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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Sep-2020 | Report No: PIDC30443

**BASIC INFORMATION****A. Basic Project Data**

Country Gabon	Project ID P174723	Parent Project ID (if any)	Project Name Support to economic diversification project (P174723)
Region AFRICA WEST	Estimated Appraisal Date Mar 29, 2021	Estimated Board Date Mar 15, 2022	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Republic of Gabon	Implementing Agency Ministry of Economy and Finance	

Proposed Development Objective(s)

To support economic diversification in Gabon through enacting policy reforms, facilitating access to finance and skills to SMEs, implementing Public-Private Partnerships and conducting strategic interventions in sectors that can help Gabon diversify its sources of exports.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	30.00
Total Financing	30.00
of which IBRD/IDA	30.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	30.00
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Environmental and Social Risk Classification
Substantial

Concept Review Decision
Track II-The review did authorize the preparation to



continue

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Other Decision (as needed)

B. Introduction and Context

Country Context

- 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 fertility rate of 6 children per woman, 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, but the economic gains have not generated substantive spillover on its working population.** It is one of the few countries in Sub-Saharan Africa with upper-middle-income status (UMIC); 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 at approximately 51% of GDP are petroleum and manganese, and to a lesser extent, uranium, iron ore, diamonds, and gold. Rainforest covers 88 percent of the country, which has a uniquely rich ecosystem and extensive endowments of fertile land, water courses, and fisheries.
- 3. In recent years, Gabon's poverty rates have improved; however, outcomes for development indicators lag.** From 2005 to 2017, the national poverty rate declined from 42 percent to 33 percent; however, because the poverty rate declined slower than the population grew, the absolute number of poor increased. While poverty rates are comparatively better than Sub-Saharan Africa, Gabon's poverty rate¹ was 32.2 percent in 2017, which is approximately 12 percentage points higher than expected, given Gabon's per capita income. Furthermore, Gabon underachieves on most human development and living condition indicators. In 2018, Gabon's Human Capital Index (HCI) ranked 110 out of 157 countries.
- 4. Official unemployment has remained high in Gabon—hovering near 20 percent over the last 20 years—in part due to the economy's reliance on the oil sector, which generates few jobs, as well as labor regulation rigidities and skills mismatches.** Further, Gabon's overall employment to population ratio has been low, below structural and regional peers.

¹ Defined as the percentage of the population living on less than \$5.50 per day at 2011 international prices



The figure is particularly pronounced for women in Gabon— only about 30 percent of women are in the labor market. This latter 30 percent figure has remained stagnant during the last 20 years.

5. 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 drastically increased from 20 percent in the early 1970s to 89 percent in 2017—the highest rate in Africa. 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.

6. The nomination of a new prime minister in August 2020 has yielded an ambitious General Policy Program for Gabon. The government of Gabon's strategy, outlined on September 4, 2020, begins Gabon's vision of transforming itself into a diversified emergent economy by 2025, per the goal of the Strategic Plan for an Emerging Gabon (PSGE) launched in 2010. The PSGE sets out an ambitious reform agenda to leverage natural resources, catalyze economic transformation, and move higher on the value-added export chain.

7. However, the feasibility of Gabon's new General Policy Program remains uncertain. While the strategy repeatedly outlines Gabonese employment and job creation as priorities, alongside sector focus and overall reform for a better investment climate and announcements on some key infrastructure, such a pathway requires a significant shift of the development paradigm, as changes needed are economic as well as social. Although Gabon is among the few countries in Sub-Saharan Africa that have demonstrated commitment to protect forests and biodiversity, curb carbon emissions, and address climate risks, advancements can only occur through a formal fabric that remains in need of skills, enterprises, connectivity, and efficient public services. The persistent discrepancies between Gabon's per capita wealth, per capita well-being, and human development outcomes confirm that wealth is concentrated within a small segment of the population and resources are inefficiently distributed. Gaps in data availability and quality also make it harder for the government to make evidence-based policy decisions.

Sectoral and Institutional Context

8. Employment is concentrated in the service sector, often with low job status and informality. Few jobs are found in the industrial sector. Most formal employment is in the service industry (56.4 percent in 2019) and agriculture (32.8 percent), whereas the industrial sector only accounted for 10.8 percent. Since 2010, the structure of employment has remained roughly the same. Oil and mining are estimated to account for only 5 percent of employment. Public administration remains a large provider of jobs, a remnant of Gabon's history of a large bureaucratic public sector. The formal private sector is small. Less than 60 percent of the country's private and self-employed labor force work in companies with less than five employees and only 15 percent of the labor force works in companies with more than 100 employees. Formal employment makes up only 25 percent of total employment. The formal private sector is hampered by policies favoring large foreign investors and limited support to small local enterprises. Preference for the public sector, challenges in the investment climate, and access to finance have also contributed to a small formal private sector.



9. Self-employment and informality are the most common forms of employment. Estimates indicate one in three workers are self-employed, and this figure is higher in rural areas. The informal sector is estimated to account for 50 percent of employment. For the most part, the private sector landscape is dominated by SMEs and informal enterprises (excluding firms in the extractive industries sector). Ninety percent of firms are considered micro or small-scale (less than 20 employees), while large firms account for about 10 percent of enterprises. SMEs account for 30 percent of formal employment. SME development creates an opportunity to diversify the economy; however, knowledge-intensive industries are nonexistent. Opportunities in wood extraction and processing, as well as looking to expand agribusiness, metals, rubber, and other manufacturing may present growth opportunities.

10. Gabon ranks 169 out of 190 countries in the World Bank's 2020 Doing Business (DB) Report, far behind most Sub-Saharan Africa and upper-middle income countries. Of the 10 DB indicators, only one indicator (starting a business) is ranked less than 100 (at 96) amongst 190 countries, suggesting that widespread business environment reform is needed for the economy to be more competitive. The World Economic Forum Global Competitiveness Index (2016-2017) identified several constraints to competitiveness and diversification, including access to finance, an inadequately educated workforce, corruption, inefficient government bureaucracy, and inadequate supply of infrastructure.

11. Albeit slightly dated, many of the constraints identified in Gabon's 2009 enterprise survey still hold true. Constraints to firm operations tend to cluster around infrastructure—23.4 percent of firms cited electricity and 14.6 percent of firms cited transportation as their biggest obstacle. These rates are higher than the Sub-Saharan Africa average and higher than would be expected for Gabon, given its upper middle-income level status. Other constraints identified included an inadequately educated workforce and access to finance. Technical skills and managerial capacity are limited due to skills mismatches. Better training programs that target labor market needs are vital, with coordination among these programs.

12. The government of Gabon and World Bank assessed the pandemic's impact on formal and informal enterprises and living conditions within households in Gabon in a survey as part of the World Bank's Business Pulse Survey analysis.

Firms across the region were negatively affected by COVID-19 through four primary channels:

- Reduced demand
- Reduced access to cash and finance, including less liquidity, disruption in financial services, and reduced cash flow
- Disruption in supply chains
- Overall uncertainty, which negatively affects investment decisions

13. Based on a preliminary analysis of the survey data, the pandemic has had widespread effects on businesses and workers. At the time of the survey, 68 percent of firms were partially or fully open (Figure 6). Micro-firms had lower rates of closure, and there were no major differences across market sectors. Informal firms were more impacted by needing to close, particularly temporary closures.

14. As a result of the pandemic, 89 percent of businesses surveyed suffered a decline in sales during the 30-day period prior to the survey, compared to the same period the previous year. Formal firms had a more considerable decrease in sales compared to informal firms. On average, firms experienced an estimated 28 percent drop in sales, while manufacturing firms were affected more heavily with an average reduction of 42 percent. Operating firms reported a median of 10 weeks to continue operating if circumstances remained the same. Small businesses were the most vulnerable and reported even shorter survival times (micro-firms on average could last 10 weeks, compared to medium



firms, which on average could last 14 weeks). Further, firms in the capital and informal firms had slightly shorter survival times.

15. To adjust, many firms are laying off workers and reducing wages and hours in 15 percent of firms in Gabon In cross-country analysis, most firms are granting leave to workers rather than laying them off. On average, firm owners had a negative outlook for expected sales and employment projects. Over the next six months, they anticipated a drop of 12 percent in sales and a reduction of 6 percent in employment. However, on a positive note, firms did increase the use of digital solutions to expand sales—approximately 18 percent of firms increased their use of digital technologies to sell products. Further, 7 percent of large firms and 4 percent of micro firms invested in digital solutions due to the pandemic. **Based on preliminary findings from the data, it appears that few firms took up public support offered to firms, and the reasons varied between micro and non-micro firms.** Many firms in Gabon have minimal access to government services, which could help explain the reason for this finding. The government of Gabon’s policy response included a large emergency relief program to support SMEs that were legally registered and up to date with their fiscal and social obligations. The fund supported subsidized loans to eligible firms with the interest rate capped at 5.5 percent.

Relationship to CPF

16. In its development strategy (PSGE), the government aims to develop Gabon into an emerging economy by 2025 by diversifying the country and transforming Gabon into an internationally competitive investment destination. The plan calls for increased public and private investment, modernized infrastructure, and improved human capital.

17. The project supports further diversification of the economy (objective 2 of the FY19-23 CPF), also clearly outlined as target outcomes in Gabon’s General Policy Statement (Déclaration de Politique Générale), presented by the prime minister to Parliament on September 4, 2020. The government focuses here on economic recovery, emphasizing the need to accelerate the implementation of PPPs, continue existing investment projects, and restore investor confidence by improving the business environment.

C. Proposed Development Objective(s)

Note to Task Teams: The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet. ***Please delete this note when finalizing the document.***

18. To support economic diversification in Gabon through enacting policy reforms, facilitating access to finance and skills to SMEs, implementing Public-Private Partnerships and conducting strategic interventions in sectors that can help Gabon diversify its sources of exports.

Key Results (From PCN)

19. The project follows the “Cascade/MFD” principles, whereby necessary reforms are complemented, if needed, by public support following, whenever possible a competitive, transparent and objective process (e.g. PPPs). The project’s anticipated PDO-level performance indicators are:



1. Foreign exchange revenues generated by the sectors supported by the project
2. Number of business environment reforms adopted (Number)
3. Number of new enterprises supported in forestry value chains (Number)
4. Number of new enterprises supported in the eco-tourism sector (Number)
5. Number of new enterprises supported in the agribusiness sector (Number)

20. Intermediate-level results indicators would be:

1. Number of SMEs that access bank loans under the PCGF (Number)
2. Number of PPP transactions in Infrastructure and HD sectors supported by the Project's Project Preparation Facility (PPF) and related TA (Number)
3. Increased production of wood/wood products (either by volume (m3), or by value (\$)) (PBC: % increase in logs produced from baseline (%))
4. Increase in ecotourism visitors from baseline (%)
5. Implementing regulation for the competition law approved and applied in at least one decision
6. New competition law approved and implemented (optional)
7. Strengthened capacity of the DGCC, alternatively, set up and operationalization of Independent Competition Authority (conditional on approval of new competition law)
8. X% increase in number of competition enforcement decisions of the DGCC/new competition authority (if applicable)/other regulators
9. Reduction in the number of inspections and controls/year in key sectors (forestry, tourism, agribusiness)
10. Increase in % SMEs contracting with the government
11. Strengthened capacity of the HCI, ANPI-Gabon and the Chamber of Commerce (number of capacity building activities)
12. Institutional, regulatory, policy gaps identified in QI
13. Publication of incentives inventory through online platform

D. Concept Description

21. Economic diversification involves a change in the overall sector mix both in terms of contribution to GDP as well as in labor force. For Gabon, this means growth of non-oil-based sectors and development of other high potential sectors including forestry, agribusiness, and eco-tourism. The project's impact on poverty reduction will come from contribution to overall economic growth and increased productivity in other sectors of the economy, which can help to: (i) decrease macro volatility and its impact on equity in the country; (ii) create more and better employment opportunities that can raise incomes; and (iii) increase government revenue through increased economic activity and subsequent tax receipts. The project is therefore well aligned with the WBG's twin goals of reducing poverty and promoting shared prosperity.

22. Acknowledging that economic diversification is a process that can take decades to occur, the goal of this project is to contribute to setting that process in place. This will be done by promoting improvements in the overall business climate to optimize the investment environment and attract high-quality investors, developing capacity and frameworks for PPP development to finance priority infrastructure needs, contributing to the creation of financial solutions in support to local SMEs, and directly promoting sustainable growth and the competitiveness of specific non-oil sectors in the economy.



23. The project will consist of four components: (i) Component 1: Strengthen the business environment (\$US5 million); Component 2: Support key sectors (\$US22 million) ; Component 3: Contingency Emergency Response Component (CERC) (US\$0); and Component 4: Project management (US\$3 million).

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Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

Note to Task Teams: This summary section is downloaded from the PCN data sheet and is editable. It should match the text provided by E&S specialist. If it is revised after the initial download the task team must manually update the summary in this section. *Please delete this note when finalizing the document.*

Note: To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document. *Please delete this note when finalizing the document.*

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APPROVAL

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Approved By

Country Director:	Abdoulaye Seck	08-Dec-2020
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