bolsa Familia	44	25%	84 to 540	0.5%
Mexico: Oportunidades	28	25%	Varies by grant	0.3%
India: Mahatma Gandhi National Rural Employment Guarantee Act	235	20%		0.009%
Gabon: FNAS + CNAMGS	0.83	50%	68	0.6%
	(CNAMGS only)	(CNAMGS only)	(CNAMGS + FNAS)	

Source: World Bank's Africa Social Protection Strategy 2012-2022 and authors' calculations.

¹³ Gabon has social protection legislation and a social insurance funds dating back to 1956. Various revisions followed and various fund structures have been utilized, although many have not proved sustainable and suffered from inadequate financing. For example, the national social guarantee structure (or CNGS), a non-contributory compulsory public insurance fund set-up in 1983 closed in 2007 in account of insufficient funds. Since then new structures have been established, including the CNAMGS, currently responsible for compulsory health insurance.

¹⁴ Ministère de la sante, de la prevoyance sociale et de la solidarite nationale.

¹⁵ La Caisse Nationale d'Assurance Maladie et de Garantie Sociale (CNAMGS).

¹⁶ Caisse Nationale de Sécurité Sociale (CNSS).

¹⁷ Le Fond Nationale d'Aide Sociale (FNAS).

Given the complexity of the social protection system in Gabon, poor data and the level of uncertainty associated with the national budget, it is hard to accurately gauge total Government expenditure on social protection. The 2015 budget suggests US\$ 56.5 million would be spent on economic safety nets and solidarity transfers (CNAMGS funds) and income generating activities (FNAS funds). Comparison is made between estimates of the Gabonese system and other countries' systems (Table 5). If realized, this would put estimated annual Government expenditure on social protection around 0.6 percent of GDP. However, following reduced projections for oil revenues the 2015 budget has been revised downwards by US\$ 83 million relative to 2014 (see the **Fiscal developments** section in Part II) and it is unlikely that this expenditure will be realized in full. Note that this number also excludes general social expenditure (for example on health and education) and spending via the GRAINE initiative (that supports rural livelihoods). Each of the core parts of the system are explored in turn.

CNAMGS

The CNAMGS is a public welfare institution mandated by law, with autonomy for its administrative and financial management. Its objectives include contributing to improving access to health for all Gabonese, regardless of household income. It is primarily a universal health insurance provider (including maternity benefits), but it is also mandated with providing various allowances to vulnerable people. To achieve its mandate there are three separate and distinct funds:

1. The Social Guarantee Fund for low income households (or GEF), set up in 2009. This fund is financed by a mandatory health insurance fee (ROAM¹⁸), a 10 percent levy on the turnover of mobile phone companies, a levy of 1.5 percent on money transfers abroad and a national budget allocation (mandated in the Finance Act).
2. The Health Insurance Fund for private sector employees, financed by the social contributions

of employers and employees, which is active since 2011.

3. The Health Insurance Fund for public officials, financed by the social contributions of employers and employees and active since 2014.

As of October 2014, 830,118 Gabonese were covered by the CNAMGS funds (Table 6) and earmarked resources are used to finance the various programs. The impetus for CNAMGS was to bring various schemes under one umbrella agency. Nevertheless, the three schemes run independently from each other, as there is no pooling of resources or cross subsidization. CNAMGS has earmarked resources for its funding. About 45 percent of its resources came from contributions from formal sector workers (civil servants and private sector); the other half (55 percent) from general and earmarked taxes. The total resources in the three funds was approximately US\$ 77.9 million (CFA 47 billion) in 2013. In 2013 spending from the funds on health care reached US\$ 16.6 million (CFA 10 billion) for public sector beneficiaries and US\$ 13.2 million (CFA 8 billion) for private sector beneficiaries.

As of October 2014, 830,118 Gabonese were covered by the CNAMGS funds and earmarked resources are used to finance the various programs.

As a share of total spending, CNAMGS administrative expenses are reported as significant. In 2012 per capita spending for registered beneficiaries in the CNAMGS program was approximately US\$ 65 (CFA 37,000). That same year, operating costs represented 40 percent of CNAMGS's total health spending per capita.

FNAS

The FNAS is a public institution with jurisdiction over the collection, centralization and the allocation of social benefits. Until recently, social aid (in cash and in kind, including fee exemptions) was distributed once a year to some 8,000 beneficiaries, unconditionally. The intention is that FNAS will improve the governance

¹⁸ La Redevance Obligatoire à l'Assurance Maladie (ROAM).

TABLE 6: Registration in CNAMGS Funds

Fund	Person Insured	Legal Dependents	Children	Total
Social Guarantee Fund/ GEF	259,478	12,622	241,801	513,901
Health Insurance Fund- private	81,940	2,444	30,683	115,067
Health Insurance Fund -public	84,862	4,843	111,445	201,150
Total	426,280	19,909	383,929	830,118
Mexico: Oportunidades	Percentage of population			49.6%

Source: CNAMGS (as of October 2014)

of social aid and to help vulnerable people become self-reliant. Its mandate is to centralize and distribute social aid, the latter by supporting the income-generating activities of economically weak households.

The FNAS is a public institution with jurisdiction over the collection, centralization and the allocation of social benefits.

Since its establishment in 2012 the fund has leveraged in excess of US\$ 2.39 million (CFA 1.44 Billion) to support more than 16,000 low-income beneficiaries located throughout the country. Social assistance is granted by FNAS to any national fulfilling social eligibility requirements. Support is provided in the form of micro-credit (up to US\$8,289 or CFA 5 million) and financial services and to support activities that generate revenue (AGR)¹⁹ in areas with high potential for employment, such as agriculture, livestock, fishing, tourism, crafts, and services. FNAS expects to finance 1,500-2,000 group projects (e.g., implemented by cooperatives) a year with subsidies equal to 80 percent of needed capital.

Since establishment the FNAS has leveraged in excess of US\$ 2.39 million (CFA 1.44 Billion) to support more than 16,000 low-income beneficiaries.

Private insurance systems have also been active in Gabon, financed by employers, but coverage has remained limited to just workers in the formal sector and their dependents. Estimates of coverage in 2005

included 22,000 workers and their dependents (65,000 people); about 7 percent of the population.

FNAS initiatives are complemented with a labor market program implemented by the National Employment Office (ONE). This program is focused on salaried employment and is active in five provinces out of nine, with plans to cover the whole country. ONE manages a Fund that targets first time job-seekers (generally young people with diplomas) and laid-off workers coming from the private sector. The former are helped by subsidizing three-month internships, essentially with private companies; in 2013 the FIR supported 649 interns out of 5,537 candidates; 64 percent of the interns were hired at the end of the internship. The latter are given the opportunity to either do a paid internship or to attend a training provided by specialized private entities. Services to dismissed workers are only available if the company laid off at least 10 people (because in this instance the company has to prepare a social plan and make an assessment of the laid-off workers' competences).

Social Protection in Gabon—What are the main challenges?

Gabon's quest to develop social protection systems must tackle five major challenges (i) a lack of data; (ii) coordination of the system; (iii) ensuring fiscal sustainability; (iv) effective targeting; and (v) lesson learning

¹⁸ La Redevance Obligatoire à l'Assurance Maladie (ROAM).

The approach to social assistance remains in transition, with the Government working hard to put in place an approach that relies on a clear normative framework, and modern tools. Overall, the key elements of a safety net system are not yet in place. Major challenges for building the systems (discussed in turn below) are fivefold.

A lack of data

When it comes to measuring poverty and inequality in Gabon there is distinct lack of up-to-date statistics. The last accurate measure of poverty took place in 2005 and a new survey was planned to take place in 2014, but this was delayed and results are not expected until 2016.

The data guiding the SIHG is incomplete and dated, which makes targeting the GEF and designing the social protection system very difficult. Many assumptions have been made, even on the number of GEF and the threshold for defining a GEF (set at US\$133 or CFAF 80,000 without any clearly stated relationship to the cost of the food basket and absolute poverty line).

A more precise estimate of the poverty line and the number of GEF is urgently needed. This will help in establishing the amount of transfers required (not too high to avoid discouraging empowerment efforts, but enough to make a difference) and to correctly sequence interventions. Improved data would also help the government understand the specific needs of different vulnerable groups, the factors that increase their vulnerability or interventions that could increase their resilience. This fits with a general and critical need for improved statistics in Gabon. Until there is good data, programs cannot be well targeted, and until programs can be well targeted public expenditure will not be efficient and effective.

Coordination of the system

Some attempts have been made to streamline the social assistance programs, but coordination remains limited. Some programs are integrated into social assistance,

social insurance or labor market program schemes, but there is a lack of an overarching coordinating mechanism for social protection stakeholders.

Some attempt has been made to streamline the social assistance programs, but coordination remains limited.

The SIHG provides the basis for a coordination process that can act simultaneously on two fronts. First, by the deepening of diagnostic tests to continue planning on a more solid foundation (for example by providing greater detail and including a costed action plan). And second, through the design and production of various tools needed to implement the recommended actions.

The global trend is to avoid numerous fragmented social assistance programs and instead opt for a systemic approach, which avoids duplication, promote coordination with other sectors (especially education and health) and makes shared use of the administrative systems.

Ensuring Fiscal sustainability

Functional social protection systems require a sustained, long-term commitment. Once programs have been established, the Government will be committed to allocating public resources to this program for the long term as they are difficult to abolish, for both political and economic reasons. Therefore, when funding social protection systems, the Government must carefully analyze the fiscal implications and sustainability of the programs, especially given the revenue challenges being faced in 2015 (described in ***Part 1: Recent Economic Developments***). Good strategies are realistic in terms of what can be implemented, in the time frame of the strategy and in terms of available resources.

Furthermore, social protection systems must be provided with predictable and smooth funding each and every year to be effective. Volatile oil and non-oil revenue inflows lead to volatile public expenditure (especially public investment).

The SIHG that guides the development of the social protection system was ambitious even for a national budget based on US\$80 per barrel (as it was in 2014 and initially for 2015). There is also competition for additional resources from growing public sector wages and salaries and increased public investment as per the infrastructure strategy. The revised budget for 2015 projects revenue based on US\$40 per barrel and aims to maintain high levels of public investment, making unlikely the possibility of substantial savings for social programs in 2015 and 2016.

The SIHG that guides the development of the social protection system was ambitious even for a national budget based on US\$80 per barrel.

Efforts are needed to present a realistic budget proposal for developing social protection systems, based on available resources and other competing strategies (e.g., infrastructure development) that also call for additional resources.

Preparation of the 2016 budget will most likely require the Government to make tough choices with limited revenue. Hard choices will need to be made between allocating discretionary resources to public investment to alleviate infrastructure bottlenecks on the one hand, and increasing financial commitment to social protection system expenditures on the other.

Targeting and beneficiary identification is best applied systematically to ensure consistent treatment.

Effective Targeting

Targeting is often categorical (e.g. adolescent mothers) or subjective (i.e. not guided by data and clear objective criteria) and leakages appear to be common. This is complicated by the data limitations mentioned above, and a lack of a comprehensive beneficiary registry (though there are plans to establish one²⁰).

Targeting and beneficiary identification is best applied systematically to ensure consistent treatment.

These settings are typically economic, but can be geographical and categorical as well. The use of an identification system would deter fraud and could be based on biometric data. Equally, conditionality has meaning only if they are checked in a systematic and reliable manner, hence the need to also set up a system for collecting and transmitting information that will require the collaboration with medical and educational structures. Only then might better targeting be achieved.

A good example of weak targeting is evident in the Government's provision of scholarships (approximately US\$100 million per year) for students to study both within and outside of the country. Since beneficiaries are at the secondary and tertiary level and no particular effort is made to identify candidates with low means, it is likely that scholarships go disproportionately to non-poor students.

Lesson Learning

There is currently an absence of effective monitoring and evaluation (M&E) of the social protection programs. Effective M&E is required to track progress, measure results, detect potential problems and challenges in a timely fashion, and ensure the systems are iteratively developed based on lessons learnt. An Information Management System (IMS) would help in this regard as it would computerize various program components and automatically link them to facilitate their administration and monitoring. An IMS would require specific applications including: (i) the targeting system and registration of beneficiaries, (ii) the single register of programs, (iii) the creation of pay-slips, (iv) the reconciliation of payments, (v) a complaints management system, and (vi) a module for the development of monitoring and evaluation reports. In terms of evaluation, interventions need to be designed with impact assessment techniques in mind, including conducting baseline surveys before launching programs, so that the quality of the interventions can be assessed and improved upon.

²⁰ CNAMGS has been asked to carry out a 'census' to update the registry of economically weak families.

There is currently an absence of effective monitoring and evaluation of the social protection programs.

Moving Forward—What should be addressed first?

To meet the challenges we recommend focus on the following actions in 2015 and 2016: (a) Deepen Analysis of Poverty and Vulnerability; (b) Perform an Institutional Audit; (c) Formulate a Deployment Plan; and (d) Simulate Roll-Out Options.

(a) Deepen Analysis of Poverty and Vulnerability:

This should be a key priority for the Government. A number of parameters of the SIHG need to be reviewed following the provision of accurate and timely data. To obtain this information, the World Bank can assist with two key studies. First, a more accurate estimate of the absolute poverty line, i.e. the minimum expenditure to ensure acceptable living conditions. Secondly, and if there is further delay with the household survey, a participatory poverty assessment that would involve more qualitative analysis using focus groups and interviews with key stakeholders at the central, provincial and local level. This methodology allows understanding the multidimensional nature of vulnerability and survival strategies that households' employ.

(b) Perform an Institutional Audit: this should assess the human, operational and financial capacities of public institutions engaged in the social protection system. The audit would help guide future technical assistance aimed at improving institutional set-up and functions.

(c) Formulate a Deployment Plan: to complement the SIHG the Government should formulate a clear, realistic and time bound plan to support implementation of the strategy. This should utilize findings from the institutional audit and surveys discussed above and help shift the approach away from programs and will represent an investment in the building blocks of a modern social protection system.

(d) Simulate Roll-Out Options: There are numerous deployment options to consider for the different social protection instruments. Simulations will help understand, analyze and rank the different options in terms of their: (i) relevance to different vulnerability profiles, (ii) expected impact on poverty reduction and impact on human capital, (iii) cost measured as a percentage of GDP, (iv) cost-effectiveness analysis based on the cost of lifting a given number of people out of poverty; and (v) technical and administrative viability, by taking into account existing capacities and the technical difficulties of the implementation associated with each option.

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DATA ANNEX

TABLE A1: Average Monthly Prices (in CFAF) of the Most Consumed Products in Libreville

	2009	2010	2011	2012	2013	2014
Produits						
Ordinary rice grains sold in bulk	525	584	516	550	573	588
Wheat flour sold in bulk	1041	869	996	1294	949	1249
French bread baguette	643	727	806	758	790	727
Fresh beef stew	3917	3908	4024	4000	4367	4500
Cotis de porc	1641	1608	1808	1853	1845	5,3
Frozen turkey wings	1421	1372	1610	1759	1342	1522
Chicken thighs frozen	1253	1315	1326	1377	1236	1302
Fresh porcupine	4408	4006	5561	7926	11318	7867
Fresh "Capitaine" (Fish)	2700	3106	3094	3433	3100	4000
Fresh "Bar" (Fish)	2375	2967	3065	3375	3050	3500
mackerel smoke	2201	2646	2595	2851	2576	2917
Peanut oil	2553	2006	2340	2630	2630	2320
Tomato (fruit)	958	937	797	1230	835	839
Onion imports	880	873	844	885	888	1117
Sheets of folong	480	676	576	533	1086	680
Sheets of Sorrel	696	846	899	1416	785	987
Taros	450	432	500	652	478	539
Ripe banana plantain	547	551	599	580	759	536
Cassava sticks like fang	340	464	549	663	555	660
Cassava sticks like Obamba	717	852	787	785	738	823
Domestic gas bottle of 12.5kg	6000	6000	6450	5450	5450	5450
Gasoline	535	535	535	535	535	535
Diesel	450	470	470	470	470	470

Source: Direction Generale de la Statistique

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Database

Ministry of Finances

Caisse Nationale d'Assurance Maladie et de Garantie Sociale du Gabon



Libreville Business Square
LBS (ex GML) 3ème Etage
B.P. 4027
Libreville, Gabon

Phones :
(+241) 01.74.36.05/01.72.37.85
(+241) 04.08.56.13/01.20.99.35

