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GABON

SELECTED ISSUES

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Approved By
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Prepared By: Jemma Dridi and Koffie Nassar (both AFR), Ashan Rodriguez (former AFR), Toomas Orav (SPR), Gwenaelle Suc and Bruno Imbert (FAD), Alessandro Cantelmo (Former RES), Justine Lekogo (Former Local Economist in Gabon), and David Elmaleh (World Bank).

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IMPROVING GOVERNANCE FOR HIGHER AND MORE INCLUSIVE GROWTH IN GABON[1]

Despite recent progress, the perception of a still weak governance and a high level of corruption continue to deter private sector investment and constrain economic growth. Vulnerabilities in the fiscal institutional framework constrain effective revenue collection and reduce the efficiency of public spending, thus limiting fiscal space for priority pro-growth spending. The results of a dynamic stochastic general equilibrium (DSGE) model for Gabon suggest that macro-fiscal gains from governance reforms could be substantial. The potential additional growth can range from 0.8 to 1.5 percent per year over the next 10 years, and debt can decline by 1.0 to 2.0 percent of non-oil GDP per year over the same period. It is urgent to improve governance and curb corruption to boost domestic revenue, enhance public finance management and the quality of spending, and improve the business environment to promote private investment and facilitate private sector activity.

A. Introduction

1. **Gabon still faces significant development challenges.** A sizeable endowment of natural resources has helped Gabon become one of Africa's richest countries, with a per capita GDP in excess of $7,500 in 2018. The benefits of economic growth however are yet to reach all segments of society, with a third of citizens living below the poverty line and an unemployment rate of over a quarter of young people. Key challenges to achieving sustainable and more inclusive growth include a narrow economic base, weak governance and corruption, ineffective institutions and unattractive business environment

2. **To address these challenges, the Gabonese authorities have launched an ambitious reform agenda to enhance governance and curb corruption.** Improving governance is a key pillar of the authorities' 2010 strategic development plan (PSGE),[2] which has been the anchor of their development policies in recent years. Key initiatives include: (i) the criminalization of corruption offenses through the Penal Code, under which various corruption-related offenses are criminalized (e.g., passive and active bribery, embezzlement and misappropriation of property by a public officials for the benefit of third parties, abuse of functions); (ii) the reinvigoration of the National Commission to Combat Illicit Enrichment (CNLCEI, created in 2004); (iii) the adoption of a Law on Public Procurement in 2012; (iv) the integration in the legal framework of all regional

[1] Jemma Dridi, Alessandro Cantelmo (Former RES), Bruno Imbert and Gwenaelle Suc (both FAD), Justine Lekogo (former local economist in Gabon). We would like to thank the Gabon team and participants of the governance brainstorming session (FAD/LEG/SPR and the World Bank) for their comments and suggestions. We are also grateful to G. Melina for support on the DSGE model and to J. Swanepoel for a helpful background note.

[2] The PSGE also aims to improve diversification, achieve sustainable development, human capital development and infrastructure development. The PSGE is planned in three phases. In July 2012, the government published a document which highlights the objectives for the period 2011–16. The second phase started since 2017 and covers the period 2017–19. The final phase would cover the period 2020–25.

directives on Public Financial Management (PFM) from the CEMAC commission (including the directive on transparency); and (v) the establishment of a National Financial Investigations Agency (ANIF) to investigate money laundering and related corruption activities in collaboration with its regional counterparts.

3. Despite recent efforts, governance weaknesses in Gabon still remain a major challenge to attracting private investment and supporting higher and more inclusive growth. The current discrepancy between adopting governance reforms and their actual effective implementation is a key factor that could explain why such reforms in Gabon have not generated sustained economic payoffs. Progress has been undermined by slow reform implementation, weak enforcement of regulations, and insufficient support to governance institutions. Third-party indicators, both quantitative and perception-based, from various sources including Mo Ibrahim, Transparency International, Natural Resource Governance Institute, and the World Bank point to the need for stepping up efforts to fight corruption and improve governance.[3] Vulnerabilities in the fiscal institutional framework (tax policy, revenue administration, procurement, state-owned enterprises, etc.) have constrained revenue collection and weighted on the quality and efficiency of public spending. This has reduced fiscal space for priority growth-enhancing expenditure. Similarly, the perception of high-level corruption, weak enforcement and a large informal economy continue to deter private sector investment and create an uneven playing field amongst businesses, thus negatively affecting economic growth. By constraining investment, total factor productivity and human capital, existing governance weaknesses ultimately hinder growth inclusiveness .[4]

4. This paper seeks to quantify the impact of governance reforms on growth. It uses a Dynamic stochastic general equilibrium (DSGE) model calibrated to Gabon to simulate the potential benefits from governance and anti-corruption reforms to growth and public debt. Fiscal governance is particularly macro-critical, given the need to preserve debt sustainability, limit fiscal risks, and improve the efficiency of fiscal policy. Similarly, macro-critical is transparency in the oil sector, given the need to ensure that the development of minerals and hydrocarbon reserves provides benefits to a larger part of the population. The paper relies mainly on IMF-led assessments (PEFA and other capacity development activities) and information provided by the authorities, complemented, where appropriate and consistent with Fund policy, by some third-party indicators.[5] The remainder of the paper is structured as follows. Section B presents an

[3] Further details are presented in Annex I. Despite measurement difficulties in some cases, quantitative indicators appear to be an acceptable basis for comparing countries. Perception-based indicators could be subject to emotional bias, but they reflect public confidence in the integrity of public institutions and can have an impact on the economy through business sentiment and investment.

[4] For a detailed discussion on how corruption has significant negative effects on key channels that affect inclusive growth, see section III of the 2016 IMF Staff Discussion on Corruption: Cost and Mitigating Strategies.

[5] Guidance Note for the Use of Third-Party Indicators in Fund Reports, September 2018.

overview of indicators of inefficiencies in Gabon and comparators that could be related to governance. Section C simulates the potential impact of governance reforms on Gabon's non-oil sector growth and public debt.[6] Section D presents an assessment of the institutional weaknesses that give rise to governance concerns in the fiscal area. Section E discusses the impact of weak governance in the business environment. The last section concludes and suggests possible reforms to improve governance.

B. Overview of Governance Performance

5. Governance in Gabon is weak by the standards of peer emerging market economies (EMEs). After a slight improvement during 2009–12 likely reflecting the launch of the new government's drive to reform the economy, governance indicators deteriorated, especially in the area of regulation. The Worldwide Governance Indicator of rule of law, which captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and the quality of contract enforcement, property rights, and the courts, as well as the likelihood of crime and violence, signals that Gabon's governance has been better than the rest of CEMAC and close to SSA average. However, Gabon still has way to go to reach the level of EMEs and upper middle-income countries (UMICs, Figure 1).

6. Despite recent progress, corruption as a consequence of weak governance, is still perceived to be a serious issue in Gabon. The authorities have placed a high emphasis on tackling corruption (Box 1). However, the 2019 *Transparency International* survey revealed that still 80 percent of respondents felt that corruption had become worse over the previous 12-months. A survey in 2017–18 reported that 35 percent of the Gabonese paid a bribe in contacts with public services to be compared with 48 percent for the rest of CEMAC. Bribes were most common in contacts with the police, courts, utility companies, and when asking for permits or other documents. It is worth noting that previous surveys suggested that corruption in Gabon was under reported because of fear of retribution.[7]

C. Measuring the Economic Impact of Governance Reforms

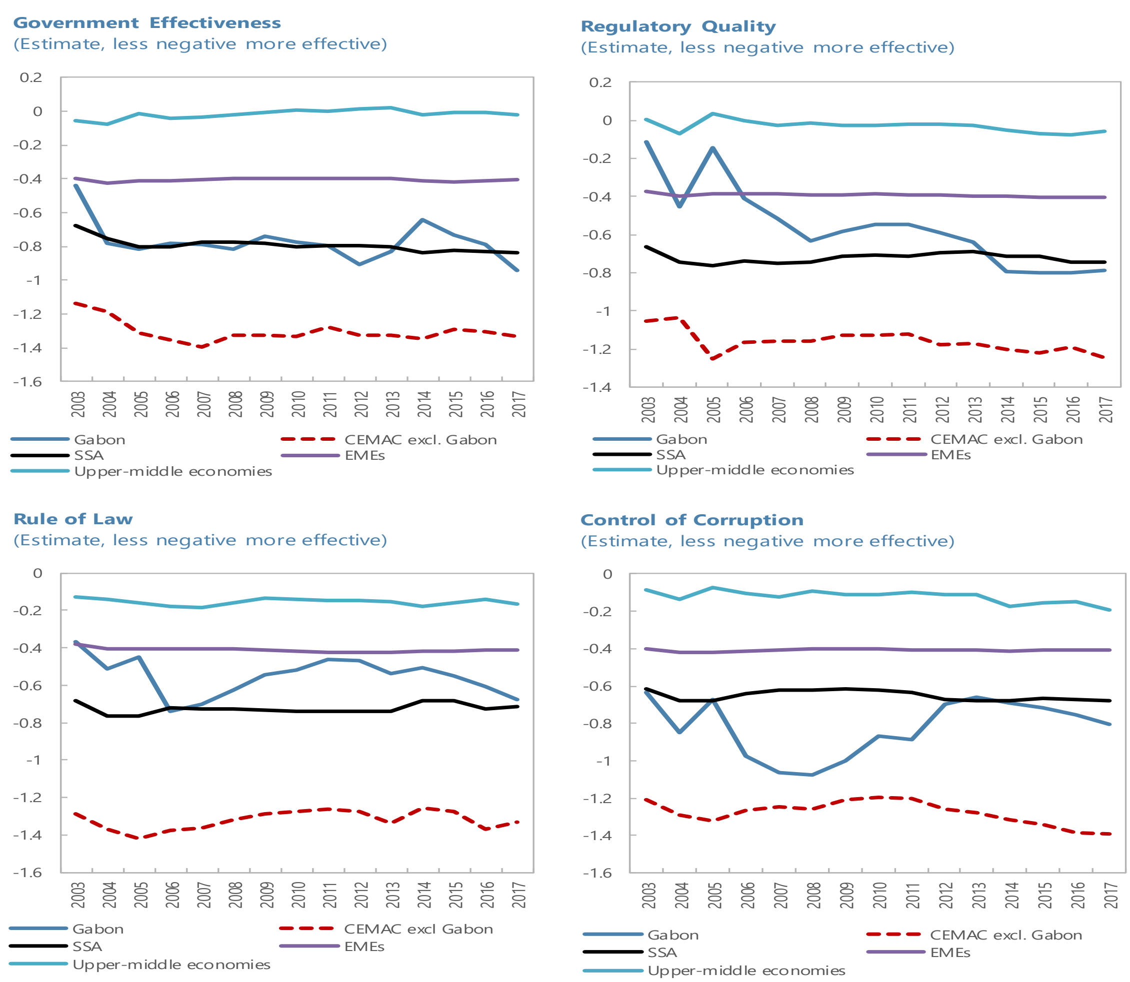
7. This section uses the DIGNAR model to simulate the impact of governance reforms on macroeconomic and fiscal outcomes in Gabon (Melina and others, 2016). The model is a real dynamic neoclassical open economy model with traded, non-traded, and natural resource sectors. It accounts for problems that may be arise during investment surges in resource-rich economies such as investment inefficiency, limited absorptive capacity and learning by doing externalities that can deliver Dutch disease effects.

[6] We focus on the effects on non-oil GDP since we consider resource production and prices to follow exogenous processes, see Melina and others (2016) for more details.

[7] According to a survey in 2015, about 49 percent of the respondents in Gabon who had been requested to pay a bribe did not report the incident to the authorities because of fear of retaliation (Afrobarometer, 2017a and 2017b).

8. The model is calibrated to capture the main features of the Gabonese economy. The main macroeconomic aggregates are set according to their averages in 2005–18 (Table 1, Appendix I). We then calibrate an implicit tax in firms' decisions caused by a variety of factors, including weak governance, to match the average ratio of private investment-to-GDP of 22.9 percent. The efficiency of public investment is calibrated at 50 percent, as broadly estimated for the CEMAC region. Finally, we set the efficiencies in collecting the consumption tax at the 1st quartile of the distribution of Emerging Market Economies (EMEs), estimated at 35 percent, and the efficiency in collecting the personal income taxes at 4.7 percent.

Figure 1. Gabon: Governance Indicators, 2003–17[1]



Source: Worldwide Governance Indicators, 2003–17.

[1] There are uncertainties around the point estimates for governance and corruption indicators related to WGI. The WGI scores are normalized each year to mean zero and hence measure relative performance.

Box 1. Anti-Corruption Framework in Gabon

Gabon has long established an anti-corruption framework, but its effectiveness is undermined by weak institutions and enforcement of the legislation, and lack of transparency.

- Gabon is a party to the United Nations Convention Against Corruption (UNCAC) since 2007 and the African Union Convention on Preventing and Combatting Corruption (AUCPCC). At the domestic level, the Gabonese government has endeavored to complete the legal framework provided by the Civil and Penal Code on the issue of corruption, through the promulgation in May 2003 of Law 002/2003, instituting a regime to prevent and punish illicit enrichment, and Law 003/2003, setting up the Commission for the Fight against Illegal Enrichment (CNLCEI). The criminal code also defines the CNLCEI as an independent administrative authority whose role consists of the detection, suppression, prevention and investigation of illicit enrichment. The CNLCEI was charged with publishing quarterly and annual reports on its activities, but these reports are not published. Corruption is rarely prosecuted in Gabon. For example, during 2014–17, the CNLCEI identified over 300 cases of corruption in various sectors of the economy and involving most levels of government officials. Only 18 cases were investigated, of which only 10 were forwarded to competent courts, of which only 1 case was brought to trial and led to sanctions (see Annex II).
- Law 003/2003 has also introduced the mandatory income and asset declaration regime by public officials to help prevent abuse of power, reduce corruption and increase public accountability and public trust in institutions. The Law obligates every official vested with State authority to declare his personal assets before taking up duty, every three years while he is in office and again at the time of leaving office. However, with scarce information available, it is difficult to assess the implementation of the Law and institutional capabilities or the legal instruments to ensure the compliance of government officials at different levels.

9. The DIGNAR model is extended to simulate the impact of governance reforms on output, private investment, private consumption and debt, along the lines of the analysis presented in the new IMF framework for enhanced engagement on governance (IMF, 2018a). It incorporates governance reforms to address corruption vulnerabilities through: (i) a reduction in bribery of public officials (see section II) and other distortions (akin to an implicit tax similar to a bribe rate) which would stimulate private sector investment; (ii) an improvement in public investment processes which would raise public investment efficiency and translate into a larger capital stock (see section IV); and (iii) a more efficient government bureaucracy which would reduce tax evasion, widen the tax base and increase tax revenues.[8] We simulate governance reforms that imply moving Gabon forward along these three dimensions over 10 years,[9] following two scenarios. For each scenario, we first illustrate the implications of reforming only

[8] More details on the technical aspects of the model and its calibration to Gabon are provided in Annex III.

[9] This broadly coincides with the horizon contemplated by the authorities in their development plan (PSGE).

one aspect of governance at a time, while keeping the remaining two at their initial levels. Then, we assess a comprehensive reform package that tackles all the three channels simultaneously. Figures 6-9 report the paths of selected macroeconomic variables for the ten years after the implementation of the reform.[10] Table 1 summarizes the average yearly effect on each variable under the two alternative scenarios.

	Moderate scenario	**Optimistic scenario**
Private investment	- The implicit tax in firms' decisions is reduced by an amount that would gradually raise the private investment-to-GDP ratio from 22.9 to 25.2 percent	- The implicit tax in firms' decisions is reduced by an amount that would gradually raise the private investment-to-GDP ratio to 27.4 percent.
Public expenditure efficiency	- Public expenditure efficiency would rise from 50 percent to alternatively the first quartile at 77 percent.	- Public expenditure efficiency would rise to 63.5 percent which is slightly above the median country (at 62 percent).
Efficiency in collecting Taxes	- Efficiency in collecting consumption taxes would rise from 35 to alternatively 51.5 percent. - Efficiency in collecting personal income taxes would rise from 4.7 to 9 percent.	- Efficiency in collecting consumption taxes would rise to 68 percent - Efficiency in collecting personal income taxes would rise to 13.3 percent.

10. Improving governance in the relationship of firms with the government stimulates private investment and growth. Figure 3 shows how private investment, private consumption, non-oil output and public debt-to-GDP react to a reduction of the distortionary wedge in firms' investment and employment decisions (e.g. bribery). This reform would result in an approximate additional annual non-oil growth of 1.12 percent (optimistic scenario) or 0.57 percent (moderate scenario). Public debt decreases in both scenarios (by 3.5 percent of GDP in the optimistic scenario, and 2 percent of GDP in the moderate scenario) over the ten-year horizon. Finally, private consumption increases.

11. Reducing waste/improving efficiency in public capital expenditures translates into a larger stock of public capital, with positive effects on growth and public finances.

[10] Specifically, time -1 on the horizontal axis denotes the pre-reforms period while reforms are implemented and start displaying their effects in period 0.

Figure 4 reports paths of the same macroeconomic variables following an improvement in public investment efficiency. Such a structural reform increases the stock of public capital, which in turn leads to an additional annual non-oil growth of 0.17 percent (optimistic scenario) or 0.09 percent (moderate scenario) relative to the pre-reform era. [11] This reform leads also to a crowding-in of private demand (consumption and investment) and a reduction in the public debt-to-GDP ratio (2.56 percent in the optimistic scenario and 1.25 percent in the moderate scenario).

12. Expanding the tax base through an improvement in tax administration efficiency will boost growth and reduce government debt. Expanding the tax base allows the government to reduce the tax rate, which boosts private consumption, investment, employment and, ultimately, annual per capita non-oil output (by 0.12 percent in the optimistic scenario and 0.9 percent in the moderate scenario) (Figure 5).[12] It is worth noting that, prior to the reform, the model assumes that the inefficiency in tax collection is rebated to households through a lumpsum transfer. It follows that a lower inefficiency translates into lower income for the households, which initially cut their consumption due to this negative income effect.[13] Non-oil output will increase, and public debt fall by 12.7 percent of GDP in the optimistic scenario and 7.75 percent in the moderate scenario, after 10 years. Clearly, the decline in public debt would be stronger if the tax rate were to be kept fixed at the pre-reform level.

13. A comprehensive governance reform package affecting all three channels will deliver a much higher growth and fiscal space (Figure 2). This reform package will lead to significant increase in private investment, private consumption, and non-oil output. Public debt will fall, allowing the tax rate to fall given the fiscal reaction function, and to further stimulate private demand. Overall, the main contribution to the improvement in macroeconomic conditions stem from removing the distortions affecting private firms' decisions. However, the additional boost provided by the other reforms is non-negligible thus highlighting the importance of a comprehensive reform package.

[11] The relatively small impact can be explained the fact that reducing wastes in public capital expenditures does not directly affect the private sector which is the driver in the model. While increasing the efficiency of public investment increases a bit the available stock of public capital, as a result, GDP is affected through second-round effects which in a moderate scenario might be small.

[12] The relatively small impact can be explained the fact that expanding the tax base through an improvement in tax administration efficiency does not directly affect the private sector which is the driver in the model. Mobilizing more revenues has the main effect of reducing public debt.

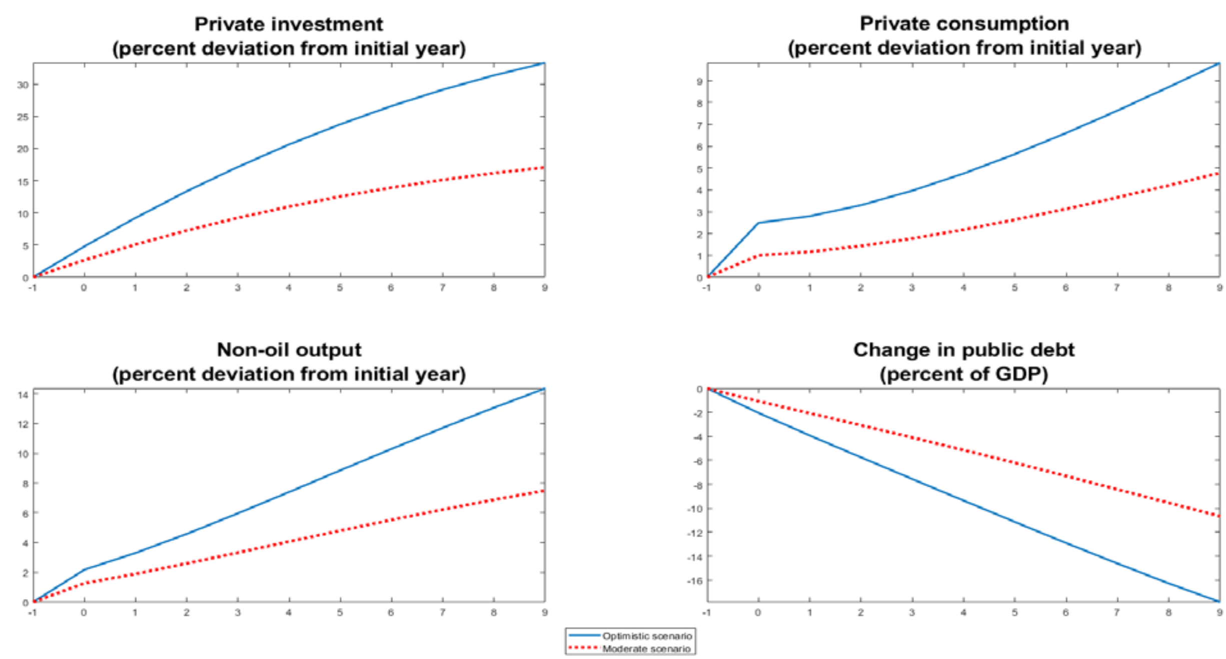
[13] Since the increase in the tax collection efficiency is higher under the optimistic scenario, the income effect is stronger, and consumption initially falls relative to the moderate scenario. However, the 10-years increase in consumption is higher under the optimistic scenario since with a higher tax collection efficiency the tax rate is allowed to decrease by more.

Table 1. Gabon: Average Annual Effects of Improving Governance[1/]

	Firms' Distortion		Public Investment Efficiency		Revenue Mobilization		All Areas of Governance	
	Optimistic Scenario	Moderate scenario	Optimistic scenario	Moderate scenario	Optimistic scenario	Moderate scenario	Optimistic scenario	Moderate scenario
Private investment	2.98	1.51	0.16	0.08	0.12	0.08	3.33	1.71
Private consumption	0.40	0.21	0.22	0.11	0.26	0.12	0.98	0.48
Non-oil Output	1.12	0.57	0.17	0.09	0.12	0.09	1.44	0.75
Change in public debt	-0.35	-0.20	-0.25	-0.12	-1.20	-0.77	-1.78	-1.01

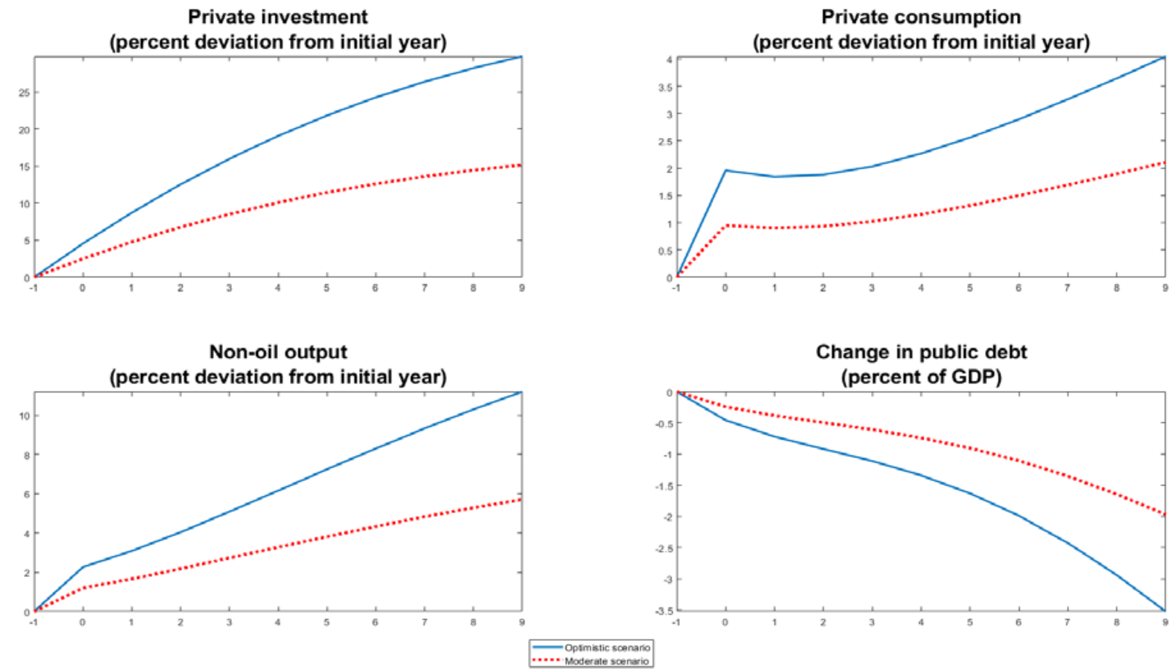
[1/] Private investment, private consumption and non-oil output are in percentage deviations from the initial year. The change in public debt is expressed in percent of GDP.

Figure 2. Effects of Reforms in all Areas of Governance



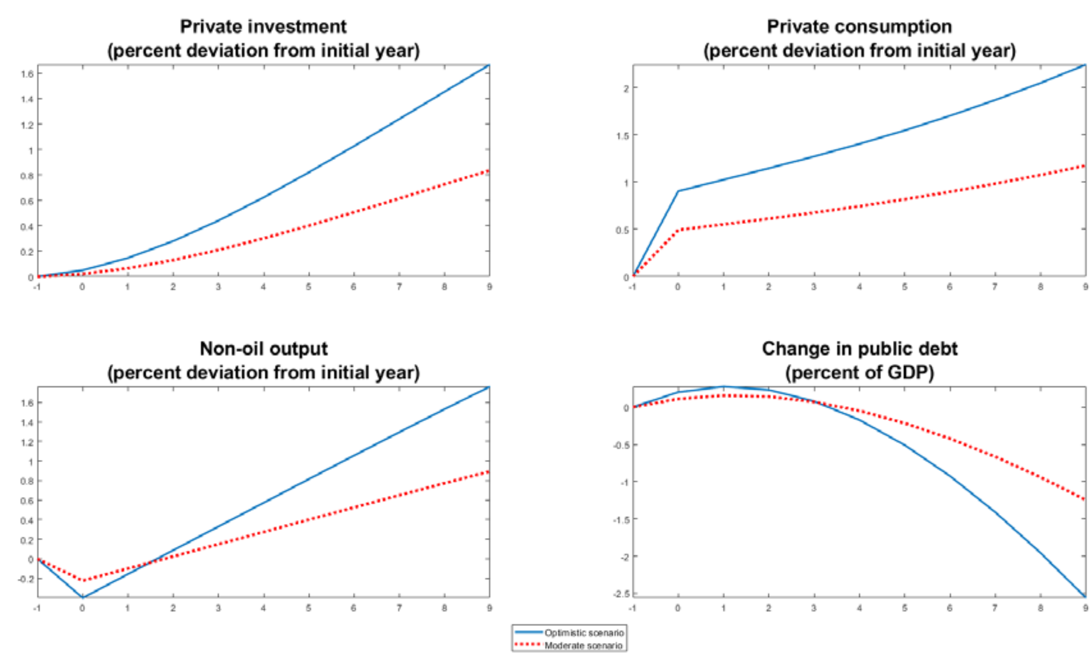
Sources: Gabonese authorities; and IMF staff estimates and projections.

Figure 3. Effects of Reducing Firms' Distortion



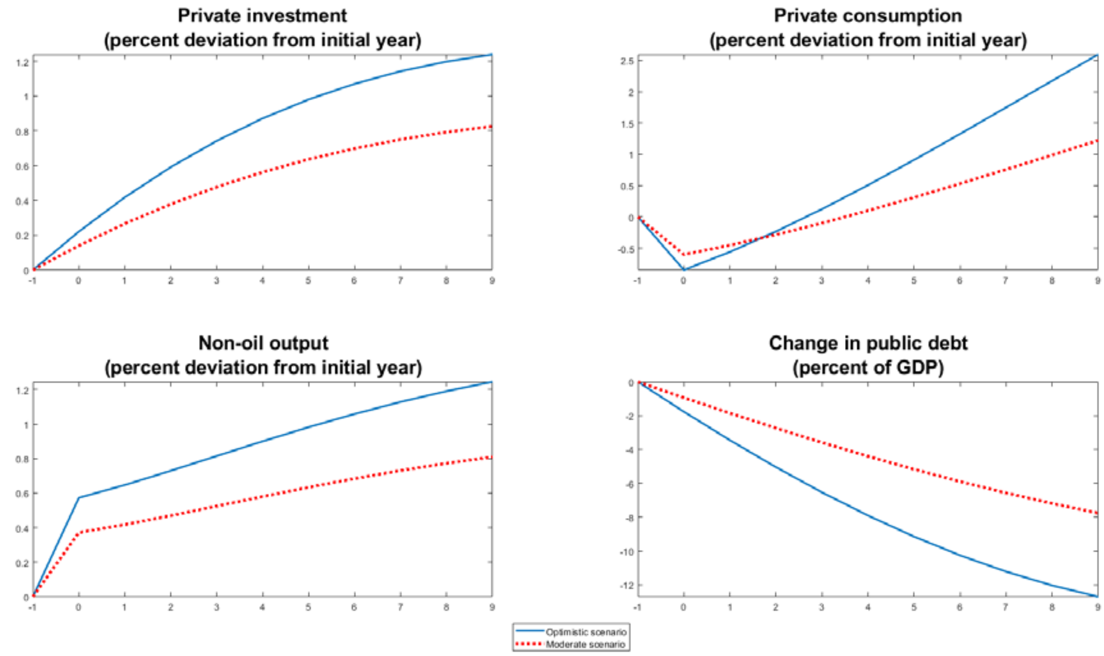
Sources: Gabonese authorities; and IMF staff estimates and projections.

Figure 4. Effects of More Efficient Public Investment



Sources: Gabonese authorities; and IMF staff estimates and projections.

Figure 5. Effects of Improving Revenue Mobilization



Sources: Gabonese authorities; and IMF staff estimates and projections.

D. Strengthening Governance Through Sound PFM Institutions

14. Despite noticeable efforts over the recent years, further reforms to strengthen PFM institutions are needed and would lead to stronger outcomes in preventing corruption. The last PEFA evaluation undertaken in 2016 showed improvements in several PFM areas where reforms have been implemented (e.g., performance-based budgeting, taxpayer registration). At the same time, progress lacked in other aspects (e.g., credibility of the budget) and several areas have degraded (e.g., predictability and control of budget execution) (Annex IV). While the transposition of the regional CEMAC directives on public finance management into national laws and regulations has contributed to enhancing the legal framework, its implementation has not kept pace. This situation affects the ability of PFM institutions to fully play their role in preventing and containing corruption. This section discusses the PFM reforms that would significantly improve governance and reduce the vulnerability to fraud and corruption.

Bolstering Revenues Through Enhanced Rule-based Practices and Better Controls[14]

15. The large number of unmonitored tax and custom exemptions and expenditure increases the risk for arbitrary attribution and fraud. Numerous tax and customs exemptions

[14] PEFA PI-3,19,20

and expenditure[15] are granted in Gabon, some of them without legal basis, causing significant fiscal revenue losses. The estimated impact of tax exemption in 2016 varies from 3.6 to 7.2 percent of nonoil GDP, depending on the scope and year considered. Aside from the financial impact on the budget, these exemptions pose several problems, including: (i) the lack of justification on their social and economic advantages paving the way for fraud and dead-weight effect; (ii) the difficulties to control and monitor them due to organization and capacity issues; (iii) the lack of transparency due to the absence of a comprehensive and up-dated list of all tax exemptions; and (iv) the flexibility on the tax-exemption attribution process which doesn't seem to be supported by clear rules nor supervised by a central and unique authority.

16. Weak controls of tax payers and poor collaboration between tax and custom departments hamper tax collection. Tax arrears are large (CFAF 180.5 billion in 2017),[16] and are often cleared using the *"compensation croisée"* mechanism leading to the payment and recording of the residual tax obligation once the netting has been done; this complicates fiscal analysis. Finally, tax and custom payments are still made in cash even for very large amounts while bank transfer could help reduce potential fraud and strongly support the efforts for a unified cash management system through the Treasury Single Account.[17]. On these aspects, Gabon could benefit from the successful experience of other SSA countries.[18]

17. Vulnerabilities to fraud and corruption in revenue collection can be reduced by enhancing controls, collaboration between departments and capacities of all stakeholders. It will be important to: (i) reform and better control and monitor tax and customs exemptions[19]; (ii) stop any cash payment for both customs and tax revenue and enforce bank transfer or payment by using an improved dedicated IT systems (e.g., ASYCUDA World and E-TAX and extend the coverage of these tools to all tax payers (e.g., extension of E-TAX to large and middle-sized companies); and (iii) strengthen tax and customs agencies management, control and collection capacities; and encourage and facilitate collaboration such as systematic data exchange, particularly in the occurrence of fraud, cross-cutting surveillance and joint controls.

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[15] According to the OECD definition, a tax expenditure is a transfer of public resources resulting a reduction in tax liabilities relative to a standard, rather than a direct expense. This definition establishes three characteristics that make it possible to identify a tax expenditure: (1) a deviation from the tax standard or reference system (LIC) to be defined, (2) represents a loss of revenue to the government and (3) it would be possible for the State to put in place a direct transfer with the same effects.

[16] Source: Tax department.

[17] Implementation of automated tools and procedures for revenue collection would allow real time transfer to the TSA, avoiding delays and potential frauds, strengthening recording and, therefore, facilitating in-year cash management.

[18] In Senegal cash payments are banned for amounts above 100.000 CFA since July 1, 2015.

[19] See *Revenue Administration: Short-Term Measures to Increase Customs Revenue in Low-Income and Fragile Countries*, Technical Notes and Manuals, IMF, 2019.

Ensuring Budget Credibility

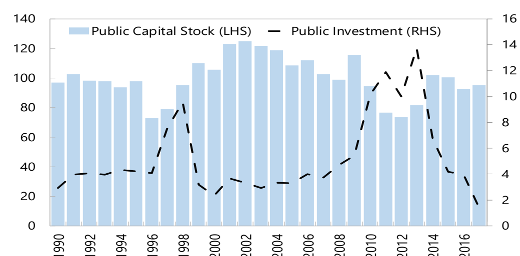
18. Weak budget credibility and the absence of compliance with budget rules increase the risk of diverting public funds from their initial objectives as approved by Parliament. Despite the adoption of the new organic law on budget, derived from the CEMAC directives[20] and the implementation of various innovations such as multiyear budget forecast, program-based budgeting or zero-based budgeting budget credibility remains weak.[21] Furthermore, budget rules are not always observed, and budget laws are largely modified during budget execution regardless of rules and limits stated in the Organic Law. For instance, in 2017 the sum of administrative modification of the initial appropriation through budget internal transfers (without approval of the Parliament) reached 12 percent of the initial budget, over the authorized ceiling for this type of modification.[22] These modifications are detrimental to line ministries especially those operating in the social sectors (e.g., health ministry's appropriations were cut by some 32 percent in 2018). This lack of adherence to legal rules undermines the Parliament's authority and oversight and reduces the transparency of budget execution.

19. Compliance with Parliament authorization and existing budget rules will help improve budget credibility. It is critical that budget law is realistic in terms volume and distribution between line ministries items as well as being comprehensive for both revenue and expenditure. Implementing automated controls through the budget IT system will also ensure that rules and ceilings are respected.

Improving Public Investment Management

20. Weak investment planning undermines the overall public investment performance. The 2019 **Public** Investment Management Assessment (PIMA) showed the current process is undermined by several weaknesses which hamper the impact of investment on growth and development. These weaknesses affect the efficiency of public investment: spending on public investment doubled between 2008 and 2013 to reach 13.7 percent of GDP, the highest in Gabon's history, whereas, at the same time, public capital stock-to-GDP ratio declined (Figure 6). The

Figure 6. Public Investment and Public Capital Stock, 1990–2017 (Percent of GDP)



Sources: Gabonese Authorities; and IMF staff calculations and estimates.

[20] Directive 01/11-UEAC-190-CM-22 on budget laws.

[21] Budget credibility is measured by the difference between initial budget and actual. A difference of more than 5% is considered as a sign of low credibility (source PEFA methodology). For a comparison see also Lledó and Poplawski-Ribeiro (2013) and Guerguil, Poplawski-Ribeiro, and Shabunina (2014).

[22] The CEMAC directives clearly institute a 2% limit of the initial budget for transfers (article 25) (article 45 of the LOLFEB).

estimated efficiency score of Gabon based on infrastructure quality is 0.5, compared to the average scores of 0.69 and 0.80, respectively, for CEMAC and SSA. Weaknesses in current Public Investment Management (PIM) processes and practices include:

- *Lack of coordination:* multiple stakeholders intervene in the planning process, without coordinating and using reliable tools, such as a consolidated and shared list of projects. As a result, budget allocations do not cover all projects which are also not reported in fiscal statements;[23]

- *Absence of systematic prior technical, economic, and financial analysis*: in practice many projects costs are assessed after selecting contractors and criteria for projects selection and prioritization are not always known nor publicly disclosed;

- *Bypass of public procurement rules:* although public procurement code strictly limits the use of non-competitive methods, single tenders' procedures to select contractors remain the common rule; they counted for 89 percent of total value of contracts in 2017;

- *Absence of controls during the implementation phase of the projects*: this can also lead to payments without any physical execution. The analysis of a high-profile road project conducted in the context of the PIMA also revealed that the lack of appraisal, selection criteria and of competition to select the successive contractors, has resulted in more than 15 percent of cost overruns;

- *Lack of transparency in the recourse to Public Private Partnerships (PPPs)*: criteria to justify the recourse to a PPP are not known and there is no assessment of the fiscal impact of such contracts. Furthermore, the public procurement oversight body (ARMP) can't oversee PPPs tenders under current legislation.

21. Greater transparency and accountability in public investment management is a key priority to improve governance. A renewed legal framework for PIM processes and responsibilities is a prerequisite, along with the preparation by a central body of a Public Investment Program based on objective and published criteria for projects selection. Decisive measures should also be taken to comply with the legal threshold on single tenders' procedures as well as expending the scope of the ARMP to PPPS. Experience from other countries show that making quarterly statistics on awarded contracts and procedures available to the public can help reduce their use. In the same vein, disclosure of reporting on project implementation and associated fiscal risks are crucial to increase transparency and ensure value for money in the use of public resources. The PPP legal framework adopted in 2017 should be revised and completed to impose a systematic consultation of the Budget department to assess the fiscal sustainability of PPPs contracts, to strictly limit exemptions to the principle of competitive procedures, and to define clear rules on unsolicited bids.

[23] e.g., investment operations led by the Gabonese Fund for Strategic Investments (FGIS).

Enhancing Oversight and Control of Autonomous Agencies and Extrabudgetary Funds

22. Some progress has been made to enhance financial oversight of autonomous central government's (CG) agencies and extrabudgetary funds (EBFs)[24]. Autonomous agencies and extrabudgetary funds (EBFs) are financed through a combination of own source revenues, and earmarked revenues and transfers from the State budget. Their governance and statute are regulated by multiple and sometimes non-consistent laws and decrees, creating legal loopholes and risks of non-compliance with the overall PFM legal framework. Since 2018, all earmarked revenues are detailed in the budget law. Implementation of a set of key measures has also been launched to ensure a more transparent and controlled use of public resources by these entities (e.g., elimination and merging of several autonomous agencies; creation of a supervision unit in the Budget Department; systematic use of proper accounting documents).

23. Fiscal sustainability will benefit from consolidated and strengthened oversight and controls of EFBs and agencies. Despite recent efforts, significant weaknesses remain, including (i) the lack of strategic guidelines to monitor and mitigate fiscal risks; (iii) the absence of connection with the central IFMIS in many cases (less than 24 percent); and (iii) and weak external audit.[25] These weaknesses, combined with cash management constraints, can lead to an accumulation of expenditure arrears. The effective implementation of information systems in all autonomous agencies and extrabudgetary units and the operationalization of the Budget oversight unit are prerequisites to better control expenditure execution and fiscal performance, particularly from the special accounts.

[24] The Government Finance Statistics Manual 2014 defines the general government sector as resident institutional units that fulfill the functions of government as their primary activity. The general government (GG) sector comprises:

- All government units of central, State, provincial, regional, and local government, and social security funds imposed and controlled by those units
- All nonmarket nonprofit institutions that are controlled by government units. It includes public enterprises, legally constituted as corporations, but that are nonmarket producers.

Central government (CG) includes budgetary, extrabudgetary and social security funds. Extrabudgetary units are institutions that are engaged in extrabudgetary transactions, may use extrabudgetary accounts, may have their own governance structures and, often, a legal status that is independent of government ministries and departments.

[25] Except the audit of the CNAMGS (report dated January, 2017), the Court of Accounts did not complete any audit of extrabudgetary units in recent years. The CNAMGS audit revealed several irregularities such as "irregular remunerations paid to top managers" and "irregular benefits". It also questioned the high acquisition costs of the CNAMGS building and of service vehicles "close to the cost of luxury vehicles" (http://www.ccomptes.ga/index.php/telechargements/category/2-audits?download=6:audit-cnamgs).

Improving Cash Management

24. Cash management reforms should continue. The Gabonese authorities took a decision to close public accounts outside of the Central Bank. Further improving cash management will require completing the implementation of the Treasury Single Account, progressively forbid any cash transaction outside the TSA, and implementing due cash management tools and mechanisms including the Treasury committee and regulation mechanisms to prevent the creation of arrears.

Enhancing Internal Control and Audit, Fiscal Reporting and External Oversight

25. Internal controls and audit are weak, and transparency of fiscal reporting is low. Despite some progress with the adoption in 2017 of the new decree on expenditure process which helped lay down the responsibilities of each stakeholder involved in the expenditure process and strengthened controls[26], further improvements are needed. Currently, reconciliation and clearance of suspense accounts take place only once a year, and a large amount of previously accumulated stocks remain non-cleared. The coverage of internal audits is limited to 7 percent of total budgeted expenditures, and internal audit activities do not apply standardized professional procedures. Also, the timeliness, comprehensiveness and accessibility of fiscal reports[27] remain limited. Operations of autonomous agencies, EBFs and unorthodox spending are not systematically included in ex-post financial reports, and IT systems used to manage revenues, expenditures, wage bill, cash and debt are not interconnected.

26. Subsequently, external oversight by the Court of accounts, the Parliament and the civil society are not fully effective. The limited fiscal transparency hinders the implementation of external controls and safeguards needed to deter or reveal potentially fraudulent activities. Furthermore, the limited independence of the Court of accounts undermines the quality of external audit. Legislative scrutiny of the Court's reports is also poor. Lastly, despite a legal framework encouraging the publication of budget documents and fiscal information,[28] many of these are not accessible to the public and, if accessible, they are made available with significant delays or in very user-unfriendly form. [29]

27. Internal control and audit, fiscal reporting and external oversight remain key areas for reforms to strengthen governance in Gabon. Decisive measures have been implemented by the authorities (e.g., internal controls on non-salary spending, limitation of the use of exceptional procedures, systematic issuance of purchase orders at the commitment stage though

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[26] 30 percent of all payments were made bypassing regular controls.

[27] Standards of the IMF transparency code set that transparency of fiscal reporting relies on its timeliness, comprehensiveness and accessibility.

[28] Law 21/2014 on transparency and good governance for public finance.

[29] Such as: execution of investment projects, public procurement statistics, fiscal risks arising from PPPs or state-owned enterprises.

the IFMIS, periodic issuance of in-year fiscal reports). However, efforts to increase fiscal transparency and oversight should be accelerated: (i) internal control and audit frameworks need to be further developed through standardized methodologies and interconnection of IT systems; (ii) internal audits on wages would enhance the integrity of the payroll and help identify ghost workers; (iii) timely and accessible publication of basic fiscal data and reports through a standardized format would strengthen external oversight and comparisons over time. Lastly, undertaking the open budget evaluation would also help improve fiscal transparency and monitor progress in this area.

E. Improving the Business Environment

28. The reforms introduced since 2009 (Annex V) have helped improve the investment climate. With the support from the World Bank's Gabon Investment Promotion and Competitiveness Project, the authorities created in 2014 the High Investment Council (HCI), which aims to increase the amount of cooperation between the public and private sectors and stimulating private sector growth more generally and create jobs. In September 2014, the government also launched the Gabon National Agency for the Promotion of Investment (ANPI-Gabon) to facilitate and promote investment in the country. The ANPI-Gabon acts as one-stop administrative shop for investors in addition to overseeing the implementation of Gabon's investment promotion plan, among other roles. Since it started operations in 2018, it has been active in reducing the amount of time to start a new company. The ANPI also provides all services needed for the creation, modification, and closing of an enterprise in one place. The authorities have also abolished since 2013 the requirement for paid-in minimum capital to establish a business. Consequently, the cost of starting a business and the minimum capital have been reduced well below SSA average.

29. Further improvements to the legal/regulatory aspect of the business environment are needed to attract private investors. The 2019 Doing Business report also indicates that Gabon's regulatory performance is better than the rest of CEMAC, except for enforcing contracts and registering property where it was a weaker performer. However, Gabon scores below SSA average, EMEs and UMICs in all aspects of doing business, except in the area of starting a business (Figure 7).

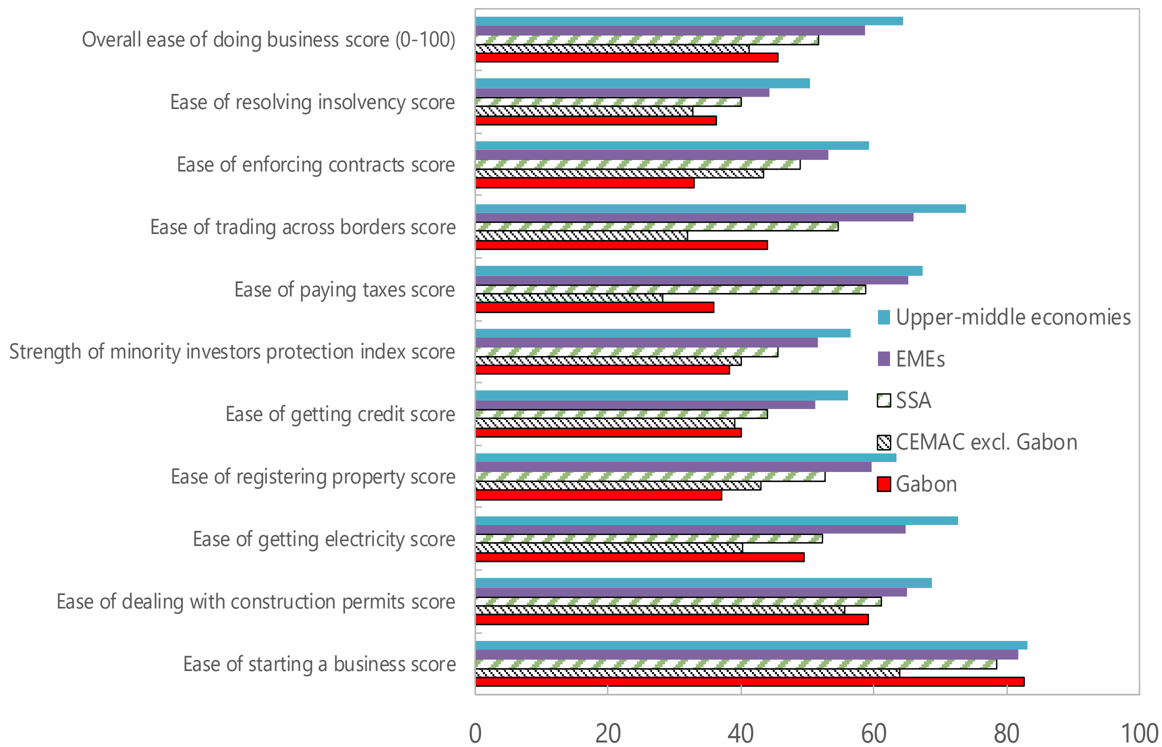
Table 2. Gabon: Indicators of Starting a Business, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
procedures (number)	9	9	9	9	9	7	7	7	7	8
Time (days)	58	58	58	58	58	50	50	50	50	33
Cost (percent of income percapita)	20.3	17.8	21.9	17.3	14.5	12.5	12.9	15.1	14.3	7.2
Minimum capital (percent of income percapita)	30.2	26.5	32.7	26.4	22.3	19.3	19.6	11.4	10.8	2.5

Source: The World Bank *Doing Business Report*, 2009–2018.

Figure 7. Doing Business Indicators, 2019

(0=lowest, 100=best performance)



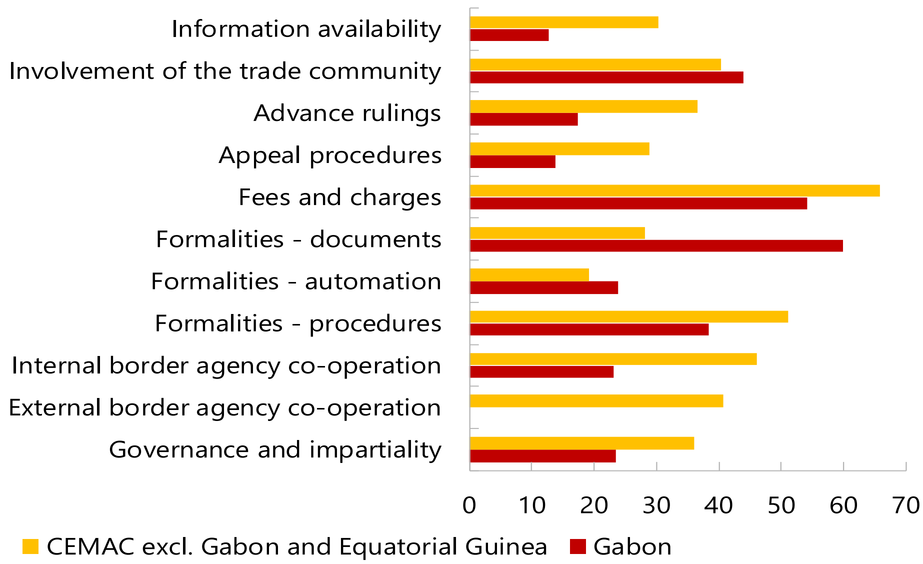
Source: World Bank *Doing Business Report, 2019.*

30. There is scope for improving regulations related to foreign trade. Further simplification of trading procedures could promote economic efficiency and also remove incentives and opportunities for border-related corruption, thus supporting good governance and integrity. The OECD trade facilitation indicators (Figure 8), which measure the full spectrum of border procedures show that Gabon is far below best practice in all areas and particularly so in information availability, appeal procedures, advance rulings, and governance and impartiality.

31. There is a need to simplify bureaucratic procedures and increase the efficiency of legal and regulatory systems to reduce opportunities for rent-seeking behavior and corruption. The persistence of inefficiencies and a lack of transparency gives rise to corruption risks. It also exposes businesses to poor enforcement of claims through local courts.

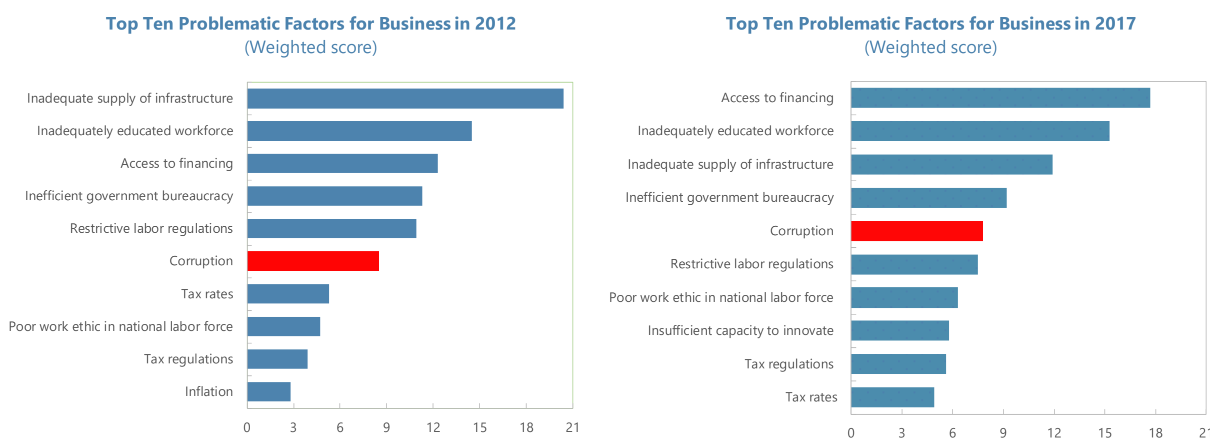
Figure 8. Indicators of Trade Facilitation, 2017

(Percent of best practice)



Source: OECD Trade Facilitation Indicators. https://sim.oecd.org

Figure 9. Most Problematic Factors for Doing Business



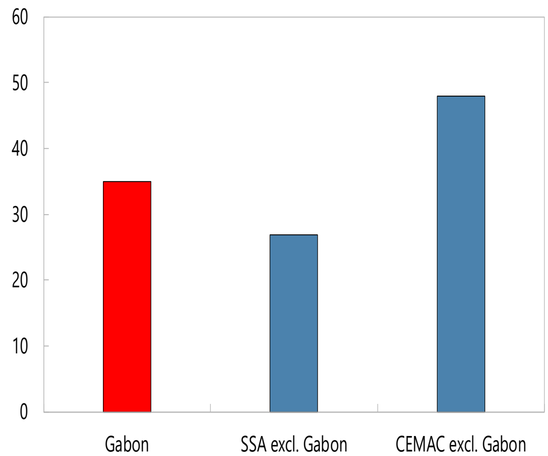
Source: World Economic Forum, Global Competitiveness Report, 2012–13 and 2016–17.

Note: Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

- The limited access to online systems together with multiple layers of red tape significantly increase the potential for rent-seeking behavior. According to the World Bank, the initial process of registering a new firm takes 50 days on average, well above the Sub-Saharan Africa (SSA) average of 26.8 days and the OECD average of 8.3 days (Table 4). Investors considering constructing their own premises will face further delays in completing the necessary permits and registering the property, with up to 329 days on average complete the whole process. The process of winding up business operations through insolvency proceedings is similarly extremely time-consuming and difficult, taking an average of five years to complete. The low recovery rate of just 14.8 cents on the US Dollar, below the wider SSA regional average, will further deter investment in high-risk ventures as significant losses will be made if they fail. Firms face high cost to trade across-borders due to bureaucratic bottlenecks and congestion, particularly at ports. These added delays create opportunities for rent-seeking behavior by security and port officials.

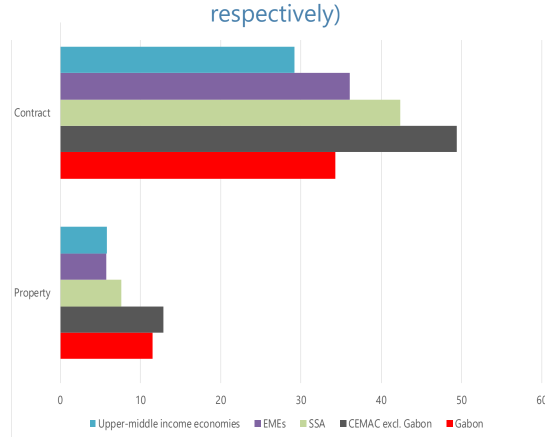
- Thee enforcement of contracts is hindered by lengthy delays and limited transparency in the legal system. This hinders objective decision-making in the legal system and gives rise to risks of corruption and nepotism. In addition, there are no specialized commercial courts, and training in specific and technical aspects of law is deemed insufficient, which causes considerable delays in the legal process and can result in incorrect decisions. Trust in judiciary courts is low according to recent surveys (Figure 10). Resolving a contractual dispute through the Gabonese legal system can consequently take around 1,070 days, the longest time regionally and among the highest globally. Recent surveys also indicate weak market trust in the judiciary amidst persistent perception of political interference and corruption. The World Bank's *2019 Doing Business Report* indicates that courts are clearly not an efficient option for creditors who want to enforce a contract. The cost of contract enforcement in Gabon is significant at 34 percent of the claim value, but well below the average in the rest of CEMAC (49 percent) and SSA (42 percent). The cost of registering property in Gabon at 12 percent of the property value is slightly below the average of CEMAC (13 percent), but well above the SSA average (8 percent), and the average EMEs and UMICs, which are both at 6 percent (Figure 11).

Figure 10. Trust in the Judiciary Courts, 2015
(Percent of respondents who answered "a lot" or "somewhat")



Source: Global Corruption Barometer Africa 2019: Citizens' views and experiences of Corruption , Transparency International.

Figure 11. Cost of Enforcing a Contract and Registering Property, 2019
(Percent of contract claim and property value, respectively)



Source: World Bank *Doing Business Report 2019.*

F. Conclusion and Policy Recommendations

32. Tackling governance weaknesses and reducing the opportunities for corruption is key to achieve the Gabonese authorities' ambitious targets of broad-based and inclusive growth. The potential economic growth dividends could be significant if anti-corruption and governance reforms focus on reducing bribes to public officials, improving transparent public spending and investment processes, and reducing tax loopholes. Depending on the magnitude of the reforms implemented, the potential additional growth can range from 0.8 to 1.5 percent per year over the next 10 years, and debt can decline by 1.0 to 2.0 percent of non-oil GDP per year over the same period.

33. Addressing governance weaknesses effectively hinges on sustaining reform momentum through a multi-pronged strategy. Strong political ownership and sustained involvement from civil society play a vital role in improving governance and reducing tolerance towards corruption. There is a renewed emphasis of the President and his new government, which now includes a ministry of the promotion of good governance and the fight against corruption) on tackling governance. Palpable progress is underway in holding public official responsible for corruption crimes. These welcome efforts would benefit from additional reforms in the fiscal, law enforcement and market regulation. Further progress needs also to be made to enhance the participation of civil society in the governance process, including by increasing fiscal transparency and public disclosure of information.

34. Strengthening anti-corruption institutions will also be needed. This requires:

- *Enhancing the independence and effectiveness of key governance institutions* such as the CNLCEI, including by ensuring the adequacy of the legal and institutional framework for the fight against corruption, including by ensuring full criminalization of corruption offences under the UNCAC in domestic; enhancing their human and financial capacities; and through increased transparency.

- *Criminalize all corruption offenses in line with the UNCAC requirements* including bribery, embezzlement and misappropriation of property by a public official for the benefit of third parties, and the abuse of functions, and improve enforcement to ensure a dissuasive sanctions against the perpetrators of corruption and the confiscation of their ill-gotten proceeds.

- *Enforcing asset disclosures and enhance their* effectiveness by: expanding the coverage to family members of public officials and their beneficial owners and to political parties; implementing electronic filing of asset disclosure; ensuring the verification of asset declarations, enhance sanctions for failure and false declarations, and enabling public access to financial declaration of public officials.

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Annex I. A Description of Third-Party Corruption Indicators Used in the Paper

The paper uses multiple third-party indicators from different sources to compare governance performance in Gabon relative to other groups. Two categories of indicators are considered quantitative and perception-based indicators. Despite measurement issues, quantitative indicators appear to be an acceptable basis for comparing countries. Qualitative indicators may suffer the "emotional bias", but they reflect public confidence in the integrity of public institutions and can have an impact on the economy through business sentiment and investment.

- *Afrobarometer:* Produced by a pan-African research network that conducts public attitude surveys on governance, economic conditions, and related issues in more than 35 countries in Africa. It is carried out through a partnership of research institutions based in the different countries. The surveys are based on a series of face-to-face interviews with a random sample of either 1,200, 1,600 or 2,400 people in each country.

- *Corruption Index from the International Country Risk Guide (ICRG).* This index varies between 1 and 6 (with lower values indicating higher corruption) and captures the extent of corruption within the political system, in particular in reference to "excessive patronage, nepotism, job reservations, 'favor-for-favors', secret party funding, and suspiciously close ties between politics and business."

- *Corruption Perception Index from Transparency International.* This index varies from 0 to 100, with lower values indicating higher corruption. It is constructed by averaging 12 different data sources that capture the perceptions of business people and country experts about the level of corruption in the public sector.

- *Control of Corruption indicator from the* Worldwide Governance Indicators (WGI). This index varies from -2.5 to +2.5 (with lower values denoting higher corruption) and is constructed by aggregating multiple underlying data sources. It captures "perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests."

- *Trade Facilitation Indicators (TFIs):* Produced by the OECD. The indicators provide perceptions of experts based on information of border procedures reported in the TFI database.

- *Worldwide Governance Indicators (WGI):* Produced by Daniel Kaufmann, Natural Resource Governance Institute and Brookings Institution, and Art Kraay, World Bank Development Research Group. The dataset summarizes the views on the quality of governance provided by many enterprise, citizen and expert survey respondents in over 200 countries. These data are gathered from several survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. WGI reports margins of error to encourage caution in making comparisons across countries and across time. Caution is also needed as the quality of underlying data can vary across countries and data sources.

- *World Economic Forum (WEF)'s ethics and corruption index and WEF's irregular payments and bribes index is a survey-based index* compiled by the WEF in its Global Competitiveness Report. Ethics and corruption are the average of two variables: Diversion of public funds: In your country, how common is diversion of public funds to companies, individuals, or groups due to corruption? (1 = very common; 7 = never occurs) and Public trust of politicians: How would you rate the level of public trust in the ethical standards of politicians in your country? (1 = very low; 7 = very high). Similarly, irregular payments and bribes index average score across the five components of the following questions: In your country, how common is it for firms to make undocumented extra payments or bribes in connection with (1) imports and exports; (2) public utilities; (3) annual tax payments; (4) awarding of public contracts and licenses; (5) obtaining favorable judicial decisions? In each case, the answer ranges from 1 [very common] to 7 [never occurs].

Annex II. Summary Findings of the Gabonese National Commission to Combat Illicit Enrichment

Table 1. Factors Favoring the Perpetration of Economic and Financial Offenses

Factors	Description of the Problems	Consequences
Inadequate anti-corruption legal and institutional framework.	The laws governing the fight against corruption and illicit enrichment are not in line with the relevant international provisions.	Sanctions do not cover all aspects, or all offenses are not considered in the domestic law.
Absence of a physical control system and effective monitoring of the execution of projects.	In almost all public procurements, the controls, versification and the physical supervision of the execution are lacking.	The completed works do not meet the requirements of sustainability, sometimes unfinished while the funds collected by the executing company.
Insufficient resources available to anti-corruption and illicit enrichment bodies.	Investigative operations are expensive. However, the financial resources allocated to the investigative bodies do not allow them to deploy and cover all sectors of activity throughout the country.	No control mission and no ex-post verification of the conformity of the work done with the technical requirements specified in the contracts.
The lack of specialized human resources training for the anti-corruption bodies.	The fight against corruption requires advanced training in order to better detect, identify and observe the practices used.	Increase in corruption cases, economic and financial crimes.

Source: Analysis of the reports of the minutes of hearings, CNLCEI 2016.

Table 2. Summary of Illicit Practices that Led to Committing Offenses

Principles, Rules and Procedures Violated	Illegal Practices Found
The State pays once the provision of the service/performance of the work is confirmed by the Procurement Officer or his representative responsible for monitoring and verifying the veracity of the work performed.	Credit Authorizing Officers certify and incur fictitious invoices without taking stock of the work that economic operators have done to facilitate the disbursement of public funds that will be used for other expenses not provided for by the budget law.
No public servant can claim payment of remuneration for a function not provided for in the organic law under the principle of the availability of employment.	The creation and exercise of functions by some administrative officials, including credit managers who are not provided in the organic texts of the institutions they are responsible for management.
It is forbidden for any person to help, to participate in or to facilitate the accomplishment of any offense whatsoever.	The involvement of economic operators in the offenses relating to economic and financial crime in the form of a production of false documents in the public expenditure chain.
It is strictly forbidden for any public accountant to draw up a check for him/herself without justification.	The drawing up of checks by public accountants without proof of public expenditure and without any administrative documents.
The competition is justified by the search of the lowest bid while providing good quality services and not the other way around.	The over-billing of development projects or programs of development offenders such as the disbursement forecast of the order of 833.3 billion FCFA per month for a public contract for the rehabilitation of a road worth 5.0 billion FCFA that has never been done.
The documents of the contract must be written by the person in charge of the order who knows the expressed needs in order to satisfy them and not the opposite.	Drafting of contracts and endorsements by the economic operators who have them signed by the public procurement's agents. This act is a reversal of the roles of the actors of the public order.
To ensure the effectiveness of a control operation, mission expenses, travel expenses, catering and accommodation must be borne by the administration responsible for the order.	The financing of the expenses of control missions by the economic operators subjected, on the pretext that the amount is included in the amount of the market.
Any contract entered into by direct agreement must have the prior opinion of the Public Procurement Regulatory Agency and comply with the conditions required by the public procurement contract.	The systematization of the procurement procedure by direct agreement or over-the-counter in breach of the conditions provided for by the Public Procurement Code.

Source: Archives CNLCEI.

Annex III. Key Model Features and Calibration to Gabon

The Debt, Investment, Growth and Natural Resources (DIGNAR) model developed by Melina and others (2016) is used to capture reforms in the three areas of governance along the lines of IMF (2018a): (i) a reduction in bribes and other distortions that discourage firms from investing and creating jobs; (ii) an increase in public investment spending efficiency; and (iii) a decline in tax evasion.

The Macroeconomic Model

To assess the macroeconomic implications of governance reforms, this note uses the Debt, Investment, and Growth and Natural Resources (DIGNAR) model developed by Melina and others (2016), extended to capture three aspects of governance (IMF, 2018). The use of a general equilibrium model allows us to analyze the impact of reforms simultaneously on non-oil output, the private sector and government debt dynamics.[1] DIGNAR is a real, dynamic, open economy model in which public capital is used as input of production. Firms optimally choose the amount of capital and labor to use, while government levies distortionary taxes to keep debt under control. We then extend the model to account for the abovementioned transmission channels of governance.

Channel 1

The cost of bad governance is a distortion that discourages firms from investing and hiring (e.g. a bribe that needs to be paid to government officials to obtain the required authorizations)**.** For simplicity, we assume that the distortion is proportional to the level of production. Let the firm's production function be:

$$Y_t = f(K_t, L_t, K_t^G), \tag{1}$$

where Y_t is non-oil output, K_t is the stock of private capital, L_t is labor, K_t^G is the stock of public capital and $f(\cdot)$ is an increasing and concave function of the production factors. The firm's profit, Π_t, is given by:

$$\Pi_t = (1 - \kappa_t)Y_t - w_t L_t - R_t^k K_t, \tag{2}$$

where $\kappa_t \in (0,1)$ is the distortion, w_t is the real wage, and R_t^k is the gross return to private capital. Standard profit maximization implies that the real wage and the return to private capital are equalized to the marginal products of labor and capital respectively, that is:

[1] We focus on the effects on non-oil GDP since we consider resource production and prices to follow exogenous processes, see Melina and others (2016) for more details.

$$w_t = (1-\kappa_t)\frac{\partial f(\cdot)}{\partial L_t}, \quad (3)$$
$$R_t^k = (1-\kappa_t)\frac{\partial f(\cdot)}{\partial K_t}. \quad (4)$$

The implicit tax introduces a wedge $(1-\kappa_t) < 1$ between the real wage and the marginal product of labor, and between the gross return to private capital and the marginal product of capital. For given w_t and R_t^k, an increase in distortion κ_t requires $\frac{\partial f(\cdot)}{\partial L_t}$ and $\frac{\partial f(\cdot)}{\partial K_t}$ to increase in equilibrium, and hence the demands for labor and capital to decline, given diminishing marginal returns. This will translate into lower employment, lower investment, and thus lower non-oil output. It must be emphasized that many are the reasons, besides governance, why developing countries underinvest. However, what is relevant for the analysis is that a structural reform in the area of governance will reduce wedge $(1-\kappa_t)$ and will stimulate private investment, employment and, in turn, non-oil output.

Channel 2

Bad governance will lead to a lower efficiency of public investment, that is, a decline in the fraction of government capital expenditures that effectively translates into public capital. Consider the law of motion of public capital:

$$K_{t+1}^G = (1-\delta^G)K_t^G + \epsilon_t I_t^G, \quad (5)$$

where δ^G is the depreciation rate, $\epsilon_t \in (0,1)$ is public investment efficiency and I_t^G is public investment spending. This equation states that the stock of public capital available at the beginning of period $t+1$ is equal to the stock of capital that has not depreciated up to the end of period t plus effective public investment $\epsilon_t I_t^G$. Note that effective public investment is only a fraction of public investment expenditures. We thus assume that fraction $1-\epsilon_t$ goes wasted. A lower efficiency translates into a lower stock of public capital being accumulated and, via equation (1), lower non-oil output. Again, bad governance is not the only determinant of inefficiencies in public investment, but what matters for our analysis is that an improvement in governance helps reduce them.

Channel 3

Bad governance could also affect in revenue mobilization. The assumption is that, because of bad governance and other factors, e.g. capacity shortages, a fraction of tax revenues goes wasted and does not enter the government flow of funds. To illustrate this point, let us report a simplified version of the law of motion of government debt in real terms in which the only expenditure is for public investment and the only source of revenue is a consumption tax:

$$B_{t+1} = R_t B_t + I_t^G - (1-\vartheta_t)\tau_t^C C_t, \quad (6)$$

where R_t is the real gross rate of interest on government bonds, B_t; τ_t^C is the consumption tax rate; C_t is private consumption and $\vartheta_t \in (0,1)$ is the inefficiency in revenue mobilization. For a given level of tax revenue, a higher ϑ_t will result into a higher level of government debt. Equivalently, in order to keep debt at a given level, a government with a higher inefficiency in tax collection, needs to set the tax rate at a higher level, depressing private demand and non-oil output.

Calibration to Gabon

The initial steady state of the model is calibrated to capture salient features of the Gabonese economy in the past 13 years (2005–18 averages). Table reports the specific calibration.

Table 1. Gabon: Key macroeconomic Variables, 2005–18

(Average)

Target	Value
(Percent of GDP unless otherwise indicated)	
Real GDP growth rate	2.8
Exports of Goods and Services	54.3
Imports of Goods and Services	32.7
Government Consumption	29.1
Government Investment Expenditure	6.2
Private Investment	22.9
Oil GDP	41.3
Grants	0.0
Government Domestic Debt	9.9
Annualized Real Interest Rate on Government Domestic	5.2
Government External Commercial Debt	27.3
Government External Concessional Debt	0.0
Annualized Real Interest Rate paid on Government External Commercial Debt (percent)	4.8
Total Government Revenues	25.6
Goovernment Oil Revenues	13.7

Sources: Gabonese authorities; and IMF staff estimates.

The choice of the parameters is discussed in section III.

Annex IV. Comparison of the Results of the 2013 and 2016 PEFA

Dimension		Overall indicator	Score 2013	Score 2016	Evolution -/+/=
I. Credibility of the Budget	PI-1	Aggregate expenditure out-turn compared to original approved budget	C	D	-
	PI-2	Composition of expenditure out-turn compared to original approved budget	NR	NR	=
	PI-3	Aggregate revenue out-turn compared to original approved budget	D	C	+
II. Comprehensiveness and Transparency	PI-4	Stock and monitoring of expenditure payment arrears	NR	D	+
	PI-5	Classification of the budget	C	C	=
	PI-6	Comprehensiveness of information included in budget documentation	B	A	+
	PI-7	Extent of unreported government operations	D+	D+	=
	PI-8	Transparency of inter-governmental fiscal relations	D+	D+	=
	PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D	D	=
	PI-10	Public access to key fiscal information	B	C	-
III. Policy-Based Budgeting	PI-11	Orderliness and participation in the annual budget process	A	A	=
	PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C	=
IV. Predictability and Control in Budget Execution	PI-13	Transparency of taxpayer obligations and liabilities	B	C+	-
	PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	C+	+
	PI-15	Effectiveness in collection of tax payments	C+	D+	-
	PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C	-
	PI-17	Recording and management of cash balances, debt and guarantees	B	B	=
	PI-18	Effectiveness of payroll controls	C	D+	-
	PI-19	Transparency, competition and complaints mechanisms in procurement	D+	C+	+
	PI-20	Effectiveness of internal controls for non-salary expenditure	C+	D+	-
	PI-21	Effectiveness of internal audit	D	D+	+
V. Accounting, Recording and Reporting	PI-22	Timeliness and regularity of accounts reconciliation	C	C+	+
	PI-23	Availability of information on resources received by service delivery units	D	D	=
	PI-24	Quality and timeliness of in-year budget reports	D+	D	-
	PI-25	Quality and timeliness of annual financial statements	D+	C+	+
VI. External Scrutiny and Audit	PI-26	Scope, nature and follow-up of external audit	D+	C+	+
	PI-27	Legislative scrutiny of the annual budget law	C+	D+	-
	PI-28	Legislative scrutiny of external audit reports	D	D	=

Source: PEFA 2016.

Annex V. Business Reforms in Gabon, 2009–18

2018

Starting a Business was made easier by reducing the paid-in minimum capital requirement and by making the notarization of incorporation documents optional.

Dealing with Construction Permits was made faster by streamlining the process and increased transparency by publishing regulations related to construction online free of charge.

2017

Resolving Insolvency was made easier by introducing a new conciliation procedure for companies in financial difficulties and a simplified preventive settlement procedure for small companies.

2016

Starting a Business made easier by reducing the paid-in minimum capital requirement.

Registering Property was made less costly by lowering the property registration tax.

2015

Protecting Minority Investors was strengthened by introducing greater requirements for disclosure of related-party transactions to the board of directors and by making it possible for shareholders to inspect the documents pertaining to related-party transactions and to appoint auditors to conduct an inspection of such transactions.

Paying Taxes was made easier for companies by introducing an electronic system for filing and paying VAT.

2014

Starting a Business was made easier by replacing the requirement for a copy of the founders' criminal records with one for a sworn declaration.

Dealing with Construction Permits was made easier by reducing the time required to obtain a building permit and by eliminating the requirement for an on-site inspection before construction starts.

Paying Taxes was made less costly for companies by reducing the corporate income tax rate.

2012

Getting Credit was improved through amendments to the OHADA Uniform Act on Secured Transactions that broaden the range of assets that can be used as collateral (including future assets), extend the security interest to the proceeds of the original asset and introduce the possibility of out-of-court enforcement.

2009

Getting Credit: In Gabon and other members of the Central African Monetary Union, the regional public credit registry provided online access to information for banks, simplifying the task of filing and retrieving information in the public registry and allowing expanded coverage of borrowers.

Source: World Bank, *Doing Business 2018*.

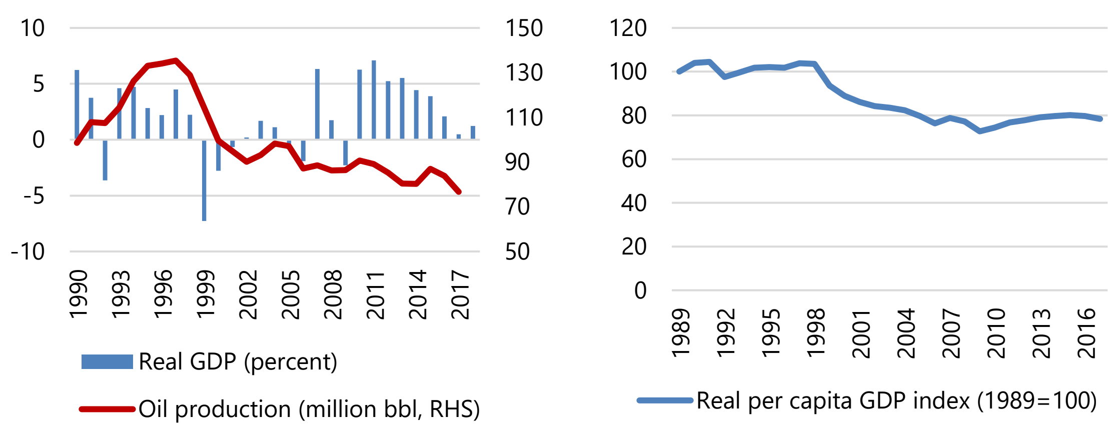
REVENUE-FRIENDLY DIVERSIFICATION IN GABON[1]

Gabon has been relying largely on tax exemptions, including in Special economic Zones, to incentivize investors and diversify the economy. Therefore, rapidly growing activities, while creating jobs and increasing exports, have little impact on domestic revenues, suggesting some trade-offs between diversification and domestic revenue mobilization. Achieving a revenue-friendly diversification strategy in Gabon will require strengthening tax policy and revenue administrations and encourage spillovers from special economic zones to generate higher growth and broaden the tax base.

A. Introduction

1. Oil has lifted Gabon to among the wealthiest countries in sub-Saharan Africa. However, the country's economic performance has disappointed over the last three decades, with real per capita incomes falling by about 20 percent since 1990. This study discusses in depth Gabon's renewed drive to break its oil dependence—the *Gabon Émergent* development plan—focusing on the realized and potential growth and fiscal impacts of this strategy that seeks to crowd in substantial foreign investment with the use of tax incentives, Special Economic Zones (SEZs), and public-private-partnerships (PPPs). It concludes with a series of recommendations that seek to bolster non-oil revenue mobilization and Gabon's diversification efforts.

Figure 1. Long-run Real Sector Developments



Sources: Gabon authorities and IMF staff estimates.

[1] Toomas Orav (SPR)

B. A New Drive to Break Oil-Dependence and its Impacts

Gabon Émergent and the New Gabonese Economy

2. Since 2010, *Gabon Émergent* has embodied an ambitious effort to jumpstart diversification and transform Gabon into an emerging country by 2025.[2] The multi-year strategy aimed to channel US$12 billion into a public investment program over 7 years (about 150 percent of 2011 non-oil GDP) to narrow the infrastructure gap in terms of roads, ports, and energy supply. The diversification effort would also seek to leverage private sector money and know-how. Gabon targeted substantial foreign direct investment (FDI) to industries to exploit the country's abundant natural resources—agri-business, mining, and forestry. Given previous drives for diversification had faltered in the face of a weak business climate and high labor costs, the government sought to incentivize investors through a combination of tax exemptions and the use of special economic zones (SEZs) and public-private partnerships (PPPs). The largest partner in this effort has been Olam International, a Singapore-based agri-business firm (see Box 1).

Direct Economic Impacts

3. Some initial results of *Gabon Émergent* have been encouraging.[3] Despite the overall slowdown of economic activity since the oil shock, Gabon has managed to avert a recession due to the growth of non-oil primary activities in the sectors targeted by *Gabon Émergent*. Activity in agriculture, mining, and forestry had a positive contribution to economy growth on average of 2.3 percentage points from 2014 to 2017, while the rest of the economy contributed only 0.4 percentage points. At the same time, the value of non-oil exports rose by nearly 25 percent, and their share rose from one-sixth to one-third of all exports, indicating some diversification of the product base. Since these projects were funded by FDI, they were largely immune to the government channel and production activity grew robustly from a low base. These projects have also had a large direct impact on employment, creating some 20,480 jobs[4] in the private sector, representing roughly 22 percent of all private formal workers in Gabon[5] mitigating impacts of fiscal adjustment on the working population.

4. The direct budgetary impact of Gabon's tax-exempt SEZs/PPPs has, however, so far been minimal. The incremental costs of regulating the PPPs and the zone are small, and indications are that there are no government subsidies provided for inputs such as electricity or other services, although the zone management entity does guarantee the provision of utilities at

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[2] Plan Stratégique Gabon Emergent : Vision 2025 et orientations stratégiques 2011–16, Government of the Republic of Gabon. July 2012. http://visiongabon.com/wp-content/uploads/2017/02/01-Strategie-PSGE.pdf

[3] This paper does not seek to resolve the debate on the merits of tax exemptions, which have been commonly used in Gabon and elsewhere as a lever to attract investment, including with SEZs.

[4] In contrast, the Gabonese authorities estimate that direct employment in the relatively mechanized oil industry at 3,000.

[5] Based on estimates provided by the International Labor Organization.

prices below domestic market rates. Direct revenues from the PPPs are relatively modest, comprising solely of wage taxes on company employees totaling CFAF 8.54 billion from 2012 to 2017, or around 0.1 percent of GDP. The relatively low tax revenue take is largely due to the provision of fiscal exemptions to SEZ operators. Any assessment of budgetary impacts should also capture the notion of foregone government revenue due to tax relief. Estimates of the total cost need to be treated with caution given data weaknesses and generally poor controls, but assorted studies have place tax expenditures in Gabon at between 4 to 5 percent of GDP. These estimates cover a wide variety of tax instruments, such tax and customs instruments legislated under the investment incentive scheme, but also a wide variety of exemptions granted to specific economic sectors (e.g. mining, cement, small- and medium-sized enterprises), through public contracts (e.g. PPPs), and some taken on an ad hoc basis with no legal underpinning.[6]

5. Assessing the aggregate impact of tax expenditure is challenging. It requires a comprehensive cost-benefit analysis that weighs tax expenditure against potential direct and indirect payoffs. There is insufficient information on business-level strategies in Gabon on which to base such an assessment. Nonetheless, the case for exemptions is questionable, given that the results of investor surveys in Gabon's SEZ (like such questionnaires in other countries) indicate that investors put more weight on stability, institutional quality, and availability of essential inputs.[7] Moreover, the eventual cost may be high, as the literature on exemptions offers strong warning that investors attracted to these arrangements often structure their businesses around relatively short time horizons ("footloose industries"), or use inter-company transfer pricing techniques to shift income from non-tax-exempt enterprises to tax-exempt companies to avoid tax liabilities.

Indirect Economic Impacts

6. Aside from direct job creation and new infrastructure, proponents of SEZs tout their potential to generate indirect economic benefits by facilitating knowledge and skills transfers and creating demand for inputs from the domestic economy (known as backward linkages). There has been limited evidence to date on such indirect benefits in Gabon. Survey data seeking evidence of spillovers from the SEZ/PPPs, finding little to no impact on the domestic economy in terms of domestic prices, agricultural production, or non-agricultural enterprise

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[6] James (2013) estimated total tax expenditure in Gabon at 5 percent of GDP. An unpublished World Bank study calculated exemptions on customs tariffs, corporate income tax, and VAT exemptions at 4 percent of GDP (World Bank, 2017). The IMF's Fiscal Affairs Department estimates tax expenditures accorded to exemptions on CIT, VAT, and customs at 4 per cent of GDP (IMF, 2018a). These estimates include exemptions beyond those to incentivize investment, e.g. a program since 2008 to reduce the cost of domestic food stuffs (*Programme contre la vie chère*) with a cost of 0.6 percent of GDP in 2018 in terms of foregone revenue. The Gabonese authorities have since eliminated about 85 percent of the products covered by this program.

[7] A 2018 survey of investors in the Gabon's SEZ provides further reinforcement, as incentives ranked fourth among key issues for investors behind availability of raw inputs, country socio-political stability, and the ability to import labor and repatriate profits (Mouissi, 2018).

activity, possibly reflecting the relative newness of the projects (Mouissi 2018).[8] More generally, the literature expresses considerable doubt on the strength of positive spillovers in the region (see Box 2).

Risks to Fiscal Sustainability

7. **Despite the recent uptrend, non-oil domestic revenue is still low and below other upper middle-income countries**. Given the large oil shock and the strong economic intersectoral linkages, Gabon's non-oil revenue ratio declined by 13 percentage points of non-oil GDP from 2014 to 2016. Recent efforts to streamline tax expenditure and improve revenue administrations have helped increase revenue. But more needs to be done to generate the necessary fiscal space to confront the significant public spending.

8. **The notable weaknesses in the performance of non-oil revenues in Gabon in the wake of the oil shock were likely due to several interrelated factors**:

- *The protracted oil shocks*. As noted above, cost-cutting by Gabon's oil operators led to a virtual halt in the development of new fields, resulting in volume declines of around 6 percent per annum from 2015 (versus an average of -1 percent over the previous two decades). Oil sector employment and investment shedding also had direct knock-on impacts for non-oil activities, particularly through reduced purchases from domestic service providers. The indirect impacts were also significant, as weaker oil revenues led to cuts in government current and capital spending, slowing economic activity that in turn further dampened tax revenues in a vicious spiral. Indeed, at end 2018, although oil prices were only 30 percent below 2014 prices, oil revenues to Gabon's budget remained some 60 percent below 2014 levels—less than half of the pre-shock level.

- *Weak tax administration.* Recent IMF Fiscal Affairs Department technical assistance have identified significant risks related to Gabon's tax and customs administration, including weak political and financial support, incoherent strategic planning, and a low level of operational capacity (IMF, 2017). The diagnostic also detected significant weaknesses in compliance and enforcement at both customs and tax administrations, and limited taxpayer segmentation.

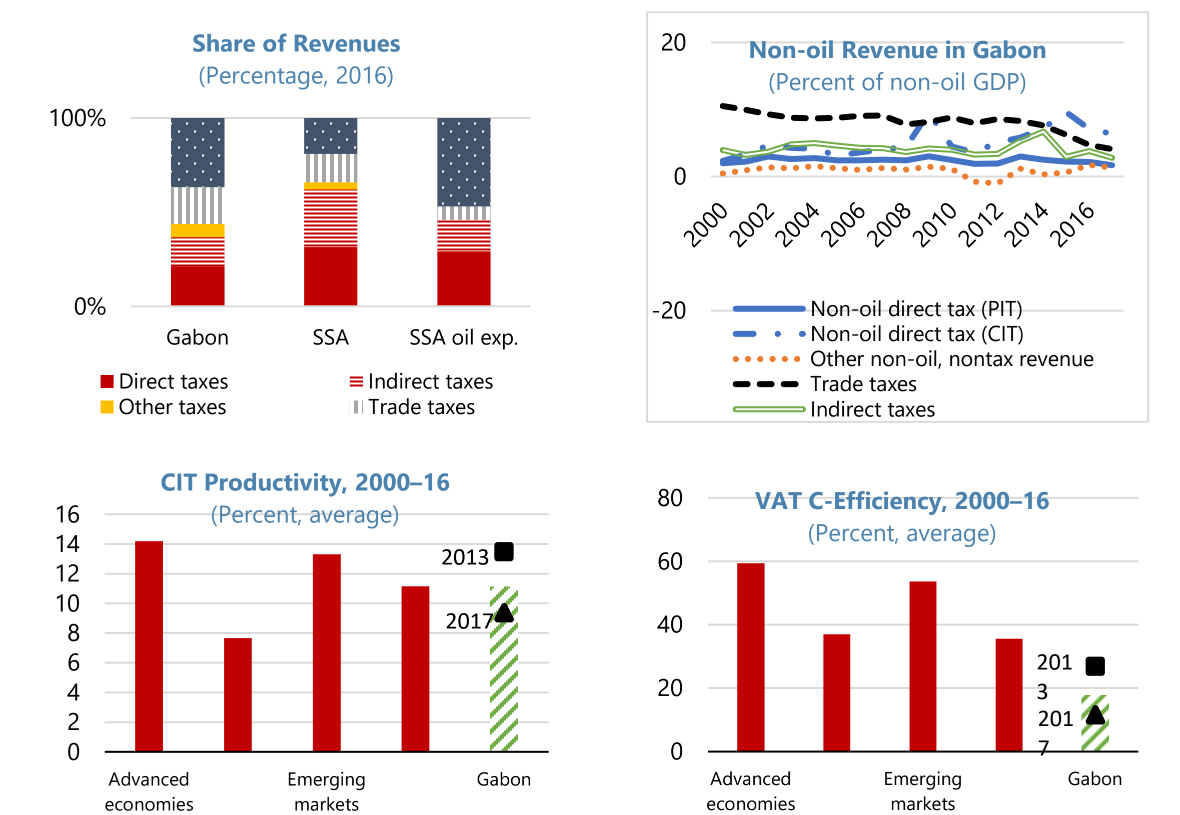
- *Poor tax policy prioritization.* Gabon's tax policy appears largely outdated. Trend and benchmarking analysis of a decomposition of revenues suggests that the country's tax collective effort remains relatively reliant on the taxation of international trade, unlike trends elsewhere where global trade liberalization has seen a shift toward other forms of revenue mobilization (Figure 5, panels 1–2). Moreover, Gabon's direct tax take is highly

[8] Currently, 32 Gabonese communities are covered by 5 social contracts with Olam, including interventions for school rehabilitation, electrification, and road networks.

volatile, particularly the non-oil corporate income tax component (CIT), suggesting spillovers from the oil sector, and indirect taxation (including excises and value added tax (VAT)) has generally trended lower over the last two decades.[9]

- *Weak tax performance*. Measures of tax performance indicate that corporate income tax productivity is below that of Gabon's emerging market peers, and the measure of VAT C-Efficiency appears very low versus all comparators (Figure 2, panels 3–4). This weak performance suggests a large tax gap, and a recent IMF tax frontier study placed Gabon on the high end of tax SSA gaps at 5.8 percentage points of GDP (compared to a finding of gaps in the 3–5 percent range for the region, suggesting substantial scope to mobilize additional non-oil revenues through efficiency gains and institutional reforms (IMF, 2018b).

Figure 2. Evolution of Revenue Components[1]



Sources: Gabon authorities; IMF Fiscal Affairs Department Sub-Saharan Africa Tax Revenue database; IMF Fiscal Affairs Department Tax Rates database; and IMF staff estimates.

[1] Note Oil and other commodity related revenues are typically captured as non-tax revenues.

[9] The one-off increase in indirect tax mobilization in 2013–14 is likely an accounting artifact linked to the recording of gross VAT collections without an offset for the VAT reimbursements due.

9. The outlook for domestic revenue mobilization is subject to significant uncertainty. Revenue forecasting techniques typically are built on an assumption about revenue elasticity (knowns as the elasticity approach). It assumes that changes in tax revenue reflect mainly changes in the tax base if policy is unchanged. This mechanical approach can be adjusted based on judgements related to the anticipated impact of a tax system change or improved compliance (i.e. changes in tax buoyancy). Establishing the recent trend path of revenue elasticity for Gabon is challenging due to a limited and volatile time series, and data weaknesses in terms of discretionary changes in the tax structure that should be stripped out to determine an underlying elasticity. A robust regression of changes in nominal fiscal revenue and the change of non-oil growth appears unrealistically weak elasticity at 0.2.[10] A simpler computation based on the evolution of government revenues excluding oil and trade against non-oil GDP indicates an average revenue elasticity of 0.6 during the decade leading up to the oil shock, and a strong deterioration thereafter. Applying this latter estimate as a baseline against plausible non-oil output and elasticity shocks experienced in Gabon suggest that gross financing requirement could increase by 6 percentage points of GDP under a median shock (Figure 3). This baseline incorporates Gabon's planned revenue mobilization reforms, and if the tax buoyancy anticipated under these reform delivers only half the expected yields due to delays and weaknesses in implementation, gross financing needs double 12 percent of GDP, indicating substantial risks to fiscal and debt sustainability.

C. Recommendations Toward Revenue-Friendly Diversification

Strengthen Tax Administration and Tax Policies

10. Further strengthening revenue administration and improving tax policy is critical. In view of the latest trends in non-oil domestic revenue mobilization and the risk to fiscal sustainability in the event of plausible output and elasticity shocks, Gabon's urgent priority is to comprehensively tackle the underlying tax administration and policy weaknesses.

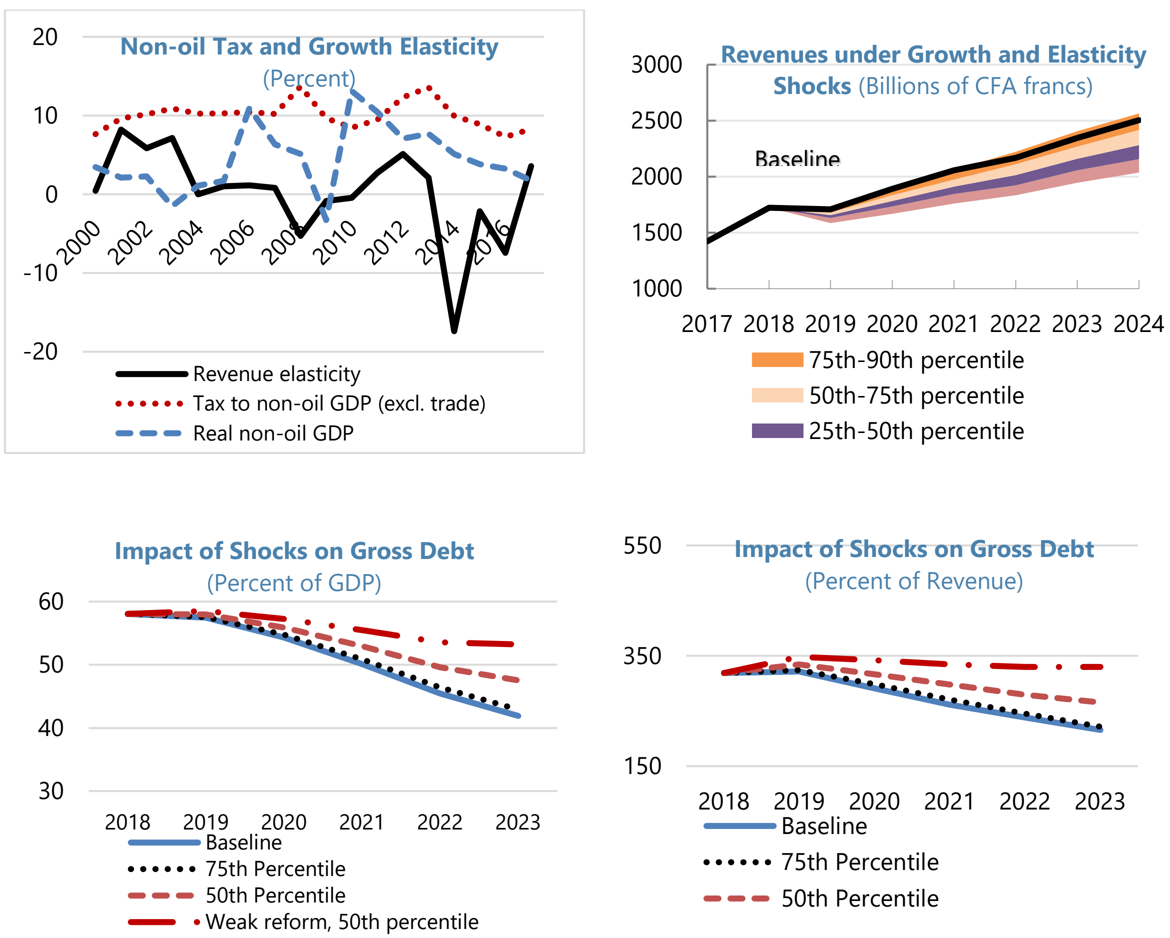
- *Streamline the use of tax exemptions, and transparently disclose the fiscal costs.* Some tax relief to investors during the startup phase could be justified, and is indeed commonplace across SSA SEZs, but the recent proliferation of tax incentives to the SEZ and outside far exceeds those provided for under Gabon's 1998 investment charter. Gabon's tax incentives need to be comprehensively reviewed. The multiplication of tax instruments and exceptional preferences creates a risk of economic inefficiencies, substantial administrative complexity, and invites abuse. Gabon should aim to return to a simple streamlined and standardized system aligned with international best practices. Greater transparency would help to underpin the selective application of tax incentives.
  Full disclosure of tax expenditures is needed to raise awareness of their costs which is why

[10] The "Golden Rule" considers that tax system should be such that elasticity of tax revenues to the tax base should ideally be close to 1.

most developed countries and increasing numbers of developing countries publish tax expenditures as part of the budget.

- *Avoid the use of VAT exemptions as fiscal incentives*. VAT exemptions lead to an erosion of the base and create distortions that penalize domestic and risk undermining economic diversification. Gabon should aim to eliminate distortions in VAT administration through efficiency improvements to create a broad and fair system that is easier to administer. Again, greater transparency could help signal a strong commitment to a sound VAT; for example, through regular publications of VAT compliance gap analysis, as was undertaken in Uganda.

Figure 3. Tax Elasticity and Risks to Fiscal Sustainability



Source: IMF staff estimates

Note: Distribution of revenues under growth and elasticity shocks based on 6000 random draws from a joint normal distribution.

Encourage Spillovers to Promote Growth

11. Harnessing the catalytic potential of foreign direct investment depends on Gabon's ability to tap into potential productivity gains from knowledge and technological spillovers. The experience in sub-Saharan Africa on this front has fallen short of expectations. Current trends in global supply chain management raise the bar further in emphasizing the sourcing critical inputs at the global or regional level, accentuating quality, standards, and competitiveness. Meeting this challenge require conditions and market incentives that build upon existing local capacity. Foreign investors can play a role here, since surveys have shown that investors prefer sourcing inputs from immediately accessible partners (World Bank, 2017).

- *Improve the business climate and governance.* Spillovers are more likely if the business environment is attractive also for domestic firms. The SEZ can serve as an incubator for business climate reforms. The one-stop-shop to speed approvals should be replicated across Gabon.[11] The zone could be used as an incubator for other potential national reforms, including electronic administrative processes and tax filing.

- *Target low-cost intervention with the greatest potential spillovers.* Agriculture accounts for a large share of employment, suggesting that reforms to strengthen the agricultural sector could have a significant positive impact on livelihoods and food security. Gabon's unrealized potential also appears significant, with only 3.5 percent of useable land currently under exploitation, and the under cultivation relatively unproductive.[12] Gabon's 2016 agricultural development strategy[13] intended to attract substantial foreign investment in agriculture through the development of tax-free agricultural zones and leveraging Olam's infrastructure and know-how via an 'out-grower' program called *GRAINE*. The plan has been slowed for lack of funds, and given a costing of US$2 billion over seven years, its implementation appears out of reach. Meaningful results could still be achieved through a scaled-down investment plan developed with stakeholders. Such a plan should provide a transparent accounting of any envisaged fiscal incentives. Instead of a broad import substitution strategy, a new plan could focus on a few targeted value chains (e.g. cassava and plantains) that are critical crops for food security across income classes in Gabon (World Bank, 2013). Supportive low-cost interventions should aim at the promotion of agricultural research and training, accelerating registration and land titling for agricultural cooperatives, and improving the tracking and evaluation of the government's agricultural spending.

- *Establish a framework for the upgrading domestic firms*. South Korea used 'a process of constant integration' to transform its EPZs into major markets for locally manufactured

[11] The World Bank's 2019 Doing Business survey indicates that Gabon scores lower than average in sub-Saharan Africa in starting a business, dealing with construction permits, and registering property.

[12] Gabon's estimated cassava yields ranging from 3.2 to 8 tons/ha, versus an international norm of 13 tons/ha (World Bank, 2013).

[13] *Stratégie de développement de l'Agriculture au Gabon*, 2016–23. Ministry of Agriculture of Gabon.

capital and intermediate goods (Schrank, 2001). These firms inspired a demonstration effect, raising standard across the economy. Such results will be more challenging in Gabon, given the yawning gap domestic industry vis-à-vis global market standards for price, quality, and timeliness. Given that the Gabon's SEZ is developing as a wood cluster, interventions could target the domestic value chain for this sector. This could include accelerating work to formalize the domestic woods sector, particularly the deployment and adoption of a timber traceability system in line with international best practices. While the GSEZ strategy focuses on attracting new wood SMEs into zone by promoting training, knowledge sharing, and potentially access to a €50 million working capital fund, these initiatives should be extended outside the zone to encourage domestic spillovers. To this end, the government could coordinate efforts across stakeholders to develop standards and capacity-building plans for domestic wood SMEs.

- *Investments in health, knowledge and skills are as critical as investment in physical infrastructure.* Better human capital also attracts FDI and international know-how. Cleeve and others (2015) show a robustly positive and significant effect of human capital on FDI inflows. Gabon's oil sector has largely relied upon imported expertise. The Gabonese government is targeting a substantial investment in human capital to buttress its efforts to continue to attract FDI into skill intensive agri-business and wood manufacturing, with support from the African Development Bank and the World Bank. The government should start by improving capacity to monitor and report existing social spending, which is essential for effective implementation of these ambitious plans.

- *Improve statistical collection.* The SEZ is playing an instrumental role economic diversification process, but Gabon's statistical collection, dissemination, and analysis capacity is below that observed in other countries at a similar level of development, hurting its ability to monitor these critical developments. While the World Bank is aiding toward a new enterprise survey that will include the activities of firms in the SEZs to provide a better accounting of its impact on Gabon real and external sectors, and the Gabonese authorities should ensure that the statistical agency is properly resourced to support the production and publication of high frequency indicators.

Box 1. Olam Gabon Highlights

Olam International is a Singapore-based agri-business firm with 2017 sales revenues of US$19.2 billion. Its Gabon activities are part of a larger company initiative to build integrated valued chains in Africa, with a focus on African markets as net importers of edible oils and other food stuffs.

Footprint. Since 2010, Olam International and the Republic of Gabon have entered into four PPPs covering palm oil, rubber, fertilizer and logistics as part of a Gabon Special Economic Zone (GSEZ). To date, total FDI across these projects has totaled approximately US$3.5 billion, with most projects now shifting into the production phase, although the ammonia-urea fertilizer plant (US$1.5 billion) has been substantially delayed. Olam Gabon is the county's largest private sector employer, with 17,480 direct employees at end-2017 across all units, generating half of all new private sector jobs in Gabon since 2010 (Mouissi, 2018).

Fiscal incentives. Olam and GSEZ investors have access to single window clearance for approvals and certifications. Across all projects, activities are exempted from payment of corporate income tax for 10 years, and 10 percent during the following 5 years. Other tax relief include 0 percent on customs duties of industrial equipment, 0 percent tax on dividends and property, and a VAT exemption of 25 years. There is also unconditional repatriation of profits and capital.

Olam's palm and rubber projects. Planting completed in 2018. About 64,000 Ha is under palm oil cultivation and 11,000 Ha for rubber, among the largest such projects in SSA in recent years. The company is on track for its palm business to be 100 percent RSPO certified by 2021. Volumes will ramp up to full capacity by 2023–24 at around 350,000 tons of palm oil per annum, placing Gabon amongst Africa's top 5 producers.

Special Economic Zone. The GSEZ was established in 2011 and started operation in 2014. It is the result of a PPP between Olam and the Gabonese Republic.[1] A multi-sectorial industrial park, this wide-area zone (1,126 ha) is managed and marketed by Olam, and investors began set up in 2015. The site includes single-window business services to participants and below-market-rate utilities (water and electricity) financed by GSEZ. The zone has grown to include 141 investors covering 95 different companies employing a total 2,200 workers at end 2018. Cumulative investment by clients into the zone reached US$380 million by end 2017, and commitments could see an additional US$600 million invested there through 2020. It is emerging as a wood cluster, with about three-quarters of its clients involved in harvesting and processing. This is boosting Gabon's exports of value-added wood products, particularly veneer and plywood, where the country is now a globally competitive producer. Olam anticipates that total GSEZ exports could rise to US$1 billion by 2020, with a focus on Indian and Chinese markets.

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[1] In 2016, the Africa Finance Corporation became a partner in GSEZ with a commitment to invest up to US$140 million in the project.

Box 1. Olam Gabon Highlights (concluded)

Infrastructure. Olam has invested in infrastructure complementary to GSEZ, including a mineral port in Libreville, a multipurpose port, dedicated rail and stock, and transmission lines to support rural electrification. The ports are being operated as standalone profit-generating units, and accessible to the wider economy, improving Gabon's competitiveness and reducing domestic prices. Direct shipping has been established with ports with Asia. A subsidiary of the GSEZ has been awarded a 50-year concession for an international airport for Libreville, and preliminary work on the US$500 million project got underway in 2018.

GRAINE. Olam and the Republic of Gabon have sought to develop a smallholder-based farmer cooperative called *GRAINE*[2], which will leverage company infrastructure to facilitate small scale cash and industry crops (mainly palm oil). However, the scheme is making slow progress. Although the program has registered some 17,000 members since its launch in 2014, only 7,000 Ha was planted as of 2017 (versus the ultimate program target of 120,000 Ha). Under severe cash constraints, the government has been unable to finance needed rural feeder roads and training facilities. While Olam is continuing to develop it SOTRADER agricultural marketing arm, it has scaled back its proposed investment under GRAINE by about four-fifths to US$180 million, leading to much lower projections for other agricultural products.

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[2] Gabonaise des Réalisations Agricoles et des Initiatives des Nationaux Engagés.

Box 2. Special Economic Zones

Special Economic Zones (SEZs) are legal, logistical, and tax arrangements, typically intended to help attract foreign investment into export-oriented manufacturing. Through such zones, countries aim to overcome critical constraints related to service provision, infrastructure, land titling, and red tape. Indeed, there popularity has grown over time, with an estimated 4,300 zones around the world, although the definitions of SEZs differs substantially across countries (World Bank, 2017).

The host countries tend to highlight their potential to catalyze strengthening of the business environment. Typical potential benefits of SEZs include: (i) job creation at potentially attractive wages; (ii) new infrastructure facilities, including power and transport, creating logistics linkages that can be accessed by the wider economy; (iii) skills and technology transfer, as workers internalize training that is useful for subsequent employment; (iv) positive spillovers, as demand in the zone develops for inputs that can be produced in the domestic economy (backward linkages) rather than imported.

Despite the popularity of SEZs, there is considerable debate on whether the zone benefits the wider economy. Most economic studies of SEZs have focused on the success factors for specific zones, for example the legal and institutional environment, the business environment, strategic planning, infrastructure, and zone management.

There is limited empirical analysis on the role of SEZs in spurring national economic development due to the lack of comparable cross-country data on SEZ performance. One study has found generally weaker performance on investment, exports, and employment generation among African SEZs (in Ghana, Kenya, Lesotho, Nigeria, Senegal, and Tanzania) compared to non-African countries (the Dominican Republic, Honduras, Vietnam, and Bangladesh), partly due to a weaker business environment in African zones (Farole, 2011).

The general finding in the literature is that spillovers depend on the characteristics and strategies of SEZ-based firms, local endowments, and the institutional environment of the host country. The more interaction between firms inside and outside the SEZ, the stronger the impacts of spillovers and local productivity gains come from the transmission of knowledge and technology, or through upgraded standards for local production and labor (Farole and Winkler, 2014). A recent World Bank study sought to build a dataset comparing structural characteristics of zones against the increasing intensity of nightlights emitted by SEZs and the surrounding countryside, providing some sense of the dynamism of zones and countries. Based on a sample of 346 zone in 22 countries between 2007 and 2012, it found that SEZs appeared to have no catalytic effect on the countries they operated in, although they did have a positive effect on the immediate 20 km region (World Bank, 2017). The empirical literature on FDI also expresses considerable doubt on spillover benefits in developing countries due to their limited absorptive capacity (Duarte and others, 2014).

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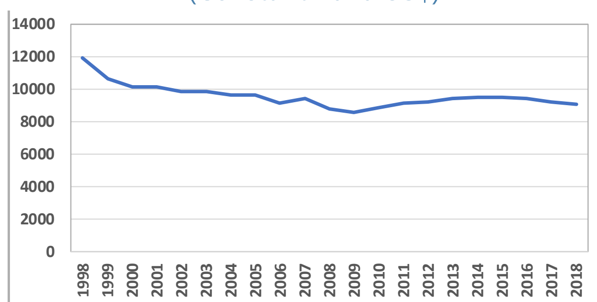
ACHIEVING EQUITABLE FISCAL CONSOLIDATION[1]

Despite progress in recent years, much more remains to be done to improve Gabon's social indicators and reduce poverty. Fiscal policy can serve as a crucial tool for achieving this outcome by creating additional space for social spending and improving expenditure efficiency. This will require increasing domestic revenue, restraining non-priority spending and greater use of performance targets in resource allocation decision-making.

A. Background

1. Although declining, poverty remains high in Gabon. In 2018, per capita GDP was US$9,100, about 24 percent below its level in 1998 (Figure 1). Almost one-third of the population still lives with less than $5.50 per day (Figure 2), slightly above the average for countries with the same level of income (Figure 3). Poverty is particularly widespread in rural areas, where more than half of the population lives below the poverty line.

Figure 1. Gabon: GDP per Capital
(Constant 2010 US$)



Source: WDI.

Figure 2. Gabon: Poverty Headcount at National Poverty Line 2005 and 2017

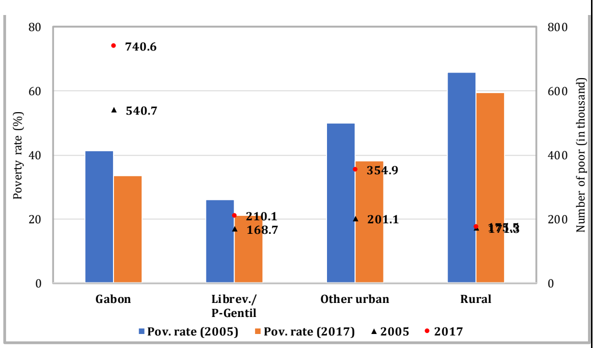
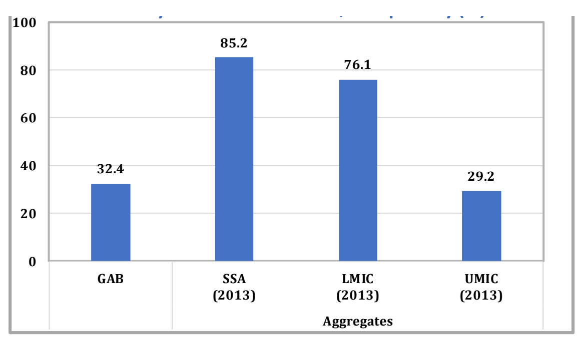


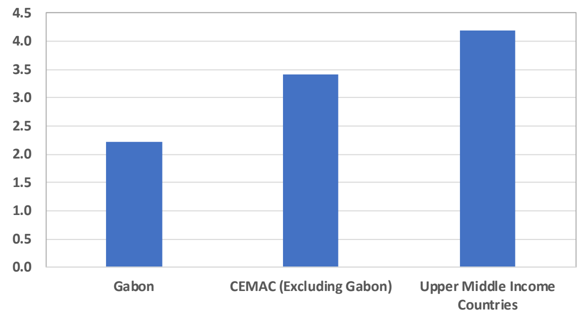
Figure 3. International Comparison (2017) Poverty Headcount Ratio at $5.50 per Day
(Percent)



[1] Koffie Nassar, David Elmaleh (World Bank), Justine Lekogo (former Local Economist in Gabon), and Ashan Rodriguez (former Research Assistant in AFR).

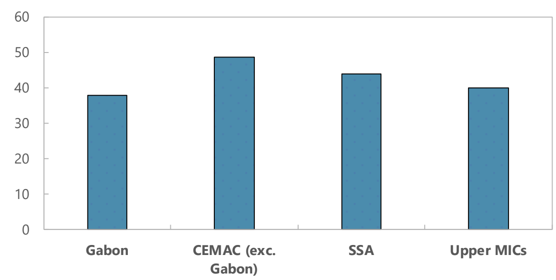
2. The high level of poverty reflects predominantly subdued growth. Long standing and deep domestic institutional and structural weaknesses, including weak governance and economic diversification, and poor business environment have constrained growth. Over the last two decades (2000–18), real GDP grew on average by 2.2 percent in Gabon, much lower than in CEMAC and upper-middle-income countries (Figure 4). It is worth noting that Gabon's Gini coefficient is at the same level as that for its income peers (Figure 5).[2]

Figure 4. Real GDP Growth Comparison, Average 2000–18



Sources: Country authorities and IMF staff estimates.

Figure 5. Gini Coefficient, Latest Available
(0–100, where 0=perfect equality)



Source: World Development Indicators, April 2018.

3. Low social spending and efficiency has also hindered poverty reduction. Despite the significant increase in public health spending after the implementation of the national health insurance system in 2008, total expenditure on education, social protection, and health represent only 20 percent of the total budget, which is low compared with Gabon's peers. In addition, efficiency of social spending is low.

4. Several Studies have found evidence that spending on education and health has been a significant driver of inclusive growth.[3] Expansion of access to quality basic education and health services are found to be associated with increases in human capital stock and decreases in inequality in education and health outcomes. This, in turn, increases productivity and growth and reduces inequality of opportunity and income (IMF, 2017).

5. Some studies also found social spending to be important for achieving inclusive growth.[4] [5] There is statistical evidence that redistributing income from higher-income to lower-income groups directly decreases income inequality. While there is evidence that fiscal redistribution does not necessarily harm growth, redistributive fiscal policies need to be carefully designed to minimize the efficiency costs associated with redistributive tax and transfer policies. Social protection can also contribute directly to inclusive growth through making lower-income groups more resilient to economic shocks and promoting investments through addressing

[2] However, it is not possible to ascertain whether inequality has risen during the last decade, due to lack of data.

[3] See for example Rossi, 2018; and Coady and Dizioli, 2018.

[4] See IMF Policy Paper: A Strategy for IMF Engagement on Social Spending (June 2019).

[5] See for example Ostry, Berg, and Tsangarides, 2014; Clements and others, 2015; Atkinson, 2015; and IMF, 2017.

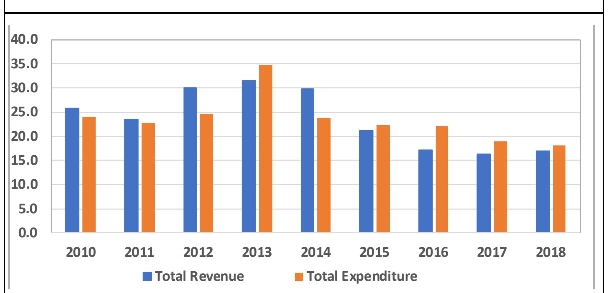
liquidity constraints. Furthermore, social protection can be instrumental in promoting growth, helping to build public support for macroeconomic and growth-enhancing structural reforms by protecting vulnerable groups from any adverse short-term impacts of such reforms.

6. Increasing the level and efficiency of social spending is needed to generate higher and more inclusive growth. As expressed in the 2030 *Sustainable Development Goals* (SDGs), poverty reduction (social) spending—defined as social protection, health and education spending—is a key policy lever for promoting inclusive growth, addressing inequality, protecting vulnerable groups during structural change and adjustment, smoothing consumption over the life-cycle, and stabilizing demand during economic shocks.[6] The challenge for policy makers, therefore, is how, in the face of the tight fiscal position, to create the fiscal space required to meet Gabon's large social spending needs.

B. Reprioritization of Government Spending

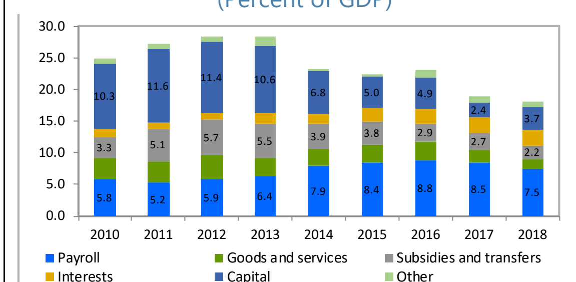
7. Creating fiscal space for additional social spending. This will require increasing domestic revenue, restraining non-priority spending. On the revenue side, policy measures should focus on broadening the tax base and enhancing revenue administrations. On the expenditure side, despite recent decline, spending and particularly the wage bill remains high than the average for upper-middle-income countries (UMIC). In Gabon, the wage bill represented about 44 percent of domestic revenue in 2018. On the one hand, this observation may reflect the government's willingness to redistribute the country's oil wealth through public sector wages and salaries. On the other hand, it reflects both the large size of the public sector and the ability of public servants to negotiate higher salaries. In this context, Gabon could benefit from redirecting budget resources away from the wage bill towards more productive uses, including social spending. In other words, there is scope to promote inclusive growth by redistributing the country's oil wealth directly through boosting poverty-related spending, instead of indirectly via the wage bill.

Figure 6. Gabon: Total Revenue and Expenditure
(Percent of GDP)



Sources: Gabonese authorities and IMF staff estimates.

Figure 7. Gabon: Evolution of Government Spending, 2010–18
(Percent of GDP)

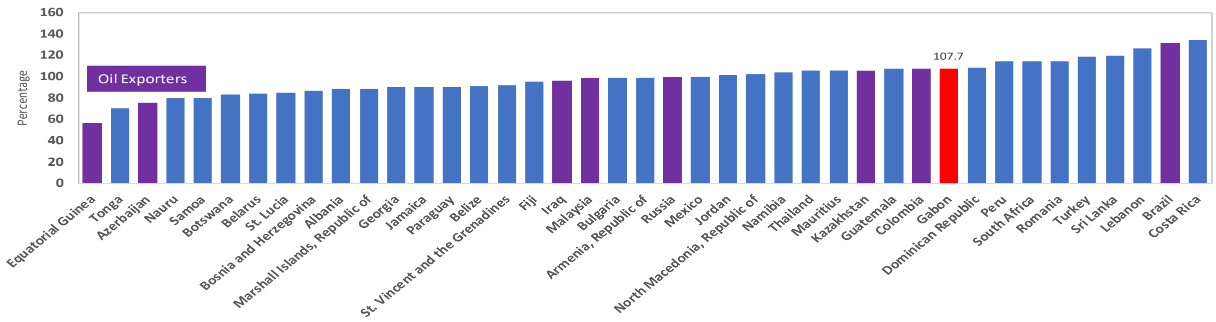


Sources: Gabonese authorities and IMF staff estimates.

[6] See IMF Policy Paper: A Strategy for IMF Engagement on Social Spending (June 2019).

Figure 8. Upper Middle-Income Countries: Comparison of Total Expenditure, 2018 or Latest

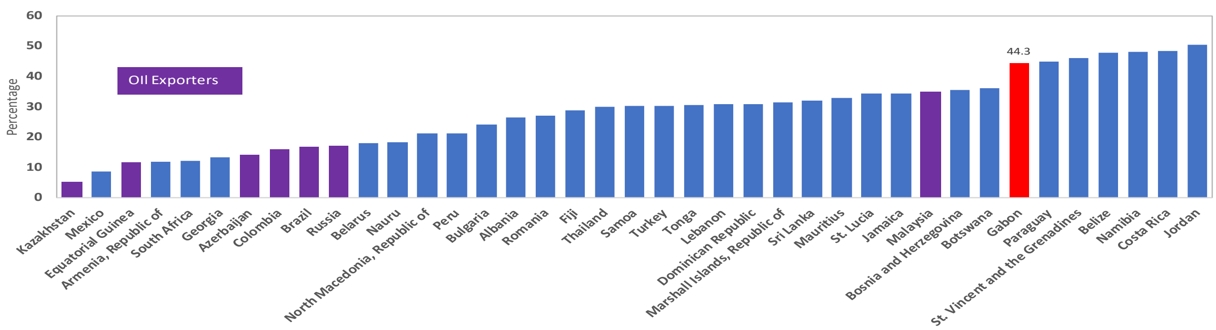
(Percent of Total Revenue)



Source: GPS.

Figure 9. Upper Middle-Income Countries: Comparison of Wage Bill, 2018 or Latest

(Percent of Total Revenue)



Source: GPS.

8. **If social spending is a key priority for Gabon, the authorities should ensure that it is given adequate emphasis in their expenditure planning and budgeting processes.** Over the last decade, several governments in both advanced and developing countries looking to alter the sectoral allocation and the impact of public expenditure have made effective use of two public financial management tools:

- *Frequent expenditure reviews.* Expenditure reviews designed to improve the efficiency of public expenditure and to create fiscal space on the expenditure side of the budget have become a regular feature of the budget process in many countries, including in developing economies. Gabon stands to gain from emulating this practice.

- *Medium-term expenditure frameworks* (MTEFs). MTEFs enable governments to "lock in" savings identified in lower productivity/priority sectors and reallocate them to higher productivity/priority sectors over a period of years. They are now a common feature of budgeting systems in Africa and several countries have made effective use of them to alter the sectoral allocation of expenditure over a number of years. Again, Gabon stands to gain from adopting this initiative.

C. Assessing Efficiency of Social Sector Expenditure in Gabon

9. Beyond the analysis of the level and decline in spending, identification of possible savings or reallocations requires an assessment of efficiency. More efficient public spending will create budgetary room to increase social spending without widening the fiscal deficit. Thus, a more efficient delivery of public services will yield better outcomes for a given cost, or the same quality of outcome at a lower cost. To this end, this section assesses social and economic outcomes in each spending area against the performance in upper-middle-income countries. We examine broad indicators of efficiency of public expenditure in key social spending areas to gauge potential efficiency gains and possible savings.

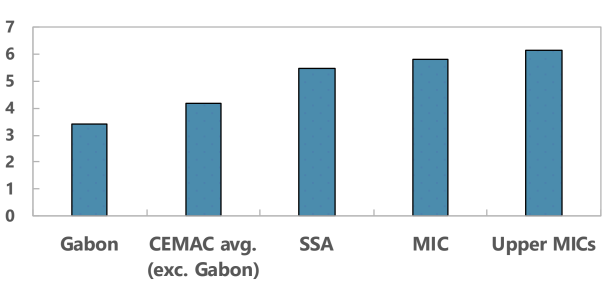
Health

To improve health outcomes Gabon should strengthen the allocative efficiency notably by investing more in preventive care and implementing performance-based financing.

10. While it has increased in recent years, public health spending remains relatively low. Public health spending more than doubled between 2008 and 2018, driven by the rollout of the national health insurance system,[7] but Gabon still spends less on public health than its peers (Figure 10).

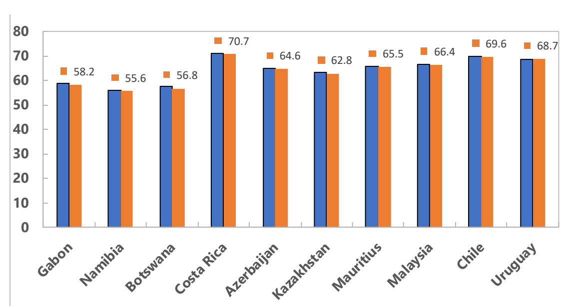
11. Nevertheless, rising expenditure levels have not been matched by commensurate improvements in health indicators. In 2016, average life expectancy at birth was 58 years (Figure 11). The under-five mortality rate is 65 deaths per 1,000 births, well above the level of Gabon's comparator countries (Figure 12). Likewise, the maternal mortality rate is well above the level of Gabon's peers (Figure 13).

Figure 10. Total Health Expenditure, 2018 or Latest (Percent of GDP)



Source: WDI.

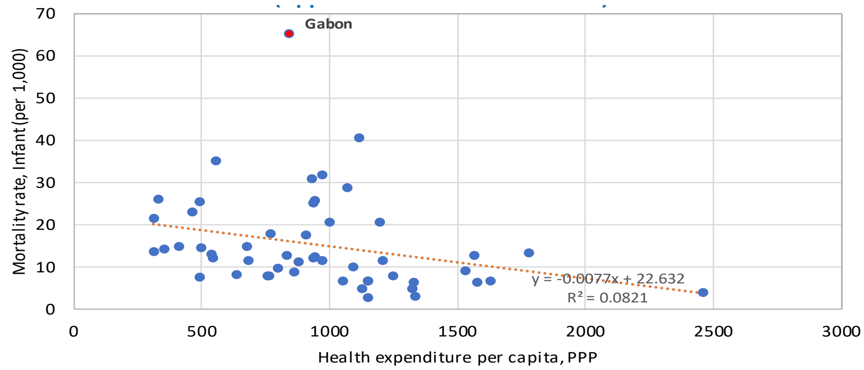
Figure 11. Healthy Life Expectancy at Birth (2010 Compared with 2016)



Source: HALE.

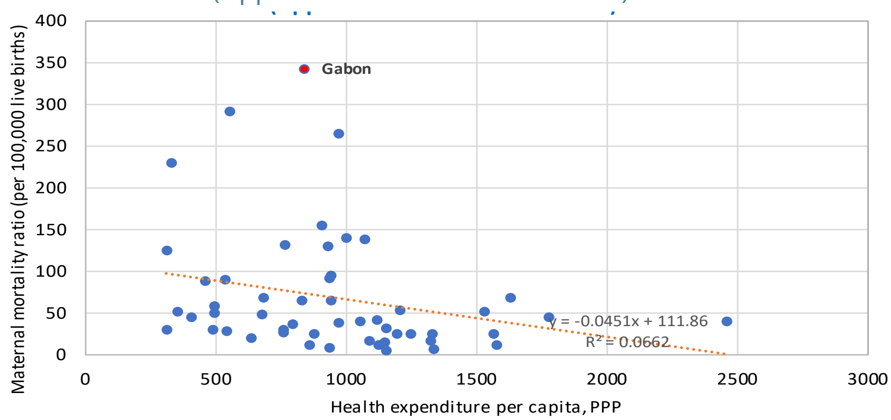
[7] See World Bank, 2017.

Figure 12. Infant Mortality Rate Versus Per Capital Health Expenditure



Source: UNESCO's database from 2010 to 2015 (Gabon 2012).

Figure 13. Maternal Mortality Versus Per Capita Health Expenditure
(Upper-Middle-Income Countries)



Source: UNESCO's database from 2010 to 2015 (Gabon 2012).

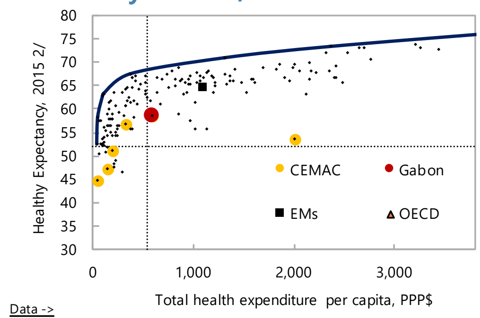
12. Efficiency of Gabon's health spending, where data is available, is also low relative to its income peers. The efficiency assessment using the IMF expenditure assessment tool (Figure 14).[8] The health efficiency frontier allows to examine the scope for improvements in health spending effectiveness. The chart plots Healthy Life Expectancy (HALE) as output on the vertical axis and total health expenditure per capita on the horizontal axis. The distance to the efficiency frontier, which is a best practice frontier, provides information on the loss in HALE due to health system inefficiencies. For spending on health, where data is available, Gabon is far from the frontier. The distance to the frontier also informs on potential savings without compromising health outcomes. The bigger the distance to the efficiency frontier, the more inefficient a country

[8] Figure 14 is generated by the Expenditure Assessment Tool (EAT) designed by the Fiscal Affairs Department at IMF. The information EAT provides is useful in the evaluation of government spending and in the identification of areas where there may be room to increase spending efficiency or rationalize spending. The evaluation is done through benchmarking of spending—levels, composition and outcomes—against regional and income comparators.

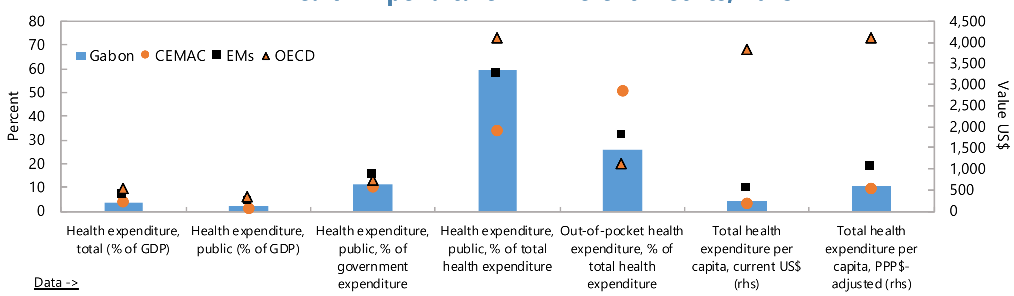
is in providing health services. As can be seen in Figure 14, Gabon is not only spending less than its comparators, its efficiency frontier is far below that of the emerging economies (EMs).

Figure 14. Gabon: Health Expenditure

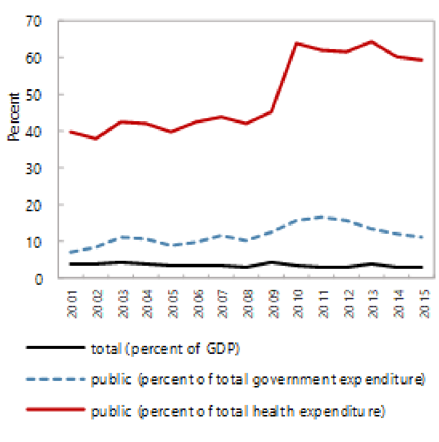
Health Efficiency Frontier, Latest Value Available 1/



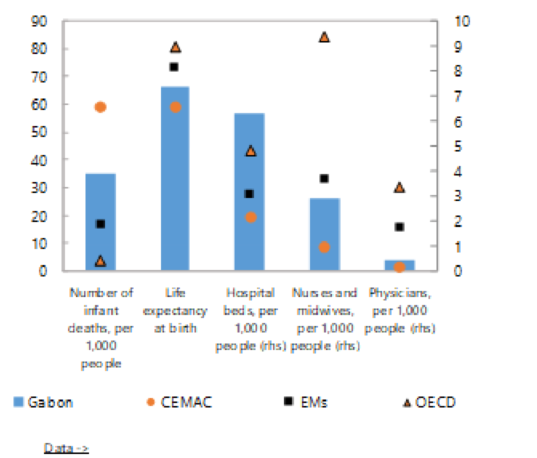
Health Expenditure — Different Metrics, 2015



Gabon: Health Expenditure Trend



Health Indicators and Health System Characteristics Indicators, Latest Value Available



Sources: IMF FAD Expenditure Assessment Tool (EAT), World Bank, World Health Organization.

1/ Dashlines are the average of CEMAC.

13. Delivering quality outcomes is key. Tackling health system inefficiencies holds great potential for creating fiscal space and accommodating demands for additional health spending in Gabon. Indeed, simply increasing public expenditure in the health sector may not significantly affect health outcomes given that the efficiency of this spending is low. According to the World Bank's public expenditure review, it is important to:[9]

- Reorient expenditures toward preventive care; currently, about 80 percent of health resources are devoted to curative care, which contributes less than 10 percent to improvements in health indicators. By contrast, preventive care and public outreach account for only about 20 percent of health spending, yet they contribute more than 60 percent to improvements in indicators targeted under the 2017–21 National Health Development Plan (*Plan National de Développement Sanitaire*, PNDS). The distribution of health spending does not reflect either Gabon's epidemiological profile or the demographic distribution of its population.

- improve the efficiency and distributional equity of sectoral resources by (i) operationalizing health districts; (ii) improving referral systems; (iii) strengthen pharmaceutical management; (iv) developing transparent criteria for allocating resources; (v) establishing oversight mechanisms for the implementation of investment plans; and (vi) creating more efficient budget-management and incentive systems.

14. Enhancing the quality of primary care facilities could reduce costs by encouraging patients to seek treatment at the appropriate level of the health system. Patients routinely bypass underfunded and understaffed primary care clinics in favor of hospitals. Strengthening the primary care system could alleviate the burden on hospitals and lower overall costs, both for the health system and for patients. Other efficiency-enhancing measures include the adoption of innovative techniques such as performance-based financing (PBF).

15. The government should increase funding for health-facility maintenance and public outreach and convert standard budget lines to performance-based payments. The current health budget is based on distributing the available resources, and it does not adequately reflect demand for services or health outcomes. Consequently, operations, maintenance, and public outreach are systematically underfunded, and there are significant disparities in per capita health spending across regions. Introducing PBF principles, including direct transfers to service providers based on results achieved, would help increase value for money in health spending.

Education

The education sector would benefit from a greater allocation to primary and secondary and a more efficient administration.[10] [11]

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[9] World Bank, "Gabon – Revue des Dépenses Publiques ;" 2017.

[10] See World Bank, 2017.

[11] The EAT results are not available, due to lack of data.

16. Gabon's public education outcomes are below what the country's level of per capita GDP and public spending would predict (Figures 15–18). Despite significant progress at the primary level, an inadequate supply of human and physical capital and an excessive emphasis on higher education contribute to low completion rates and high repetition rates. Gabon spends less on education than many comparable upper-middle-income countries (Figure 19), and the overall allocation of public education spending in Gabon is regressive. While public spending at the primary level appears to be pro-poor, there is evidence that it is regressive at the secondary and tertiary levels. Although girls outperform boys in the overall education system, girls from very poor households are underrepresented in tertiary education.

17. Investing in teacher training could improve the technical efficiency of education spending by reducing repetition and dropout rates. Building the human capital of teachers would improve the quality of basic education and enhance the coordination of curricula between education cycles, improving the rate at which students successfully transfer to upper-secondary and tertiary education. Better-trained teachers could also more accurately identify students at risk of dropping out and intervene as needed. Extending the school year and strengthening school governance could complement increased teacher training.

18. Concerted policy reforms will be necessary to improve secondary education, higher education, and technical and vocational education and training (TVET). The authorities should work to improve the governance of public TVET and higher-education institutions. Expanding the role of the private sector could help to increase the quality of higher education and TVET by aligning curricula with the needs of employers, establishing internship, and developing dual-training programs. Private education providers should be encouraged to invest further in upper-secondary and tertiary education within an appropriate regulatory framework. Given Gabon's improving level of internet connectivity, the government should explore innovative education strategies such as distance-learning initiatives.

19. Measures to enhance public administration and personnel management would yield especially positive results in the education sector. Assigning staff to specific programs would help teachers focus on priority activities and improve the deployment of human resources. In addition, developing a comprehensive education management information system backed by robust statistical data could provide vital information to guide future policy decisions.

20. The government should boost public education spending and increase the share of spending devoted to primary and secondary education. Gabon's spending on education is relatively low, compared with its peers. The authorities could create additional fiscal space by improving the allocative and technical efficiency of education spending. At present, most public education spending goes to the upper-secondary and tertiary levels. Underspending at the primary and lower-secondary levels, and among TVET institutions, reduces both the quantity and quality of basic education services. As many higher-education institutions would be viable without public support, increased private-sector involvement at this level could allow policymakers to reallocate scarce public resources to primary and lower-secondary education and TVET.

Figure 15. Completion Rates at Primary, Lower Secondary, and Upper Secondary Education Levels

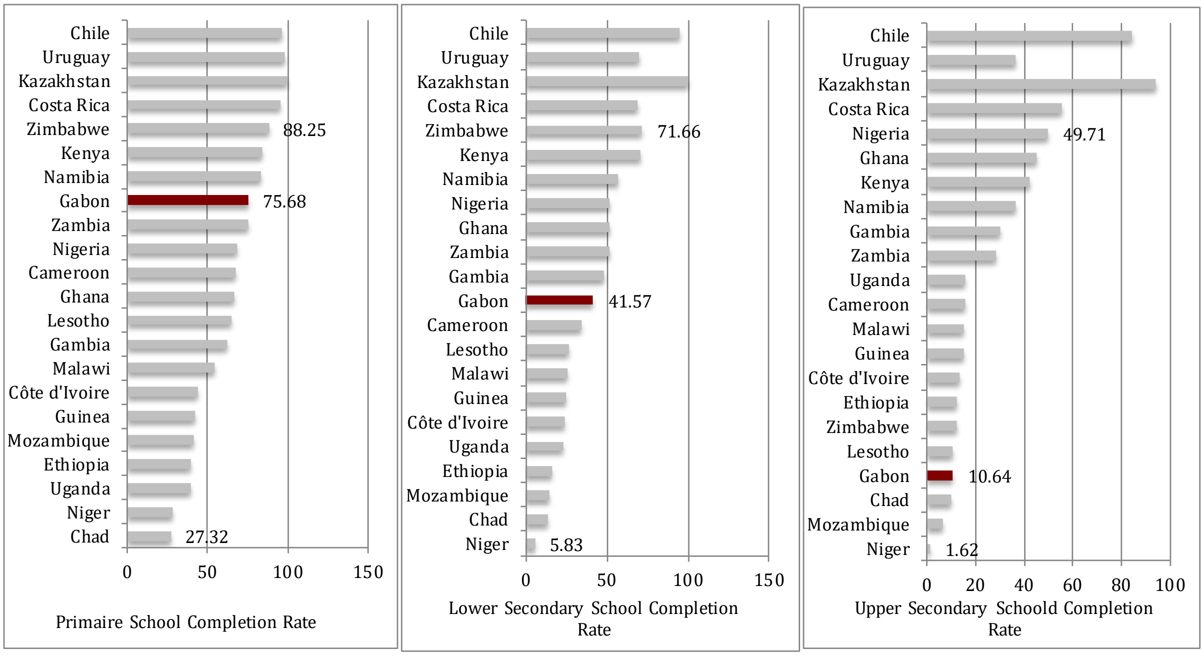


Figure 16. Education Spending and Completion Rates at Primary Education Level

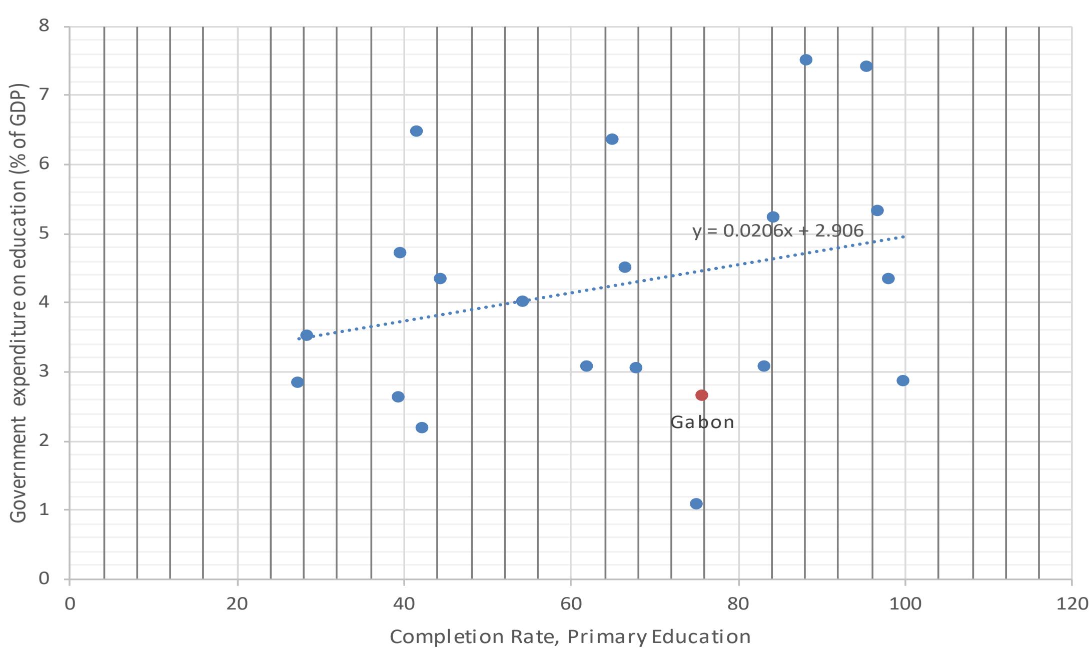


Figure 17. Education Spending and Completion Rates at Lower Secondary Education Level

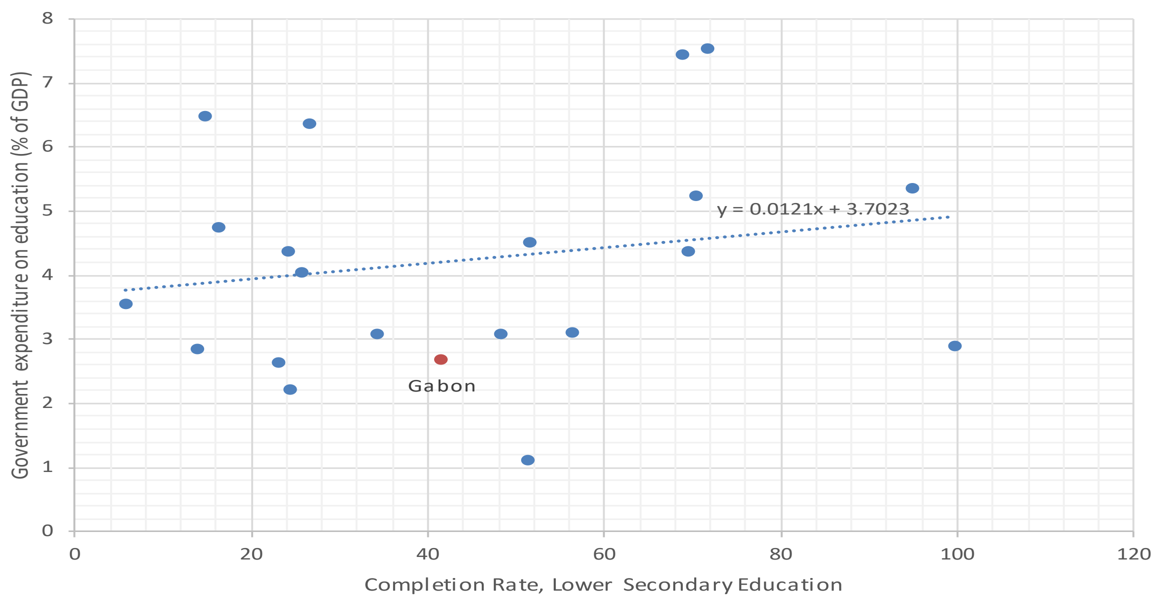


Figure 18. Education Spending and Completion Rates at Upper Secondary Education Level

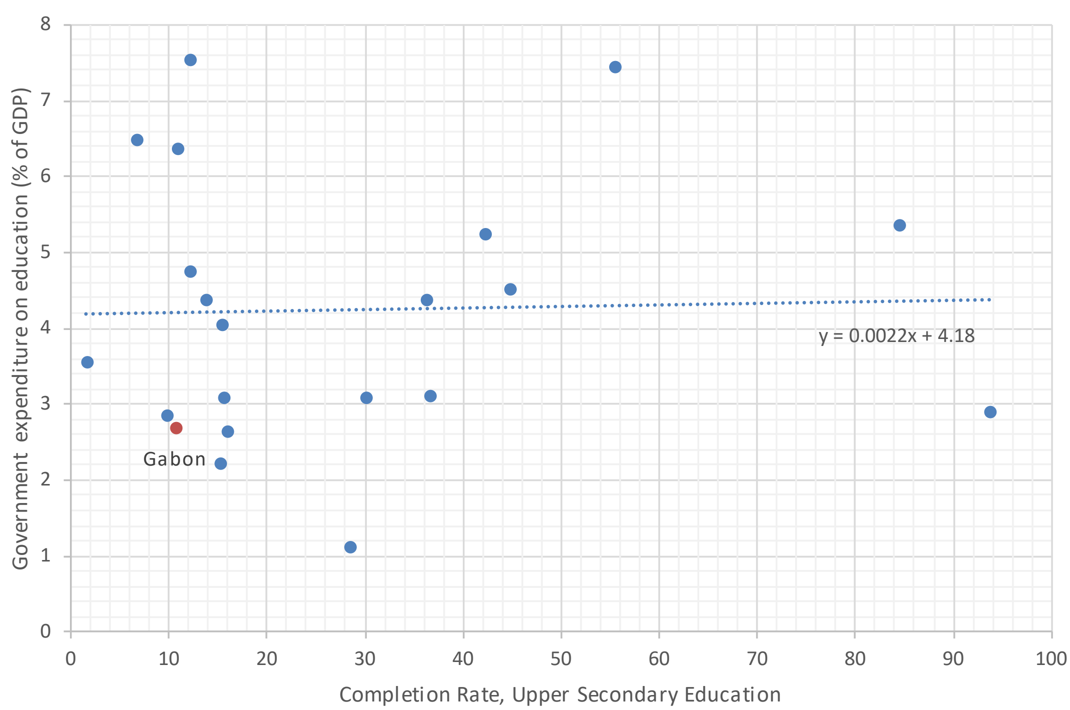
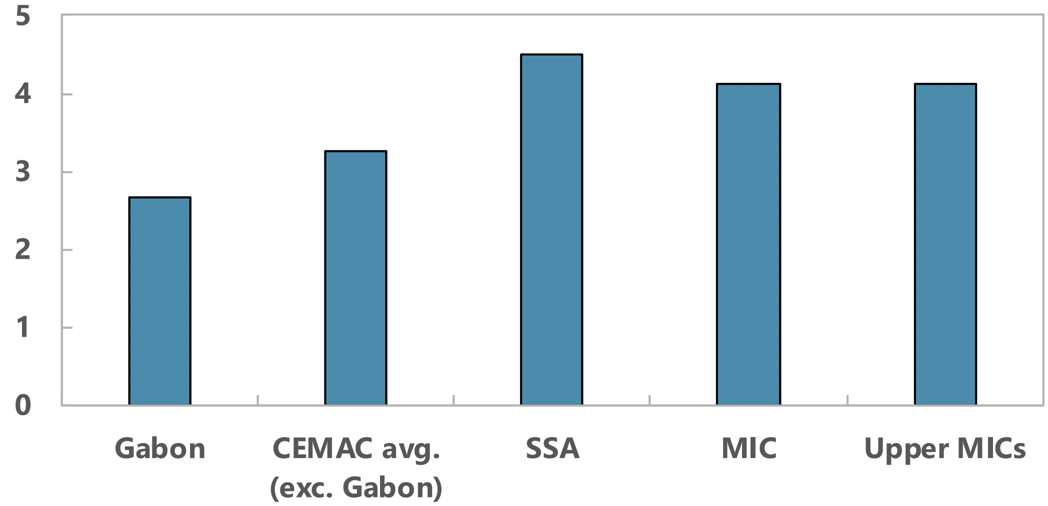


Figure 19. Public Education Expenditure, 2018 or Latest
(Percent of GDP)



Source: WDI.

Social Protection

The Social Protection system, despite having all the necessary components, remains fragmented and inefficient and often fails to reach its intended beneficiaries.[12] [13]

21. Although Gabon's social protection system contains all the necessary components to help households manage risk, it is inefficient, underfinanced, and covers only a small fraction of the poor. While non-contributory programs, including public health insurance and cash transfers, are essential to reduce poverty, their current funding level is insufficient to meet the objectives of Gabon's Human Investment Strategy (*Strategie d'Investissement Human du Gabon*, SIHG). Meanwhile, spending on pensions is rising, even though pension beneficiaries are disproportionately non-poor and much fewer than beneficiaries of non-contributory programs.

22. Funds for social assistance have been sometime used arbitrarily, resulting in significant inefficiencies and inequities. Contrary to what is envisaged in the SIHG, subsidies account for 89 percent of expenditures devoted to supporting "economically weak Gabonese" (*Gabonais économiquement faible*, GEF) households, while cash transfers represent only 10 percent. No cash transfers were made to GEF households in recent years except for two small, short-term programs. In addition, most safety-net programs were only available in Libreville and Estuaire Province, and only four out of fourteen programs reached the rest of the country.

[12] See World Bank, 2017.

[13] The EAT results are not available, due to lack of data.

23. Non-contributory programs are highly fragmented. The SIHG contains 19 different social protection programs designed for seven specific vulnerable groups. These programs range from cash and in-kind transfers to fee exemptions and water and electricity subsidies. Adopting a systemic approach in coordination with other sectors could improve implementation efficiency.

24. Better targeting would enhance the impact of non-contributory social protection programs on poverty reduction. To increase the share of resources that reach GEF households, the authorities should: (i) update the poverty line based on data from the 2017 household budget survey; (ii) create a new methodology to identify vulnerable households based on consumption levels and living standards; (iii) determine the instruments used to classify beneficiary households and verify their status; (iv) produce an implementation manual that clearly defines the responsibilities of different parties and describes grievance and redress mechanisms; (v) restructure the GEF database to include socioeconomic indicators of vulnerability; and (vi) ensure that the information for each household in the GEF database is unique and complete.

25. Consolidating and modernizing social transfer programs could boost their efficiency. The government should begin by merging programs of the same type: for example, the eight cash-transfer programs should be consolidated into one, and the "newborn kit" should be monetized and merged with the cash-transfer program. Leveraging modern technologies to transfer money, such as cell phones and ATM cards, could further increase technical efficiency.

26. Social protection programs should promote self-reliance and facilitate households' transition out of poverty. The design of the current GEF database does not reflect the expectation that households will eventually escape poverty, and it does not contain the information necessary to reclassify households that do. The authorities should: (i) determine when GEF households are eligible for special assistance in transitioning out of poverty; (ii) ensure that households participating in entrepreneurship programs receive regular cash transfers that allow them to stabilize their consumption as they build microenterprises; (iii) provide frequent and regular technical and psychological assistance to beneficiaries; and (iv) develop a robust monitoring system based on objective indicators.

D. Conclusion

27. While Gabon's social indicators have improved in recent years relative to its income peers, much more remains to be done to reduce poverty. Fiscal policy can serve as a crucial tool for achieving this outcome by creating additional space for social spending and improving expenditure efficiency. To improve resource allocation and efficiency, greater use of performance targets in resource allocation decision-making is needed. It will be important to take steps to increase both the level and efficiency of social spending to improve social outcomes and achieve a higher and more inclusive growth.

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