



GABON

Member Country Partnership Strategy Paper 2019-2023



GABON

Member Country Partnership Strategy Paper 2019-2023

Table of Contents

Acknowledgements	iv
Foreword	v
Executive Summary	vi
List of Figures, Tables and Boxes	viii
Acronyms and Abbreviations	ix
Map of Gabon	xi
I. Introduction	1
II. Country Context – Country Diagnostics	2
2.1 Macroeconomic Overview	2
2.1.1. Recent Economic Trends	2
2.1.2. Recent Social and Political Developments	3
2.1.3. Economic outlook	3
2.2. Thematic Issues	4
2.2.1. Islamic Finance	4
2.2.2. Youth and Gender	5
2.2.3. Civil Society and NGOs	5
2.2.4. Agriculture	6
2.2.5. Climate Change	6
2.2.6. Regional Cooperation and Integration	8
2.2.7. SDG Profile and Analysis	8
2.2.8. Trade and Private Sector Development	9
2.2.9. Islamic Insurance	10
III. Development Context	11
3.1 Development Challenges and Binding Constraints	11
3.2 National Development Strategy	13
3.3.1. Overview and Pillars of the National Strategy	13
3.3.2. Resource Mobilization and Partnerships in Development Financing – Donors’ Profile	14
IV. IsDB Group Strategy	18
4.1 Objective	18
4.2 Global Value Chain Analysis	19
4.2.1. Overview	19
4.2.2. The Wood Industry Value Chain	20
4.2.3. The Manganese Industry Value Chain	27
4.3 An overview of the Universe of Interventions	32
4.3.1 General Constraints	34
4.3.2 Critical Type of Interventions	35

4.3.3	Development Interventions of Product Champions	36
4.4	Implementing the Partnership Strategy	38
4.4.1.	Conclusions and Lessons Learnt from Past MCPS	38
4.4.2.	Public Financial Management and Procurement Systems	38
4.4.3.	IsDB Group Portfolio Performance	39
4.4.3.1	IsDB Group Portfolio	39
4.4.3.2	ICD Portfolio	39
4.4.3.3	ICIEC Portfolio	39
4.4.3.4	IRTI	40
4.5	Additional Services	40
4.5.1.	Reverse Linkage Opportunities	40
4.5.2.	Country Economic Work	41
V.	Risks management and Mitigation	42
VI.	Financing Narrative	42
VII.	Elements of the Results Matrix	42
Annexes		43
Annex 1 – Selected Macroeconomic Data		43
Annex 2 – SDG Profiles for Gabon		44
Annex 3 – IsDB Global Value Chain Analysis Model & FilterTool		45
Annex 4 – Strengths and Threats of the Wood Industry		47
Annex 5 – Strengths and Threats of the Manganese Industry		48
Annex 6 – Weakness and Opportunities - Wood		49
Annex 7– Weakness and Opportunities – Manganese		50
Annex 8 – More on Resource Mobilization in Gabon		51

Acknowledgements

This MCPS is based on the Global Value Chains concept introduced within the context of the President's 5 Year Program to anchor the Bank's partnership strategies with Member Countries. It was developed under the overall leadership of Mansur Mukhtar (Vice President, CPC), Walid Abdelwahab (Director General, CRS), Ahmed Elkhodary (Director, DST) Musa Sillah, (Director, CRS), Jean-Michel Happi (Director, CSC), Mayoro Niang (Manager, Regional Office Abuja), and Syed Husain Quadri (Manager, CSMI).

The MCPS is formulated by a Core Team led by Abdoulie Sireh Jallow (Lead Economist) and comprised of Khalid Ibnou Walid Kane (GVC Specialist), Mohammed Faiz Bin Shaul Hami (GVC Specialist), Soule Sow (Economist and MCPS Specialist) and Cheikh Diop (ERIL). The Core Team was supported by the rest of the Technical Team comprising of experts from the various Entities and Departments of the Bank Group. These are Muhammed Taimur Khan (DFU), Ismael Cisse (RHA), Karim Ait Chabane (AfLA), Mamoud Kamara, (RHA), Nur Abi (ESI), Raphael Fofana (ICIEC), Elvin Afandi (ICD), Rafif Ala (RSD), Sharia Walker (RSD), Kristonia Lockhart (RSD), Ahmed Nassar (ICD), Ziade Zoubeyri (ITFC), Abdouramane Diallo (ITFC), Mohamed Ahmed Ibrahim (IRTI), Rami Abdelkafi (IRTI), Saeed Ahmed (GPRMD), Ahmed Al Qabany (RSD), Abdi Abdullahi (RSD), Olatunji Yusuf (RSD) and Ahmet Enes Demirhan.

Sobir Komilov (RHP, AfLA) and Imed Drine (CSC) peer-reviewed the strategy and offered excellent comments and suggestions. Afrah Salih Khalifa and Bakhsh Abduljalil Bakhsh (CSC) led the coordination process for formatting and printing the document. Useful comments were also received from QRAG and OMC.

The Bank would like to extend special thanks to IsDB Governor, HE. Jean-Marie Ogandaga, Minister of Economy, Prospective and Development Programming, for his support and collaboration and, through him, to the Government of Gabon. The Bank is also grateful for the cooperation and support received from various Gabonese officials who enlightened the team about Gabon's development challenges and opportunities, including: M. Pierre Claver MFOUBA, Jean-jacques Nguema Essono, Liban Soliman, Emmanuel Leroueil, Martial OGOUEBANDJA, Dorine Henry Mekame, Privat NDOUTOUME, Sanaa Mbou Bongo, Sylvain Eyene Nkoghe, Pr. Daniel Ona Ondo, Romain V. Daniel, Abeloko Sayd, Guy-Serge Bignoumba, Bonjean Nang Ngomo, Minto'o Ebang Alex, Jean Rene Nzamba Mombo, Pierre Celestin Meyé Bika, Jean Eyene Bekale, Essono Steve Davy, Idi Dan kari, Martin Essono Ndoutoumou, Gervais Nguema Mba, Clarise Ponga nee Sieno Lingombe and Pierre Claver Mfouba. The team also thank the rest of BCPSGE team for their technical support, logistical assistance, and essential cooperation during the exercise.

Lastly, the Bank wishes to acknowledge the consultations held with other Development Partners, including the World Bank, Agence Francaise de Development, the African Development Bank, and the IMF.



Foreword

IsDBG is pleased to launch a new Member Country Partnership Strategy (MCPS) for Gabon based on a novel Global Value Chain (GVC) approach. This approach is designed to be more targeted and impactful, and thus more beneficial to our Member Countries. My 5-year program (P5P) puts the new MCPS as the centerpiece in the Bank's new business model - which is based on strengthening the competitiveness of Member Countries (MCs) in strategic industries in which they have a comparative advantage. By becoming more proactive, adaptive and agile, the IsDB is committed to moving away from reactive, one-off investments, in order to address the root causes that are impeding sustainable growth in MCs. This new generation of MCPS for Gabon strategically focuses on interventions that promote and bolster the country's industry champions, allowing them to reach their full potential through their participation in the GVCs.

The new MCPS aims to support Gabon to achieve the goals it has set under its own National Development Plan. In so doing, the IsDB Group renews its commitment to support the Strategic Plan for an Emerging Gabon initiative (PSGE), which will ultimately transform the country into an emerging economy by the year 2025. Emerging Gabon places the wood and mining industries as major pillars in its drive for economic diversification. In addition, the new GVC-based approach enhances incentives and opportunities for private resource mobilization to fund investment projects aligned with the GVCs by making their value proposition more attractive to private financiers given their market potential.

The ultimate objective of this MCPS is to contribute, directly and indirectly, to Gabon's progress towards achieving the Sustainable Development Goals (SDGs). The development and enhancement of the identified GVCs of Gabon's product champions (wood and manganese) will promote decent work and economic growth (SDG-8) through Industry, Innovation, and Infrastructure (SDG-9) support. A successful implementation of this MCPS is ultimately expected to raise incomes, thus improve overall education, health, and other development outcomes, thereby moving the country closer toward achieving the other SDGs.

I would like to thank the government of Gabon, namely Governor's office, the office of Coordination for Emergent Gabon (BCPSGE), and all other government ministries and agencies involved for their strategic guidance and participation in the formulation of this MCPS. I am confident both Gabon and IsDBG will exert every effort to successfully implement this new partnership strategy and support the country to emerge and develop.

A blue ink signature of Dr. Bandar M.H. Hajjar, written in a cursive style.

Dr. Bandar M.H. Hajjar
President
Islamic Development Bank Group

Executive Summary

Gabon, with a population of about 2 million, has a per capita GDP of USD 7,221 (2017) which represents a decline of about 33% from its 2008 peak of USD 10,094. Yet, it is almost one and half times the average for Middle Income Countries (USD 5,169) and almost five times that of Sub Saharan African countries (USD 1,514). Gabon's recent economic growth has been driven by the non-oil sector following Government's concerted efforts at economic diversification. Its economic outlook involves recovery and growth acceleration in the medium term. However, risks to the outlook exist and arise from the slow progress in implementing the structural reform agenda, especially on revenue mobilization.

The Islamic Development Bank (IsDB) has adopted a new approach to formulating and implementing its partnership strategies with the Member Countries (MCs), guided by the notion of Making Markets Work for Development, a key element of the President's 5-Year Program (P5P). Through this approach, IsDB Group supports a Member Country get plugged into the global value chains (GVC) by promoting the country's industry champions. Following this approach, the GVC analysis has resulted in the selection of Wood and Mining (Manganese), as Gabon's industry/product champions. The selection methodology of the GVC analysis used a filtering tool based on the Natural Potential, Dynamic Potential, and Surplus & Spillover Potential (Value-add) of product champions. The selection of the product champions was validated by the Government.

These validated global value chains are fully anchored in the Strategic Plan for an Emerging Gabon (PSGE) initiative launched in 2011 with the ultimate objective of transforming the country into an emerging economy by the year 2025. The PGSE was formulated in response to the development challenges faced and the desire to diversify the economy. The plan is focused on economic diversification away from oil and extractive industries and is based on three pillars: (1) industrialization, (2) developing a green economy, and (3) sustainable sectors and service orientation.

Gabon's wood industry has shown significant revealed comparative advantage values for the period 2001-2016, especially from 2011 when it started a steady rise from an RCA value of about 5 to 6 between 2011 and 2014 but increased dramatically to 15 by 2016. The values signify that the wood industry has a natural and proven potential among Gabon's export products. The wood industry of Gabon has a high domestic value add, low foreign value add and moderate indirect value add. Even though the Eora Input-Output Table statistics show that Gabon's wood industry is still weakly linked to the GVC, there are huge opportunities of growth owing to the strong domestic value-added numbers for the industry. Based on the wood industry value chain, at the current stage, Gabon has high capabilities in raw material acquisition although upstream manufacturing which is the first transformative process for the value chain has resulted in producing three main products: sawn wood, veneer sheets and plywood. With respect to research and development (R&D) and downstream manufacturing value chains, the preliminary GVC analysis shows low capabilities currently, the Government on its part is intervening to remedy this. The research and development chain, which should be connecting all the chains with flow of planning, skillsets and innovation activities, appear less emphasized.

With respect to manganese, Gabon has one of the highest reserves of manganese, and has been one

of the biggest producers and exporters of the metal since the early 1960s. The export of manganese has increased more than five-fold over the past 10 years. Even when the price of manganese and steel declined, Gabon was still successful in increasing the value of its exports. Manganese exports as a share of the country's GDP has increased by an average of 4.86% over the past 5 years. The revealed comparative advantage (RCA) index shows that Gabon has very high scores for ores, slag and ash products. The value-add analysis for Gabon shows that the mining industry has very high domestic value added (DVA), and indirect value added (DVX), and very low foreign value added (FVA) which suggests its importance in the Gabonese economy and its potential to recapture the transferred value added from other countries. The Gabon manganese value chain has high capabilities in raw materials acquisition and moderate capabilities in upstream manufacturing, but low capabilities in the other activities such as research and development, downstream manufacturing, and sales & distribution.

Resource mobilization and partnerships in financing are critical in the new GVC approach. Attracting foreign direct investment is also a priority of the Government. The MCPS formulation thus includes the identification of interventions to take the product champions to the markets, together with a resource mobilization and outreach strategy.

The MCPS will also comprise additional services such as reverse linkage opportunities, market integration efforts, Islamic finance development schemes, etc. For instance, IsDB's reverse linkage modality will support the improvement of Gabon's Special Economic Zone (GSEZ) to broaden Management's experience in managing the SEZ as well as support for an integrated system to streamline the various systems in Customs, Tax, Environment, and other domains. Other policy-relevant strategy documents will be undertaken to support the implementation of the MCPS. The first is a National Gas Strategy which is very important given the expected high demand for power that the manganese and the wood industries will need, and a policy-analytic study on green finance to examine the prospects of leveraging such financing to increase fiscal space for Gabon.

IsDB's strategic goal is to enhance the competitiveness of Gabon's product champions, to help the country become world player in these product's Global Value Chains. The ultimate development goal of the proposed MCPS Gabon would be to stimulate economic growth, boosting value added, improving fiscal revenues, creating high-value added jobs, and ultimately reducing poverty. The MCPS document sets out the partnership strategy for Gabon identifying the most impactful interventions thanks to the promotion of Gabon's industry champions (wood and manganese), via Global Value Chains. The resulting interventions from the MCPS strategy document will include a wide variety of impactful and relevant projects such as construction of key road networks, building and optimization of energy access, improvement of forestry management, improvement of workers' skill through better training schools, improvement of Gabon's brand through better marketing and forestry management, and the undertaking of other industry promoting projects.

These interventions will be further detailed as part of a project pipeline in a dedicated programming document that will include the avenues for all IsDB entities such as IRTI, ICD, ITFC and ICIEC. The programming document will also provide an overview of the results matrix and specific developmental returns of each potential project approved by the IsDB Group along with providing the financing requirements and opportunities.

List of Figures, Tables and Boxes

List of Figures

Figure 1: Real GDP per capita Growth: Gabon, SSA and EMDEs	2
Figure 2: Gabon and other SSA oil-exporting MCs, Selected Macroeconomic Indicators	2
Figure 3: Gabon's ranking in Doing Business topics 2019	9
Figure 4: Most problematic factors	9
Figure 5: Domestic credit to private sector (% of GDP)	10
Figure 6: Private investments (% of GDP) and GDP Growth (%)	11
Figure 7: Pillars of PSGE	12
Figure 8: The 5 flagship programs of ERP	13
Figure 9: Flagship Programs and GVC Champion Products	14
Figure 10: Wood Industry Value Added 2011 and 2015 (%)	28
Figure 11: Gabon's Wood and wood product RCA values (2001-2016)	28
Figure 12: Competition in the wood industry	29
Figure 13: Global tropical sawn wood exports (2010-2017) in USD 000', excluding Thailand	29
Figure 14: Wood industry value added 2011 and 2015 (%)	29
Figure 15: Macro-level value chain assesment	32
Figure 16: Mapping of main actors in the wood industry	29
Figure 17: Gabon export markets for wood in 2017	31
Figure 18: Map of the major wood industries in Gabon	32
Figure 19: RCA calculation for ores, slag and ash for Gabon for the past 16 years	33
Figure 20: Manganese export in Gabon for the past 10 years	33
Figure 21: Value of domestic (DVA), foreign (FVA) and indirect (DVX) value add with respect to gross export of Mining and Quarrying sector	34
Figure 22: Manganese value chain initial mapping in Gabon	35

List of Tables

Table 1: Gabon Selected Human Development Indicators	3
Table 2: Gabon Selected Macroeconomic Indicators (2017 - 2022)	4
Table 3: Gabon FDI by country (USD Million)	15
Table 4: Gabon's main exports in the wood value chain	21
Table 5: Manganese ore exports and price comparisons (USD'000) 2017	31

List of Boxes

Box 1 – Focus on Wood Industry	18
Box 2 – Focus on Wood Industry on Mining	19
Box 3 – List of Development Interventions for the Wood Industry	36
Box 4 – List of Development Interventions for the Manganese Industry	38

Acronyms and Abbreviations

ACR	:	Africa Competitiveness Report
AFD	:	Agence Française de Développement
CBG	:	Compagnie des bois du Gabon
CEMAC	:	Central African Economic and Monetary Union
CICMHZ	:	Huazhou Mining Industrial and Commercial Company
CMM	:	Complexe Métallurgique de Moanda
COMCEC	:	Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation
COMILOG	:	Compagnie minière de l'Ogooué
DVA	:	Domestic Value Added
DVX	:	Indirect Value Added
ECCAS	:	Economic Community of Central African States
EMDE	:	Emerging Markets and Developing Economies
ERP	:	Economic Recovery Plan
EU	:	European Union
FDI	:	foreign direct investment
FLEGT	:	Forest Law Enforcement, Governance and Trade
FSC	:	Forest Stewardship Council
FVA	:	Foreign Value Added
GDM	:	Growth Diagnostics Methodology
GNI	:	Gross National Income
GoG	:	Government of Gabon
GRAINE	:	Gabonaise des Réalisations Agricoles et des Initiatives des Nationaux Engagés
GSEZ	:	Nkok Gabon Special Economic Zone
GVC	:	Global Value Chain
HDI	:	Human Development Index
HRV	:	Hausmann, Rodrik and Velasco
HS	:	Harmonized Code
ICD	:	The Islamic Cooperation for the Development of the Private Sector
ICT	:	Information and communications technology
IFC	:	International Finance Corporation

IGAFI	:	Gabonese Institute of Islamic Finance
IMF	:	International Monetary Fund
IRTI	:	Islamic Research and Training Institute
IsDB	:	Islamic Development Bank
MC	:	Member Country
NDC	:	Nationally Determined Contribution
ND-GAIN	:	Notre Dame-Global Adaption Index
NGM	:	Nouvelle Gabon Mining
OHADA	:	Organization for the Harmonization of Business Law
P5P	:	President's 5-Year Program
PCI	:	Product Champion Index
PPP	:	Public–Private Partnership
PRE	:	Economic Recovery Plan
PREPARCO	:	Promotion et Participation pour la Coopération Economique
PSGE	:	Strategic Plan for Emerging Gabon
RCA	:	Revealed Comparative Advantage
SDGs	:	Sustainable Development Goals
SETRAG	:	Société d'Exploitation Transgabonais
SEZ	:	Special Economic Zone
SNBG	:	Société Nouvelle des Boissons Gazeuses
STI	:	Science, Technology and Innovation
UMC	:	Upper-Middle Income Countries
WDI	:	World Development Indicators
WEF	:	World Economic Forum
WTO	:	World Trade Organization

I. Introduction

The Islamic Development Bank (IsDB) has adopted a new approach to formulating and implementing its partnership strategies with Member Countries (MCs). The new approach drew lessons from the implementation of the first-generation partnership strategies and is guided by the notion of Making Markets Work for Development, a central element of the President's 5-Year Program (P5P). Through the approach, IsDB supports a Member Country get plugged into the global value chains (GVC) by promoting the country's product champions. This is achievable through targeted interventions, which are more impactful, more coherent, and hence more beneficial to the Member Country.

In this regard, the Bank has developed a new analytical tool (IsDB Global Value Chain Model and Filter Tool (see Annex 1) to identify these industry and product champions. Once these are identified, and a comprehensive analysis of market demand, growth potential, value added, and sectorial linkages is undertaken, the GVC analysis is used to identify bottlenecks, capacity gaps, and the product's potential in the whole chain from the initial production stage to the export distribution. Hence, relevant interventions will focus on addressing gaps and bottlenecks in the GVC of the country's product/industry champions.

Therefore, at each stage of the value chain, IsDB departments and entities, based on sectorial policies, can identify interventions that the Bank can undertake to strengthen the chain, while leveraging other sources of funding to maximize the development impact of the GVC, and supporting the MCs in progressing towards their Sustainable Development Goals (SDGs). Following this GVC approach, the Gabon MCPS is anchored on two product champions, namely manganese and wood.

This GVC-based Member Country Partnership Strategy (MCPS) for Gabon for the period 2019 to 2023 sets the country and development contexts, the government's response to them, and presents the results of the analytics that identified the product champions. It is informed by three detailed analyses: a country diagnostic study, a GVC analysis, and a donor density report, all of which are published separately as economic works on Gabon. The Strategy will be complemented by an MCPS Program which will detail the interventions, programs, and projects as well as their expected results and financing mechanisms.

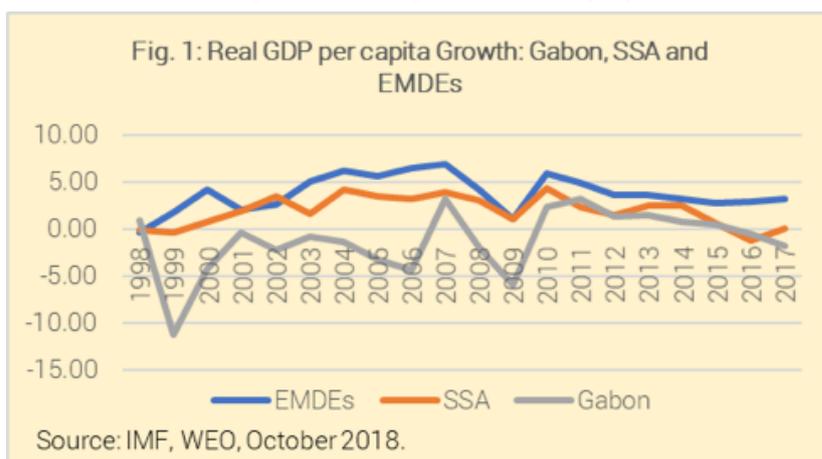
II. Country Context – Country Diagnostics

2.1 Macroeconomic Overview

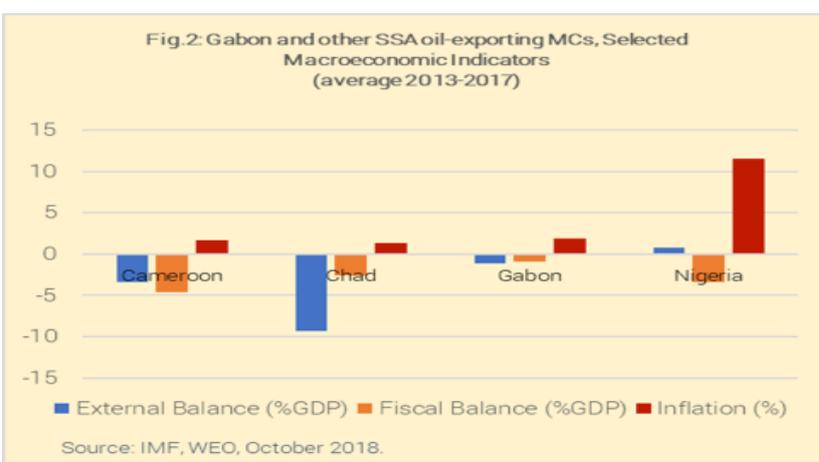
2.1.1. Recent Economic Trends

Gabon, with a population of about 2 million, has a per capita GDP of USD 7,221 (2017) according to World Bank data. This represents a decline of about 33% from its 2008 peak of USD 10,094. Yet, it is almost one and half times the average for Middle Income Countries (USD 5,169) and almost five times that of Sub Saharan African countries (USD 1,514). This relatively high income per capita positions it in the category of Upper-Middle Income Countries (UMCs).

Gabon’s economic growth rebounded significantly in the aftermath of the global financial crisis (2008-2009) driven by non-oil sector following Government’s concerted efforts at economic diversification (IMF 2018). After contracting by 2.3 percent during the global recession (2009), Gabon’s economy recorded a cumulative increase of 13.4 percent in 2010/2011, fueled partly by the rebound of oil prices. However, Gabon’s recovery was mainly driven by the non-oil sector, as the government launched its long-term strategic plan “Emerging Gabon” (PSGE), with a strong focus on economic diversification (IMF 2018). Over the period 2010-2014, Gabon’s non-oil real GDP rose 8.7 percent on annual average. Unfortunately, the commodity price shocks that started in mid-2014 disrupted the oil boom, with the overall GDP growth slowing to 0.5 percent in 2017 (see Fig. 1). However, over the last 10 years non-oil GDP growth has been more robust than oil GDP growth indicating that the Gabonese economy has started to diversify away from oil.



Despite the economic slowdown, Gabon has maintained a solid macroeconomic framework which is notably reflected in moderate fiscal and external deficits and low inflation (see Fig. 2). The fixed exchange rate regime with the CFA franc pegged to the Euro and common rules within the Central African Economic and Monetary Union (CEMAC) contributed to supporting macroeconomic stability even though the hard peg regime also has some negative side effects. For instance, it guarantees price stability at the cost of higher growth volatility since terms of trade shocks are absorbed through adjustment in real demand.



2.1.2. Recent Social and Political Developments

Gabon has long been confronted by a socio-economic paradox because its key social indicators do not reflect its high-income status. For instance, life expectancy in Gabon was 66 years in 2016, compared to 75 years on average for Upper-Middle Income Countries (UMCs), and the adult literacy rate was 82 percent in 2012, against 94 percent on average for UMCs¹.

Despite this, significant progress has been made recently in terms of human development even though poverty is still highly prevalent, especially in rural areas. According to the UNDP's 2018 Human Development Report, Gabon is ranked 110th among 189 countries and territories with a Human Development Index (HDI) score of 0.702. Between 2005 and 2017, Gabon's life expectancy at birth and mean years of schooling increased by 6.6 years (+9.9 percent) and 1.3 years (+15.9 percent) respectively, whilst the GNI per capita increased by nearly 1.5 percent only. According to World Bank estimates, the poverty headcount ratio at \$3.20 a day (2011 PPP) more than halved, from 25.8 percent in 2005 to 11.3 percent in 2017, and extreme poverty (headcount ratio at \$1.90) fell from 8 percent to 3.4 percent between 2005 and 2017 (see Table 1). Moreover, with a Gini index² of 38, the Gabonese's economy displays a relatively unequal distribution of income for a country that has one of the highest per capita incomes in SSA.

Table 1: Gabon Selected Human Development Indicators

Indicator	2005	2017
HDI value (0-1)	0.647	0.702
Life expectancy (years)	59.9	66.5
Expected years of schooling (years)	12.4	12.8
Mean years of schooling (years)	6.9	8.2
GNI per capita (2011 PPP\$)	16,189	16,431
Poverty rate at \$3.1 a day, PPA terms (%population)	25.8	11.3
Poverty rate at \$1.90 a day, PPA terms (%population)	8	3.4
Poverty headcount ratio at national poverty lines (%of population)	32.7	33.4
Rural poverty headcount ratio at national poverty lines (%of rural population)	44.6	..

Source: UNDP (HDI Report, 2018) and World Bank (WDI, 2018).

2.1.3. Economic outlook

Gabon's economy is gradually recovering, and growth is expected to accelerate in the medium term. Real GDP growth was estimated at 2 percent in 2018 and projected to 3.4 percent in 2019 and above 4 percent from 2020 onward; as oil production gradually recovers and the non-oil sector consolidates. The Government's efforts to promote economic diversification and industrialization are starting to bear fruit through the expansion of mining (manganese) and wood sub-sectors. The attraction of foreign direct investment has increased with the establishment of the Special Economic Zone in Nkok. These favorable trends, together with the recent recovery in oil prices, can revitalize activity in the traditional sectors of the economy and further spur growth acceleration.

¹ World Bank, WDI, July 2018.

² World Bank, WDI, 2017

Inflation is set to remain moderate, while the fiscal and external balances improve gradually. Change in the consumer price index is projected below 3 percent, owing in part to Gabon's stable monetary arrangements, which helps to anchor price growth and to moderate domestic demand. The fiscal balance is expected to improve, turning positive (1.3 percent of GDP in 2018) and rising to 2.2 percent of GDP in 2022, as the government continues implementing fiscal consolidation measures. Accordingly, the general government gross debt is projected to decline below 50 percent of GDP by 2022. The ratio of national savings to GDP is forecasted to increase from 25.6 percent in 2017 to 33.3 percent in 2022, while total investments would stabilize around 30 percent of GDP. Consequently, the current account balance would gradually improve, turning positive in 2020 (Table 2).

Table 2: Gabon, Selected Macroeconomic Indicators (2017-2022)

	2017	2018	2019	2020	2021	2022
	Prel. Est.	Projections				
		(annual change, in percent)				
Real GDP	0.5	2	3.4	4.2	4.5	4.5
Oil	-5.1	0.8	0.6	0.6	0.8	0.8
Non-Oil	1.7	2.3	4	5	5.2	5.2
Consumer price index (annual average)	2.7	2.8	2.5	2.5	2.5	2.5
		(in percent of GDP)				
Fiscal balance	-1.7	1.3	0.7	1.9	1.9	2.2
Total public debt	62.7	58.4	57	53.4	51.1	49.6
Gross national savings	25.6	28.8	30.6	32.6	32.5	33.3
Total investments	30.4	30.4	31.1	30.7	30.7	30
Current account balance	-4.9	-1.6	-0.5	1.9	1.8	3.3

Source: IMF, Country Report No. 18/269 (September 2018) and WEO (October 2018).

However, risks to the outlook exist and encompass the slow progress in implementing the structural reform agenda, especially on revenue mobilization. These shortcomings may trigger financing gaps resulting in new accumulation of arrears and cuts in public investment. The accumulation of arrears could in turn increase the vulnerabilities of the financial sector and adversely affect credit supply, with a negative impact on investment and consumption. Finally, a reversal in oil prices possibly would put additional pressures on the fiscal and external balances and on the financial sector, calling for a further tightening of monetary and fiscal policies, which would have adverse effect on growth (IMF, 2018b).

2.2. Thematic Issues

2.2.1. Islamic Finance

Access to alternative financing or broadening financial access are important in boosting the investment required to promote the growth of industry champions. Islamic finance remains a promising tool to fill the financing gap. The experience of Gabon with Islamic finance is so far limited to the desire of the country to adopt Islamic finance principles to allow the country to explore the potential of this finance. While no Islamic financial services exist in the country yet, the keenness of the political leadership to introduce Islamic

finance is evident. The visit of H.E. the President, IsDB Group, to the country in May 2018 has brought to light the determination of Gabon to take the necessary steps to implement Islamic finance locally, but also to play a leading role in disseminating these principles in the Central African Economic and Monetary Community (CEMAC) region.

Adopting Islamic finance in Gabon requires several preparatory steps. These include the development of legal and institutional frameworks, capacity building and setting up new policy measures and new financial instruments. The Gabonese Institute of Islamic Finance (IGAFI) has been created to facilitate the implementation of Islamic finance in Gabon. Access to alternative financing or broadening financial access, as Islamic Finance is able to do, are important in boosting the investment required to promote the growth of industry champions from the production level to exports. IGAFI has expressed its hope to benefit from the experience of IRTI as a leading institution in Islamic finance. IGAFI would be the focal point of IRTI in Gabon through which it can expand its collaboration in Gabon and the CEMAC region.

2.2.2. Youth and Gender

Gabon has a young population with 42.2 percent of the population under the age of 15 years. Women, on average, are more educated than men. Even though women form 49.8 percent of the population, 65.6 percent of adult women have reached at least secondary level of education compared to 49.8 percent of their male counterparts. Yet, unemployment is higher among women (22 per cent) than men (13 per cent) and higher among young people (35 per cent), regardless of gender or area of residence. Maternal mortality of 291 for every 100,000 live births and adolescent birth rate of 95.3 births per 1,000 women of ages 15-19 are very troubling. Despite these, total parity has been achieved in the areas of health, education and youth literacy. However, more remains to be done to achieve parity in other areas.

There is strong inequality in access to employment: women represent only 29 percent of wage and salary workers but 63 percent of vulnerable employment. The female unemployment rate is 27 percent compared to 16 percent for males. Unemployment remains relatively high despite Gabon's abundant natural resources, part of which is due to skill mismatch. Unemployment is highly prevalent among women and youth, especially in rural areas. First, the structure of the economy relies heavily on the oil sector, which is not labor intensive. Second, skill mismatches between the education system and the labor market exist as students are not equipped with the knowledge and skills needed by the employers.

This is a general feature shown in the country diagnostics and reflected in Gabon's low ranking in the World Economic Forum (WEF) Global Human Capital Report 2017. "Inadequately educated work force" was listed as the second most problematic factor to doing business in Gabon according to the WEF's Africa Competitiveness Report (ACR, 2017). As a result, a large proportion of students leaving that system are not able to take advantage of employment opportunities⁴. Hence, to create employment for the youth and ensure that they are appropriately trained for the industries, GVC interventions would include skill upgrading through practical school training such as vocational training in wood and mining (manganese) targeting women and the youth.

2.2.3. Civil Society and NGOs

In Gabon, Civil Society and NGOs (CSOs) are playing an important role in promoting the national development policies and programs through their active participation in the processes of partnership, consultation, dialogue and awareness of local communities carried out in conjunction with the Government and partners

initiatives. They possess a unique characteristic that make them particularly effective in complementing the role of the Government and supporting the country's economic growth and well-being of its population. Thanks to their knowledge of local communities, they can play an important role in making people voices heard and promoting their involvement in all aspects of the country development including decision-making. The exploitation of the strategic primary resources namely manganese and wood require inclusive and participative approaches through the value chains that take into consideration the collective voices and benefits of the local communities. In this regard, to maximize the social and economic returns of Gabon's wood industry and manganese value chains, the Bank will engage in partnership with CSOs through capacity building and comprehensive awareness programs of the communities on the importance of such sectors for the ambitious development plan and perspectives of the country. Furthermore, by working with CSOs which have easy access to communities, the MCPS strategic approach will ensure a proper participation of the local communities to the activities and making sure that they take their ownership. CSOs would, in addition, ensure that the local communities benefit more from the Bank's interventions and therefore will make them more resilient to any social, economic and environmental cost or externalities generated by the interventions.

2.2.4. Agriculture

Agriculture and rural development is not recognized only as a way of life and important for national socio-economic development, but also as an engine for economic growth, particularly in agricultural-based member countries. IsDB's Agriculture and Rural Development (ARD) Policy (attached) aims to provide strategic orientation and focus for the IsDB investment in agriculture and rural development of its MCs. The Policy articulates framework through which IsDBG entities support to MCs realizes higher degrees of food security through effective sustainable rural and agricultural development that tends to promote rural economic growth and employment generation. The thesis of the Policy promotes commercialization of smallholder agriculture through development of agriculture value chains with emphasis on private sector participation. The Policy will guide IsDB investment in agriculture and rural development in its member countries. It applies to all IsDB financed projects, programs and initiatives in the agriculture and rural development sector.

Forestry and farming are relatively under-developed in Gabon, contributing just five per cent of GDP, yet agriculture employs about 40 per cent of the rural population. Farming is dominated by an estimated 70,000 small family subsistence farms. Run mainly by older people, they were estimated to average just 0.20 hectares in 2012. Farm output is insufficient to meet domestic demand, and an estimated 60 per cent of food, especially cereals and meat, are imported. Additionally, owing to the density of the tropical rain forest, only a small proportion of land area is suitable for agricultural activity and cultivation.

In Gabon, IsDB priority activities should include strengthening the capacity of smallholders and smallholder organizations involved in value chains; and reinforcing the capacity of those providing services to rural communities

2.2.5. Climate Change

As a signatory to the Paris Agreement Gabon submitted its Nationally Determined Contribution (NDC) to address climate change through mitigation and adaptation activities. Through its NDC³, the Government of Gabon is committed to address climate change through investing in adaptation and mitigation activities with set of conditions for mobilization of external resources and internal resources to address its plan.

³ Gabon NDC. Retrieved from <https://www4.unfccc.int/sites/submissions/indc> on 14 November 2018

The climate change risk profile of Gabon in the ND-GAIN Matrix⁴ remains high. It is the 79th most climate vulnerable country and the 37th least ready country to address climate risks and vulnerabilities. This may have significant consequences for the medium and long-term in the provision and maintenance of food, water, health, ecosystem services, human habitat, infrastructure, as well as economic, governance and social readiness.

Wood production value chain

A potential risk, particularly for the forestry sector is natural wildfire hazard, which can be exacerbated during drought period caused periodically by El Niño phenomenon.

Solutions

The government of the Republic of Gabon had announced in September 2018 that it will require all forestry companies operating in the country to be certified by the Forest Stewardship Council (FSC) by 2022. The country currently has 12 million hectares of forest concessions, of which over 2 million are FSC-certified and it is hoped that this announcement will increase this area by around 13 million hectares. It is expected that an action plan will be developed to accompany the operators towards FSC certification.

The latest IPCC report released in October 2018 concluded that there was a big potential for mitigating climate change through solutions involving forest landscapes and bioenergy. Forests play a key function of net removers of carbon dioxide (CO₂) from the atmosphere. In addition, there is a mitigation potential of in the reduction of emissions from the forest industry and operations, which FSC certification can contribute to by promoting sustainable forest management and by promoting the recycling of wood materials. The role of forests as carbon sink extends outside of the forest, as wood products store carbon throughout their lifespan, after which the material can even be used for energy. This cascading approach to wood use increases the resource efficiency of the forest sector, including the forest industry. Therefore, current production of sawn wood, veneer sheets and plywood in Gabon already contributes to that effect, which can be further enhanced through the transformation opportunities identified in the GVC analysis for the wood industry, including further downstream wood products such as furniture.

Manganese industry value chain

Climate risks

Manganese production is an emissions-intensive process. The ambition of increasing production of manganese in Gabon with higher efficiency, as well as tapping into the potential for increased upstream (manganese metal, silicomanganese) and new downstream products and activities will increase energy demand for that particular sector, hence increasing GHG emissions.

Solutions

There are opportunities to address climate change in the manganese industry in Gabon by changing operating practices, adopting low-emissions technologies, which could even lead to accessing new sources of funding through the carbon market, and creating the demand for new innovative manganese products.

Solutions to mitigate GHG emissions include the use of renewable power at off-grid mine sites, the capturing and combustion of furnace off gas for on-site power generation at smelters, and furnace and throughput optimization.

Given this commitment to enact environmental policies in land use, oil industry, and energy, the partnership

⁴ Notre Dame-Global Adaptation Index (ND-GAIN) Country Index is a free opensource index that shows a country's current vulnerability to climate disruptions. It also assesses a country's readiness to leverage private and public sector investment for adaptive actions.

strategy will contribute towards the adoption key policy tools designed to enhance a green and sustainable exploitation of its woods and manganese resources. Therefore, the MCPS will embed crosscutting climate prevention and adaptation mechanisms in the GVC interventions.

2.2.6. Regional Cooperation and Integration

Gabon is a member of numerous regional and international economic institutions including the Economic Community of Central African States (ECCAS), CEMAC, the Organization for the Harmonization of Business Law (OHADA) and the World Trade Organization (WTO). It is a signatory to many bilateral trade agreements with major economies. Discussions are still ongoing to finalize an economic partnership agreement with the European Union (EU). The signing of the EU partnership agreement would allow certain Gabonese products such as timber to benefit from a preferential tax rate and thus to be more competitive, although, some experts believe that these agreements lead to the loss of customs revenue in Gabon, and competition that would slow down its economic diversification strategy.

As a member of CEMAC, Gabon's trade with other member countries (Cameroon, Central African Republic, Chad, Republic of Congo, and Equatorial Guinea) is subject to low or no customs duties. However, South-South trade is still relatively low, and intra-regional trade within CEMAC remains modest. According to the 2017 COMCEC report, export with OIC countries reached 2.4% of total export in 2016 compared to about 5% in 2015. Import went also down from 15.5% to 10% over the same period. Interstate commercial transactions within CEMAC amount to about \$ 1.5 billion, which is just about 2% of total trade of the region, which covers 6.6 million km² for 160 million people. Gabon's trade with the CEMAC countries is limited to the importation of food products from Cameroon.

The lack of transport infrastructure with neighboring countries, as well as the persistence of non-tariff barriers, limit trade. The decision taken in October 2017 to abolish visas for CEMAC citizens should further promote regional trade, thereby boosting the country's economic growth, and making it possible to cover part of its labor needs, particularly in the agricultural domain⁵. Gabon's regional cooperation policies, especially with its CEMAC neighbors need to be improved, intra-regional infrastructure need to be developed, while non-tariff barriers reduced. With these policy changes, Gabon can be hub for the woods sector in Africa, as well as a center of transformative industries such as manganese.

2.2.7. SDG Profile and Analysis

With an overall performance index of 62.8 which is about 16% higher than the regional average score of 52.8, Gabon is ranked 100 out of 156⁶ in the 2017. In terms SDG current assessment, Gabon is maintaining SDG achievement only on SDG 15 – Life and Land. Progress towards three more, SDG 1, SDG 13 and SDG 17 is moderately increasing while it is stagnating for an additional five of them (SDG 4, SDG 6, SDG 7 and SDG 8). Progress towards seven of the 17 SDGs (SDG 2, SDG 3, SDG 5, SDG 9, SDG 10, SDG 11 and SDG 16) is decreasing.

With respect to their trends, SDG 1 is on track, while achievements towards SDG 15 are being maintained. Stagnation is being experienced for five of them (SDG 2, SDG 5, SDG 6, SDG 11 and SDG 14) and moderate increases are being experienced for three goals (SDG 3, SDG 7 and SDG 8) are trending slightly upwards and SD 13 is the only one trending downwards. Annex 2 has details on the SDGs assessment for Gabon, the trends and performance relative to other neighboring countries.

⁵AFDB + COMCEC

⁶Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2018): SDG Index and Dashboards Report 2018. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN)

IsDBG can support Gabon's progress towards achieving directly and indirectly Sustainable Development Goals (SDGs). The development and enhancement of GVCs of Gabon's production champions (wood and manganese) is expected to result in: job creation through value addition and market growth, which has direct impact on SDG-8 (decent work and economic growth); and industrialization with innovations and infrastructure upgrading, which has direct impact on SDG-9 (Industry, Innovation, and Infrastructure). These positive impacts will ultimately raise incomes, thus improve education, health, and other development indicators thus positively affecting many other SDGs.

2.2.8. Trade and Private Sector Development

Gabon is a highly open economy with trade representing 68% of the country's GDP⁷ albeit the trade being dominated by oil exports. The top exports are crude petroleum (75%), manganese Ore— 2nd largest producer in the world for high grade— (12%), sawn Wood (8%). Its top imports are poultry meat (2.5%), packaged medicaments (2.4%), large construction vehicles (2.3%), rice (2.2%) and cars (1.2%).

Despite the relatively high per capita GDP, access to finance, education, and skills are considered the biggest obstacles facing businesses in the country. The financial sector also demonstrates high degree of concentration with the biggest three banks holding more than 90% of the total bank assets. Gabon falls behind in business environment compared to the other IsDB member countries and it ranks 169th in overall business ranking, and 47th among all IsDB MCs.

It falls behind on many measures of business environment (see Fig. 3). In particular, the legal framework highlighted by contract enforcements and property registration is considered one of the least ranked globally. It can be easily inferred from this, Gabon requires special focus on its enabling environment when it comes to the private sector.

According to the World Economic Forum, (Global Competitiveness Report (2016-17)) business executives see access to finance, skills, education, infrastructure, and bureaucracy are the main obstacles facing a business in the country (see Fig. 4). Access to financing remains a major constraint for the development of the economy because of structural weaknesses with respect to quality of credit information, legal rights, and credit registry and bureau coverages⁸.

Fig.3: Gabon's ranking in Doing Business topics 2019



Source: Doing Business Report, 2019

Fig. 4: Most problematic factors

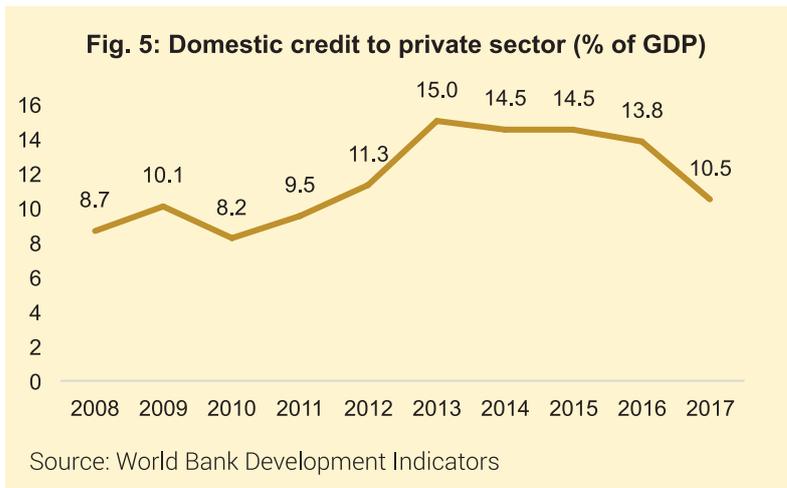


Source: Global Competitiveness Report, 2016-17

⁷World Bank, 2016.

⁸Doing Business Report 2019.

Like the slowdown of the GDP, credit to the private sector has significantly declined between 2015 and 2017 (see Fig.5). This is mainly attributable to the limited growth due to the decline in public expenditure. The decline in public spending has contributed to worsening the loans performance. Weak economic growth and government arrears to its private suppliers, resulted in private credit tightening due to the high default rates by private sector and providing limited options for lending to the private sector.



Gabon is a highly open economy with trade being dominated by oil exports. Trade in industry champions (woods and manganese) can be promoted, especially the trade of value added products such as furniture. Access to finance, education, and skills are considered the biggest obstacles facing businesses in the country which explains why Gabon falls behind in business environment compared to the other IsDB member countries (it ranks 169th in overall business ranking, and 47th among all IsDB MCs). The financial sector will be enhanced to boost investment of the wood and manganese industries, which can do with increased financing.

2.2.9. Islamic Insurance

Political risks are among the challenges facing investors. Hence, the provision of risk insurance through appropriate tools could mitigate the perception of political and other sovereign risks by foreign investors about Gabon. This could bring significant leverage capacity by giving comfort to external financiers. Furthermore, insurance against the non-payment of Gabonese Sovereign entities on projects where there is a Sovereign Guarantee or where the Ministry of Finance is the direct borrower can crowd-in investors and financing. The ultimate objective would be to help plug the wood and manganese products to the Global Value Chain (upstream and downstream side) by facilitating investments in sectors like logistics and energy to reduce constraints to the Value Chain.

III. Development Context

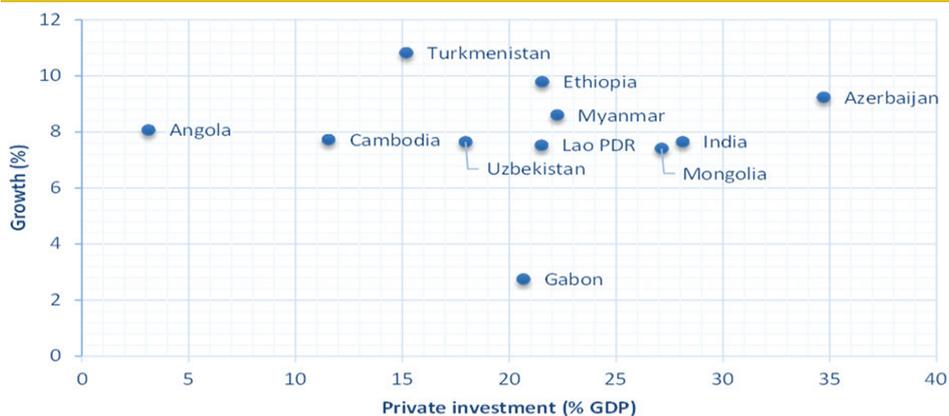
3.1 Development Challenges and Binding Constraints

The strategic plan “Gabon Emergent” and the economic recovery plan “PRE” have emphasized Gabon’s key development challenges. In their strategy documents, the Gabonese authorities have acknowledged the critical importance of diversifying the sources of growth through enhancing competitiveness, as well as the need for greater inclusiveness to address the country’s socio-economic paradox. Given its heavy dependence on revenues from mineral resources, the Gabonese economy is highly exposed to risks of economic volatility due to fluctuations of global prices of minerals especially oil, which are passed through to the household in forms of low incomes, unemployment, low access to health, social services and facilities, etc.

The challenge of competitiveness is especially acute in the non-oil sector, with the non-oil trade balance structurally in deficit. Imports of goods and services still cover about one third of the domestic demand, indicating that structural reforms to foster production through improving the competitiveness of the economy are critical. Constraints to stronger and more inclusive growth were analyzed through the Hausmann, Rodrik and Velasco (HRV) Framework. This growth diagnostics methodology (GDM) focuses on identifying the most binding constraints, using country-specific characteristics and a sequencing approach. The key issue addressed by the GDM is why a country exhibits low rates of private investment. In the context of Gabon, the standard HRV approach may have an important limitation by assuming that low private investment is the key obstacle to higher growth. Gabon’s total investment as a ratio of GDP is higher than the average for EMDEs. Likewise, Gabon has been more successful in attracting FDI than most of the developing economies.

For Gabon, constraints to accelerated growth translate into low capital productivity rather than low private investment. Gabon’s private investment ratio to GDP was compared to those of the 10 fastest growing economies among EMDEs over the past 15 years (Figure 6)⁹. The median value of the average annual growth rates for these 10 economies was 7.9 percent against 2.8 percent for Gabon. By contrast, the median value of the private investment ratios was 21.5 percent, close to the ratio of 20.7 percent for Gabon. In fact, four out of these 10 economies lagged Gabon in terms of private investment (Angola, Cambodia, Turkmenistan and Uzbekistan). This finding suggest that Gabon’s level of private investment is not the major obstacle to higher growth. The binding constraints may rather affect capital productivity.

Fig. 6 – Private investments (% of GDP) and GDP Growth (%)



Source : IMF, WEO (April 2018) and World Bank, WDI (July 2018).

⁹Nauru, Qatar and China were excluded due to lack of data, Iraq for being an outlier (post-civil war recovery).

Low social returns can affect both the level and the productivity of investment. It can be due to several factors including: (i) the scarcity of human capital or entrepreneurship; (ii) poor infrastructure, that increase the cost of transport, utilities and ultimately, trade costs; (iii) natural conditions (geography), which can affect connectivity and the economy's integration into global trade. Misallocation of capital may result from market failures, in particular the financial market, as well as from distortions in institutions and policy.

The main human capital diagnostic is that Gabon has an “inadequately educated work force”. Gabon ranked 107 out of 130 countries in the World Economic Forum (WEF) Global Human Capital Report 2017. The human capital index has four dimensions: capacity (literacy and education attainment); Deployment (labor force and employment); Development (quality of education) and Know-how (workers skills). Gabon scores below the global average for all four dimensions except capacity. The country records its weakest performance with respect to deployment and know-how, reflecting the combination of skills mismatch and high unemployment. This is consistent with the fact that “inadequately educated work force” was listed as the second most problematic factor to doing business in Gabon according to the WEF's Africa Competitiveness Report (ACR, 2017).

Gabon's unemployment rate is higher than that of most of its peers. According to ILO estimates Gabon's total unemployment rate averaged 20.0 percent over the past 10 years, compared to a sub-Saharan Africa's average of 7.1 percent. Female unemployment is particularly high (28.1 percent), especially among the young population with a rate of 42.6 percent.

Gabon's overall performance on infrastructure development does not reflect its income level. Access to electricity is high (91 percent) but below the average for Upper middle-income countries (99 percent). As for the logistics performance index, which measures the quality of trade and transport-related infrastructure, Gabon's score (2.0 in a scale from 1=low to 5=high) is below the average score of Low income countries (2.1). In the telecommunications sector, Gabon records a ratio of 23 secure internet servers per 1 million people, while the average ratio for Upper middle-income countries is 266.

Inadequate supply of infrastructure is listed as the third most problematic factor to doing business in Gabon after access to financing and inadequately educated work force according to the ACR (2017). Gabon ranks 112 out of 138 countries regarding the overall quality of infrastructure with especially low scores for the quality of transport infrastructure like roads or railroad, except for the quality of air transport infrastructure. Gabon enjoyed a large endowment in natural resources giving it a natural comparative advantage in certain natural resources. Gabon's relatively small population (2 million in 2017) is spread in pockets throughout the country, which covers an area of 267,667 km². This is reflected in the relatively low density of population, 7.9 people per sq. km, compared to an average of 44.9 for Sub-Saharan Africa (WDI, 2017). The country is dominated by wet tropical rainforests covering 81 percent of the land and endowed with major natural resources such as petroleum, natural gas, manganese, timber, iron ore and hydropower.

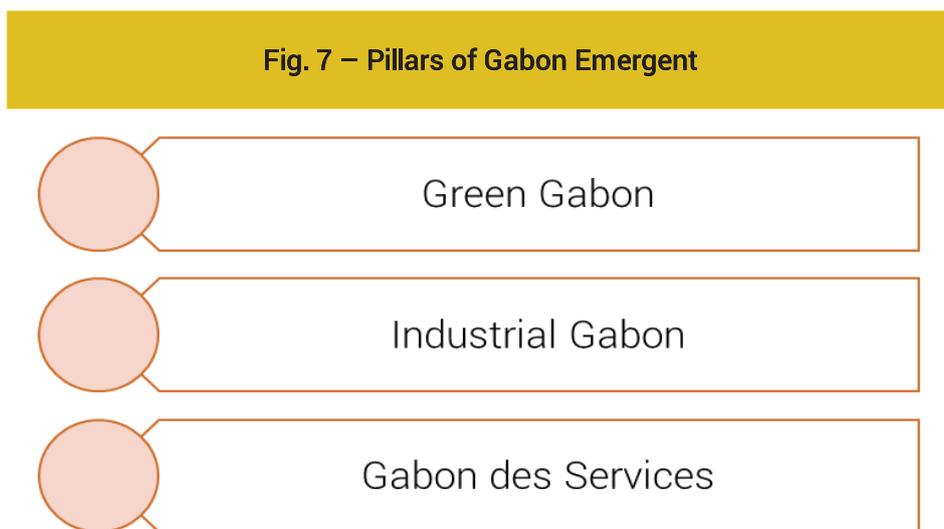
3.2 National Development Strategy

3.2.1. Overview and Pillars of the National Strategy

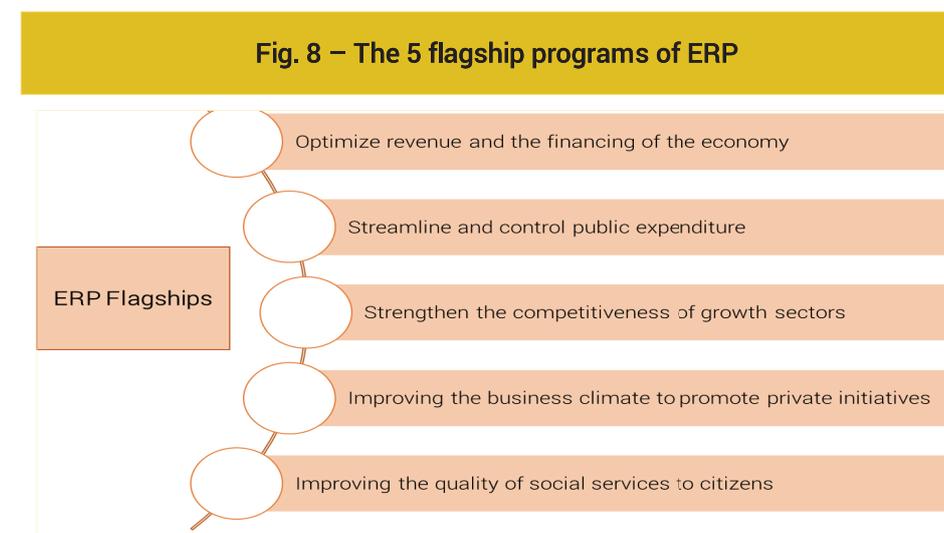
In responding to its development challenges and urgency to diversify the economy, the Gabonese Government formulated and launched Strategic Plan for an Emerging Gabon initiative (PSGE) in 2011 with the ultimate objective of transforming the country into an emerging economy by the year 2025. The plan focuses on, inter alia, economic diversification away from oil and extractive industries based on three pillars (see Figure 7).

The first is industrialization through utilizing green energy in order to add value to the countries raw materials such as manganese, iron ore, gas and wood. The second pillar is developing green economy and sustainable sectors particularly ecotourism and biodiversity. Service orientation represents the last pillar with emphasis on several sectors like higher education, healthcare, business, tourism and ICT. PSGE acknowledges the role that public and private investments, particularly foreign direct investment (FDI), could play in fostering sustainable economic development in Gabon. This was implemented between 2011 to 2016. Confronted by the commodity crisis that started in 2014 when the oil price started falling adversely affecting fiscal space, Gabon formulated the Gabon Economic Recovery Plan and is implementing it between 2017 to 2019 to lead the country to Vision 2035. It is being implemented in a constraining socioeconomic context.

In adopting the ERP, the government sets its sight on accelerating the pace of economic diversification and dampening the social impact of budgetary consolidation as it aims to put public finance on a sustainable path. The GoG has set out an ambitious



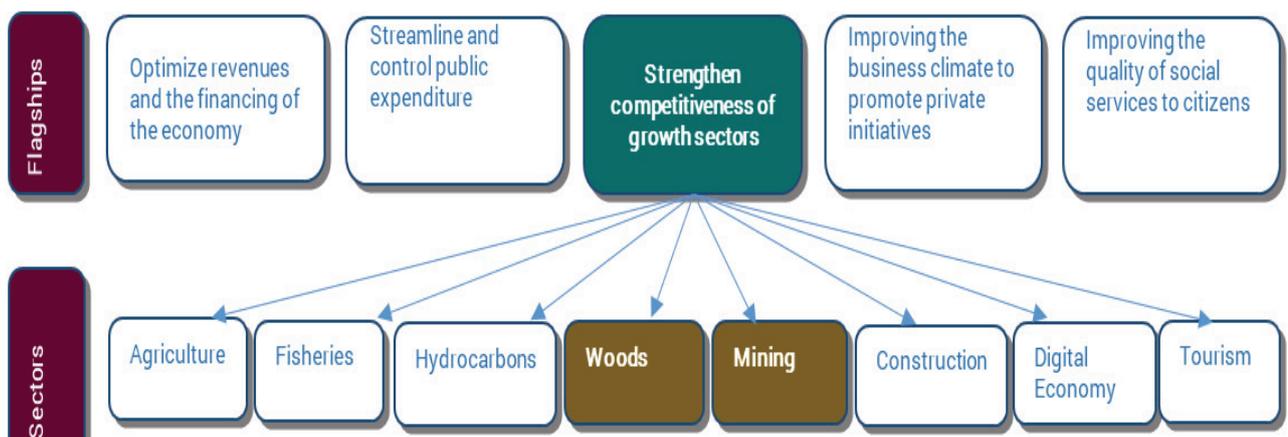
Source: IsDB Staff Illustration



Source: IsDB staff illustration

program for social and economic transformation which mainly targets diversifying factors of growth through progressive transformation of its natural resources (mining, agriculture and fisheries) while promoting environmental sustainability. This transformative process was buttressed by reinforcing transport, communication and energy infrastructures, enhancing the quality and skills of human resources, and providing better services. To ensure that these targets are met, the ERP includes five flagship programs (see Figure 8). Strengthening competitiveness of growth sectors is a major flagship and targets key growth sectors including wood and mining; which are also the selected product champions of the MCPS (see Figure 9).

Fig. 9 – Flagship Programs and GVC Champion Products



Source: IsDB staff illustration

Source: IsDB staff illustration

3.2.2. Resource Mobilization and Partnerships in Development Financing – Donors’ Profile

Attracting foreign direct investment is one of the highest priorities of the GoG as highlighted in the Strategic Plan for an Emerging Gabon (PSGE), which stresses the importance of making Gabon a major investment destination. As part of the PSGE, special economic zones (SEZ) offering investment incentives, such as generous tax exemptions, have been established. One such economic zone is the Nkok Special Economic Zone, which is a joint venture between the Republic of Gabon (38.5 percent), Olam International Ltd. (40.5 percent), and Africa Finance Corporation (21 percent). Olam is a Singapore-based agri-business firm, owned by Temasek Holdings (Singapore’s state-owned holding company) and the Mitsubishi Corporation. As of July 2017, 81 corporate clients had bought land areas in the Nkok SEZ, 22 of which had already started operations, and 32 were in the process of facility establishment. These corporate clients pledged USD 1.7 billion in investments. Apart from the Nkok SEZ, Gabon entered into four other PPPs with Olam to develop and operate a fertilizer plant in Port Gentil, one agriculture program facilitating small scale cash and industry crops called GRAINE, and two large-scale agriculture projects (palm and rubber)¹⁰. The IMF estimates Olam’s FDI in Gabon, as of July 2017, at more than USD2.1 billion and expects this figure to reach USD 5.8 billion by 2022¹¹.

¹⁰International Monetary Fund, <https://www.imf.org/en/Publications/CR/Issues/2017/07/11/Gabon-Request-for-an-Extended-Arrangement-Under-the-Extended-Fund-Facility-Press-Release-45066>, last accessed 02/08/2018.

¹¹Ibid, last accessed 02/08/2018.

Gabon's FDI has increased steadily and significantly since 2005 (see Table 3). As of 2012, the most recent bilateral data on, France, USA, and China are Gabon's biggest foreign direct investors. In effect, by country, France is the largest source of FDI adding USD 184 million between 2003-2012 resulting in FDI stock of USD 1.78 billion from this country. By comparison, US added USD 8 million during the period to its FDI stock in Gabon to USD 157 million while China added USD 13 million to its stock of USD 128 million in Gabon.

Table 3: Gabon FDI by Country (USD M)

	Year	TOTAL	Partner Country		
			France	USA	China
Average Total FDI Inflow	2003-2012	455	184	8	13
Total FDI Inward Stock	2012	4269	1780	157	128

Donors profile

With respect to the financing from Multilateral and bilateral development institutions, Gabon also enjoys significant investments.

The World Bank Group

IBRD and ODA. Between 1970 and 2016, IBRD and IDA extended a cumulative amount of approximately USD1.89 billion to Gabon in the form of loans and credits, with about USD67.2 million extended in 2016. In total, IBRD has approved 27 projects in Gabon, including two approved in 2017. Of the 27 projects, 16 have been completed, one is in the pipeline, one has been cancelled, and nine are currently active. In terms of sectoral distribution, the majority of projects of IBRD's projects have been in the Central Government sector, followed by the transportation sector. As for IDA, of the five approved projects in Gabon, three are closed and two are active. Of the total, three are in the agriculture, fishing, and forestry sector and two are in the public administration sector.

International Finance Corporation (IFC). The IFC has provided approximately USD 155 million in loans to Gabon between 2002 and 2018, which were disbursed over four different projects: one in infrastructure, and three in the oil, gas and mining sector. Of the four projects, two are currently active, one consisting of a USD50 million loan to Societe D'exploitation du Transgabonais (SETRAG), approved in June 2015, the other consisting of a USD65 million loan to Vaalco Gabon, approved in November 2013. The loan to SETRAG was extended with the objective of rehabilitating the existing infrastructure (rail track mostly) between Libreville and Franceville to reduce slowdowns and double the capacity of the line to 16 trains per day. The loan to Vaalco Gabon involves the construction of new platforms, production wells, and crude sweetening facilities at the Etame block, to increase production from the block to its full capacity of around 25,000 bar-

rels of oil per day (bopd). MIGA has issued a guarantee worth approximately USD7.5 million to one project in Gabon in 2013. The guarantee relates to the scanning of imported goods, but no further information is available.

African Development Bank Group (AfDBG)

Between 1967 and 2017, AfDBG approved a cumulative amount of approximately UA 1.3 billion in loans and grants to Gabon. In 2017, approvals amounted to approximately UA508.1 billion. Since 1967, AfDBG has approved 50 projects in Gabon, 39 of which have been completed, four have been cancelled, and seven are ongoing. In terms of sectoral composition, the majority of AfDBG's projects (in terms of number of projects) have been in the agriculture and rural development, social, and central government sectors. However, the largest share of monetary commitment has been allocated (in decreasing order) to the central government, transport, agricultural and rural development and social sectors.

French Development Agency (AFD)

Between 2010 and 2017, AFD committed approximately EUR800 million in Gabon. AFD focuses on five pillars in its Gabon interventions. First, it contributes to the improvement of access to education for all by assisting the Ministry of Education with the implementation of its Education Sector Investment Program (PISE). The program aims to improve the school infrastructure and improving the quality of education provision by building 500 new classrooms for 25,000 students. Second, it aims to revive the agriculture sector by helping set up the Gabonese Institute for Development Support (IGAD) and financing its activities. In that context, AFD funds projects, under which farms are developed, individuals are trained in environmentally friendly agricultural practices, and agricultural commodities are produced, thereby generating income for the economy. Third, it funds projects committed to the conservation and sustainable use of natural resources. Such projects include national parks conservation and development projects, as well as projects supporting the timber industry. Fourth, it contributes to the improvement of healthcare accessibility, by rehabilitating medical centers, building housing for health workers and providing training to improve human resources in the sector. Finally, it aims to improve internal connectivity and cohesion by contributing to the national plan to upgrade the railway system.

Groupe Agence Francaise De Developpement (PROPARCO) has approved five projects in Gabon since 2010. Two of these were Gabon-specific projects, whereas three were multi-country projects. In total, PROPARCO has approved an amount of EUR95.8 million worth of projects in Gabon. In terms of sectoral distribution, four of the projects were in the industry and services sector and one was in the infrastructure sector. In terms of monetary value, 34 percent of the total approval amount was allocated to the infrastructure project, and the remaining 66 percent was allocated to the industry and services sector.

Chinese Investments. In the past decade, Chinese investments in Gabon have been gradually increasing. In 2008, China approved a concessional loan of USD83 million, repayable at 3 percent interest over 20 years, to build the 160MW Grand Poubara dam. The dam, built by PowerChina, a subsidiary of Sinohydro, under an engineering-procurement-construction basis, became operational in September 2013. Around the same time, China agreed to finance a USD723 million road linking Port-Gentil, the hub of Gabon's oil production, to Libreville, the capital, via Omboué and then Lambarene. 95 percent of the road's cost is financed by China's Eximbank, the remaining 5 percent by the Government of Gabon. The China Road and Bridge Company is implementing the project. Furthermore, in May 2012, a contract was signed with the China Harbour Engineering Company (CHEC) for maritime infrastructure to implement the USD450 million Port Môle project. The project, located along the seaside in front of the Boulevard Triomphal, will include hotels, offices, a cruise terminal, a museum, and commercial and conference centres. For more details of the portfolios see the full Donor Density Report.

IV. IsDB Group Strategy

4.1 Objective

The main objective of IsDBG's Member Country Partnership Strategy with Gabon is to support the country reach the goals of its National Development Plan. To this end, IsDBG aims, strategically, to undertake interventions that promote and help develop the country's industry/product champions so they reach their full potential through their participation into Global Value Chains. This strategy will be underpinned by targeted interventions along the proposed value chains of wood and manganese, to help remove or lower the bottlenecks and capacity gaps identified in the GVC analysis of the industry champions. These interventions will consider two key aspects of the country's profile: (i) existing projects from the government and other development partners, and (ii) the financing potential from private capital of proposed projects, including their bankability. The choice of wood and manganese as industry champions is anchored in the Strategic Plan for an Emerging Gabon (PSGE) with the ultimate objective of transforming the country into an emerging economy by the year 2025. Therefore, IsDB's strategy is fully aligned with the GoG's priorities under the NDS. In addition, the Government has emphasized strengthening competitiveness as a flagship program in its national development plan. To improve economic competitiveness, the promotion of competitiveness-enhancing policies targets key sectors, amongst which are woods and mining sectors. The findings of the GVC analysis show that wood and mining are Gabon's industry champions; and sawn wood/wood for veneering and manganese are the product champions.

Box 1 - Focus on Wood Industry

The priority of the strategy is to bring in new investors and improve the business climate. In 2010 the government banned the export of unprocessed logs and established the ESZ of Nkok which led to higher value addition from and timber production. The industry currently is fettered by absence of FLEGT licensing leading to limiting the export market to only Asian market. A prerequisite of FLEGT licensing is the establishment of a national wood tracing system. The GoG is planning to implement such projects as a National Wood Tracing System, a dedicated Wood Training Center in Booue, improve the regulatory environment, active policy for promoting and facilitating investments in the sector with the intent of attracting large international operators to establish processing units in Booue, Nkok and Port-Gentil.

Some priority measures include:

1. Control forest concession productivity and withdraw concession for underperforming operators
2. Implement incentive measures adopted in 2012 to ramp up processing activities (tax holiday to bolster investments)
3. Implement a national system for wood tracing as well as creating a national wood brand to enhance exportability of Gabonese wood;
4. Creating a privately operated national wood trading exchange
5. Promoting investments to broaden the processing capability of wood in Nkok as well as investments in connected sectors such paper.

Box 2 - Focus on Mining

Emerging Gabon aims to make the mining and metallurgical industry a major pillar in its economic diversification program. Both by diversifying exploitation of resources and by benefiting raw materials. Obj is to beneficiate 35% of the mined manganese and to create a large economic pole in Moanda-Franceville creating 30000 jobs.

Law reforms to protect Gabonese interest was put in place in 2015 which is a major overhaul in regulating the sector by instituting principles of good governance and transparency in the regulation and management of mining activities. It also introduces a more flexible tax regime with regards to exploitation and provides for the promotion of SMEs via a rule of preference of national enterprises. Finally, government wants to encourage private investment to promote local processing of manganese to achieve processing of 30% of raw production.

Major measures:

1. Putting the mining register online
2. Promote investment in manganese processing and strengthen the Moanda-Franceville cluster
3. Invest in alluvial gold mining
4. Enhancing governance, issuing exploitation permits of many mining deposits (gold and iron) to the SEM (with potential PPP investments).

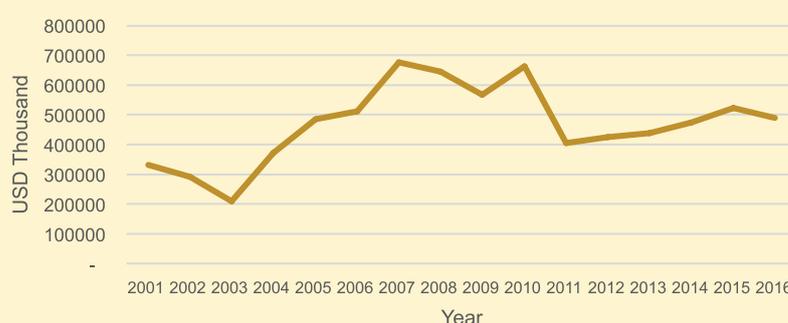
4.2 Global Value Chain Analysis

4.2.1. Overview

The Bank's GVC approach is forward-looking and identifies potential value chains through an in-house methodology that focuses on competitiveness of a country based on industries and products. See Annex 2 for details on the IsDB GVC Analysis model and FilterTool.

Gabon GVC analysis, using the above approach, resulted in the identification and preselection of five industry (product) champions: namely petroleum (crude oil), wood (sawn wood / wood for veneering), mining (manganese) agriculture/agribusiness (palm oil, fertilizer, rubber) and transport (Ships, boats). Filtering these five products based on Natural Potential, Dynamic Potential, and Surplus & Spillover Potential (Value add) results in the wood (sawn wood / wood for veneering), and mining (manganese), as Gabon's leading industry/product champions within the framework of its MCPS. These selections were validated by the Government.

Fig. 10 - Gabon's wood and articles of wood export (USD) 2001-2016



Source: IsDB staff estimates based on UN Comtrade (2018)

4.2.2. The Wood Industry Value Chain

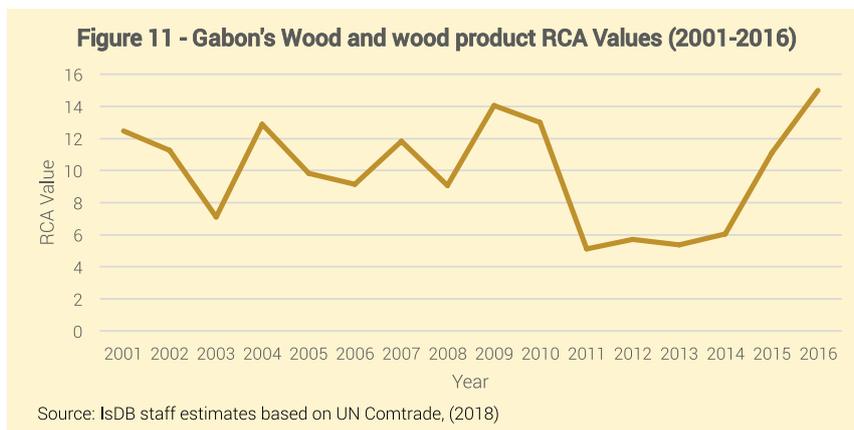
In terms of resources, Gabon’s forests cover about 22 million hectares of the country of which, 12 million hectares are allocated for concessions of wood production. The rainforest in Gabon can be divided into three types: the evergreen forest, where most of the harvesting are taking place, located in the west of the country, known for two types of species, Okoume and Ozigo. The second forest type lies on the north west of the country called semi-deciduous forest known for its Limba, Wenge and Ayous trees. The third type of forest is the humid central Gabonese forest which covers most of the country possessing all types of timber that can be found in the region including Azobe, Mahogany, Aiele and Ayous. Although there are various species of wood available in different parts of the country, Okoume species, one of the highest quality woods, dominates wood production due to its availability. However, there is a potential to also develop other species of wood for niche products which is unexplored.

The Government of Gabon has taken a proactive approach to coordinate and systemize the whole wood value chain especially with the development of the Nkok Gabon Special Economic Zone (GSEZ) in Nkok which was setup as a PPP initiative by the government of Gabon, OLAM and Africa Finance Corporation. The economic zone is located 12 kilometers from the merging point of all routes from the forest areas and is well connected to the railway and the national highway. To improve the capacity of export, an expansion of the port in Owendo was undertaken, which also directly connects through waterways.

The timber or wood industry in Gabon is one of the main industries that fuels the economy of Gabon and was selected as one of the main pillars of development under the national strategy “Gabon Emergent 2025”. Employing nearly 14 percent¹² of the working population and located in the Congo Basin and the second largest tropical forest after Amazon, the Gabonese forest provides great opportunity for the country to further enhance the wood industry.

Although total production of logs has considerably fallen since 2007, value-added in the wood industry has increased, and the industry is export-oriented. Total production of logs was 1.6 million m³ in 2017 compared to 3.4 million m³ in 2007. However, the value add in the sector has risen owing to the increase in volume of the products of first transformation with the production of sawn wood, veneer sheets and plywood. In terms of exports, as shown in Fig.10, the wood exports from Gabon peaked between 2007 to 2010 with around USD 680 million exports a year. Since the drop in export value in 2011 to about USD 400 million, the export values are recovering steadily and recorded USD 489 million in 2016.

In terms of the revealed comparative advantage (RCA), the wood industry has shown significant RCA values for year 2001-2016 as shown in Fig. 11. The values signify that the wood industry has a natural and proven potential among Gabon’s export products.



¹²14% is accounted for percentage of workers in private and para-public workers (formal jobs)

Gabon in the Wood Industry Global Value Chain

Since 2016, most of the wood products exported at least undergo one process of transformation thanks to Gabon's transformative plan for the wood industry. Gabon's connection to the Global Value Chain (GVC) for the wood industry is mainly through exports and some imports of machineries to support the industry. The main exports at product level for Gabon is sawn wood which recorded a huge growth between 2012 and 2016 at 8 percent annually with an export value of USD 322.7 million. The other highest exported wood products were veneer sheets and plywood as shown in Table 4.

Table 4: Gabon's main exports in the wood value chain

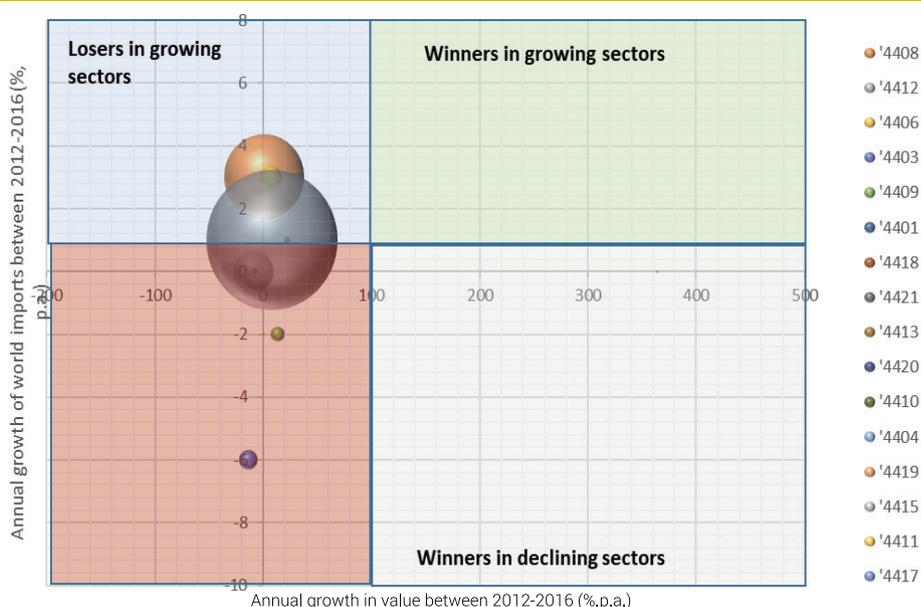
Product	Rank by size	HS4 code	Annual growth in value / 1 (%, p.a.)	Annual growth of world imports / 1 (%, p.a.)	Value exported in 2016 (USD thousand)	Ranking in world exports
Sawn Wood	1	'4407	8	1	322,728	23
Veneer sheets	2	'4408	1	3	117,824	8
Plywood,	3	'4412	-9	0	29,501	36

Source: IsDB staff calculation based on UN Comtrade

Notes / 1 between 2012-2016

Although Gabon has increased its production in sawn wood and veneer sheets, the competition globally for both these products are quite high due to a few newcomers for tropical sawn wood global market. The global market share for sawn wood stood at around USD 3 billion. Thailand, a newcomer to the market, exported around USD 1.7 billion in 2017. As shown in Figure 12, Gabon's export for sawn wood has increased in the past three years with similar growth rates for

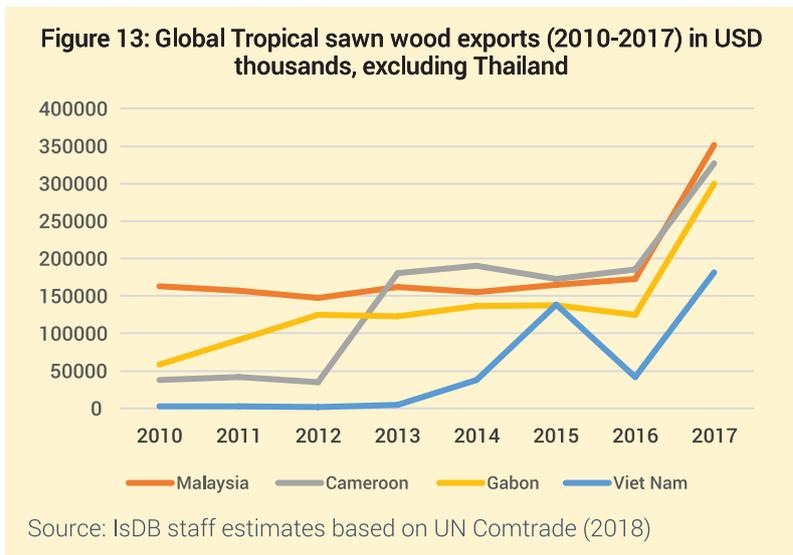
Fig. 12 – Competition in the Wood Industry



Source : Source: IsDB staff illustration. Data from UN Comtrade, (2018)

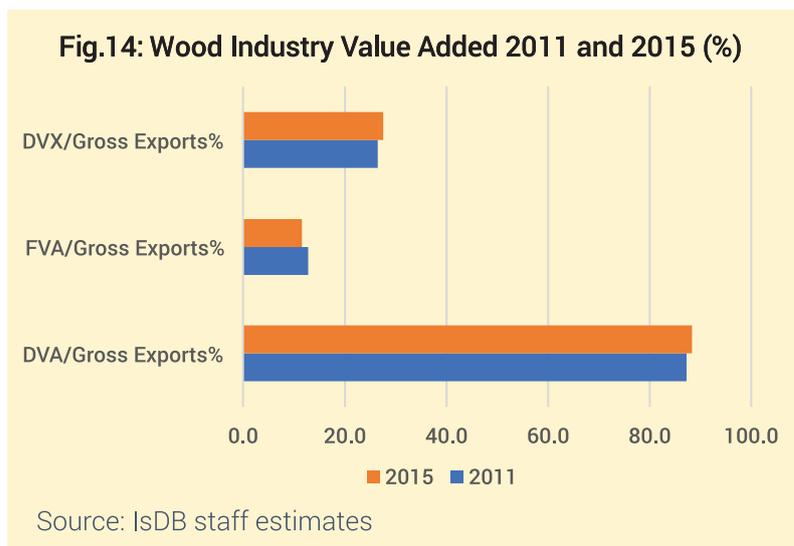
competitors such as Malaysia and Cameroon. Vietnam, a newcomer to the market, has also increased its exports although most of the output is consumed locally for the furniture production. However, these numbers do not include newcomer, Thailand, as its exports are much larger than those of its competitors (standing at USD 1.4 billions).

The veneer sheets exports for Gabon has seen a slight decrease of 1 percent for the period of 2012-2016 while plywood exports fell by 9 percent for the period of 2012-2016. As shown in Figure 13, despite a global increase in demand or imports for all the 3 products, Gabon's position is in the blue quadrant (losers in growing sectors). This verifies that these products are relevant products in the global value chain and can move to the green quadrant if it records growth in exports.



An analysis of the wood industry value add in gross exports indicates there is a high domestic value added, low foreign value added, and moderate indirect value added. The results of the analysis using the Eora Input-Output Table¹³ show: a high domestic value add of 88 percent of gross exports in 2015, a low foreign value add of 11.6 percent of gross exports, and moderate indirect value add of 27.5 percent of gross exports.

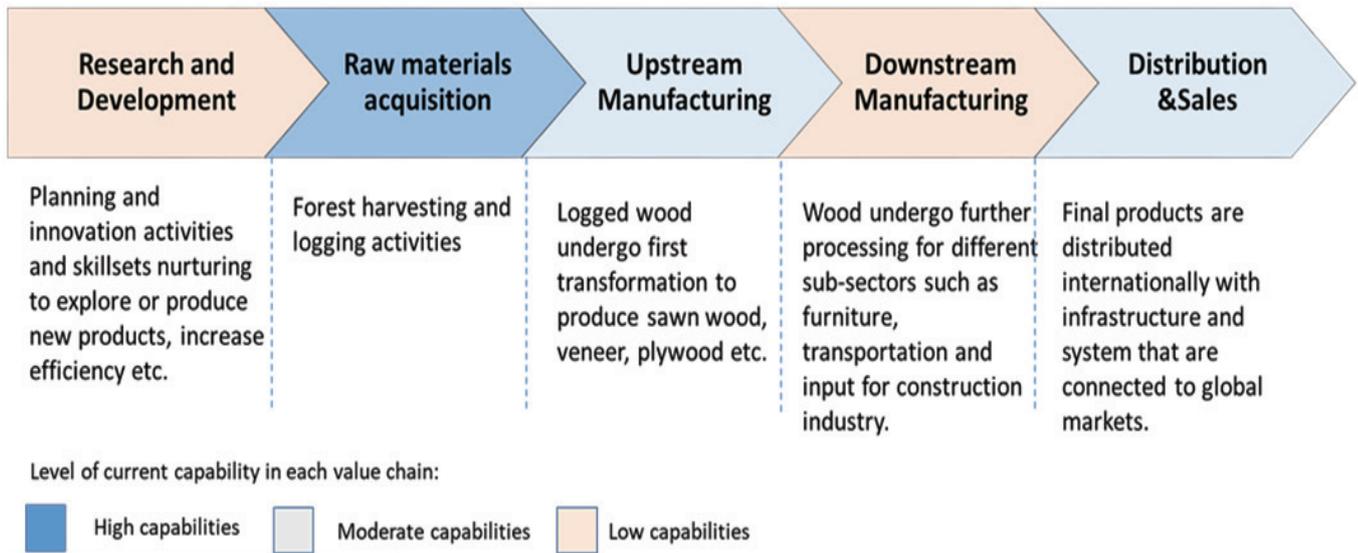
Since the wood industry has currently a high domestic value add, any positive intervention and expansion in the industry value chain will have positive spillover effects to the domestic economy. At the same time, the indirect value add of 27.5 percent also represents the opportunity of transforming the exported products locally to gain higher value added. In terms of trend, the value added from year 2011 to 2015 did not show significant changes. The domestic value



adds increased around 1 percent while the foreign value adds dropped by 1 percent. At the same time, the indirect value adds increased 1 percent. In terms of the GVC participation index, the wood industry only recorded 0.39 with unchanged value from 2011 to 2015 (see Figure 14). This shows that Gabon's wood industry is still weakly linked to the GVC and there are huge opportunities of growth owing to the strong domestic value-added numbers for the industry.

¹³Eora Input-Output Table used with methodology from M. F. S. Hamid, K. I. W. Kane, A. E. Demirhan and A. Khodary, Making Markets Work for Development through Global Value Chains, Islamic Development Bank, 2018.

Fig. 15 – Macro-level value chain assessment

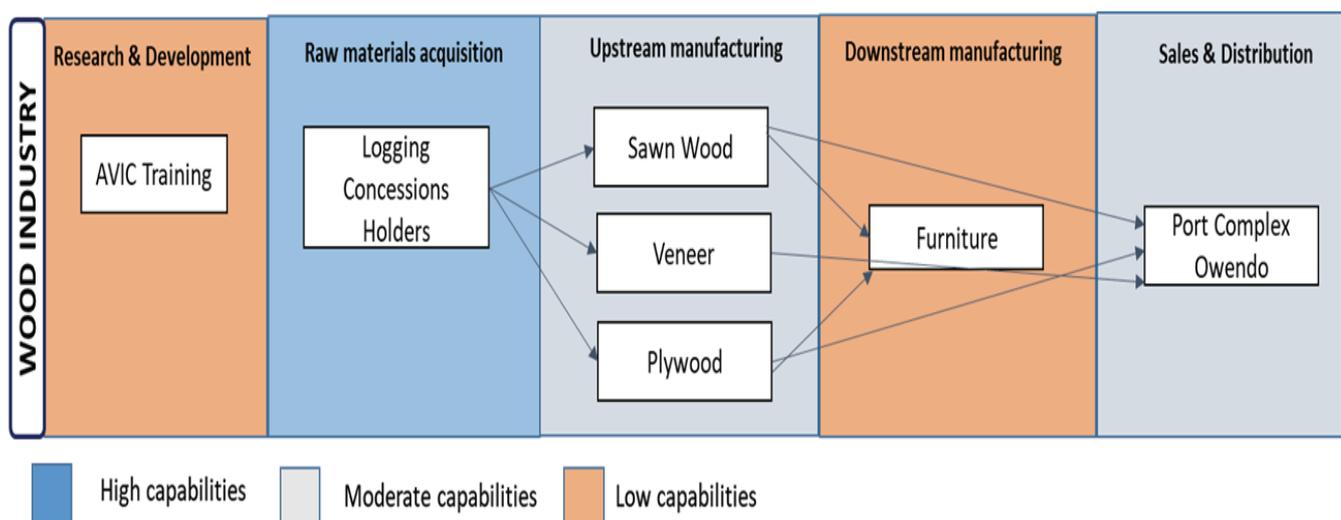


Source: IsDB staff estimation

Based on the wood industry value chain, at the current stage, Gabon has high capabilities in raw material acquisition, which is the process of harvesting. Even though this process is not fully developed to its actual potential, the resources, policies and skills are already present at this stage. Upstream manufacturing which is the first transformative process for the value chain has resulted in producing three main products (sawn wood, veneer sheets and plywood), which can be considered still at very basic transformation level (see Figure 15). Downstream manufacturing already exists in the Gabon Special Economic Zone (GSEZ), however, they do not have capability to enter the exports market. In terms of distribution and sales, the establishment of GSEZ and the extension of Owendo Port has considerably upgraded the infrastructure needed to connect and export the wood products globally. However, based on the survey with some of the major wood companies, there still exist many issues in the port that delay the exports and increase their costs.

With respect to research and development (R&D) and downstream manufacturing value chains, the preliminary GVC analysis shows low capabilities, but the Government is intervening to remedy this. The research and development chain, which should be connecting all the chains with flow of planning, skillsets and innovation activities, appear less emphasized (see Figure 16). However, recognizing the importance of building skills and enhancing training for the industry, the government, contracted AVIC International Holding Corporation of China, for construction and equipment of three training and professional development centers in Gabon: Nkok in Libreville, Port-Gentil and Mvengue in Franceville. The government signed a contract with EXIM Bank of China to finance the project. The centers' capacity is around 600 trainees per center plus 400 apprentices and others; continuing education and other types of learners; so the total capacity is about 1000 students per center. The specializations vary from mechanical engineering and aeronautical engineering to carpentry training.

Fig. 16 – Mapping of main actors in the wood industry

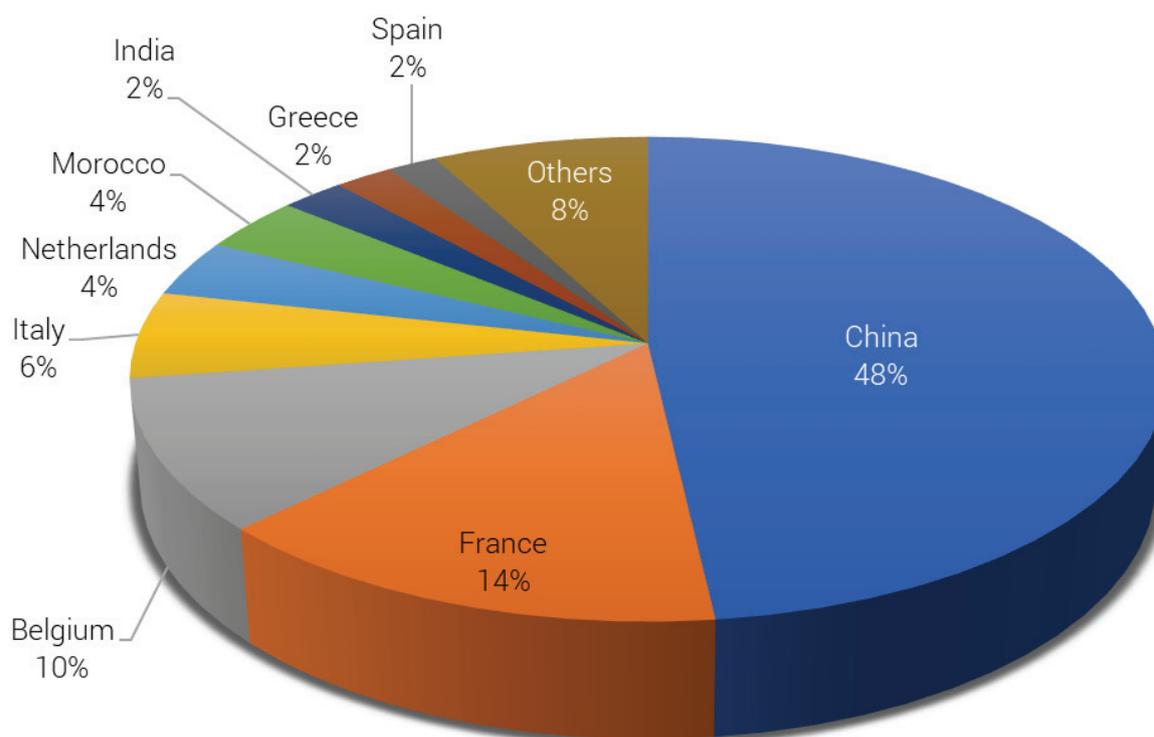


Source: IsDB staff illustration

Similarly, the Government has made a lot of effort to address the weakness of downstream manufacturing - the second level of transformation for the wood products - by promoting GSEZ to produce more downstream wood products such as furniture. The opportunity of enhancements along the R&D and downstream manufacturing value chains would enable the wood industry to create higher value-added products and hence create more high-skilled jobs. Among the main constraints in downstream manufacturing is access to capital and to skilled workers. The issue of skillsets ties closely to the research and development chain where there is limited emphasis on vocational training and research that are related or specific to the wood industry.

In terms of Gabon's export destination, China is Gabon's main export destination. Before the policy change in 2009, the main export destination for logs was China, while the processed wood products were concentrated in the European market. However, after the policy change, China shifted its log imports from Gabon to sawn wood and surpassed the European market in 2017 (see Figure 17).

Fig. 17 – Gabon export markets for wood in 2017



Source : IsDB staff estimates based on UN Comtrade (2018).

Wood Industry Actors – The main ones

In terms of industry actors, there are currently 40 main logging concession holders and the main companies are Rougier Gabon, Sunly Gabon, Societe Nouvelle des Boissons Gazeuses (SNBG), Precious Wood, CBG (Compagnie des bois du Gabon). Some of the concessions are held by locals. However, the local companies besides SNBG, lack access to capital and have, on average, smaller concessions which limit them from adhering to the sustainable forest requirements.

In terms of the upstream manufacturing, there are currently 8 sawmills, 24 veneer companies and 1 plywood company operating in GSEZ. Among the key companies are Gabon Wood Industries, Gabon Ecowood, Otim Veneers and Plywood, Gabon Veneer, Solid Wood Gabon, Evergreen Gabon, Sun Veneer and Green Ply.

There are also many foreign companies especially from China, focusing on the first and second transformation in the wood industry, which have shown interest to setup their plants in GSEZ and some of them will commence operations in 2019 and 2020.

For downstream manufacturing, there are currently 11 companies operating in GSEZ, producing fur-

niture. However, these companies face major challenges to export their products. Firstly, they lack the volume to supply the global market. Most of these companies also have problems in investing in new machineries and know-how to produce higher value-added products. They also do not have the required skills and certification to export the products to Europe. Therefore, some of these companies are instead targeting local markets. Although the volume of furniture exports is very low, it is expected to increase in the coming years as there is a rise in investment from Chinese companies in GSEZ. At the same time, the establishment of AVIC training facility in GSEZ would facilitate the production of more downstream products.

Besides exports, the wood value chain in general is highly dependent on the imports of machineries and equipment that support the entire industry. Most machineries are imported from China, Italy and France. The wood industry in the upstream and downstream manufacturing also face challenges to invest in more sophisticated machineries. Without an upgrade in machineries, there are only very limited types of products that can be manufactured and this reduces their competitiveness at the global level.

Barriers to the development of the Wood Value Chain in Gabon

One of the biggest constraints for the wood value chain is the high logistics cost, where it can be around 15 – 25 percent of the total production cost. Even though a large part of the forest cover is allocated for logging, and the logging concession are spread throughout the country (Figure 18). Due to the location and roads network that are not connecting the areas efficiently, there exist two main issues. First, the transportation from the logging sites to the plant and secondly the transportation from the plant to the port. There is also huge issues of unpaved road that are nearly impossible to pass in rainy season making log supply unpredictable.

There are three means of transportation for logs, which are road, rail and river. The rail is considered the cheapest mode of transportation besides river. River transportation is rarely used since many species do not float in water. Currently, road is mainly used to transport the logs although it is quite challenging. Based on a survey, many companies agreed that railway is the best mode of transportation. However, currently, not all areas are covered by railway and the railway line is built for the manganese industry and operated privately, thus creating uncertainty for the wood industry to use the railway line.

Besides transportation, logistics issues at the port in Owendo also contribute to the high logistics cost. There are huge capacity gaps and delays in the port that add up to the cost. Many companies agreed that if the port issue is solved, productivity will increase and export numbers will rise. A big challenge in the wood industry is also the information asymmetry between operators. As a result, there is a huge delay in processing goods for exports due to the lack of digital communication in clearing the exported goods as well as missing information on logs and its inventory. Inventory issues lower earnings. GSEZ has begun a program of stocktaking with a new software. However, this program needs to be expanded in scale to increase efficiency. Another common issue among the companies in the entire value chain is uncertainty in policies and regulations. The lack of clarity in regulations has caused some companies to halt production. Clearer consultative policy making with better coordination could perhaps provide more certainty to the companies.

In terms of power, the production of industries in the GSEZ area is stable and currently the utilization is only 28 MW compared to 60MW that is currently available. However, power might be an issue for concession holders that depend on diesel-powered generators, which, due to the road condition in rainy season, can lead to the halt of production. The expansion in the downstream manufacturing sector requires more supporting industries to be present. The supporting industries would allow Gabon to explore other more sophisticated downstream products with higher value addition. There are also opportunities to recycle the current waste produced in GSEZ. Currently there is no clear use of the wood waste from the different plants in GSEZ.

The wood value chain also depends a lot on the usage of machineries and equipment which are mainly imported and are costly to maintain. There are also issues such as unavailability of parts and services which reduce efficiency in the entire value chain. Although the government of Gabon has promoted downstream expansion of the wood value chain, the lack of skills, technology and capital seem to be the main challenge in attracting such investments.

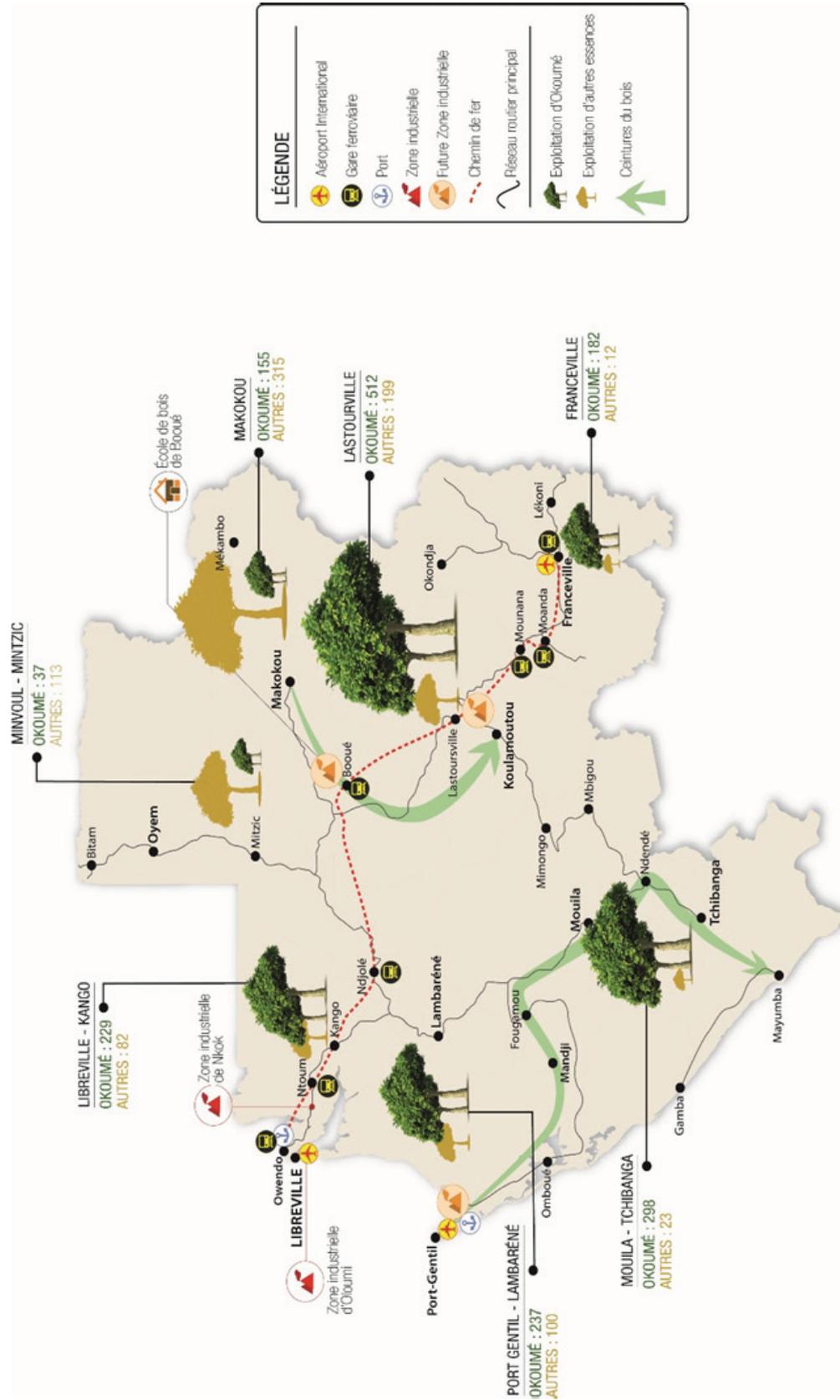
4.2.3. The Manganese Industry Value Chain

Gabon has one of the highest reserves of manganese, and has been one of the biggest producer and exporter of the metal since the early 1960s. Apart from crude oil, manganese has been an integral part of Gabon's economy and is one of the major source of income with great potential for employment creation. Manganese exports as a share of the country's GDP has increased by an average of 4.86%¹⁴ over the past 5 years.

Gabon's involvement in the mining industry is mainly focused on extraction and export of raw materials. Besides Manganese, there are also untapped latent assets in the mining industry such as Iron which has one of the largest untapped deposits in the world, in addition to diamond, phosphates, potassium and magnesium salts. The Government of Gabon, through the national strategy "Gabon Emergent 2025", decided to change the course, by moving away from just exporting raw minerals, and towards upgrading the entire industry by developing a complete value chain. The key upgrade in the manganese industry is to develop upstream transformation of manganese, and produce higher value-added products.

¹⁴GDP and Mn Ore export data from National Statistics and UN Comtrade respectively.

Fig. 18 – Map of the major wood industries in Gabon



Source: RAPPORT DE SUIVIE L'EXÉCUTION DU PLAN DE RELANCE DE L'ÉCONOMIE, Avril

Gabon in the Manganese Global Value Chain

The revealed comparative advantage (RCA) index is used to determine the products at HS2 level in which Gabon has a comparative advantage. Gabon has very high revealed comparative advantage for ores, slag and ash products all throughout the period from year 2001 to year 2016, which shows the importance of this mining product as a potential sector with natural potential to plug into the Global Value Chain (GVC) (see Figure 19).

At a more disaggregated level, the main exports within the mining industry are manganese ores and concentrates, incl. ferruginous manganese ores and concentrates (HS4 product 2602). The Product Champion Index (PCI) combines demand, supply, trade and resilience indicators into a single index that indicates the HS4 products with the highest potential for trade [2]. Manganese ores and concentrates, incl. ferruginous manganese ores and concentrates has high PCI. Manganese market is growing in Gabon, as well as in the world therefore HS4 2602 has very great potential for high value-added trade. In fact, the export of manganese has increased more than fivefold over the past 10 years (see Figure 20). Even when the price of manganese and steel have declined¹⁵, Gabon was still successful in increasing the value of its exports. The value of manganese exported have only declined for three periods over the past 10 years.

The first decline was observed in 2008, and was due to the global financial crisis, when the quantity of ore exported to the struggling economies of the United States of America and Norway, the second and third consumer of Manganese ore from Gabon at the time respectively, substantially decreased their manganese ore import from Gabon by 32% and 66%, respectively¹⁶. The decline was also due to lower demand from the European Union market (especially France, Belgium, and Spain) as it was hit by the financial crisis. However, manganese export rebounded quickly with increasing demand from the Chinese market. The second decline in manganese demand occurred between 2011 and 2012 amid the slowdown of the Chinese economy, the largest consumer of Gabonese manganese ore as shown by the import share of manganese from Gabon.

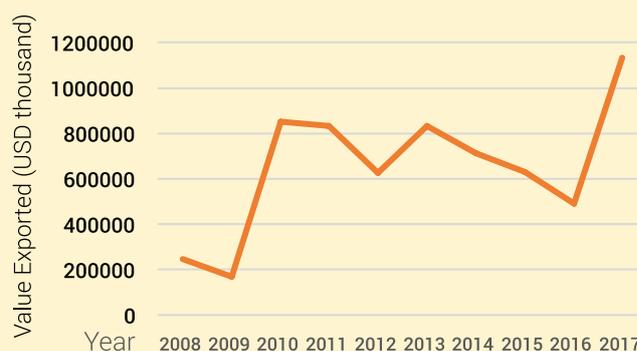
Manganese demand recovered as the Chinese steel production stabilized. The last decline of

Fig. 19: RCA calculation for ores, slag and ash for Gabon for the past 16 years



Source: IsDB staff illustration. Data from UN Comtrade

Fig. 20: Manganese export in Gabon for the past 10 years



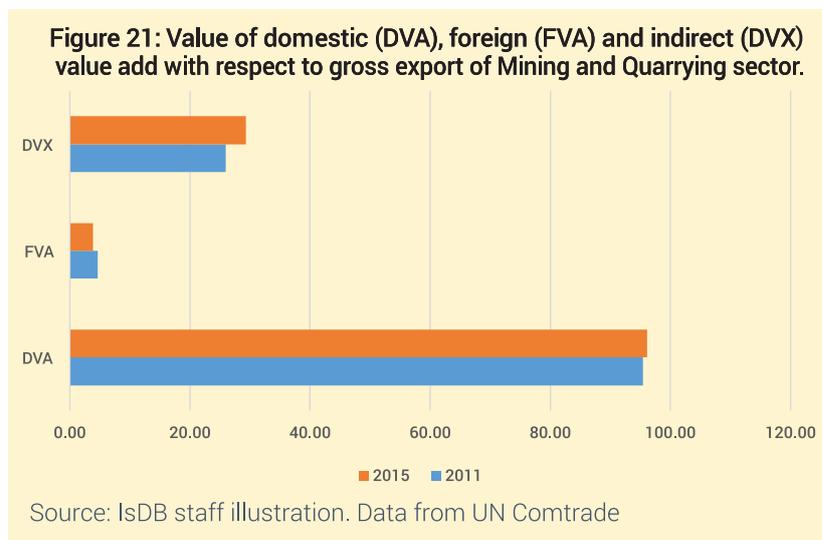
Source: IsDB staff illustration. Data from UN Comtrade

¹⁵Source: Data derived from National Statistics

¹⁶Data from UN Comtrade

manganese export was due to the long and steep decrease in manganese price by as much as 60% [4]. However, manganese exports have risen over recent years because of the increased capacity of production of manganese [5] and the increase in the price of manganese ore.

The value add analysis for Gabon shows that the mining industry has very high domestic value added (DVA), and indirect value added (DVX), and very low foreign value added (FVA) which suggests its importance in the Gabonese economy and its potential to recapture the transferred value added from other countries (see Figure 21).



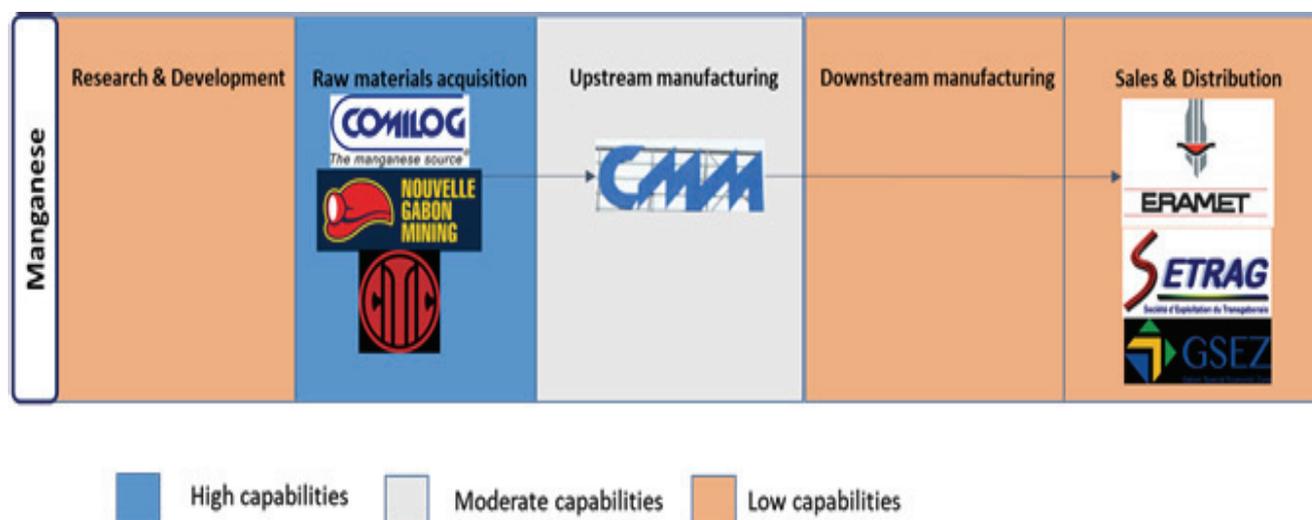
The value add analysis for Gabon shows that the mining industry has very high domestic value added (DVA), and indirect value added (DVX), and very low foreign value added (FVA) which suggests its importance in the Gabonese economy and its potential to recapture the transferred value added from other countries (see Figure 21).

Based on data and surveys, the initial mapping of the actors and broad activities. There are three main companies in the manganese value chain in Gabon which are Compagnie minière de l'Ogooué, Nouvelle Gabon Mining and Compagnie industrielle et commerciale des mines de Huazhou. All three companies are concentrated in the extraction and exports of manganese ore.

The Gabon Manganese Value Chain has high capabilities in raw materials acquisition and moderate capabilities in upstream manufacturing, but low capabilities in the other activities such as research and development, downstream manufacturing, and sales & distribution. The reason being, current estimations show that only 2.5% of ore are further processed in Gabon to produce 20,000 tons of manganese metal and 65,000 tons of silicomanganese through the "Complexe Métallurgique de Moanda" (CMM) which is an upstream activity, while there is no activity in the downstream side of the value chain [6] [7]. Furthermore, both the DVA and the DVX have increased between 2011 and 2015, which is due to the fact that the increase production of manganese ore has outpaced the increase of upstream transformation activities of manganese between 2011 and 2015. The Gabonese mining industry is poorly connected to the GVC as shown by its low GVC Participation and Position indices. The Gabonese mining industry has moderately weak forward linkage and very weak backward linkage into the GVC. Hence, the moderate and low capabilities for the upstream and downstream activities respectively. However, the manganese value chain in Gabon has high potential for development not only because of its highest-grade ore in the world, but also because of the high potential of increasing production through increased efficiency.

In terms of production of manganese ore, the "Compagnie minière de l'Ogooué" (Comilog) is the main company developing the manganese in Gabon (see Fig. 22). It was established before the independence of the Republic of Gabon.

Figure 22: Manganese value chain initial mapping in Gabon



Source: IsDB staff illustration

The major manganese exporter is South Africa (See Table 5), having exported more than half (54%) of the value of all manganese exports in 2017. It is followed by Gabon with 24% with Brazil and Ghana close behind with 8% and 6% respectively. Cote d'Ivoire exported 2% and among these top five countries, they exported 94% of the value of all manganese exports in 2017.

Table 5: Manganese ore exports and price comparisons (USD'000) 2017

	Value exported	Trade balance	Unit value (USD/unit)
World	4,684,370	-2,365,110	168
South Africa Metadata	2,527,273	2,525,843	162
Gabon	1,125,828	1,125,759	255
Brazil Metadata	365,636	345,255	136
Ghana	301,385	301,337	116
Côte d'Ivoire	89,472	89,472	190

Source: IsDB staff illustration. Data from UN Comtrade

Barriers to the development of the Manganese Value Chain in Gabon

Even though Gabon has the highest manganese grade in the world, the manganese value chain is not highly connected to the Global Value Chain and has huge potential to be developed further. An overwhelming effort has been concentrated in increasing the output of the manganese ore. Gabon has one of the most expensive manganese ore in terms of unit cost. Mining manganese in Gabon is easier than in other manganese powerhouses such as South Africa because of favorable geological parameters. However, the services between the mines and the final clients including port costs are very high compared to services costs incurred in other manganese producing countries such as Australia and South Africa making the manganese from Gabon one of the most expensive in the world. In fact, the cost of logistics seems to be one of the largest challenge that is faced by the manganese value chain. The connectivity between Libreville, where the mineral port is located, and Franceville where the mining sites are, is about 600km apart and poses cost and delay risks. In fact, the main constraint to the development of the manganese value chain is that of infrastructure risks owing to poor state of the railway infrastructure. The reason behind the infrastructure challenge is the issue faced in the Owendo-Ndjolé stretch whereby it was built more than 40 years ago and the conditions is quite challenging. Gabon is also the second largest exporter of Manganese ore, however with the most valuable ore.

The railway line is the main transportation mode to deliver the manganese ore from the mining site to the ports. The Societe d'Exploitation Transgabonais (Setrag) has the concession on the railway line (also called Transgabonais) that operates along the Libreville-Franceville road since 2005. The main route of transportation is from Comilog's manganese mine in Moanda, CICMHZ's manganese mine, M'Bembelé and NGM's manganese mine, Binioni. The railway line is 710 km long with a 648 km main line between the port of Owendo (GSEZ Mineral Port) and Franceville.

To overcome this issue, Setrag decided to launch a vast rehabilitation program (plan de remise a niveau), one of the main components being the modernization of the railway. The investment program includes infrastructure and superstructure works, security and signaling. Setrag through PRE-PARCO (Promotion et Participation pour la Coopération économique), majority owned by Agence Française de Développement (AFD) and the International Finance Corporation (IFC), and the Government of Gabon co-financed this vast rehabilitation program. This rehabilitation is to be completed by 2022.

In terms of capacity, the railway service has the capacity to absorb up to 6 million tons of manganese ore annually. Therefore, from the current level of production in the country, the capacity of the Transgabonais is sufficient. However, as an expansion strategy, Comilog is in discussion with the IFC to increase its annual production from 4 to 6 million tons, and eventually 8 million tons of ore. In terms of logistics costs of production, transportation and export, a better regulatory framework in the pricing of the Transgabonais is required to ensure that the transportation costs incurred by the manganese exporters remain competitive compared to the railway costs found in neighboring countries. The reason being, in the current state railway costs are 30% higher in Gabon than in Congo, and the export costs are up to 30% higher in Gabon than in other central African countries.

4.3 An overview of the Universe of Interventions

IsDB's strategic goal is to enhance the competitiveness of Gabon's industry champions, to be

come world players in these product's Global Value Chains. Enhancing the competitiveness of the industry champions will ultimately boost economic growth, promote the creation of decent jobs through higher productivity and higher value add. An overview of the general constraints, the general types of interventions as well as the development interventions of each product champion are presented below. These interventions will be further detailed as part of a project pipeline in a dedicated programming document that will include the avenues for all IsDB entities such as IRTI, ICD, ITFC and ICIEC to intervene at different levels to achieve the objectives of the MCPS. The programming document will also provide an overview of the results matrix and specific developmental returns of each potential project approved by the IsDB Group along with providing the financing requirements and opportunities.

Manganese industry actors - the main ones

In terms of production of manganese ore, the "Compagnie minière de l'Ogooué" (Comilog) is the main company developing the manganese in Gabon. It was established before the independence of the Republic of Gabon, and started operations to develop the Moanda mine since 1962. Comilog is a subsidiary of the French multinational mining and metallurgy company Eramet, and is the second largest producer of manganese in the world. The government of Gabon has a 28.5% participation in the company as shares. The production capacity of manganese ore has increased over the past few years, and has reached an annual production of 4 million tons of manganese. Comilog comprises nearly 2,000 employees with locals representing about 98% of its workforce and more than 90% of the senior management roles are held by the locals. The Huazhou Mining Industrial and Commercial Company (CICMHZ) produces manganese ore extracted from the M'Bembélé site, 36 km from Ndjolé, with reserves that are estimated at 30 million tons with a production of 707,000 tons / year., CICMHZ employs 340 people, with 75% of which are locals and 25% Chinese. The joint venture agreement to develop the mine of manganese in M'Bembélé was signed in 2010 and the government of Gabon has 10% shares in the project.

Nouvelle Gabon Mining (NGM), which is a subsidiary of an Indian company, Coalsale, is a joint venture between Coalsale and the government of Gabon. The government of Gabon owns 10% of the shares in this project. NGM develops the manganese mine of Binioni, in the region of Franceville / Haut-Ogooué. . The production started in 2017 with a capacity of 300,000 tons of manganese ore per year. The production will increase in 2 phases in 2019 to 1.5 million tons and 2.5 million tons of manganese ore respectively. In addition, there is a project to start a dolomite transformation plant with a capacity of 200,000 tons of manganese a year by the end of 2019. NGM has created 380 jobs with 85% of them locals and 15% foreign.

Based on available data, the initial mapping of the manganese industry in Gabon shows that the number jobs generated by this industry is 4,383. Comilog through the Moanda mine project and Eramet through the Trans-Gabon railway concession created most of these jobs. Along the manganese value chain, in terms of absolute numbers, 60% of jobs were created through the extraction of manganese ore, 10% through the upstream transformation while indirect jobs through logistics represented 30% of employment. In addition, the manganese industry contributes \$US1.1 billion in exports for Gabon every year.

This is mainly due to the poor quality of the railway and port infrastructures, and heavy administrative processes.

Manganese sector needs

Even though Gabon has the highest manganese grade and one of the highest reserves in the world, the country does not have yet a well-developed manganese value chain. Most of the manganese extracted in Gabon is exported without any transformation. Therefore, the industry is missing out on high potential value addition. In terms of linking the industry to the global value chain, there is very limited backward linkage, hence there is also a great opportunity to increase the backward linkage by focusing on upstream sub value chains such as the transformation of manganese ore into manganese alloy. The main constraints in the manganese value chain at the current state are in logistics and energy and removing or reducing these constraints can help expand the value chain in upstream and downstream industries and can therefore increase value added exports and number of skilled jobs created.

The energy needs of the upstream and downstream sub value chains is very intensive. Therefore, cheap electricity is required to make it profitable. Industrial grade cheaper electricity in Gabon is from hydroelectric energy from the two Poubara dams. However, the required hydroelectric energy is not available near the port due to poor interconnectivity throughout the country. The price of this electricity is high in comparison to other countries such as European Union countries which have industrial electricity prices as low as 27XAF compared to 110XAF in Gabon for hydroelectric and 250XAF for diesel-generated electricity[19]. Therefore, finding ways of reducing energy costs is paramount to developing the manganese sub value chain activities. Gas based energy generation might be an opportunity to provide the electricity required to develop the upstream and downstream industries of manganese in Gabon. Although the government of Gabon is attempting to promote more local transformation of the manganese industry, the lack of skills, technology, and targeted investments to relax infrastructure constraints (transport and energy) seem to be the main reasons why the sub activities of the manganese value chain are so weakly developed.

4.3.1 General Constraints

The general constraints identified below affect both the wood and manganese product champions.

Energy: Access to reliable and affordable energy is a major issue. Prices are much higher than normal rates in comparable countries. More importantly, the lack of basic access to energy hinders the development of many wood companies. For manganese firms, power is the biggest constraint. Weak energy capacity affects not only optimal production but it also carries the risks of destroying equipment. In addition, because of low capacity of energy in the sector, transformation remains low. As a result, the value add of the sector is low, which is unfortunate as the potential for value addition is high, hence the opportunity for raising employment.

Transport: Transporting wood products from production site to the port is a major challenge. Road networks are not well developed. Roads, often unpaved, are not practicable during the rainy season. Railways is often more appropriate for the transport of heavy loads but the service is very limited, and often run by private companies such as Comilog. The transport of wood prod-

ucts for many companies take up to 4 times longer than normal duration of transport. Wood products can be stuck up to 64 days in their production site because of transport related issues. Ports: Weak port is a critical constraint, especially for the wood industry. Costs at the port have risen substantially over recent years. The main concerns at the port are both logistical and administrative. The logistical issues stem from the lack of boats and the ability of boats (if there are available) to accost the port as the water is not deep enough. These problems create challenges of finding containers, of storage, and cause long delays in shipments, and hence in costs of shipping. The administrative issues are attributed to port service issues. The first service challenge, often faced by firms, is limited time of service: port closed, services offered reduced, even if costs are higher. At the custom level, procedures remain complex and burdensome. The weakness of the port also affects imports by industry players in the local production or exports. The acquisition of foreign equipment required to growth the sectors is difficult and expensive.

Access to Finance: Access to credit is a major challenge. This low access to financing may be a symptom of an existence of information asymmetry between traditional banks in Gabon and the wood industry, where the Banks do not have enough information to extend loans to wood companies. The low access to financing may also reflect the inability for wood companies to leverage their concessions due to current regulation on concessions. Further study is needed to determine the failures in the financial market. However, initial analysis suggests underdeveloped financial markets.

Labor skills: Another challenge is finding enough well-trained workers and managers with low turnover. Foreign workers are often brought in to satisfy the need for qualified workers, which is very expensive, and the turnover is high. Meanwhile there is scarcity in well-trained local workers. These capacity gaps in employment are often mentioned as one of the major constraints to transitioning the wood industry into third transformation.

4.3.2 Critical Type of Interventions

These general interventions also affect both the wood and manganese industries.

Power: Interventions in the energy sector are critical. Investments adding and complementing the currents hydropower plants are encouraged although the structure of previous such projects need to be polished as to maximize power potential. Adequate power plants with enough capacity based on current and future market growth are likely needed, especially if GVCs in manganese sectors are to be developed. Higher and reliable energy capacity is required for conditions of product transformation (thus value add) to be met.

Roads & rail & water navigation: Almost a third of the road network is not paved, which is a big issue given the rainy weather in the country. The rail network requires restructuring in cooperation of Comilog to ease the transport of heavy products. Improve water navigation networks can greatly complement the other mode of transport given the environment and geography of the country.

Port: Hard intervention: Improving the logistical infrastructure of the port as to make operation year around by address the shallow water issues, and other logistical failures. Soft intervention:

Accompanying the logistical intervention with simpler and faster administrative procedures will substantially reduce losses companies face at the port. Both types of interventions will make both the wood and manganese industries much more competitive, and promote higher order transformation of raw materials.

Credit and lending: The financial market is dry and rigid. Interventions that provide incentives to lending are likely required.

Qualification of workforce: Interventions in adequate professional training is essential. These interventions must not only address the supply of such training but they must also address quality of the training. These interventions can therefore be a result of concerted effort between the government, partners, and companies in the sector that are on the demand side of labor as the latter has the knowledge of the required skills. In addition, the training of labor force must be inclusive to women and youth.

Transversal interventions: There will be transversal interventions, which are essential for both sectors.

Intervention that already being or are planned to be undertaken by development partners: There will be prescribed interventions that are being implemented or are planned by development partners. For example, the World Bank is planning to build a key road network in the country. Other partners are defining interventions that directly affect the GVCs of the chosen industry champions.

4.3.3 Development Interventions of Product Champions

To identify the development interventions, a SWOT was conducted (see Annex 8). The SWOT analysis of the VCs identifies the internal strengths and weaknesses, as well as the external opportunities and threats. The analysis results in the identification of development interventions that addresses weakness while exploiting opportunities.

Wood Industry Development Interventions

Box 3 - List of Development Interventions in the Wood VC

Intervention 1: Improve regulation tools to support forest certification

Intervention 2: Build capacity for audit and control

Intervention 3: Support wood concessioners

Intervention 4: Raise Awareness, Branding and marketing of Gabonese timber products

Intervention 5: Improved access to finance framework for wood SMEs

Intervention 6: Solve transport mode mobility from main wood clusters

Intervention 7: Build a Bypass from road N1 to Owendo

Intervention 8: Improve transport using multi-modality (Ndjolé), and inter-modality (Lastrouville)

Intervention 9: Promote plantation in Ogooué maritime

Intervention 10: Promote 2 additional specialized Wood industrial cluster

Intervention 11: Improve of national and regional markets. Remove barriers to trade at the regional level, and promote the use of Gabonese wood in the local market.

The methodology of the GVC analysis combines the Strengths and Threats to come up with a Strategy from short-term, medium-term and long-term perspectives. The Strategy is based on the Vision for the wood industry of consolidating downstream activities in the wood VC to progressively access niche and regional markets.

The overall Vision is decomposed into three sub-visions that define the overall GVC industry strategy: short-term vision, medium-term vision, long-term vision.

Short-term vision promotes the following:

- Start forestry planting
- Improve regulation towards certification. The goal is to reach 100 percent certification for all wood concessionaires.
- Start 2nd processing low-cost products, which is the next step in upgrading
- Encourage waste recovery. Wood waste recycling business can greatly enhance the wood industry. Wood waste is high, and it will rise even further as production increase. Transforming the waste is not only an environmental solution, but it may prove lucrative to industry actors. Some of these actors claim that the waste has also the potential to reduce energy gap.
- Improve training capacities.

Medium-term vision promotes the following:

- Set-up industrial clusters
- Generalize waste recovery
- Export 2nd processing low-cost products to regional markets
- Encourage development of 3rd processing (both low-cost and high-end products)
- Market the Gabon brand
- Long-term vision promotes the following:
- Increase export of 2nd and 3rd processing low-cost products to regional markets
- Increase and diversify exports of 3rd processing products to reach niche markets

The SWOT analysis also shows that the wood VC has many weaknesses but opportunities exist (see Annex 8). The Weaknesses and Opportunities provide the basis for defining the Development Interventions. Based on the weaknesses and opportunities, the GVC analysis results in the following development interventions for the Wood VC:

Manganese Industry

The SWOT analysis also shows that the manganese VC has many weaknesses but opportunities exist. The Weaknesses and Opportunities provide the basis for defining the Development Interventions. Based on the weaknesses and opportunities, the GVC analysis results in the following development interventions for the Manganese VC:

Box 4 - List of Development Interventions in the Manganese VC

- Intervention 1: Maximize efficiency in public investments (SEM and FGIS)
- Intervention 2: A regional pole of excellence: careers in 3M
- Intervention 3: Creation of national investment vehicle to fund 3 mining OP
- Intervention 4: Train track duplication Section Libreville-Ndjolé
- Intervention 5: Improve channel access to port Owendo
- Intervention 6: National and Regional inter-connected electric network
- Intervention 7: Development of an industrial cluster in Moanda/Franceville
- Intervention 8: Development of slug cement industry

The overall Vision is decomposed into three sub-visions that define the overall GVC industry strategy: short-term vision, medium-term vision, long-term vision.

Short-term vision promotes the following:

- Enable complete maximisation of Gabon's forward linkages (Comilog 2020, and NGM/CICMHZ upscaling development plan)
- Enable NGM and CICMHZ to catch up to Comilog by entering 2nd transformation

Medium-term vision promotes the following:

- Enable complete maximization of Gabon's forward linkages in the 1st and 2nd Transformation
- Develop mining industrial clusters: transform Gabon into Africa's Mining, Metal and Metallurgy pole of excellence

Long-term vision promotes the following:

- Enable Gabon's mining operators to enter 3rd transformation
- Favor international investments to develop Gabon cement industry

4.4 Implementing the Partnership Strategy

4.4.1. Conclusions and Lessons Learnt from Past MCPS

This is Gabon's first MCPS and hence there are no country specific lessons to learn from. However, in general, the old generation MCPS is considered, to a large extent, a big step in the right direction, but independent implementation reviews show that MCPS implementation was a major issue. The main prescriptions from these evaluations are the following: the CPS shall be more relevant to the needs of the Member Countries; enhance synergy and empowerment; tackle inefficiencies; and engage with the clients.

The New Generation of MCPS has been designed to address the challenges and to provide relevant solutions. The New GVC-based MCPS approach is designed to address most relevant interventions in the Member Country. The Global Value Chains provide incentives and opportunities for synergies. The new hub structure is designed to empower the Member Countries. The new MPCPS is designed to streamline projects, which stem from the GVC field technical analysis. In the GVC model, MC validate industry/product champions at the very beginning. And finally, the GVC outcomes aligns with National development plans for the process to move forward.

4.4.2. Public Financial Management and Procurement Systems

The public financial management (PFM) tasks will be assessing the country's PFM systems and

determine areas of weaknesses which need capacity development. The PFM country's assessment will serve as basis/indicator for further Financial Management Assessment at project's level.

Furthermore, the country procurement system will be reviewed providing a general description of procurement reform status based on various assessments (Country Procurement Assessment Report (CPAR), National Competitive Bidding (NCB) Assessment Reports (NCB Report)), Methodology for Assessment of Country Procurement System (MAPS)...etc.). The review will include the (i) analysis of Country Context, (ii) the Legal, Regulatory and Policy Framework, (iii) the Institutional Framework and Management Capacity and (iv) the procurement Operations and regulation.

In line with the Pillar 1 "Industrialization" and Pillar 3 "Service orientation" of Country National Development Strategy, the Bank will check the facilitation given by the public procurement rules and regulations for the participation of SMEs to public procurement business opportunities given their limited resources and the establishment of a legal and institutional framework fostering the development of Public-Private partnership (PPP).

Lessons learned in previous engagements will be assessed, and a strategy will be described to strengthen and expand the use of country's system and institutions for project procurement including its risk and mitigation measures.

4.4.3. IsDB Group Portfolio Performance

4.4.3.1. IsDB Portfolio

As of February 2019, the Bank has approved 21 operations for a total of ID 328.81 million (US\$ 486.51 million). There is only 1 ongoing project amounting to ID 39.6 (US\$ 61 million). The sectoral distribution of the portfolio shows that transportation (especially roads) accounts for nearly 69 percent of the overall financing; information & communications account for 13.5 percent, water, sanitation & urban services account for 12 percent, social sectors (education and health) account for 4.4 percent and 1.1 percent respectively.

As a high-income country, with a concentration on financing infrastructure, especially the transport sector, the predominant modes of financing have been Istisna'a (74 percent) followed by Installment Sale (11.5 percent) and Loan (8.7 percent). Overall, the implementation of projects in Gabon experience long delays. This is attributed to factors such as: (i) slow declaration of effectiveness of the agreements, (ii) frequent changes of scope of projects during implementation, (iii) procurement issues, (iv) delay of Government's counterpart contribution, (v) limited capacity of executing agencies, and (vi) lack of communication leading to long response time.

4.4.3.2. ICD Portfolio

Since inception, ICD has approved to finance around USD 46.7 million investment for 2 projects in Gabon, and yet did not disburse it. In the financial sector, ICD provided \$ 25.2 Million in line of finance (BGF Bank) in 2011. In the ICT sector provided USD 21.5 million in term finance (United States African Network (USAN) in 2011 but it was canceled.

4.4.3.3. ICIEC Portfolio

Gabon became member of ICIEC in 2015. Since then, ICIEC has covered imports of strategic goods to Gabon to the tune of USD 104 million through the insurance of Letters of Credit by banks in Gabon.

4.4.3.4. IRTI

In the last few years, IRTI intervention in Gabon has been limited to a training course on the opportunities provided by Islamic finance for resource mobilization in central African countries has been delivered by the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IsDB) Group in Gabon's capital Libreville. The training, titled "Introduction to Islamic Finance and Sukuk", was organized for the Central African Economic and Monetary Community (CEMAC) countries, in collaboration with the Gabonese Ministry of Economy, Prospective and Development Programming.

The objective of the program, held from 11-13 September 2018, was to introduce the practical aspects of Sukuk issuance and how countries in the region could benefit from the experience of other African countries in this field such as Senegal and Côte d'Ivoire. The program covered the different aspects of Sukuk as a tool to mobilize additional financial resources and to attract private capital in the financing of development projects. Participants in the training were from Gabon's Ministry of Finance, Deposits and Consignment Fund; Gabonese Strategic Investment Fund; Gabonese Institute of Islamic Finance; and other institutions from countries in the region.

4.5 Additional Services

4.5.1 Reverse Linkage Opportunities

Opportunities exist for Reverse Linkage to contribute to the success of the Gabon MCPS. The scope of a Reverse Linkage project can involve both soft and hard components, including—but not limited to—training, provision of expertise, construction, provision of equipment. Under a Reverse Linkage project, there could be a knowledge-providing institution and knowledge-receiving institution, and both gain through the transfer of knowledge, expertise, technology and resources. The recipient wins by gaining expertise and resources in an area that was previously a barrier to its development. The provider wins additional international experience and exposure, which can lead to further opportunities in cooperation, trade and investment. The initial diagnosis of the Wood Value Chain (WVC) in Gabon reveals that it spans from typical upstream activities (i.e. production or raw materials) through producing intermediary products up to producing fully processed wood and exporting. The stakeholders working on the various parts of WVC have different capacity strengths and gaps.

In principle, there is a need for addressing all those capacity gaps in a sustainable manner to develop the whole WVC and hence increase the international competitiveness of the Gabon's wood. In fact, some of these capacity gaps were addressed in other Member Countries or non-Member Countries from the south.

Given the situation in Gabon, there is a potential for utilizing the IsDB's Reverse Linkage mechanism within the GVC for effectively transferring and adapting developmental solutions related to - production, processing, mechanization, human resources skills and creation of enabling business environment. At a broader level, the Reverse Linkage mechanism will be utilized through the following steps:

- Identifying the critical capacity development needs which can be addressed through Reverse Linkage interventions, in consultation with the Gabon's local authorities.
- Identifying the relevant recipient institution from Gabon;
- Identifying the relevant provider institution(s) from other Member Countries or southern countries if deemed necessary; and

- Formulating Reverse Linkage project(s), through mounting diagnostic and validation missions to Gabon.

Currently there are specific opportunity and needs for the Reverse Linkage to play a role in the improvement of Gabon's Special Economic Zone (GSEZ). In effect, during IsDB initial MCPS engagement with Gabon, the Management of the GSEZ requested support to broaden their experience in managing the SEZ as well as support for an integrated system to streamline the various systems in Customs, Tax, Environment, and other domains. Therefore, IsDB's Reverse Linkage can assist GSEZ learn from other member countries with more advanced SEZs.

4.5.2 Country Economic Work

Two policy-relevant works will be undertaken to support the implementation of the MCPS. The first is a National Gas Strategy which is very important given the expected high demand for power from the manganese and the wood industries. For the Gabonese value-added products to be competitive, they must be produced cheaply. This means that energy must be cheap and so its natural gas reserves must be exploited more efficiently. The other work will be a policy-analytic study on Green Finance to examine the prospects of leveraging such financing to increase fiscal space for Gabon. In addition, the detailed studies that served as inputs to the MCPS, such as the full Global Value Chain Report, the Donor Density Report and Country Diagnostics will be published separately as country economic works accompanying the MCPS. Additionally, a publication entitled: Gabon: selected Development Issues will cover topics such as Youth and Women, Climate Change and Islamic Finance will be prepared.

V. Risks management and Mitigation

Risks	Mitigation
Country regulatory environment. Some regulatory policies can put unnecessary burden on private investment without adding any benefit to the economy.	These will be reviewed appropriately with the MCPS Focal point such as BCPSGE following up and raising issues.
Country & Political Risks. The country has seen several incidents related to political risks with the recent coup attempt in 2018/9 being the latest.	ICIEC will be leveraged to think of innovative ways to insure against the country and political risks. Furthermore, financial diversification will be practiced.
Security, especially in the north of the country remains a major risk to any investments	Government efforts are concentrated and best practices of foreign investors that are currently operating in the country will be adopted.
Environment. The transformation of primary commodities to finished products can also produce by-products that are harmful to the environment. The processing of manganese and wood can result in air and water pollution problems if they are not adequately managed.	The design of all projects especially for the manganese will follow international standards, safeguards and best practices to deter and minimize environmental pollution.

VI. Financing Narrative

The classification of projects based on Expected Return-Impact of GVC allows for the determining of the best suited financing mode for the projects. A financial model classifying projects based on estimated expected return and impact on the GVC will provide a qualification and prioritization tool of intervention and hence determines a ranked list of projects. Private investors can undertake projects with great potential high return and high GVC impact while IsDB can implement projects with low return but high impact.

The classification of projects based on the above method:

- Allow for the optimization of IsDB ordinary resources and direct the Bank towards key projects.
- Allows for better strategies of revenue mobilization efforts. This can help identify which projects are best suited for private investors and which projects should be undertaken as PPPs.
- Allows IsDBG entities (ICD, ITFC, ICIEC, IRTI) to specialize in the right interventions
- Allows better partnership with Development partners to coordinate on the financing of specific interventions under the radar the partners.

VII. Elements of the Results Matrix

A SMART results matrix will be developed when specific projects derived from the development interventions are identified. The results matrix will be articulated in the MCPS Programme. The projects will generally aim towards the attainment of the desired outcomes of increased exports that will result in enhanced economic growth of Gabon and employment creation with high-paying jobs will leading to prosperity.

Annex 1 – Selected Macroeconomic Data

Indicators	Actuals						Forecast			
	2013	2014	2015	2016	2017	2018	2019	2020	2021	
Population (million)	1.8	1.9	1.9	2	2	2.1	2.1	2.1	2.1	
Real GDP Growth (% change)	5.5	4.4	3.9	2.1	0.5	2	3.4	4.2	4.5	
Current GDP (US\$ billion)	17.6	18.2	14.4	14	14.9	17.2	17.8	18.8	19.8	
Current GDP PPP (US\$ billion)	31.1	33.1	34.7	35.8	36.7	38.3	40.4	42.9	45.7	
Current GDP per capita (US\$)	9760.9	9746.8	7453.1	7082.3	7373.1	8384.7	8555.5	8,922.4	9266.5	
Inflation, average consumer prices (% change)	0.5	4.5	-0.1	2.1	2.7	2.8	2.5	2.5	2.5	
Current Account Balance (US\$ billion)	1.3	1.4	-0.8	-1.4	-0.7	-0.3	-0.1	0.4	0.4	
Current Account Balance (% of GDP)	7.3	7.6	-5.6	-9.9	-4.9	-1.6	-0.5	1.9	1.8	
Total foreign debt (US\$ billion)	4.3	4.3	5.1	5.1	6.5	7.1	7.6	7.9	8.1	
Total debt (% of Exports goods and services)	46	42.9	80.8	100	103.4	97.5	98.7	93.0	90.3	
Total debt (% of GDP)	24.6	23.4	35.2	36.2	44.1	39.8	39.8	37.7	36.8	
International reserves (% of Total debt)	69.8	58.6	37.1	15.8	15.2	16	15.9	16.4	17.4	
Debt-service ratio, paid (% of Exports goods and services)	12	4.1	6.3	7.6	13.1	8.9	8.2	8.1	8.3	
Debt-service ratio, due (% of Exports goods and services)	12	4.1	6.5	9.1	13.7	9	8.2	8.1	8.3	
Debt-service paid (% of GDP)	6.4	2.2	2.7	2.8	5.6	3.6	3.3	3.3	3.4	
Interest paid (% of debt-service paid)	22.2	40.2	48.9	50.1	32.9	45.7	51.4	51.3	46.9	
Interest paid (% of Exports goods and services)	2.7	1.6	3.1	3.8	4.3	4.1	4.2	4.2	3.9	
Interest paid (% of GDP)	1.4	0.9	1.3	1.4	1.8	1.7	1.7	1.7	1.6	
Effective Interest rate (%)	9.7	4.2	4.7	4.2	5.6	4.8	4.9	5.1	4.9	
Budget balance (% of GDP)	-3.1	2.4	-4.2	-6.3	-4.1	-2.3	-1.4	-0.3	0.2	
Stock of money M1 (US\$ billion)	2.9	2.7	2.3	2.2	2.2	2.8	3	3.4	3.7	
Stock of money M2 (US\$ billion)	4.3	4.3	3.5	3.4	3.4	4.3	4.8	5.4	5.8	
M1 (% change)	17.2	-7.6	2.5	-5.8	-1.2	21	10.2	10.3	9.1	
M2 (% change)	11.1	0	-0.2	-4.9	-1.7	21	11.2	9.8	9.1	
Net debt (% of Exports goods and services)	13.9	17.8	50.8	84.2	87.7	82	83	77.7	74.6	
Net debt (% of GDP)	7.4	9.7	22.1	30.5	37.4	33.4	33.5	31.5	30.4	
Local currency per US\$, period average	494.04	494.41	591.45	593.01	582.09	554.5	552.4	541.00	543.2	
Real effective exchange rate (CPI-based)	98	101.1	90.4	91.9	93.8	97.3	98.3	100.6	101.2	

Sources: 2018 Economic Research & Institutional Learning Department (ERIL)

Based on IMF World Economic Outlook Database, October, EIU Database, accessed on 14 October 2018

Annex 2 – SDG Profiles for Gabon

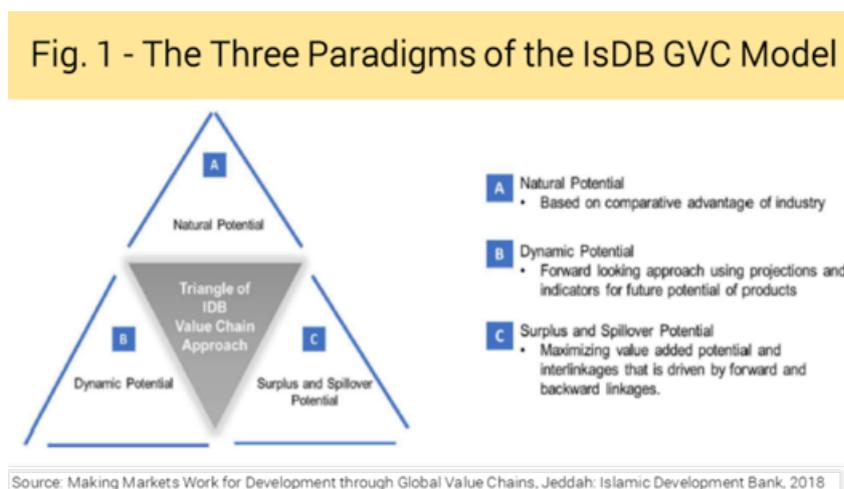


	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Cameroon	Red	Orange	Red	Orange	Orange	Red	Orange	Red	Orange	Orange	Orange	Orange	Yellow	Red	Orange	Red	Orange
Central African Republic	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Chad	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Congo	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Democratic Republic of Congo	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Equatorial Guinea	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Gabon	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Madagascar	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red

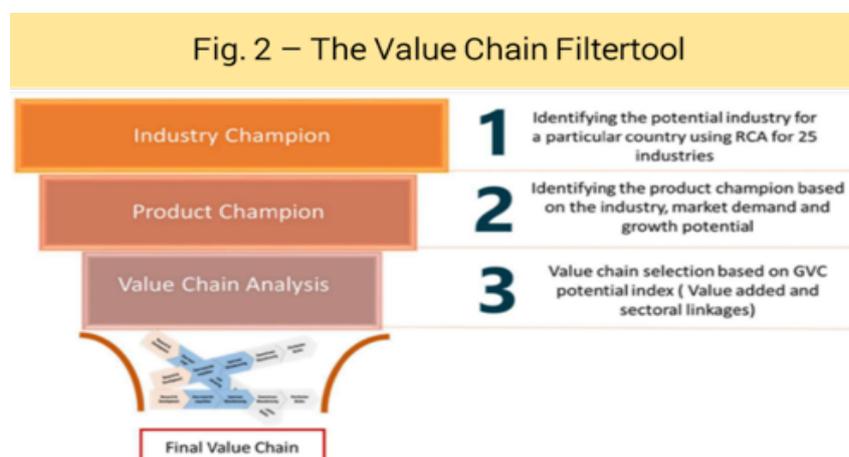
Source : Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G. (2018): SDG Index and Dashboards Report 2018. New York: Bertelsmann Stiftung and Sustainable Development Solutions Network (SDSN)

Annex 3 – IsDB Global Value Chain Analysis Model & FilterTool Overview of GVC

The IsDB’s Global Value Chain (GVC) approach takes a forward-looking approach by identifying potential value chains through an in-house methodology that focuses on competitiveness of a country based on industries and products. The Bank’s new quantitative tool in selecting and identifying the value chain is based on three paradigms that focus on the potential of intermediate goods rather than the final goods. These three paradigms of the Bank’s approach that guides the quantitative tool for value chain identification is described as the “Triangle of ISDB’s Value Chain Approach” (see Figure 1).



The first paradigm is the “natural potential” of a country. This paradigm considers the existing comparative advantage of a country at industry level. It considers a particular economy with the given economic structure and ecosystem that can efficiently produce an export, relative to other countries in the world. The second paradigm is the “dynamic potential” which takes a forward-looking approach to identify and quantify potential products or intermediate goods that are potential product champions by using a few indicators such as market growth, global demand projections, market distance and potential export concentration. The third paradigm is the “surplus and spillover potential” which evaluates the static value added of an industry and the interlinkages within different industries in a particular economy. The aim of the “surplus and spillover potential” is to identify the forward and backward linkages, potential spillover effects from interlinkages of industries and to maximize the value added in a specific industry.



Based on the three paradigms in the triangle, the Bank's quantitative tool in identifying the value chains is developed with the aim to suggest the highest potential products in particular industries where a country would be able to plug into the global value chain. Although most IsDB member countries might have already identified the first paradigm, which is the natural potential of the industries, the approach in this quantitative tool takes two steps further with the dynamic potential as well as the surplus and spillover potential to provide greater depth in identifying the potential products that can be plugged into the global value chain. These steps are illustrated in a "Value Chain Filter tool" as shown in Figure 2. The Value Chain Filter tool is a systematic tool to quantify each step of the three paradigms in the triangle of value chain approach.

Annex 4 – Strengths and Threats of the Wood Industry

The SWOT analysis shows that the wood industry possesses several strengths in its VC:

- Strength 1, legal framework. Gabon has an advanced legal framework that is suitable for sustainable forestry management thanks to recent government policy efforts, rules and regulations stemming from new laws such as Law n ° 007/2014 (August 1st, 2014).
- Strength 2, natural endowment. The country has considerable and rich natural resource endowment of wood. Gabon's forests cover about 22 million hectares of the country of which, 12 million hectares are allocated for concessions of wood production.
- Gabon's forest is rich at least 400 species of wood, of which 60 are recognized as marketable, with a strong predominance of Okoume, one of the world's highest quality woods; it is a highly prized wood essence in world markets.
- Strength 3, robust FDI. There is substantial foreign direct investment in the sector with the recent arrival of many private investment in the country. The Special Economic Zone in Ngok is a good illustration.
- Strength 4, good basic technology. The technological know-how in the 1st processing of wood is well-recognized. It is well-established in the different wood clusters of the country.
- Strength 5, established access to foreign markets. The wood industry has access to mature export markets such as China and India.
- Strength 6, a sound business model for the industry. A well-established wood industrial cluster model has so far shown success.
- However, the SWOT analysis shows that the wood VC has serious threats:
- Threat 1, access to markets for higher processed wood. The industry access to competitive global market is fragile as barriers to 2nd processing exist.
- Threat 2, unavailability of skilled workers. The lack of adequately trained workers is a serious issue. Many companies are not able to hire skilled workers, especially in operating machinery and other skill-intensive task. The skilled labor market shortage is due to weak training of workers as the education system does not meet the sector's labor demand.

Annex 5 – Strengths and Threats of the Manganese Industry

The SWOT analysis shows that the manganese industry possesses several strengths in its VC:

- Strength 1, natural endowment. The country has high quality and accessible reserves, and is strategically located.
 - Strength 2, robust resource management. Evolving investments and management of public mineral assets
 - Strength 3, good governance. Successful export customs procedures are well established
 - Strength 4, good technology. Initial industrialization has taken place and there exists already 2nd transformation in the VC
 - Strength 5, good access to markets. 3 key players in the industry are present and they all have up-scaling strategies
- However, the SWOT analysis shows that the manganese VC faces several threats:
- Threat 1, weak transport network. Transport investments failing to accommodate global demand
 - Threat 2, weak energy capacity. Energy investments have not accommodated global demand as energy capacity gaps remain severe, preventing further transformation, upgrading, and the realization of the full potential of the sector.
 - Threat 3, benchmarking. Globalized competition in the GVC.
 - Threat 4, access to markets. Dependence on import of commodities for mineral production

Annex 6 - Weakness and Opportunities - Wood

The SWOT analysis shows that wood industry possesses several weaknesses in its VC:

- Weakness 1, legal. Forests not yet fully certified. The legislation for full FSC certification has already been introduced. The goal of reaching 100% certified concessioners but it is yet to be achieved.
 - Weakness 2, Institutional environment. Capacity of forestry administration is weak, especially in regards to auditing and monitoring.
 - Weakness 3, Labor force skill. The labor force is adequately skilled to fill the skilled labor demand of the industry. Workers are not adequately trained.
 - Weakness 4, Technology. Companies in the wood industry use low-tech production equipment and have limited access to sophisticated equipment. This challenge hinders productivity, upgrading, and higher order transformation.
 - Weakness 5, Access to markets. There is a weak marketing strategy for Gabonese wood even though it is of the highest quality.
 - Weakness 6, Access to finance. Access to finance is limited due to low or almost inexistent supply of credit.
 - Weakness 6, Transport. The network capacity is weak. Mobility from wood clusters is limited.
- However, the SWOT analysis shows that the wood VC has many opportunities:
- Opportunity 1, Transport to export markets. There is evident opportunity to improve accessibility to exports with improve access to ports.
 - Opportunity 2, Transport efficiency. There is also opportunity to optimize efficiency in the transport modes: for example balancing road and railway freight mobility.
 - Opportunity 3, benchmarking with specific product demand.
 - Opportunity 4, Access to markets. There are new potential for great access and success in local and regional markets

Annex 7 - Weakness and Opportunities – Manganese

The SWOT analysis shows that manganese industry possesses several weaknesses in its VC:

- Weakness 1, Fiscal policy. The fiscal system is weak: inadequate public investments
- Weakness 2, Governance import customs procedures are inefficient hindering use of adequate inputs.
- Weakness 3, Labor force skill. The labor force pool lacks technical competences and related trainings, hindering higher order transformation of manganese.
- Weakness 4, Access to finance. The financial system is weak.
- Weakness 5, Transport. Transport lines are saturated, requiring the need for duplication.
- However, the SWOT analysis shows that the manganese VC has many opportunities:
- Opportunity 1, Transport -ports. Possibility to receive ships with capacity of 50 thousand Tons or higher.
- Opportunity 2, Energy. Hydropower and L&G are available but requires more network connection.
- Opportunity 3, Technology. There is opportunity for high end transformation of manganese with the development of Moanda & Franceville mineral zones
- Opportunity 4, Access to markets. Great opportunities exist in increasing global demand for steel & electric batteries
- Opportunity 5, Access to markets with new industry. There is great potential to develop a cement industry

Annex 8 – More on Resource Mobilization in Gabon

Official Development Finance Providers

Official Development Finance Providers refers to multilateral, regional and bilateral development finance institutions that have traditionally co-financed projects – sovereign as well as non-sovereign – with IsDB and/or provided technical assistance. Some of these institutions may also have contributed to thematic funds (to address specific issues such as climate change, fragility, disease control, and women & youth empowerment) and grant-making facilities, including blended finance.

International Governmental Organizations (IGOs)

This includes multilateral agencies (e.g., UN system, OIC, and OECD) and not-for-profit international and regional organizations. For the most part, these organisations provide policy advice, technical assistance and limited grant funding, which can support the design and delivery of programs and projects financed by IsDB.

Non-Governmental and Philanthropic Organisations

This category of partners includes various NGOs, academic and research organisations, think tanks, and foundations that typically provide technical assistance and grant funding, especially for humanitarian, social, and advocacy programs. It is worth highlighting that most of the major foundations tend to contribute to vertical funds (e.g., health, education, food security), so the contribution of Bill and Melinda Gates Foundation to the Bank-administered Lives and Livelihoods Fund may be treated as the exception rather than the rule.

Private Sector and Sovereign and Institutional Investors

This category includes private financial institutions, private investment funds, sovereign funds, and other institutional investors looking for commercial return. This is a major market for attracting co-financiers to Bank-financed non-sovereign projects and, in some cases, sovereign projects where the risk-reward equation is attractive or enhanced by risk mitigation tools (such as guarantees and tenor support) or where the returns are enhanced for the commercial investors through the provision of blended financing facilities. These partners tend to co-finance on a transaction basis but may also invest in thematic funds.

Foreign Direct Investment (FDI)

Recent Efforts to Attract FDI

Attracting foreign direct investment is one of the highest priorities of the GoG as highlighted in the Strategic Plan for an Emerging Gabon (PSGE), which stresses the importance of making Gabon a major investment destination.

Historical FDI Patterns

Since the turn of the century, France has been the largest source of both FDI inflows and FDI inward stocks in Gabon. According to OECD Statistics, between 2003 and 2012, France's FDI inflows to Gabon in absolute terms peaked in 2008 at USD382 million. During the same period, France's contribution to Gabon's total FDI inflows averaged around 40%. In terms of FDI inward stocks, France's contribution in absolute terms peaked during the same period in 2007 reaching USD2, 856 million. In 2012, France accounted for about 42% of Gabon's total FDI stock.

The United States was another important source of FDI inflows to Gabon between 2003 and 2012. During this period, FDI inflows to Gabon from the United States peaked in absolute terms in 2010 at USD327 million, and averaged around 1.8% of Gabon's total FDI inflows. In terms of FDI inward stocks, the contribution of the United States peaked in absolute terms during the same period in 2010 reaching USD586 million. In 2012, the US accounted for about 3.7% of Gabon's total FDI stock. Chinese FDI inflows to Gabon, between 2003 and 2012, peaked in absolute terms in 2008 at USD32 million, and averaged around 2.6% during the same period. China's contribution towards Gabon's total FDI stocks stood at 3% in 2012, with the peak in absolute terms occurring in 2012 at USD128 million. China's investments in Gabon have increased considerably since 2003. Golden Millennium Group's (GMG) capture of 35% of Belgium holding SIAT (Tropical Agriculture Investment Company) in July 2012 is one significant transaction contributing to said investment increase. GMG is a subsidiary of SINOCHEN, one of China's four state oil companies. SIAT Gabon, on the other hand, was at the time the leading palm oil and natural rubber producer in Gabon. It is worthy to note that Olam is SIAT's main competitor, and that Olam itself had sold a share of its assets in forestry and milling to a Chinese consortium for USD 18 million in 2014.



ISDB

IsDB 
البنك الإسلامي للتنمية
Islamic Development Bank



ISLAMIC DEVELOPMENT BANK GROUP

Jeddah 22331 - 2444 Kingdom of Saudi Arabia
Tel.: +966 12 636 61400 Fax: +966 12 637 4131
Email: isfd@isdb.org