Gabon Economic Update

TRADING AGRICULTURAL COMMODITIES:

Reducing Petty Harassment

WORLD BANK GROUP
Macroeconomics, Trade and Investment

June 2022

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Acknowledgments

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Abbreviations & Acronyms

AFC	Africa Finance Corporation
AfDB	African Development Bank (Banque Africaine de Développement)
BEAC	Bank of Central African States (Banque des États de l'Afrique Centrale)
CAR	Central African Republic
CEMAC	Economic and Monetary Community of Central Africa (Communauté Economique et Monétaire de l'Afrique Centrale)
CFAF	African Financial Community Franc (Franc CFA)
CGE	Computable General Equilibrium
EITI	Extractive Industries Transparency Initiative
ENVISAGE	Environmental Impact and Sustainability Applied General Equilibrium model
FDI	Foreign Direct Investment
FIES	Food Insecurity Experience Scale
GDP	Gross Domestic Product
GEF	Economically Weak Gabonese (Gabonais Economiquement Faible)
GRAINE	Gabonese Initiative for Achieving Agricultural Outcomes with Engaged Citizenry (Gabonaise des réalisations Agricoles et des Initiatives des Nationaux Engagés)
ID	Identity document
IMF	International Monetary Fund
LFR	Revised Budget Law (Loi des Finances Rectificative)
LPI	Logistics Performance Index
MPC	Monetary Policy Committee
MPO	Macro Poverty Outlook
NPLs	Non-Performing Loans
OPEC	Organization of the Petroleum Exporting Countries
PAT	Transformation Acceleration Plan (Plan d'Accélération de la Transformation)
PREF	Economic and Financial Reform Program (Programme des Réformes Economiques et Financières)
PSGE	Plan for an Emerging Gabon
SDR	Special Drawing Rights
SEZ	Special Economic Zone
SPS	Sanitary and Phytosanitary
SSA	Sub-Saharan Africa
TIAO	Policy Bid Interest Rate (Taux d'intérêt des appels d'offres)
USD	United States dollar
WB	World Bank
WDI	World Development Indicators
WEO	World Economic Outlook
WTO	World Trade Organization
ZAP	Productive Agricultural Zones (Zones Agricoles Productives)

OVERVIEW

Gabon's economic recovery has been intensifying, with oil and other commodities projected to drive GDP growth to 2.7 percent in 2022, up from 1.5 percent in 2021. Mining and forestry output have been increasing, while oil production was on the rise in early 2022 with the easing of OPEC+ quota requirements. The lifting of COVID-19 movement restrictions supported the uptick in the service sector, the country's largest economic sector. Higher global food and energy prices are projected to push inflation to 3.5 percent in 2022, against 1.1 percent in 2020 and above the CEMAC 3.0 percent target rate. Food prices are on the rise, largely due to the war in Ukraine but also to disruptions at the country's borders due to a customs officers' strike. Food price increases stood at 2.2 percent in 2021 and more recently at 3.9 percent (y-o-y at end-May 2022).

The fiscal stance improved in 2021 amid contained spending and is expected to turn into a surplus in 2022. The fiscal deficit slightly shrunk to an estimated 1.9 percent of GDP in 2021 (from 2.1 percent of GDP in 2020) even though the improvement was lower than the 1.3 percent anticipated in the budget law. Despite higher oil prices, government revenues were negatively impacted by lower oil production in 2021. At the same time, challenges in revenue administration led to lower domestic revenues than anticipated. Conversely, government efforts to reduce tax expenditure started to bear fruit and contained the decline in tax revenue, with total revenue for 2021 estimated at 14.7 percent of GDP (compared to 17.6 percent in 2020). Total expenditure as a percent of GDP significantly declined to 16.6 percent in 2021 (from 19.8 percent in 2020), reflecting the Government's continued efforts to keep spending under control, including investment spending. Among expenditure categories, only transfers and subsidies were above budget target levels (at 2.4 percent of GDP), reflecting the higher cost of oil subsidies linked to rising oil prices in 2021. The fiscal balance in the revised budget law is projected to stand at 1.7 percent of GDP in 2022 against a projected deficit of 0.6 percent of GDP in the initial 2022 budget law. While Gabon's 2022 budget has been benefiting from the surge in oil prices, some of the commodity-driven revenue windfall is being directed toward energy and food subsidies to cushion the impact of rising prices caused by global trade disruptions and the ongoing war in Ukraine. Fiscal consolidation efforts are expected to keep spending on most areas, including the wage bill, under control. Nevertheless, risks of spending slippages remain, in view of the upcoming 2023 elections and of the pressures brought by subsidies.

While debt-to-GDP remains sustainable amidst gradual economic recovery and high oil prices, debt arrears remain high. According to the latest IMF/WB Debt Sustainability Analysis performed in July 2021, despite reaching historic highs in 2020 and remaining close to the CEMAC target of 70 percent of GDP in 2021, public debt remains sustainable. In 2021, the public debt stock declined to 65.8 percent of GDP in 2021, down from 78.3 percent in 2020, reflecting stronger nominal GDP growth (but an increase in nominal debt). Rising financing needs in 2021 were mostly met by domestic financing. Liquidity pressures are also considerable, with debt servicing representing a significant share of revenues. In 2022, the public debt stock is projected to further decline to 52.6 percent of GDP, continuing on a downward trajectory over the medium term. Recent actions have been taken to tackle the issue of arrears accumulation. External arrears were cleared in June 2022 and a five-year plan was adopted to clear existing domestic arrears. Improving debt management and implementing the arrears clearance plan according to the established calendar would considerably reduce debt sustainability risks.

The uptick in oil prices compensated for the decline in production and led to a trade surplus in 2021, which is expected to remain high in 2022. Despite lower oil production in 2021, higher oil prices led to a large nominal increase in export revenues (41 percent y-o-y). Exports of manganese and timber also recorded a strong increase in volume, with Gabon's terms of trade improving by 36 percent in 2021, and are expected to further increase in 2022. While global and domestic economic recovery also led to an increase in imports, Gabon's overall trade balance increased significantly to 11.5 percent of GDP in 2021 (from 3 percent in 2020). High-frequency data show that Gabon's trade surplus should remain high in 2022 as the trade balance already registered a threefold increase in the first quarter of 2022 (y-o-y). Oil production increased by 2.8 percent in the first quarter of 2022 and is expected to reach a 7.1 percent increase by year-end, with the easing of OPEC+ quotas. The current account deficit seen in 2021 is estimated to have declined to 4.2 percent of GDP, compared to 6.9 percent of GDP in 2020. In 2022 it is expected to turn to a surplus of 0.8 percent of GDP, pushed by the strong performance in exports of oil and other commodities.

The 2020 economic recession led to an increase in extreme poverty. The COVID-19 pandemic has exacerbated poverty, with a national poverty rate estimated at 34.1 percent in 2021, up from 32.4 percent in 2019. Employment suffered in 2021 from the restrictive measures imposed by the Government to prevent new waves of infection, resulting in falling household incomes, especially for self-employed and informal workers, who experienced major income losses. Although gradual economic recovery started in 2021, the population's living conditions have not yet returned to their pre-crisis level. Food insecurity among children in the most vulnerable segments of the population and lower schooling rates during COVID-19 lockdowns are likely to have a long-term impact on the country's human capital development.

While Gabon's economic outlook is favorable over the medium term, growth drivers are fragile and downside risks remain high. Gabon's economy is projected to gain momentum, growing by an average of 2.8 percent over 2023-2024 amidst recovery in the service sector thanks to the lifting of all COVID-19 restrictive measures and booming wood and manganese industries. Fiscal balances are expected to improve gradually over the medium term as the authorities accelerate fiscal consolidation, while debt is projected to decline in the medium term. However, downside risks remain high. Strong economic diversification efforts are needed to reduce the country's overreliance on volatile commodity prices. In addition, the emergence of new COVID-19 variants may harm domestic activity should the Government impose new restrictions. Accumulation of arrears remains an issue, with a potential negative impact on financing costs. Uncertainty surrounding the 2023 presidential elections and weak institutional capacity could slow the Government's implementation of structural reforms toward economic diversification and thereby jeopardize future growth. Finally, the war in Ukraine also presents some downside risks through global inflationary pressures. On the other hand, global oil prices may remain high in the medium term, with a positive impact on Gabon's fiscal and external positions. In a context of high global oil prices, Gabon faces a balancing act going forward and should increase fiscal space to rebuild buffers while protecting the most vulnerable.

Food insecurity could be exacerbated by the on-going war in Ukraine as Gabon is highly vulnerable to shocks in the agricultural sector. Gabon is a net food importer, with the country's food imports representing close to a quarter of its total imports of goods over the period from 2010 to 2020. Global supply chain disruptions relating to the COVID-19 pandemic have been contributing to soaring commodity prices, resulting in higher food insecurity. The share of households in situations of food insecurity increased from 82.6 percent in November 2020 to 84.3 percent in April 2021 before declining to 73.3 percent with the lifting of the second lockdown in November 2021. This situation could be aggravated by the impacts of the ongoing war in Ukraine on food prices and supply chains.

The Government has adopted plans to increase agricultural production. The Gabonese Initiative for Achieving Agricultural Outcomes with Engaged Citizenry (GRAINE), a smallholder farming program launched by the Government in 2014, helped to increase food crops, albeit with mixed results. However, the Government's current plan is more ambitious and sets a goal of ultimately reducing food imports by 50 percent through a strategy of import substitution. Specific ongoing measures include the establishment of an agricultural high school to train skilled agricultural engineers (expected to be operational in 2022), the creation of Productive Agricultural Zones (ZAP), and a project co-financed by the African Development Bank (AfDB) in rural areas targeting women and the young. A law requiring supermarkets and the agro-business sector to purchase from local agricultural producers has also been passed.

Despite the Government's efforts to increase agricultural production, Gabon's agricultural trade remains hampered by structural bottlenecks related to weak supporting infrastructure, the high number of intermediaries, and price uncertainty. The Logistics Performance Index (LPI) highlights a degradation of Gabon's overall logistics since 2010, including customs and the quality of logistics service. Over the past decade, Gabon's trade logistics lagged other CEMAC countries, with the 2018 overall Logistics Performance Index (LPI) at the same level as in the Central African Republic (CAR). This is due to a mix of large infrastructure gaps and administrative inefficiencies. For example, large urban markets suffer from poor market infrastructure, which seems to be captured by local elites and intermediaries (especially storage facilities). The marketing process of agricultural goods in Gabon has in total more than 16 steps (from production to final consumption) and thus creates further inefficiencies in the trading of agricultural commodities. In addition, market participants are negatively impacted by price uncertainty, which often results from mismatches between supply and demand for goods as well as the presence of foreign buyers and is exacerbated by the lack of a market information system for disseminating prices.

Informal payments and obstacles for imports into Gabon, including petty harassment,[1] add to already high import duties and can contribute to informality, unpredictability, and delays in border crossing and transport network. Trade in agricultural commodities in CEMAC faces limited consistency and transparency in border clearance requirements, which act as a vector for petty harassment, resulting in a multitude of both formal and informal border costs. Petty harassment is a generalized form of corruption often seen in Gabon and consisting of many small payments made without a receipt to customs and other authorities throughout the trade marketing process. A World Bank survey of CEMAC countries and a survey of Gabonese market participants conducted for this report found that actual trading costs at surveyed locations were consistently higher than official listed tariffs and frequently included many unofficial costs, both at borders and along roads leading to the main consumption areas. On average, a 20-ton truck moving goods from the Cameroon border to Libreville expects to be stopped at multiple checkpoints—more specifically, at 44 stops, once every 10.8 kilometers. Together, they create a delay of more than fifteen hours and a cost of CFAF 1,980,000 (USD 3,736). Three out of four stops are reported to occur due to petty harassment. Based on data collected, petty harassment increases the cost of transporting agricultural commodities in Gabon by USD 0.30 per ton per kilometer. Obstacles and delays faced

1 Administrative obstructions of this type are generally referred to locally as "*tracasseries*".

by traders can also result in waste and degradation of perishable agricultural products, decreasing profits and disincentivizing business activities. A worrying trend has been observed since the COVID-19 pandemic, which is reported to have led to longer times for dealing with administrative documents and to the imposition of new checkpoints along trade routes.

Reducing petty harassment would support trade in agriculture, reduce the overall cost of living for the population, and foster economic growth in Gabon. It was estimated that petty harassment accounts for 14 percent of final consumer prices for selected commodities on the Cameroon-Gabon corridor, representing altogether about one-third of final consumer prices. A simulation of the removal of such harassment in CEMAC through the use of ENVISAGE, a dynamic global Computable General Equilibrium (CGE) model developed by the World Bank, found that intra-regional exports into Gabon could increase by about 25 percent by 2030 and GDP growth could increase by more than 0.7 percentage points compared to the baseline. Given the potential importance of unrecorded or informal trade, the actual growth impact may be even larger. Reducing petty harassment would therefore be highly beneficial for Gabon, especially given the context of rising inflationary pressures brought by the war in Ukraine and global trade disruptions. By contributing to bringing down prices, it could also provide a relief to fiscal pressures derived from increased spending on food subsidies and from tax exemptions aimed at containing living costs. In addition to contributing to the country's fiscal stance, in the short and medium term, reducing petty harassment is crucial to: (i) facilitating regional agricultural trade; and (ii) reducing the cost of living for the population.

The policy agenda is summarized in Table 1.

Table 1. Roadmap for reducing petty harassment and lowering prices of agricultural products

Objectives	Policy Recommendations	Time frame
I. IMPROVING BORDER OPERATIONS	1. Finalization of Sydonia World software deployment in customs on the Northern border	Short term
	2. Streamlining the number of administrative documents needed for import and export activities in line with WTO recommendations on trade facilitation	Short to medium term
	3. Implementing a single window approach to external agricultural trade	Medium term
	4. Fostering dialogue through CEMAC's Economic and Financial Reform Program (PREF) on the negative impact and shared cost of border closures	Short term
II. PROFESSIONALIZING BEHAVIOR ALONG TRADE CORRIDORS	5. Reducing the number of checkpoints along trade corridors	Short to medium term
	6. Reinforcing dissemination materials and user-friendly information on trade procedures and official fees	Short term
	7. Upgrading legitimate checkpoints by building capacity to implement functions (such as SPS monitoring) and improving oversight	Medium to long term
III. IMPROVING EFFICIENCY IN AGRICULTURAL MARKETS	8. Promoting competitiveness through inclusive market management and oversight by involving trader associations and other private users in developing and managing market spaces	Medium to long term
	9. Rationalizing the marketing process by reducing the number of steps (currently 16) between the various actors involved with agricultural trade (producers, importers, traders)	Medium term

RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK FOR GABON

1. Global and Regional Trends

Impacted by destabilizing shocks brought by the COVID-19 pandemic and the war in Ukraine, global economic growth is expected to slow to 2.9 percent in 2022. The previous year had seen a relaxation of pandemic-related lockdowns and a 5.7 percent growth, its strongest post-recession pace in 80 years. Growth has been supported by recovery in global trade, reflecting the rise in global demand for highly trade-intensive manufactured goods. This recovery of demand and supply also contributed to the surge in global commodity prices, including energy, such as natural gas and coal, in the second half of 2021. However, with disruptions in supply chains and rising demand, inflation is on the rise. Since the start of the war in Ukraine in early 2022, inflationary pressures and have been exacerbating global stagflation risks and increased food insecurity, especially in developing economies.[2]

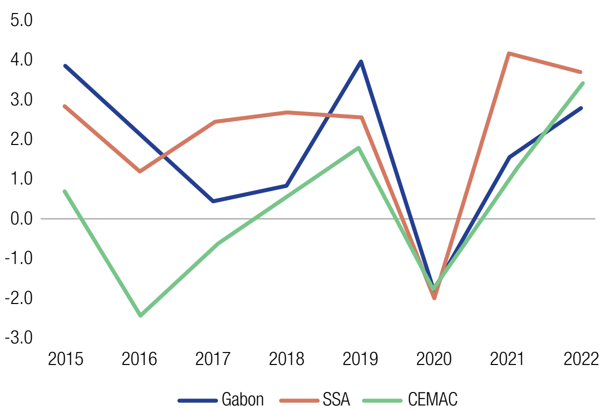
Meanwhile, Sub-Saharan Africa's recovery from the COVID-19 pandemic has been weaker amid high volatility and uncertainty. Economic growth in the region is expected to reach 3.7 percent in 2022, down from 4.2 in the previous year. The recovery path has been supported by increased global trade, high commodity prices, and the lifting of COVID-19 restrictions that had been imposed to contain the spread of successive waves of the pandemic. Private consumption and—to a lesser extent—gross fixed investment contributed to the recovery from the expenditure side, while net exports held back the recovery. The upturn was also buoyed by the service sector, while weather conditions favored agriculture from the production side. However, higher food, fertilizer, and fuel prices are leading to shortages and intensified risks for regional growth, especially as much of the region's wheat imports rely on Russia and Ukraine.

Economic recovery in the Economic and Monetary Community of Central Africa (CEMAC) has been weaker than in SSA. Economic recovery in the region was weak in 2021 amid modest hydrocarbon production in most CEMAC countries. The region's economic growth is estimated to have reached 3.4 percent in 2022 and 1.0 percent in 2021, compared to a recession in 2020 (-1.7 percent) (Figure 1). The CEMAC performance seen in 2021 reflects positive growth in three CEMAC

2 World Bank 2022b.

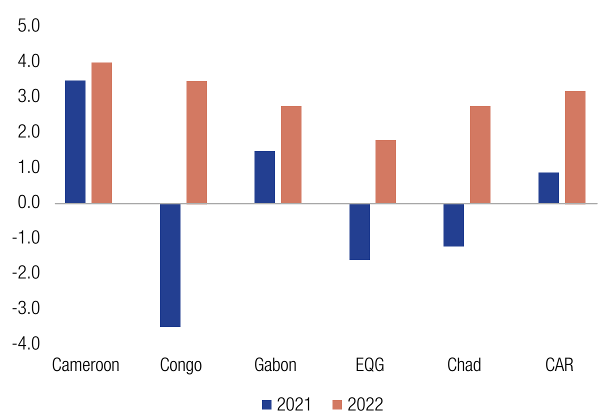
economies (Cameroon, CAR, and Gabon), while others (Chad, Congo, and Equatorial Guinea) experienced recession; all countries in the region are expected to grow in 2022, driven by hydrocarbon production and a decreasing impact of the pandemic (Figure 2). Despite global inflationary pressures, the region's headline inflation remained fairly low at 2.2 percent in 2021 (below the regional convergence criterion of 3 percent), a development partly explained by the region's broad use of energy and food subsidies and price controls.[3]

Figure 1. Real GDP growth (in %), 2015-2022



Source: WDI, WEO, Global Economic Prospects
Note: Preliminary data for 2021; projection for 2022

Figure 2. CEMAC: Real GDP Growth, 2021-2022



Source: World Bank staff calculations, MPO April 2022, Global Economic Prospects

Meanwhile, the region's fiscal and external positions deteriorated due to the drop in oil production in 2021, which was not fully compensated by higher oil prices.

2. Gabon's Economic Recovery

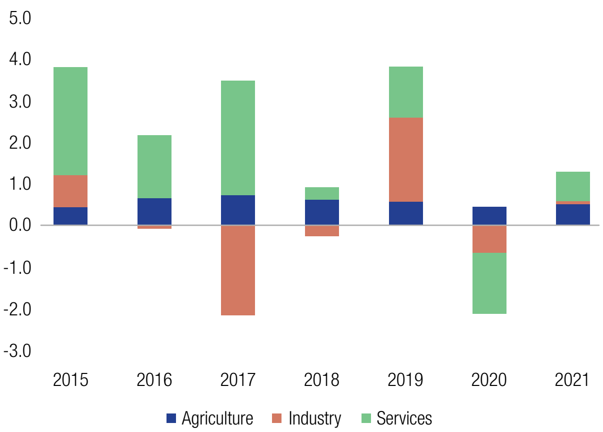
Gabon's economic recovery started timidly in 2021 and has been picking up in 2022, owing to the lifting of the movement restrictions that had been imposed to contain the spread of COVID-19 and the continuous rise in global oil prices. Gabon's economy expanded by an estimated 1.5 percent in 2021, with a projected further increase of 2.8 percent in 2022. The country has been recovering from a recession of 1.8 percent in 2020, which was caused by the dual shock of the COVID-19 pandemic and the drop in global oil prices.

From the production side, the upturn was initially buoyed by the service sector and the booming mining and forestry sectors, to which oil production added in 2022 (Figure 3 and Figure 4). Oil production is projected to increase by 7.1 percent in 2022, up from a 5.5 percent decline (y-o-y) in 2021.[4] Despite significant investments by oil companies in 2018 and 2019 with the aim of increasing the capacity of mature oil fields, Gabon was forced to cut its production both in 2020 and 2021 in order to comply with OPEC+ requirements. However, the country's oil production, which was below capacity in 2021, is projected to increase in 2022 as OPEC+ oil production cuts are lifted. In 2021, production of manganese and logs increased by 12.8 and 25.7 percent (y-o-y), respectively, thus boosting non-oil activity. The increase in manganese production was driven by the strong performance of the two main operators in the mining sector in Gabon, CICMHZ (a 32 percent increase) and Comilog (a 21.2 percent increase). Meanwhile, wood-related industries grew by 34.5 percent, driven by improvements in the output of production units, the ramping-up of newly installed units, and strong supply of logs to plants, particularly in the Nkok area. Production in the Nkok Special Economic Zone (SEZ) represented 50 percent of national produc-

3 Singh, R. et al. 2022.

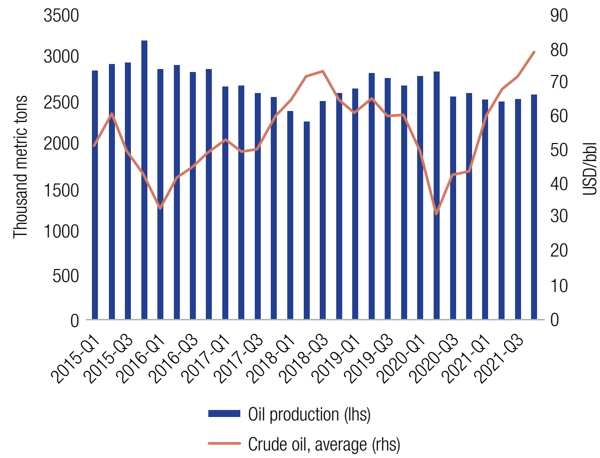
4 The drop in oil production was more significant in 2021 than in 2020 (at 1.3 percent) as Gabon only partially implemented OPEC+ quotas in 2020 and had to cut its production further in 2021.

Figure 3. Gabon: Contribution to Real GDP Growth, 2015-2021



Source: Government authorities and WB staff calculations
Note: Preliminary data for 2021

Figure 4. Gabon: Oil production and Oil price, 2015Q1-2021Q4



Source: Government authorities, World Bank Commodity Price Data

tion in 2021, against 40 percent a year earlier. Services, the largest sector of the economy, also substantially contributed to the recovery despite the emergence of new COVID-19 variants (such as Delta and Omicron). Overall, the lifting of most COVID-19 movement restrictions supported the uptick in service activities.

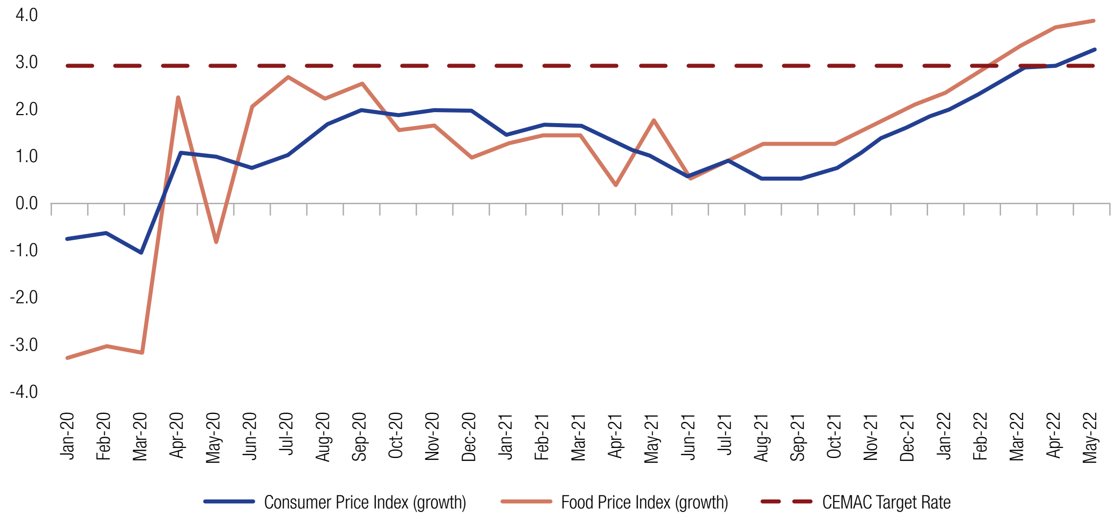
3. Growing Inflationary Pressures and Tightened Monetary Policy

Higher global food and energy prices have been causing a rise in consumer prices in Gabon in 2022, whereas inflation remained contained in 2021. The overall annual inflation rate, which stood at 1.6 percent in 2021, is projected to reach 3.5 in 2022, above the CEMAC 3.0 percent target (Figure 5). Food prices rose by 2.2 percent in 2021. Prices of imported products were also on the rise (2.4 percent), fueled by disruptions in global supply chains as well as at the country's borders due to a customs officers' strike. In response, the Government took specific measures to limit disruptions in the supply of imported stapled foods, which may have helped to limit the increase of the cost of living.[5] "*La Lutte Contre la Vie Chère*" program was launched in 2017 and consists in exemptions to selected imported basic items, which helped to protect the most vulnerable from high food prices and shortages. More recently, actions have been taken to gradually reduce the list of exempted goods, in order to rationalize tax expenditures and improve the fiscal balance. However, inflationary pressures have so far prevented the Government from further reducing the exemptions granted in the program.

The war in Ukraine added to Gabon's inflationary pressures. Within two months of the war, food prices had risen considerably, from 2.4 percent (y-o-y) in January 2022 to 3.4 percent by March of the same year. Overall, compared to many economies, Gabon's annual inflation rate has remained relatively contained so far (3.3 percent y-o-y at end-May 2022), but prices of food products recorded a significant rise of 3.9 percent (y-o-y). The exemptions granted under "*La Lutte Contre la Vie Chère*" program, which was already in place before the onset of the war in Ukraine, are contributing to avoiding an even more substantial surge in food prices. Except for wheat, there are no direct government subsidies for food products. As regards energy prices, in April 2021, the Government introduced a price freeze on petroleum products at the pump in addition to existing subsidies

5 Keeping food inflation under control and avoiding food shortages remained the Government's priorities in 2021. Initiatives taken by the Government included a campaign to control prices and the availability of basic consumption items throughout the country.

Figure 5. Inflation (monthly, y-o-y), January 2020-May 2022



Source: Government authorities

to lamp oil and butane gas. This explains how Gabon's energy prices have remained somewhat low in recent months, increasing by only 0.9 percent (y-o-y) in April 2022. While these exemptions and subsidies have been useful in containing living costs, they have been adding important spending pressures to the fiscal position.

Since the second half of 2021 and throughout early 2022, the Bank of Central African States (BEAC) has been tightening its monetary policy. Concerns about the direction of foreign exchange reserves and associated risks to the region's external stability prompted the BEAC to tighten its monetary policy in late November 2021 and again in March 2022. Following an extraordinary Monetary Policy Committee (MPC) meeting on November 25, 2021, the BEAC increased the policy bid interest rate (TIAO) by 25 basis points to 3.50 percent and again by 50 basis points to 4.0 percent in March 2022. Despite higher oil prices in 2021 and the International Monetary Fund's (IMF) allocation of Special Drawing Rights (SDR) to the region equivalent to CFAF 797 billion, the stock of foreign exchange reserves at BEAC decreased in 2021, with reserves representing just below 3 months' worth of imports of goods and services by end-December 2021. However, the IMF's SDR allocation granted to Gabon in July 2021 (equivalent to CFAF 168 billion) remained unused and its purpose is determined in the 2022 revised budget law.[6] The 2021 SDR allocation is being partially directed at the repayment of domestic debt (CFAF 26.2 billion), and the remaining part is being used to support regional reserves. Toward end-2021, the BEAC began to gradually reduce its weekly liquidity injection operations (initiated in September at CFAF 250 billion and at CFAF 70 billion as of June 2022).

The decline in non-performing loans (NPL) is a positive sign for the stability of the financial sector. The volume of non-performing loans (NPLs) continued to decline at end-2021 (y-o-y). The volume of NPLs on the balance sheets of Gabonese banks fell, reaching 8.5 percent of total loans in 2021 as against 9.8 percent a year earlier. The decline in NPLs is mostly explained by the gradual clearance of some domestic arrears currently being executed in accordance with the authorities' clearance plan (implemented since October 2020).

To satisfy the country's higher financing needs, commercial banks accelerated their participa-

6 Gabon's 2022 revised budget law was adopted by the National Assembly in June 2022. The draft 2022 revised budget law was pending publication as of July 2022.

tion in the purchase of Government securities from 2020. However, despite significant government financing needs from banks, financing available for the private sector was on the rise in 2021 and supported the country's economic recovery. Credit to the private sector increased by 15.8 percent in December 2021 (y-o-y), while credit to the Government increased by 24.4 percent (y-o-y) over the same period, with this trend continuing in 2022. In March 2022, total credit increased by 19.0 percent (y-o-y) in nominal terms. Monetary data show that credit to the economy rose by 13.9 percent (y-o-y) over the same period while lending to the Government increased by 28.4 percent (y-o-y). Purchases of Government securities by commercial banks increased in order to absorb the increased issuance of bonds and Treasury bills based on the Government's financing strategy, which relies heavily on the regional financing market. A notable point is that Gabonese banks have accumulated almost one fifth (19.8 percent) of their assets in sovereign exposure.[7]

4. Exacerbated Poverty Levels

The COVID-19 pandemic has exacerbated poverty, with a national poverty rate estimated at 34.1 percent at end-2021 up from 32.4 percent in 2019. The emergence of new variants of the COVID-19 virus combined with a low vaccination rate (with only 11.7 percent of the population fully jabbed as of July 2022)[8] constituted a threat to living conditions. Although gradual economic recovery started in 2021 and has been increasing its pace in 2022, the population's living conditions have not yet returned to their pre-crisis level. Employment suffered in 2021 from the restrictive measures imposed by the government to prevent new waves of infection, resulting in falling household incomes, especially for self-employed and informal workers, who experienced major income losses. Although the second wave of the pandemic (from February to June 2021) negatively affected economic activities in Gabon, the impact was less severe than that of the first wave. The peak in the share of households experiencing job losses due to the pandemic was 14.0 percent in July 2021, compared to 25.9 percent in May 2020 after the onset of the pandemic. The negative effect of the second wave on employment reduced household incomes across the board, with incomes from domestic transfers, property, investments and savings, and agriculture, livestock, and fishing being the most affected.

The ability to afford staple foods and medicines was hampered by the COVID-19 pandemic and resulted in an increase in food insecurity. Through its effects on employment and income, the COVID-19 pandemic reduced households' ability to afford nutritious food (such as fish) and basic health services in 2021, just as it did in 2020. The second wave of the pandemic led to an increase in food insecurity,[9] which was more pronounced in urban areas. The share of food insecurity among households increased from 82.6 percent in November 2020 to 84.3 percent in April 2021 before starting to decline with the lifting of the second lockdown to 73.3 percent in November 2021. Moreover, throughout 2021, over 40 percent of households were experiencing severe food insecurity. There was also a sharp reduction in households' ability to afford medicines during the second wave and lockdowns, followed by gradual recovery. In April 2021, access to medicines dropped to 72 percent from 83 percent in November 2020.

The pandemic also had a significant impact on human capital that could potentially shape future generations. Higher levels of food insecurity are likely to affect children in vulnerable households, with undernourishment having a long-term impact on the country's human capital development. In addition, one of the first measures taken to prevent the spread of the virus in Gabon was to close all schools and universities across the country. As a result, half of all children nationwide reported not having any learning activities during lockdown and subsequent months until the reopening of schools.

7 In January 2022, the yield curve ranged between 7.77 percent for 3-month bills and 9.61 percent for 10-year bonds, compared to 7.58 percent and 8.71 percent, respectively, in December 2021

8 An additional 13.8 percent of the population received one dose of vaccine as of July 2022.

9 Food insecurity is measured by the composite indicator based on Food Insecurity Experience Scale (FIES) questions that record self-experience episodes of food shortages by at least one household member over the past 30 days prior to the survey. Households that are experiencing at least 4 dimensions out of 8 are considered severely food insecure. Source: World Bank 2022a.

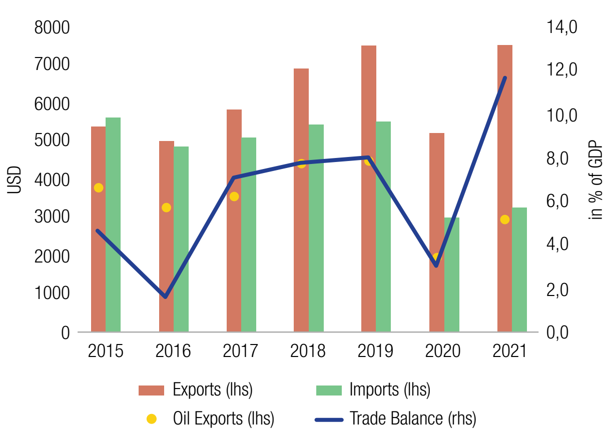
5. Higher Oil Prices Boosted Gabon's Trade Balance

The increase in export receipts resulting from higher oil prices favorably impacted the trade balance in 2021. Despite lower oil production in 2021, higher oil prices led to a large nominal increase in export revenues (41 percent y-o-y). Gabon also benefited from favorable prices for timber. Overall, Gabon's terms of trade registered a large increase (36 percent) in 2021. Exports of manganese and timber also recorded strong increases in volume. Regarding imports, the increase (3.6 percent y-o-y) was driven by the rise in imports of intermediate and consumer goods, reflecting both the global and domestic economic recovery. Gabon's trade balance thus increased from 3.0 percent of GDP in 2021 to 11.5 percent in 2021 (Figure 6). As a result, the current account deficit is estimated to have declined to 5.2 percent of GDP in 2021 compared to 6.9 percent of GDP in 2020, driven by improvements in the trade balance, even though it remained wider compared to CEMAC or SSA countries (Figure 7 and Figure 8). Foreign Direct Investment (FDI) continued to drive external financing flows in 2021, along with portfolio investment, that financed the deficit.

In 2022, higher oil prices are expected to drive the trade balance to a larger surplus. High-frequency data show that Gabon's trade balance surplus saw a threefold increase in the first quarter of 2022 (y-o-y). This improvement in the trade balance was driven by a significant rise in exports that more than compensated for higher imports. Exports significantly increased by 113.7 percent in 2022-Q1 (y-o-y), while imports increased by only 20.4 percent over the same period. The volume of oil exports increased by 44.7 percent (y-o-y) due to the easing in OPEC+'s production quotas, and while still representing a small share of total exports, oil palm and sawn wood export volume also recorded significant rises in 2022-Q1 (57.6 percent and 23.2 percent y-o-y, respectively). Regarding imports, their increase was driven by the rise in imports of capital goods (36.2 percent y-o-y), intermediate goods (19.4 percent y-o-y), and consumer goods (19.2 percent y-o-y), reflecting recovery in both Gabon's and the global economies.

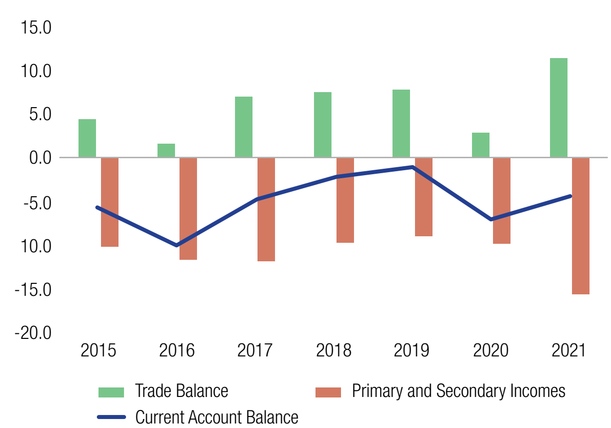
Despite recent positive developments, Gabon's external position remains highly vulnerable to volatile prices of oil and other commodities. In the first quarter of 2022, nominal oil exports represented more than 75 percent of total exports. Risks include an increasing trading partner concentration and a continuous reliance on oil and commodity exports, showcasing the need for strong diversification efforts to attenuate the dependency on unstable growth drivers and build a solid economic base. Without structural reforms, the country's growth is likely to remain supported by a fragile base.

Figure 6. Gabon: Trade Balance, 2015-2021



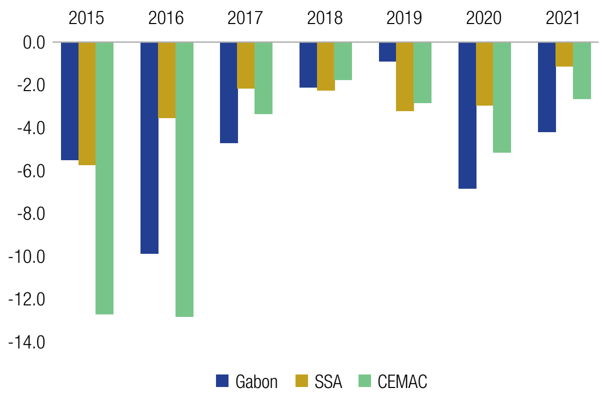
Source: Government authorities and WB staff calculations
Note: Preliminary data for 2021

Figure 7. Gabon: Current Account Balance (in % of GDP), 2015-2021



Source: Government authorities and WB staff calculations
Note: Preliminary data for 2021

Figure 8. Current Account Balance (in % of GDP), 2015-2011



Source: Government authorities and WB staff calculations, WEO
Note: Preliminary data for 2021

6. Improvements in the Fiscal Balance and Lower Debt Ratio

Fiscal Developments

The fiscal balance improved slightly in 2021. The fiscal deficit slightly shrunk to an estimated 1.9 percent of GDP in 2021 from 2.1 percent of GDP in 2020 (Figure 9 and Table 2). While this trend is in line with revised 2021 budget law forecasts, the magnitude of the reduction in the deficit is nevertheless less significant than anticipated in the initial budget law (with a forecast deficit of 1.3 percent of GDP). Despite contained public expenditures, disappointing fiscal revenues limited the extent of fiscal improvement.

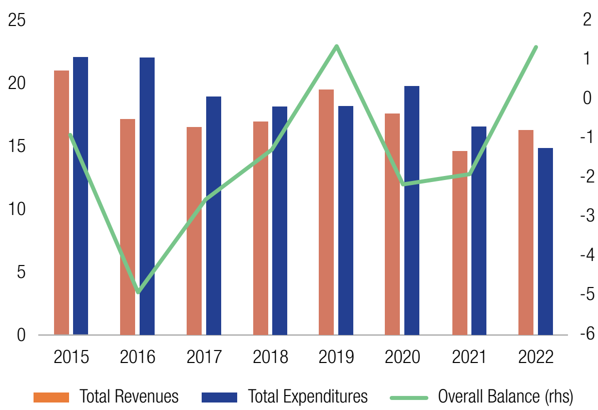
Government revenues suffered from lower oil production and challenges to domestic resource mobilization in 2021. Overall, total revenues as a percentage of GDP significantly declined to 14.7 percent of GDP in 2021 from 17.6 percent of GDP in 2020 (Figure 10). Total revenues stood below the 19.2 percent of GDP government target (set in the revised 2021 budget law)[10] as high oil prices only partially compensated for lower oil production resulting from the imposition of OPEC+ quotas on oil production. In addition, domestic revenue mobilization was negatively impacted by challenges affecting revenue administration, which contributed to revenue underperformance. This resulted from a major strike in the Tax and Customs administrations and the non-implementation of a new tax on in-kind- benefits to employees introduced in the 2021 budget law. Challenges in oil revenue management further impact the country's fiscal balance (Box 1). Moreover, despite the gradual lifting of restrictive measures linked to the COVID-19 pandemic, the financial situation of companies and households remained fragile due to significant income losses, thereby limiting tax collection.

Efforts currently implemented by the Government to reduce tax expenditures started to bear fruit and contributed to limiting the magnitude of the decline in tax revenues. Customs duty exemptions declined by 21.1 percent in 2021. This decrease mainly came from continuous efforts by the Government to reduce the amount of exemptions granted to private companies. As a result, tax expenditures resulting from tax exemptions on basic food imports as part of the "*La Lutte Contre la Vie Chère*", which has targeted the high cost of living since 2017, fell by 27.4 percent thanks to further reduction in the list of exempted products from 50 to 23 tariff lines. At the same time, attempts at further cuts in tax exemptions may be compromised in view of ongoing inflationary pressures caused by the war in Ukraine and the upcoming 2023 elections.

Overall spending decreased in 2021 amid lower current and capital expenditures. Overall, total expenditures as a percentage of GDP significantly declined, to 16.6 percent in 2021 from 19.8 percent in 2020, reflecting the government's continued efforts to keep spending under control, including investment spending. Current expenditures strongly decreased, by 2.9 percentage points to 13.3 percent of GDP in 2021 in line with the Government's commitment to contain non-priority public expenditures. As for budget execution, current expenditure items are below the 2021 budget target except for transfers and subsidies, which are estimated to stand at 2.4 percent of GDP, above the 2021 annual target of 2.2 percent of GDP. Despite the reduction in social assistance provided since 2020 to protect the most vulnerable against the negative impact of the COVID-19 pandemic,

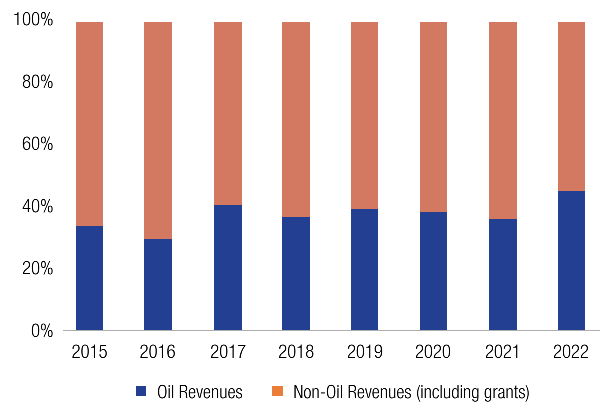
10 Average oil price is estimated at USD 70 for 2021 as against an assumption of USD 55 in the revised budget law.

Figure 9. Gabon: Revenue, Expenditure, and Fiscal Balance (in % of GDP), 2015-2022



Source: Government authorities and WB staff calculations
Note: Preliminary data for 2021; projection for 2022.

Figure 10. Gabon: Oil and Non-oil Revenues, 2015-2022



Source: Government authorities and WB staff calculations
Note: Preliminary data for 2021; projection for 2022.

Table 2. Gabon: Fiscal table

% of GDP (unless otherwise stated)	**2020 Outcome**	**2021 (LFR)**	**2021 Outcome**	**2022 Projection**
Total Revenue and Grants	**17.6**	**18.1**	**14.7**	**16.2**
Revenues	17.6	17.6	14.6	15.8
Oil revenues	6.8		5.3	7.1
Non-oil revenues	10.8		9.3	8.8
Tax revenues	9.9	12.1	8.7	8.2
Non-tax revenues	0.9	5.4	0.7	0.6
Grants	0.0	0.5	0.1	0.4
Total Expenditures	**19.8**	**18.7**	**16.6**	**14.9**
Current Expenditures	16.2	14.9	13.3	11.2
Wages and Compensation	7.7	6.4	6.1	4.9
Good and Services	2.3	2.8	2.1	1.5
Interest Payments	3.4	3.0	2.7	2.4
Transfers and Subsidies	2.8	2.7	2.4	2.4
Other expenditures	0.8	0.3	0.9	1.4
Investment	2.7	3.5	2.4	2.3
Overall Balance (commitment basis)	**-2.1**	**-0.6**	**-1.9**	**1.3**
Primary Balance	**1.2**	**2.3**	**0.9**	**3.7**
Memo				
Nominal GDP (CFAF billions)	8,816	10,658	11,219	13,905

Sources: Government, IMF, and World Bank
Note: Preliminary data for 2021; IMF projection for 2022 (differing in some cases from the 2022 revised budget law).

Box 1. Natural resources revenue management

The opacity of natural resource revenue management is preventing the country from taking full advantage of episodes of rising oil prices. In light of the sharp rise in global oil prices observed in 2021, the level of oil revenues collected by the Government (5.3 percent of GDP) appears relatively low. In a context marked by a structural decline in oil production (in the absence of any new major discovery), it is crucial for Gabon to improve the management of its public finances and to strengthen the transparency and governance of revenues and expenditures from its natural resources. In 2020, the extractive sector still represented 14 percent of GDP and 38.4 percent of total revenues despite ongoing efforts by the Government to diversify the economy. Hence, the reintegration of Gabon into the Extractive Industries Transparency Initiative (EITI) initiative on October 19, 2021, eight years after its exclusion in 2013 for non-compliance with the commitment to regularly publish information on revenues from oil and mining activities, is an important step forward for the country given the persistent lack of transparency affecting Gabon's extractive sector. Looking ahead, Gabon's concrete progress in implementing EITI requirements, though crucial, remains to be seen.

higher than anticipated transfers and subsidies were due mainly to the higher cost of oil subsidies paid by the Government thanks to rising oil prices in 2021. Spending on transfers and subsidies is expected to remain substantial in 2022, in view of rising food and fuel subsidies. In the meantime, capital expenditures slightly decreased, by 0.3 percentage points to 2.4 percent of GDP in 2021, illustrating the Government's objective to be more selective in investment projects to be introduced in the budget law. The Government dedicated its 2021 resources to the completion of ongoing projects in priority sectors (energy and water, health, and education) while supporting post COVID-19 economic recovery with new investments.

Rising financing needs were met by higher domestic financing in 2021. In 2021, about 40 percent of all budget financing came from domestic sources and in particular from the regional financial market. This is in line with the Government's financing strategy attached to the 2021 revised budget, which significantly relied on financing from the regional market owing to a hardening of international market access conditions for Gabon. Meanwhile, relatively lower than expected levels of external borrowing reflected the slow pace of project execution. The purchase of Government securities by commercial banks continued to increase and absorbed a large share of issued bonds and Treasury bills. However, the risk premium requested by investors to subscribe to Gabon's newly-issued securities remained high as all maturities increased in the last quarter of 2021 despite Fitch Ratings' increase of Gabon's sovereign rating in August 2021 (from CCC to B-), higher global oil prices, and the approval of a new program by the IMF (July 2021). In December 2021, the yield curve ranged between 7.58 percent for 3-month bills and 9.08 percent for 5-year bonds compared to 3.04 percent and 9.61 percent, respectively, in January 2021.

According to the revised budget law, the overall fiscal deficit is expected to turn into a surplus in 2022. The fiscal balance is projected to stand at 1.7 percent of GDP in 2022 as against a projected deficit of 0.6 percent of GDP in the 2022 initial budget law. In the revised budget law (LFR), which was pending publication as of July 2022, the authorities forecast real GDP to grow by 2.8 percent in 2022, compared to 3.0 percent anticipated in the 2022 initial budget law. Moreover, the assumption of oil prices at USD 80 per barrel in the 2022 revised budget law is much higher than the initial forecast of USD 60 per barrel. Total revenues for 2022 are projected to increase by 16.4 percent (equivalent to 16.1 percent of GDP) compared to the initial budget law. As non-oil revenues are unchanged from the initial budget law, this increase is driven by the rise in oil revenues on the back of oil prices that turned out to be much higher than initially anticipated. The Government remains committed to rationalizing tax expenditures and plans to carry out an assessment of the impact of exemptions granted in the past to private companies and to remove exemptions for companies that have not achieved the objectives (for example in terms of jobs creation) for which these exemptions were granted to them.

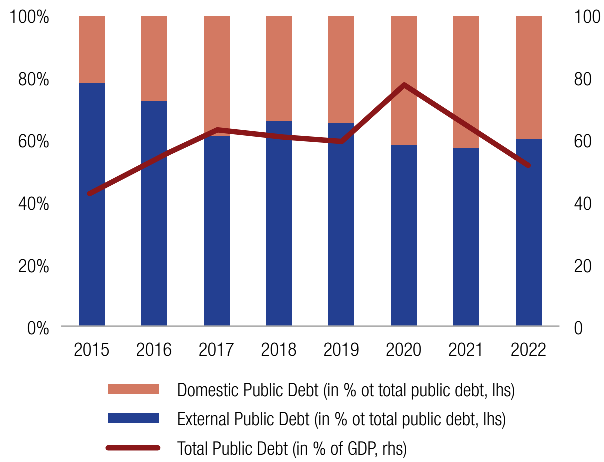
Despite the Government's commitment to contain public expenditures, spending is projected to increase in 2022. Overall spending in the 2022 revised budget law is set to increase by 5.5 percent (representing 15.1 percent of GDP) compared to the initial budget law. Current expenditures are expected to be higher than initially anticipated (+6.6 percent), including a slight cut in capital expenditures (-0.2 percent). Current expenditures are planned to rise to take into account the expected increase in health insurance coverage for economically weak Gabonese (GEF), additional support for fuel and flour prices introduced to limit the negative impact of the war in Ukraine on the most vulnerable populations, and additional costs related to the delayed restructuring of public companies. The small reduction in capital expenditure illustrates the continued government desire to be more selective over investment projects included in the budget law. To be able to include the continuation of the Trans-Gabon highway project, which is due to cross the country from north to south and is considered a major project for the implementation of the Transformation Acceleration Plan (PAT), other investment projects considered less of a priority were removed from the budget law. Additional public expenditures should therefore be amply covered by the significant rise in total revenues.

Evolution of Debt

Debt-to-GDP ratio declined in 2021, standing below the CEMAC target of 70 percent of GDP. However, the stock of public debt remained high but declined to 65.8 percent of GDP in 2021, down from 78.3 percent in 2020 (Figure 11 and Figure 12). This downward trend in the public debt stock was driven by a decrease in both external and domestic debt (by 8.2 percentage points and 4.3 percentage points, respectively). The decrease in the public debt ratio reflects stronger nominal GDP growth compared to the rise in nominal debt. With lower revenues resulting from the persistent COVID-19 pandemic and rigid expenditures, Gabon's financing needs increased in 2021, leading to greater mobilization of financing and resulting in a higher public debt stock (in nominal value). Meanwhile, the composition of Gabon's public debt remained relatively stable, with external debt representing about two-thirds of total public debt.

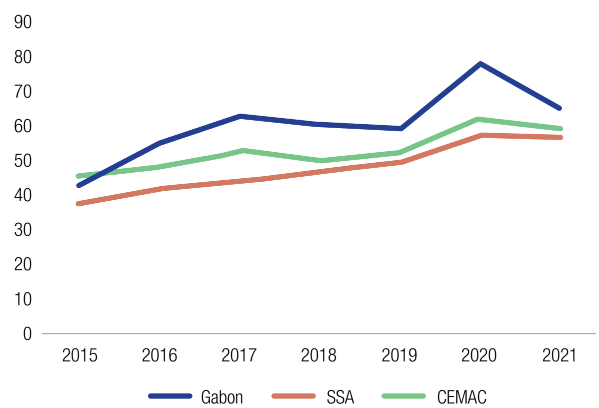
While public debt remains sustainable amidst gradual economic recovery and high oil prices, risks are high. Despite reaching historic highs in 2020 and remaining close to the CEMAC target of 70 percent of GDP in 2021, public debt remains sustainable

Figure 11. Gabon: Public Debt, 2015-2022



Source: Government authorities and WB staff calculations
Note: Preliminary data for 2021; projection for 2022.

Figure 12. Public Debt (in % of GDP), 2015-2021



Source: Government authorities and WB staff calculations
Note: Preliminary data for 2021; projection for 2022.

according to the latest IMF/WB Debt Sustainability Analysis (DSA), performed in July 2021. Financing needs will remain high in the medium term, limiting fiscal space and highlighting rollover risks. Liquidity pressures are also considerable, with debt servicing representing a significant share of revenues. However, in the absence of adverse shocks or slippages, the envisaged fiscal consolidation will be sufficient to put debt on a firm downward path. Stress tests indicate that public debt levels remain sustainable against standard shock scenarios. Exposure to interest rate risk is high as 29.5 percent of the debt portfolio at end-2021 and will need to be refinanced within a year, and 21.6 percent of total debt carries variable interest rates. This risk is particularly important in a context where the main central banks are expected to adopt a tighter monetary stance. The large share of debt held by non-residents and foreign currency debt also represent a significant risk.

In June 2022, Gabon cleared its external arrears, which had been accumulating in 2021. Previously to clearing external arrears, and despite efforts over the past three years to improve debt service management,[11] Gabon had accumulated external arrears in 2021, including toward multilateral creditors. While cash flow constraints related to the COVID-19 pandemic arose in 2021, operational difficulties continued to weigh on the proper execution of debt servicing in 2021. Even if external arrears were cleared by mid-2022 and Gabon's public debt was considered sustainable in the latest DSA, the recurrent accumulation of external arrears in recent years still could represent a high risk for the country's outlook, with potential negative impacts on the country's cost of financing.

7. Economic Outlook

Gabon's outlook is favorable over the medium term despite rising uncertainty linked to the international context and a continuous dependency on fragile growth drivers. Gabon's economy is projected to gain momentum, growing by an average of 2.8 percent over the period 2023-2024 amidst recovery in the service sector thanks to the lifting of all COVID-19 restrictive measures and booming wood and manganese industries. Yet, future price shocks affecting oil, manganese, and wood products could drastically impact growth prospects. Government commitments to diversifying the economy could contribute to altering Gabon's historically volatile growth path and to reducing exposure to fluctuations in international commodity markets, as shown by the recent impacts of the war in Ukraine (Box 2).

The gradual projected reduction in the public deficit should reduce the Government's financing needs and lead to a gradual decrease in public debt. Looking ahead, fiscal balances are expected to improve gradually over the medium term as the authorities accelerate the fiscal consolidation process. Gabon's debt is projected to decline in the medium term, driven by consolidation efforts and gradual economic recovery. However, without concrete efforts to improve public debt management and budget execution, Gabon can continue accumulating domestic and external arrears. Moreover, while the banking sector remains sound, banks' soundness indicators may deteriorate due to their large and increasing sovereign exposure.

The current account deficit should gradually improve over the medium term. The current account deficit should gradually narrow in the medium term supported by higher oil and manganese prices, the continued easing of OPEC+ oil production cuts, and a resumption of investments in wood and agri-business thanks to the expected gradual global economic recovery.

There are multiple downside risks to the outlook. The emergence of new COVID-19 variants may harm domestic activity should the Government impose new restrictions. Uncertainty surrounding the 2023 presidential elections and weak institutional capacity could slow the Government's implementation of structural reforms toward economic diversification and thereby jeopardize future growth. Regarding exogenous risks, Gabon's fiscal sustainability could deteriorate if global financing conditions tighten substantially. The war in Ukraine also represents downside risks through global inflationary pres-

11 Over the last three years, the Government has taken a number of steps to prevent the accumulation of arrears, including addressing coordination issues between Treasury and Debt units, improvements in cash management and systems for monitoring debt payments, and the implementation of the Treasury Single Account (TSA).

Box 2. Impact of the war in Ukraine on the Gabonese economy

Gabon's economic outlook is subject to adverse effects of the war in Ukraine. The economic impact of the Russian invasion of Ukraine will be felt primarily through higher global oil prices, which will benefit Gabon's oil revenues and boost its export earnings. Investment flows into Gabon from both countries are insignificant. Hence the tightening of global financial conditions, which have an impact on foreign financing flows, is not expected to have a significant impact on Gabon. What can be expected is that a sustained rise in oil prices may boost oil-related FDI while non-oil related FDI may be postponed as global uncertainty looms.

Trade disruptions: The invasion adds to existing headwinds facing global recovery by further disrupting supply chains, especially those between both Russia and Ukraine and the rest of the world. However, direct trade exposure is limited as Gabon's imports from Ukraine and Russia account for 0.44 and 0.24 percent of its imports, respectively.

High global oil prices: Higher global oil prices will benefit Gabon's oil revenues and boost its export earnings through a significant increase in its terms of trade. Tax revenues will also be boosted by improvements in oil companies' performance. Higher global oil prices will positively impact Gabon's trade balance as oil exports represent over 64 percent of total exports of goods, which will more than offset the impact of higher agricultural commodity prices on Gabon's imports.

Increasing inflationary pressures due to higher commodity prices: The high cost of living is of growing concern in Gabon due to expected increases in food prices as a result of the war between Ukraine and Russia. Higher agricultural commodity prices such as wheat will feed inflationary pressures as Gabon is a net food importer. Some pass-through effect from higher global energy prices is also expected. Food insecurity, which has been on the rise in the past two years, with 73.3 percent of households facing food insecurity in November 2021, may increase further. To contain the rise in food prices, the Head of State instructed the Government to monitor the mechanisms put in place to stabilize oil prices, bread prices, and the price of several other staple foods. While these mechanisms should contain the rise in inflation, they are also expected to increasingly weigh on the country's budget. There is thus a risk that the Government may introduce additional subsidies to contain these prices, that will also weigh on the budget. Stabilizing prices may also be needed to avoid social tensions before the next presidential election, scheduled for the first part of 2023.

sures, with an impact on domestic food prices (especially wheat since Gabon is a net food importer). Consequently, food insecurity, which has been on the rise over the past two years, may rise further. On the other hand, continuously high global oil prices would have a positive impact on Gabon's fiscal and external positions. However, higher global oil prices could delay the implementation of measures aiming at diversifying exports, strengthening social safety nets, and promoting competition.

Improving transparency in oil revenues and human capital are key for Gabon's development. The reintegration into EITI at end-October 2021 is an important step toward commodity revenue transparency, and the effective implementation of all obligations that membership entails will be crucial. Increasing human capital is a priority in meeting the challenge of economic diversification and reducing the risk of social unrest in a context of high unemployment.

An opportunity to lower food prices: Reducing informal barriers to trade

High food prices largely impact the most vulnerable. Higher costs from supply chain disruptions and persistently high commodity prices could add to already high inflationary pressures. During the COVID-19 pandemic in 2020, the generalized rise in prices increasingly weighed on the purchasing power of households despite the ceilings introduced by the authorities on the price of basic goods in order to limit increases in the cost of living in Gabon. As discussed above, the pandemic led to an increase in food insecurity. The ongoing war in Ukraine may be amplifying food insecurity as a result of rising food prices, which may also cause fiscal balances to deteriorate, particularly in the presence of subsidies, which can crowd-out other, much-needed spending such as social spending or capital expenditures.

Gabon, a net food importer, is highly dependent on agricultural imports. Despite its potential for agricultural production, Gabon's food imports represented close to a quarter of its total imports of goods over the period 2010-2020. This creates vulnerability over food security, especially in the context of supply chain disruptions post COVID-19 lockdowns and the war in Ukraine.

High trade costs and trade obstacles impede trade in agricultural products in the region and impact food prices for consumers. Disproportionately high trade costs arising from poor connectivity, an abundance of formal and informal barriers, and transport markets where competition is limited and productivity is very low, are factors that hamper trade in the region. Informal payments on imports into Gabon, including petty harassment, further increase customs costs on imports on top of already high import duties. Reducing petty harassment will be highly beneficial for Gabon. In the short and medium terms, this is crucial in order to: (i) facilitate regional agricultural trade; and (ii) reduce the overall cost of living for the population. By reducing trade costs and thus lowering food prices, reducing petty harassment could help ease spending pressures that are on the rise, caused by subsidies implemented to counter the effects of the ongoing war and keep inflation under control. In fact, tackling the issue of petty harassment and other obstacles to trade in agricultural goods could be combined with a wider range of policy instruments, including targeted safety nets, forming a broad strategy to support trade and protect the poor from high food prices.

SPECIAL TOPIC: AGRICULTURAL TRADE AND PETTY HARASSMENT IN GABON

1. Introduction

Gabon remains dependent on food imports despite the high potential of its agriculture sector. Agricultural activity in Gabon is underdeveloped and faces many constraints, with most of the food consumed in the country being imported. In 2020, agricultural imports represented over one fifth of the total import bill[12] and more than twenty times the value of agricultural exports.[13] High dependency on imports for food consumption raises the country's vulnerability to food insecurity, which is already high. Current supply chain disruptions linked to COVID-19 lockdowns and, more recently, the war in Ukraine further exacerbate food insecurity in Gabon, thus highlighting the urgent need to increase resilience to shocks in the agriculture sector.

Obstacles to trade, including high trade costs exacerbated by petty harassment, are an impediment to trade in agriculture. Disproportionately high trade costs arising from poor transport connectivity and an abundance of formal and informal barriers hamper trade within Gabon as well as with its regional peers. Informal payments on imports into Gabon, including petty harassment, a generalized form of corruption often used in Gabon and consisting of many small payments without receipt or cause to public officials, particularly the police, the army, weigh bridge officials, road traffic officers, town council officials, and other authorities, further increase customs costs on top of already high import duties.[14]

Reducing petty harassment would facilitate trade in agricultural commodities and increase accessibility to food products. The practice has a detrimental impact on agricultural trade and, more generally, on regional integration and increases consumer prices for commodities and agricultural products, disproportionately affecting the poor. Promoting regional integration and reducing trade barriers would make food products more affordable for the population and contribute to tackling food insecurity. It could also contribute to reducing spending pressures caused by food subsidies.

12 In 2020, agricultural imports reached USD 466.3 million, about 21.1 percent of the total import bill.

13 In 2020, agricultural exports accounted for USD 19.8 million, or 4.2 percent of agricultural imports.

14 World Bank 2018b.

PK8 Market, Libreville

This chapter analyzes issues relating to agricultural trade in Gabon, presenting findings of a survey developed to investigate the impacts of petty harassment on regional integration. The chapter: (i) provides an assessment of Gabon's dependency on agricultural imports; (ii) analyzes regional and domestic agricultural trade and barriers; (iii) identifies the specific detrimental impact of petty harassment on regional integration; (iv) identifies the direct macroeconomic costs of petty harassment; and (v) proposes a roadmap for ameliorating trade conditions. The chapter benefited from a survey conducted in May 2022 with retailers and wholesalers in agricultural commodities operating in three large markets in Libreville (see Annex B).

2. Gabon's Dependency on Agricultural Imports

Gabon is a net importer of agricultural products (Figure 13). Over the period from 2010 to 2020, Gabon's food imports represented between one fifth and a quarter of its total imports of goods. Imports of agricultural products stood at an average of USD 348 million, while exports represented a mere USD 20 million. Gabon imports mostly animal and cereal products, which represented about 61 percent of agricultural imports over 2010-2020. Among animal and cereal imports, frozen chicken and semi- or wholly milled rice represented 21.3 percent of agricultural imports during 2010-2020.

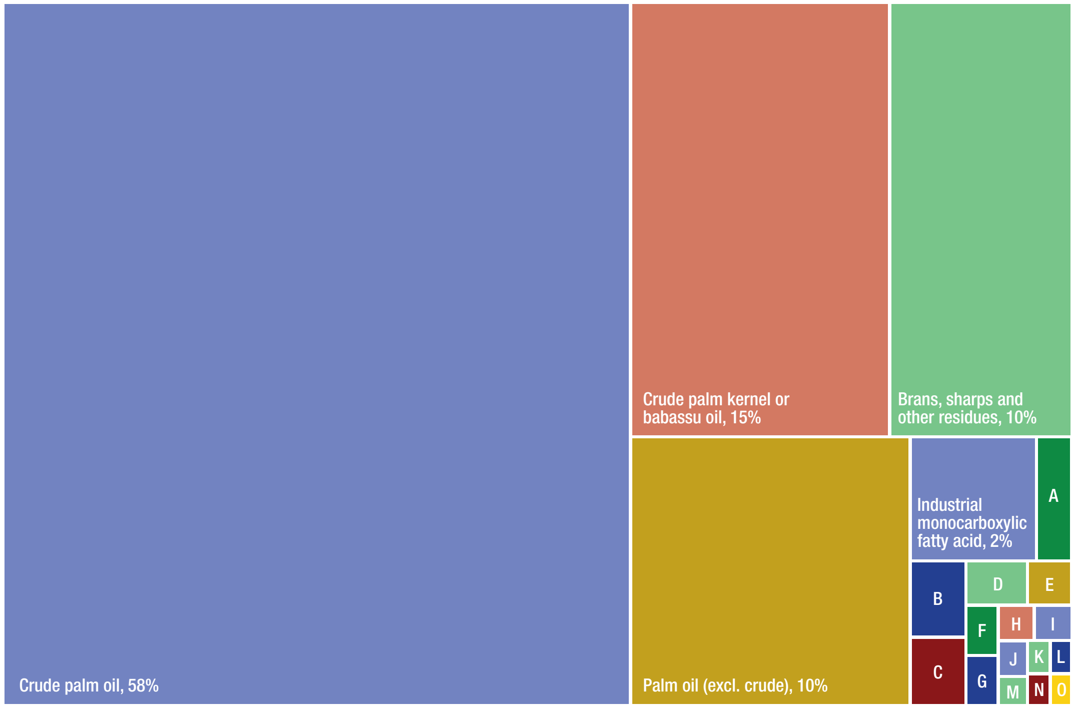
Gabon's food insecurity has increased following the onset of the COVID-19 pandemic and the war in Ukraine, highlighting the urgency of actions to reduce barriers and informal costs to trade in agricultural goods.[15] The drop in household incomes due to COVID-19 lockdowns worsened food insecurity in the country. The share of households experiencing food insecurity increased from 82.6 percent in November 2020 to 84.3 percent in April 2021 before declining to 73.3 percent with the lifting of the second lockdown in November 2021. Food insecurity is likely to affect children in vulnerable households, for whom undernourishment may have a long-term negative impact on the country's human capital development.[16] Global supply chain disruptions and the war in Ukraine are actively contributing to soaring energy and food prices, resulting

15 Food insecurity is measured through a composite indicator based on Food Insecurity Experience Scale (FIES) questions that record self-experience episodes of food shortages by at least one household member over the past 30 days prior to the survey.

16 The food-health issue aggravated the education crisis due to school closures during COVID lockdowns. Globally, 70 percent of 10-year-olds (up from 50 percent during the pre-pandemic period) are now unable to comply with basic reading tests. Source: World Bank 2022.

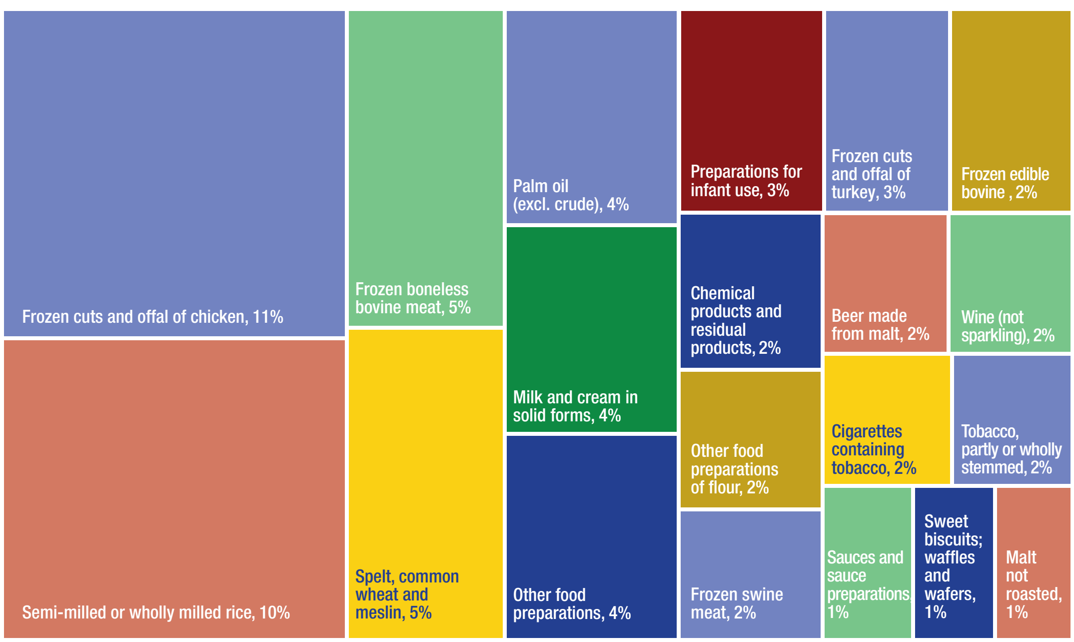
Figure 13. Average value of agricultural products traded, 2010-2020

Total value of agricultural products exported over 2010-2020: USD 19.7 million



A. Cardamoms, 1%; B. Industrial monocarboxylic fatty acids, 1%; C. Cocoa beans, whole or broken, 1%; D. Frozen cuts and offal of chicken, 0.4%; E. Beans, fresh or chilled, 0.3%; F. Milk and cream in solid forms, 0.2%; G. Soya-bean oil (excluding crude), 0.2%; H. Wine (not sparkling), 0.2%; I. Other preparations, 0.2%; J. Sugar confectionery, 0.1%; K. Pig and poultry fat, fresh, chilled, 0.1%; L. Spice mixtures, 0.1%; M. Crude soya-bean oil, 0.1%; N. Chemical products and residual products, 0.1%; O. Other plants or parts, 0.1%.

Total value of agricultural products imported over 2010-2020: USD 347.6 million



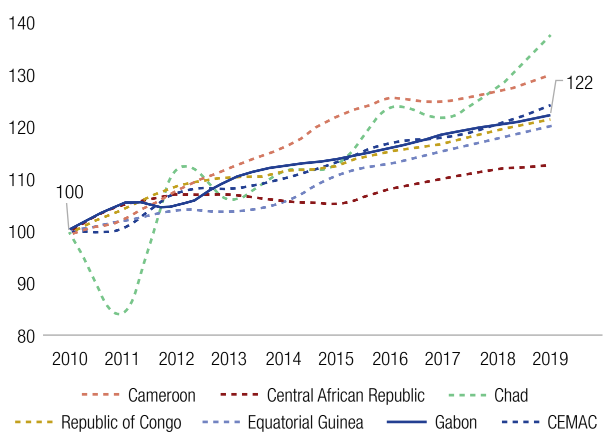
Source: UN Comtrade (mirror data) H6 classification of products. The upper tree map refers to Gabon's formal agricultural exports (USD 19.7 million on average over 2010-2020) of the top 20 products, while the lower tree map refers to Gabon's formal agricultural imports (USD 347.6 million on average between 2010-2020) of the top 20 products. Beyond an agricultural trade deficit, Gabon's agricultural exports are much less diverse and less complex than agricultural imports, affecting about 20 different products versus more than 400) (e.g., imports of frozen meat and processed food).

in heightened food insecurity risks through shortages as well as price barriers, both of which could raise the risk of social unrest. A recent IMF paper using machine-learning techniques found that food price inflation is associated with higher risks of social unrest, especially in the context of war in Ukraine, high debt levels, and limited economic policy leeway in most of Africa.[17]

Improvements in sustainable regional and national agricultural production as an alternative to imports—mostly from France, other European partners, and South-east Asia—could contribute to dampening imported inflation and improve food provision. Agricultural production has the potential of meeting the demand for staple food in the CEMAC zone, in addition to contributing to poverty reduction through more affordable food prices and increased revenues derived by farmers. Improving production within CEMAC would require coordinated actions to help producers form associations and establish commercial links with large buyers and carry out grouped sales; build capacity of producer associations; invest in warehouses, transport infrastructure and market facilities; facilitate access to finance for local producers; and provide training and awareness campaigns on market and price dynamics. The results could benefit both producers and consumers in the region.[18]

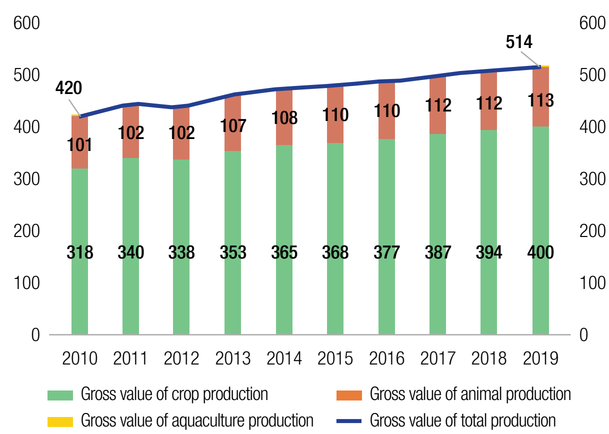
The Government has been taking steps to increase Gabon's agricultural production, yet stronger reform efforts are needed to achieve production goals. Over the past decade and in line with the 2010 Strategic Plan for an Emerging Gabon (PSGE), the Government launched the GRAINE program (Box 3), with the objective of boosting national agricultural production on both export and food crops.[19] Along with other complementary programs, including an agricultural project financed by the African Development Bank (AfDB), Gabon managed to increase its production of agricultural commodities, including relatively to neighboring countries (Figure 14 and Figure 15). As of 2021, plantains represented 35.1 percent of crop production value in 2021, fresh vegetables 30.7 percent, cassava 15.3 percent, and taro 13.2 percent (Figure 16). At the same time, the results of the GRAINE program have been mixed; the country remains far from its goal of substantially expanding agricultural output to 20 percent of GDP. The Government estimates that agriculture will contribute to 4.3 percent of GDP in 2022, up from 4.2 percent in the previous year.

Figure 14. Gross value of agricultural production (crop, animal, aquaculture; base 100 = 2010)



Source: US Department of Agriculture

Figure 15. Gross value production (USD1 million purchasing-power-parity dollars)



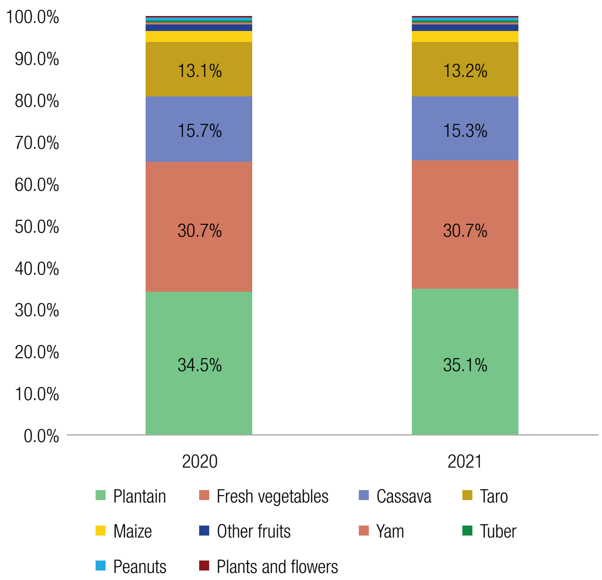
Source: US Department of Agriculture

17 Redl and Hlatshwayo 2021.

18 World Bank 2018b.

19 Development partners also supported other agricultural projects, including the French Development Agency (*Agence Française de Développement*, AFD) and AfDB.

Figure 16. Composition of crops production



Source: National data based on local production (in CFAF millions)

The Government recognizes that the agricultural sector has the potential to become a major driver of growth and job creation. The Government's development strategy, the Transformation Acceleration Plan (PAT) developed in January 2021 sets a goal of ultimately reducing food imports by 50 percent through a strategy of import substitution. Gabon's strategy currently focuses on three projects designed to structurally boost agricultural production. First, the newly-established agricultural high school based in Lebamba is expected to be completed and operational in 2022 and will train skilled agricultural engineers. Second, the Government plans to designate areas with high potential for agricultural production labeled Productive Agricultural Zones (ZAP). Third, the Government's agricultural and rural development programs (PDAR2-FIDA 2018-2026) co-financed by the AfDB will be implemented in line with the existing GRAINE program and sets the goal of increasing the incomes as well as the food and nutritional security of women and the young. A law

Box 3. GRAINE program

The GRAINE program was set up at end-2014 by the Government in partnership with OLAM International to foster agricultural production in Gabon.[20] The program was set up in a context of unfavorable agricultural development, including: (i) a small rural population (less than 15 percent of the total population); (ii) an obsolete and insecure land tenure system; (iii) the high cost of labor and lack of attractiveness of agricultural jobs for young people; and (iv) lack of infrastructure networks for marketing and processing agricultural products.

The objective of GRAINE is to increase the contribution of the agriculture sector from 5 to 20 percent of GDP, a goal that remains unattained due to difficulties faced by the program. GRAINE also aims to reduce imports of agricultural commodities by 50 percent, reduce national food insecurity, improve the trade balance, and promote job opportunities for Gabonese citizens. This program is primarily based on: (i) support for the creation of industrial agricultural cooperatives through the distribution of land plots to farmers; and (ii) the establishment of specific pre-financing methods to facilitate access to equipment. In its first phase (2014-2018), the program faced difficulties including issues relating to land management, and low uptake and human-wildlife conflicts in certain areas.

Given the mixed results obtained near the conclusion of its first phase, the authorities decided to redesign GRAINE, and AfDB agreed to support the second phase of the program. In April 2018, AfDB launched the Technical Support Project for the Agricultural Transformation Strategy (*Projet d'Appui Technique à la Stratégie de Transformation de*

20 GRAINE was formed by a partnership between the Gabonese Government (51 percent) and the Singaporean group Olam International (49 percent) and is supervised by local agricultural processing and development company SOTRADER

Box 3. GRAINE program (continued)

l'Agriculture), amounting to CFAF 800 million, with two objectives: (i) the structuring of agricultural entrepreneurship among young people; and (ii) the effective dissemination of the GRAINE program to all provinces of Gabon. A CFAF 1.2 billion loan granted by the World Bank to SOTRADER, the Gabonese company for agricultural transformation, in 2017 also aimed to strengthen the productive capacities of cooperatives and planters engaged in the cultivation of palm oil, bananas, tomatoes, cassava, and pepper and to facilitate access by these stakeholders to financial services. In February 2019, the Government created the GRAINE Program Steering Committee, a coordinating body tasked with guiding and facilitating the implementation of the program. In the coming years, enhanced efforts to foster agricultural production will remain central to the Government's economic diversification agenda.

requiring supermarkets and the agro-business sector to purchase from local agricultural producers has also been passed.[21]

A strategy aiming to strengthen national food security might also encompass diversification of agricultural trade partners. In terms of trade in agricultural products, Gabon has relatively low exposure to the direct impact of the war in Ukraine as trade links with both countries are fairly weak, with Russian wheat and meslin representing 10.8 percent of total wheat and meslin imports and Ukrainian maize representing 5 percent of total groats and maize meal. Yet, the ongoing war has been contributing to added inflationary pressures through heightened international prices for wheat and indirect disruptions in global supply chains. Meanwhile, Western Europe remains the main provider of strategic cereals (including wheat). However, unforeseen circumstances, such as the rainfall deficiencies and heat waves taking place in France in 2022, could have a detrimental impact on production and thus on the export capacity of agricultural products. Accordingly, diversifying trade partners would contribute to improving resilience in key imports provision.

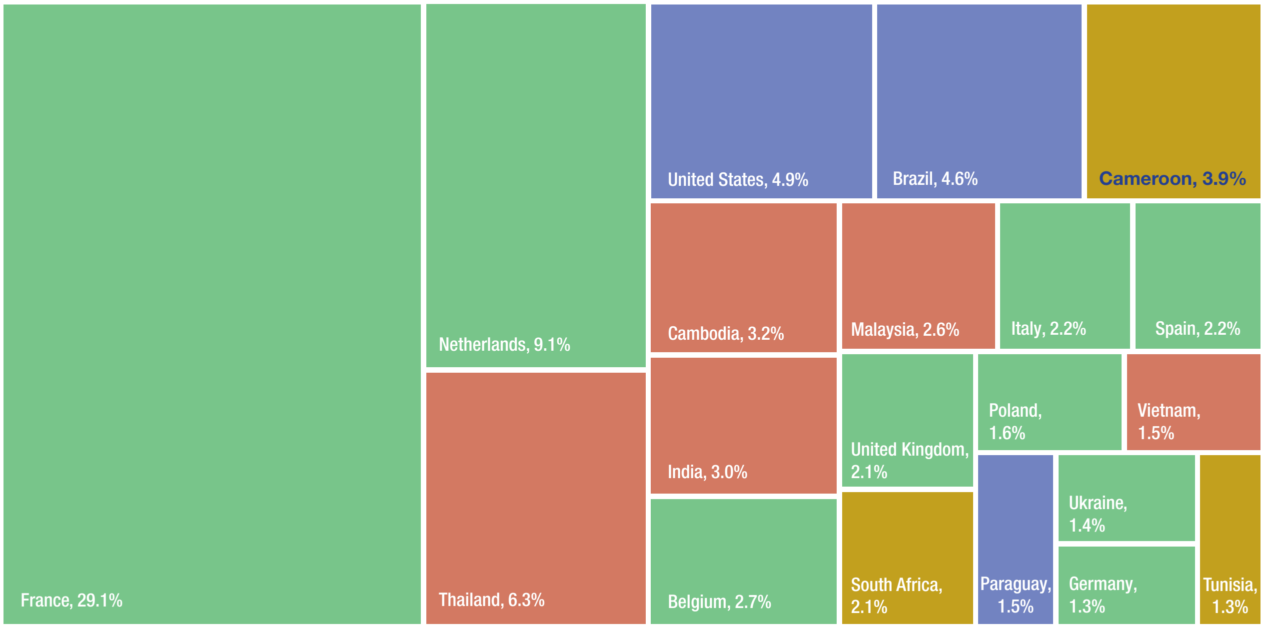
3. Trade in Agricultural Commodities in CEMAC and Gabon: The Effect of Informality and Structural Barriers

CEMAC regional trade in agricultural commodities remains largely informal, and opportunities remain for fostering formal regional trade. Based on UN Comtrade mirror data, the main sources of imported formal agricultural products for Gabon over 2010-2020 were France (28.1 percent), Netherlands (8.8 percent), Thailand (6.1 percent), United States (4.8 percent), and Brazil and Cameroon (4.4 percent each) (Figure 17). While Cameroon is the fifth country of origin for agriculture imports, other CEMAC countries do not reach the top 20 countries of origin. CEMAC partners (consisting exclusively of Cameroon and Congo) represented only 5.5 percent of formal agricultural imports over 2010-2020 (USD 31.1 million versus USD 534.6 million for other partners). However, this registered volume of trade underestimates the real volume of trade with regional partners as UN Comtrade data do not record informal agricultural trade flows, which are significant in the region, especially for specific products such as bananas, cassava, plantains, and taro (Box 4).

With the lowest regional integration levels in the Continent, CEMAC countries have a (largely untapped) potential for building stronger trade

21 The French retailer group Carrefour announced on April 5, 2022 that it will market nearly 700 locally processed products in its stores.

Figure 17. Share of top 20 main agricultural providers, 2010-2020 (all agricultural products)



Source: UN Comtrade (mirror data) H6 classification of products

Box 4. Informal agricultural trade in the CEMAC region

Unrecorded and informal trade in agricultural commodities is widespread in CEMAC. Trade statistics in the region are mostly inaccurate and miss a large portion of unrecorded and informal flows. Even though most border crossings between Gabon, Cameroon, and Equatorial Guinea take place through formal checkpoints rather than uncharted routes, official records widely underestimate total trade flows. Overall, official statistics miss both types of agricultural commodities traded as well as correct volumes, which are often larger than those officially recorded. Accordingly, Nkendah (2013) estimated that informal or unrecorded trade between Cameroon and its CEMAC neighbors represented about 96 percent of official statistics in 2008 and mainly concerned agricultural products.

links, which could greatly contribute to economic development. Stronger efforts could be made in developing the common market, by harmonizing customs exemptions, removing non-tariff barriers and investing in infrastructure to facilitate trade along regional trade corridors. Border clearances could be streamlined with joint efforts to reduce the number of administrative documents required for imports and exports in the region. Furthermore, the time and costs spent with border crossings could be minimized with initiatives such as the digitalization of customs procedures along all borders and the establishment of single windows for trade procedures, merging processes and clearance steps for imports and exports. CEMAC authorities could also strengthen their cooperation with a view of minimizing border closures, which have high costs to regional trade.[22] As an example for their regional integration agenda, Gabon and its Central African neighbors could

22 World Bank 2018b.

look for inspiration at cases such as Rwanda and its Eastern African partners, which have adopted a strong agenda promoting trade facilitation and regional integration (Box 5).

Gabon's agricultural trade is hampered by structural bottlenecks related to weak transport infrastructure, the high number of intermediaries, price uncertainty, and poor market management. The Logistics Performance Index (LPI) highlights a degradation of Gabon's overall logistics after 2010, including customs and the quality of logistics services. Over the past decade, Gabon's trade logistics lagged CEMAC countries, and the overall LPI (in 2018, the last year available) was at the same level of that of the Central African Republic (Figure 18). This trend is due to a mix of large infrastructure gaps and administrative inefficiencies. However, the operationalization of new port infrastructures as well as transport networks, including roads and railroads, are expected to support trade facilitation in the future.[23] These include the international port of Owendo, a large infrastructure project realized in 2019 and 2020 as part of the Gabon Special Economic Zone (GSEZ), a public-private partnership between OLAM International, the Republic of Gabon, and the Africa Finance Corporation (AFC). Additionally, the dry port of

Box 5. Reducing trading costs and promoting regional integration in East Africa: the case of Rwanda

Trade integration is one of the pillars of the regional reform policies adopted by CEMAC member states, but the region's performance has been lackluster. CEMAC's Economic and Financial Reform Program (*Programme des Réformes Économiques et Financières*, PREF) aims at increasing regional trade, a goal that is largely yet to be attained. In this context, it could be useful for Gabon and other countries in the region to consider the experience of countries such as Rwanda.

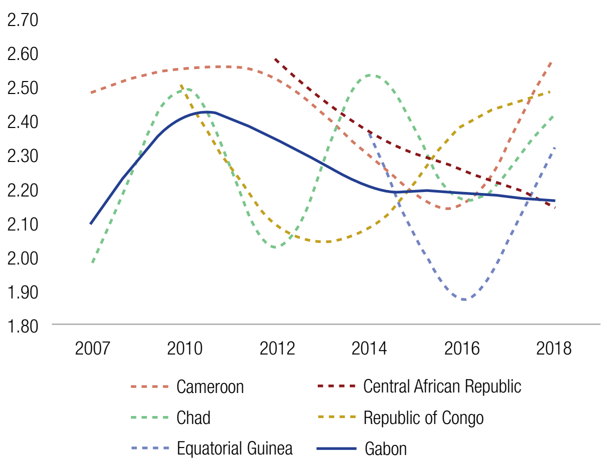
Rwanda achieved significant improvements in trade facilitation thanks to a series of trade promotion efforts, including a strong cooperation with regional partners in the Eastern Africa Community. Between 2007 and 2016, Rwanda's ranking on the Logistics Performance Index (LPI) sharply rose from 148th to 62nd. The country benefited enormously from regional cooperation to reduce delays and costs involved with border crossings. In cooperation with neighboring countries, one-stop border posts (OSBPs) were introduced, with initiatives to start clearance before goods arrive and relocate final clearance from the border to points of destination. Electronic cargo tracking systems (eCTS) were also implemented in the region, to keep track of goods and trucks in transit across international boundaries.

These actions contributed to a strong decrease in clearance times of goods traded in East Africa and at the same time helped improve the reliability and predictability of supply chains. For example, at the Malaba border post between Kenya and Uganda—one of the main transit points for Rwandese trade—, clearance times dropped from 24 to 6 hours within one month, as of January 2013. As a result of these initiatives, transport costs also fell throughout East Africa. The cost of transporting a container from the port of Dar es Salaam in Tanzania to the Rwandese capital of Kigali fell from $2.81 per container per kilometer in 2013 to $1.87 in 2020. Actions to reduce logistical costs and facilitate regional trade could unlock an important driver for growth in Gabon and other Central African countries..

C. Djiofack, I. Osorio-Rodarte, and P. Niyibizi 2022.

23 Current infrastructure projects promoted by the Government include: (i) road extensions, including the Port-Gentil/Omboué axis co-financed by China's Exim Bank and the Gabonese Government to promote agricultural potential of Ogooué-Maritime Province, and the Libreville-Akanda highway built by the China Road and Bridge Corporation to reduce systemic traffic bottlenecks; (ii) the modernization of road infrastructure in Libreville; and (iii) renovation of the Trans-Gabon merchant railroad between Libreville (Owendo port) and Franceville (close to the Rep. of Congo) with support from French and European financing.

Figure 18. Overall LPI score (2007-2018)



Source: LPI, WDI (2018)

Eboro in Woleu-Ntem Province will provide sanitation control and disinfection infrastructure for imported food products from Cameroon.

CEMAC's agricultural trade corridor hosts a high number of intermediaries, which increases transaction costs. In Gabon, no fewer than 16 steps must be taken to complete the entire trade marketing process of agricultural products from production to final consumption. Insufficient commercial linkages and marketing bottlenecks lead to many intermediaries operating along the main trade channels. According to the most recent CEMAC Country Economic Memorandum (CEM), there are six major selling blocks in a typical regional agricultural trade corridor (farm/field, immediate market, collection market, urban markets, border markets, and foreign markets) as well as various degrees of intermediation depending on available commercial linkages and information, market infrastructure, size of actors, negotiating power, and availability of buyers.[24] At the production stage, farmers have the option of directly selling their output to large urban or foreign buyers, use local intermediaries, or transport the goods themselves to a larger market (urban or at a border). Otherwise, immediate outlets for agricultural products are rural markets, mostly organized weekly, at the intersection of multiple villages and production basins, usually no further than 25 km from the farm. In these immediate markets, producers have the option to sell their goods directly (i.e., retail for localized consumption) or sell to an intermediary. Border markets are often used as an intermediary point to fragment large consignments of agricultural goods for medium-sized buyers, who cross the border as intermediaries between the wholesale and retail phases. For goods that do not go through border markets, the endpoint is the wholesale-to-retail urban markets in the capitals and large cities of neighboring CEMAC countries.

Higher than expected price volatility leads to unpredictable returns for traders and producers. A survey conducted among market participants in agricultural trade in CEMAC identified price volatility as a major impediment to agricultural production and trade.[25] In addition, 85 percent of traders interviewed in May 2022 believed that the prices they received for their agricultural products were neither fair nor predictable. On the supply side, one major determinant of price volatility is over-production, which is due to producers' reactions to past price peaks in a given month and relatively high demand in recent years, including from other CEMAC countries. On the demand side, prices fluctuate significantly depending on the presence of foreign buyers. Price uncertainty is exacerbated by the lack of a market information system for disseminating prices, coupled with insufficient awareness.

Poor market management and market infrastructure hamper commercial linkages. Large urban markets have poor infrastructure and management. Scarce market infrastructure, especially storage facilities, are often captured by local elites and intermediaries. In addition, market fee collection does not seem to be systematic, and the collected funds are not earmarked for market maintenance or development. Actions could be taken to improve the efficiency of agricultural markets: investments in infrastructure could be made to establish markets in strategic points along trade corridors, with adequate stalls, storage facilities, and sanitation. Inclusive management and oversight could be promoted by involving trader associations and market users,

24 World Bank 2018a.
25 World Bank 2018a.

reducing opportunities for abusive behavior. Finally, coordination with associations and market players could be promoted to identify opportunities for reducing the number of intermediaries in agricultural trade chains.[26]

4. Barriers to Regional Trade: Findings from a Survey on Petty Harassment

CEMAC countries, including Gabon, face another structural bottleneck hindering agricultural trade, namely petty harassment.[27] Trade in agricultural commodities in CEMAC faces limited consistency and transparency in border clearance requirements, a vector for petty harassment resulting in a multitude of formal and informal border costs. A World Bank survey of CEMAC countries reveals a universal recognition among agricultural traders and transporters that regardless of whether or not all paperwork and cargo are in order, extra payments are often demanded by customs or other authorities operating along trade networks.[28] Without these extra payments, public agents will simply hold the truck until payment is made. The most often cited example, which was also highlighted in the March 2018 transporters' strike, is that weigh stations are uncalibrated and therefore produce different results at each stop, requiring a "corrective" payment without a receipt. Accordingly, actual trading costs at the surveyed locations are consistently higher than official listed tariffs. Real costs are often not aligned with official tariff lists, and frequently include many unofficial cost items such as mandatory informal payments extorted by certain authorities, both at borders and along roads leading to the main consumption areas. Notably, the actual cost for border clearance for a mid-size truck between Cameroon and Gabon is reported to be CFAF 234,000 (USD 442) for a 10-ton truck, nearly twice as much as the cost of official fees (CFAF 111,500 or USD 210.78) (see Table A.1, Appendix A).

In particular, an average 20-ton truck trip from the Cameroon border to the urban markets in Libreville can expect to be stopped 44 times, with a delay of 15 hours and 34 minutes and a total cost of CFAF 1,980,000 (USD 3,736) (Table A.2, Appendix A). As it covers the 478 kilometers between the border at Abang Minko and the Gabonese capital, a truck can expect to be stopped once in every 10.8 kilometers. The truck driver would be stopped 25 times by the police and *gendarmerie*, plus around four times each by municipalities, customs, and phytosanitary police, and seven times by other entities. On top of the official and unofficial payments demanded along the way, the multiple stops increase logistical costs and can compromise the quality or even lead to the degradation of certain perishable goods. Furthermore, of the total of 44 stops, 33 could qualify as petty harassment given a delay of 11 hours 7 minutes and a cost of CFAF 1,510,000 (USD 2,850), or about 76 percent of total costs at checkpoints. While each payment may seem small, petty harassment is a major cost to the national economy. Based on data collected, petty harassment increases the cost of transporting agricultural commodities in Gabon by USD 0.30 per ton per kilometer (USD 135 per ton from the Cameroon border to Libreville).

Traders' efforts to circumvent petty harassment lead to a vicious circle of further informal practices. As payments (both formal and informal) are often determined by the size of the consignment, which in turn is estimated by number of bags, traders often overload bags. In addition, truck loads are often hidden, with more highly taxed commodities hidden at the center and surrounded by lower-value commodities. In addition, as smaller consignments transported in cars or by motorcycle are rarely checked and or taxed (formally or informally) proportionally less harshly, it is common practice at various border posts to disaggregate a large truck's load into small batches of 2-3 bags per motorcycle, which then crosses the border with fewer hassles only to reassemble the cargo onto a different truck on the other side. Overall, informal practices cause higher risk-taking for border users. On its turn, higher levels of informality negatively impact domestic revenue mobilization efforts.

26 World Bank 2018a.

27 World Bank 2018a.

28 Field discussions initiated for the 2018 Regional Agricultural Trade Report (World Bank 2018b).

In addition to undermining regional agriculture competitiveness, petty harassment imposes other negative spillovers. Given the failure to adequately control vehicle weight limits, for instance, roads deteriorate more quickly, leading to higher maintenance costs for roads and vehicles alike. In fact, the present system arguably encourages overloading since transporters know they must pay a bribe regardless of actual vehicle weight. Inadequate application of sanitary and phytosanitary (SPS) measures is also a major economic concern. Genuine threats to animal and plant health and food safety arising as part of agricultural trade that can have devastating effects on entire populations and agricultural ecosystems. Managing these risks effectively requires well-functioning, professional systems and cannot be achieved simply through the collection of fees or selling SPS permits.

A survey was conducted for this Economic Update to investigate the cost of petty harassment to agricultural trade in Gabon; it revealed widespread practices that are detrimental to trade, including petty harassment and cash extortion by economic agents managing markets. Fifty agricultural traders in three private markets in Libreville were interviewed by the team during May 2022.[29] Traders were asked to provide information, based on their experience, on areas such as the costs and difficulty of documentary compliance as well as the fees and payments made at border crossings and along trade routes. A high number of traders informed that they did not know the answer to certain questions on the cost of documents and on the existence of discretionary fees, which might indicate a fear of reprisal among some of the respondents. However, among those who provided an answer when asked about their experience with petty harassment, 71 percent of respondents reported dealing with discretionary and variable fees at various checkpoints. Moreover, a worrying trend has been observed in regard to the COVID-19 pandemic. Around one in four traders

PK8 Market, Libreville

29 We conducted the survey of agricultural traders in the B2, Pk8, and *Venez-voir* private markets in Libreville. The participants in the survey were self-employed traders who transport and sell agricultural products. Among the traders surveyed, two thirds were retailers and one third wholesalers. They sell bananas (98 percent), taro (54 percent), potatoes or tubers (50 percent), chili peppers (22 percent), onions (20 percent), cassava (14 percent), and cabbage, tomato, yam (10 percent or less). Results are presented in Annex B.

reported to have experienced longer times for dealing with administrative documents since the pandemic, and one third of respondents informed that new checkpoints were created along trade routes.[30]

The survey undertaken found that agricultural traders consider that petty harassment is much more of a problem than formal administrative requests. Only 6 percent of traders surveyed find it hard to obtain all mandatory administrative documents and 10 percent consider these documents too expensive (for more detailed survey responses, see Appendix B).[31] Petty harassment appears to be a persistent burden and a comparatively much more onerous one than formal obligations, as highlighted in private discussions with traders as irrespective of having all mandatory formal documents, paying a discretionary fee to public officials at checkpoints is normally enough to be cleared at checkpoints. In addition, 36 percent of traders surveyed openly declare they do not obtain receipts at checkpoints, and about one quarter (24 percent) openly cite evidence of occasionally (12 percent) or systemically (12 percent) varying fees at different checkpoints. The survey also identified widespread levels of extortion suffered by traders in agricultural products in Gabonese markets. 88 percent of respondents stated that they face occasional (64 percent) or systematic (24 percent) money extortion to ensure their safety in private markets. In brief, petty harassment is harmful for traders and households, resulting in higher prices for agricultural commodities.

The negative impacts of excessive checkpoints are recognized by the Government, which has been taking initial measures to reduce checkpoints - yet, stronger efforts would be needed to substantially reduce petty harassment along trade corridors. Ongoing initiatives include an online mapping of official checkpoints. Also, during a conference co-organized at end-April 2022 in Libreville by the CEMAC Commission and the Foundation for Studies and Research on International Development (FERDI), the Gabonese Ministry of Trade announced the elimination of the Ntoum checkpoint, which is expected to be followed by the removal of the Mebo checkpoint. Further reductions in the number of checkpoints could facilitate trading activities within Gabon and with neighboring countries. Remaining checkpoints could be upgraded with investments in capacity building, training (including in phytosanitary inspections), digitalization, performance-based management, and increased oversight, to ensure the professionalism of officers enforcing control at checkpoints. To better identify and distinguish petty harassment from legitimate checks, a hotline service could be established to allow for reports of abusive behavior. In addition to communicating on inspections done in local markets, awareness campaigns could be carried out to reinforce the public information on official checkpoints along trade routes, as well as on trade procedures and official fees applicable to trading activities.[32]

5. Macroeconomic Costs of Petty Harassment

Petty harassment results in higher trade costs and has a detrimental impact on the overall cost of living for the population. It was estimated that the practice accounts for 14 percent of final consumer prices for selected commodities along the Cameroon-Gabon corridor, representing about one-third of final consumer prices (Figure 19). The culture of petty harassment is widespread, leading market actors to internalize these payments in the transport costs.

The elimination of petty harassment is estimated to have significant effects on exports and growth. Simulating such elimination in CEMAC using ENVISAGE, a dynamic global CGE model developed by the World Bank, yields evidence of significant effects on exports and growth.[33] When simulating a 14 percent removal of

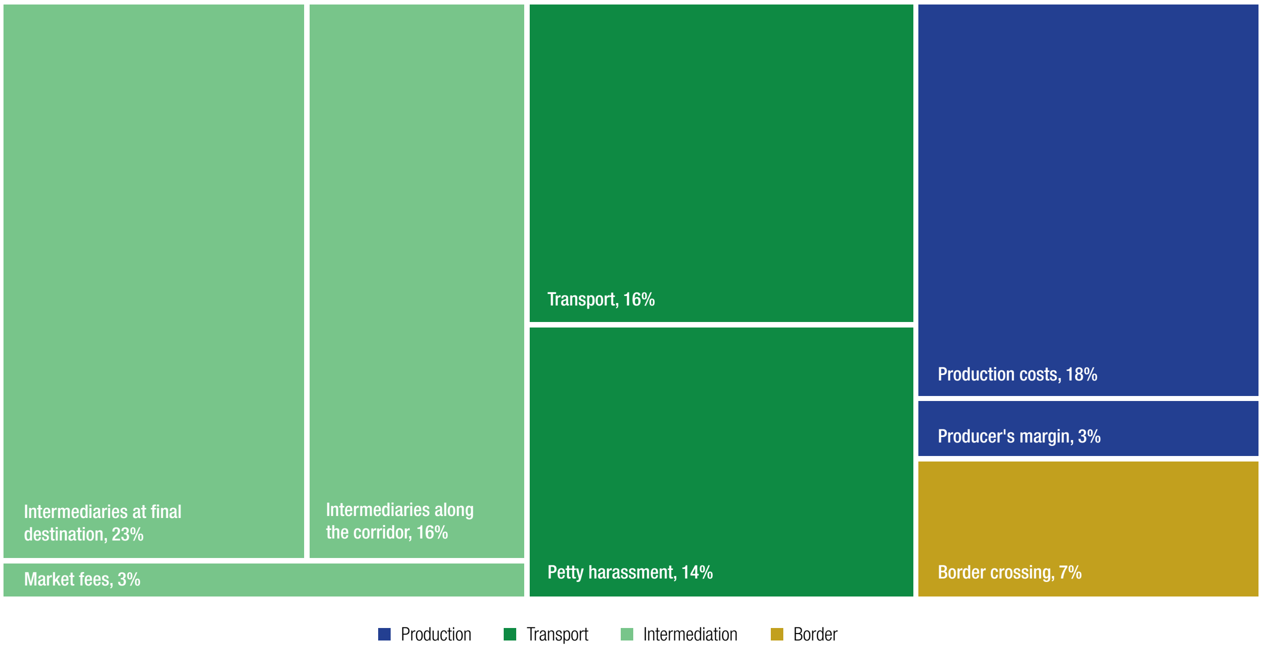
30 Two thirds of respondents did not know the answers to the questions on the impact of COVID-19 to document delivery times and on the creation of new checkpoints since COVID-19.

31 The list of mandatory documents includes an ID card or resident permit, a transit authorization, a phytosanitary form, a trader card (for market activities), and a COVID-19 test when COVID-19 restrictions apply. In fact, COVID-19 slightly worsened the overall situation: about one quarter (24 percent) of respondents highlight longer delays in obtaining all the necessary administrative papers, about one third (34 percent) noted additional checkpoints, and 98 percent cite greater difficulties in selling their products due to supply chains disruption and lockdowns.

32 World Bank 2018b.

33 Djiofack 2018.

Figure 19. Price buildup for selected commodities along the Cameroon-Gabon corridor (in % of final consumer price)



Source: World Bank Group (2018b)

petty harassment on all agricultural and manufacturing product trade among all CEMAC countries, the gains in intra-regional trade for all countries is significant. Relative to the baseline (2015), intra-regional exports for Gabon could increase by about 25 percent by 2030, and GDP growth could increase by more than 0.7 percentage points (Figure 20 and Figure 21).[34] Given the potential importance of unrecorded and informal trade, the impact on growth may be even larger.

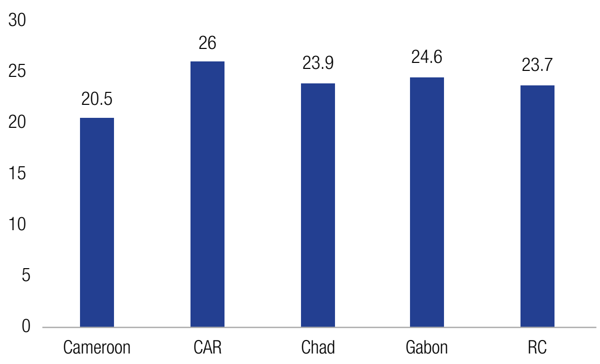
6. A Roadmap for a Reduction in Petty Harassment

Reducing petty harassment is critical to reinforcing regional integration and agricultural import substitution strategies as promoted by CEMAC. As identified by the survey conducted for this report, a substantial number of traders reported dealing with discretionary and variable fees and frequent lack of receipts along checkpoints. Administrative documents required for trading activities were reported to be costly, adding to the obstacles faced by traders in agricultural goods. Coordinated action to address trade bottlenecks would have substantial economic impact and benefit both producers and consumers. It would also be important to improve the efficiency of the legitimate controls of cross-border trade, in order to facilitate trade and reduce the risks posed by traded products for human, animal and plant health. However, meaningful improvement requires cross-sector collaboration and strong political leadership at both the national and regional levels as foreseen by the WTO Trade Facilitation Agreement. Accordingly, reducing petty harassment would help: (i) improve and facilitate regional integration thanks to a significant direct reduction in transport costs for commodities and other products as well as in petty harassment for traders (as highlighted by our survey); and (ii) reduce the cost of living for the population, especially the most vulnerable. It would also benefit the fiscal balance by reducing spending pressures brought by food subsidies.

In line with the current Government's development plan (PAT) and previous analysis conducted by

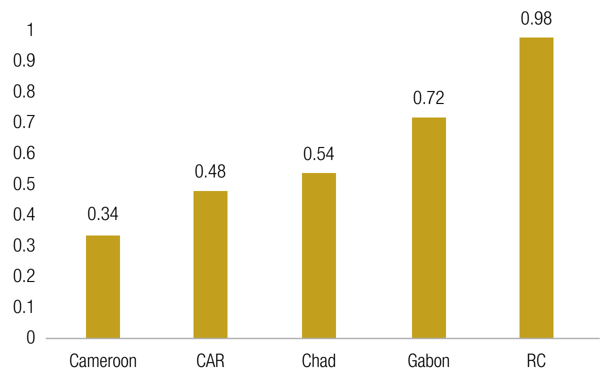
34 For methodological details see World Bank 2018a, p. 90.

Figure 20. ENVISAGE Results: Impact on Exports (% increase over the baseline)



Source: Djiofack 2018

Figure 21. ENVISAGE Results: Impact on Growth (percentage point increase over the baseline)



Source: Djiofack 2018

the World Bank,[35] a policy roadmap for reducing petty harassment rests on three pillars: (i) improving border operations; (ii) professionalizing behavior along trade corridors; and (iii) improving the efficiency of agricultural markets.

1. Improving border operations

a. Accelerate the digitalization of customs through the deployment of Sydonia World software at customs along the northern border.

b. Streamline the number of administrative documents needed for import and export activities in line with WTO recommendations on trade facilitation.

c. Implement a single window approach to external agricultural trade, including regional trade, to improve efficiency and transparency and reduce opportunities for bribes and petty harassment. The creation of a single window would reduce trade information processing times and shorten the customs clearance process.

d. Foster dialogue through CEMAC's Economic and Financial Reform Program (PREF-CEMAC) over the negative impact and shared cost of border closures.

2. Professionalizing behavior along trade corridors

a. Continue reducing the number of checkpoints along trade corridors linking Gabon with neighboring countries.

b. Continue implementing an online mapping of official checkpoints and promote the use of the anti-corruption hotline to allow corridor users to report abuse and corruption. The platform would also benefit from distinguishing between petty harassment at checkpoints and in markets or production sites.

c. Reinforce publicity materials and user-friendly information on trade procedures and official fees.

d. Upgrade legitimate checkpoints by building capacity to implement functions (such as SPS monitoring) and improving oversight. In particular, there is an urgent need to make legitimate functions (such as vehicle weight limits and SPS measures) more effective and efficient.

3. Improving the efficiency of agricultural markets

a. Promote competitiveness through inclusive market management and oversight by involving trader associations and other private users in

35 World Bank 2018b.

the development and management of market spaces.

b. Reduce the number of steps (currently 16) between the various actors involved with agricultural trade (producers, importers, and traders) to improve efficiency and transparency and reduce opportunities for bribes and petty harassment.

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Appendix

A. Assessing the Monetary Costs of Unofficial Checkpoints and Petty Harassment for Truckers

Table A.1: Official and actual cost of clearing a truck at Abang-Minko/Eboro border between Cameroon and Gabon

Fee name	Responsible agency	Minibus (1 ton)			Small truck (4 ton)			Mid-size truck (10 ton)		
		Official cost	Actual cost	Variation	Official cost	Actual cost	Variation	Official cost	Actual cost	Variation
Cost to Exit Cameroon										
Entry fee Paid to enter the market for loading purposes	Police Army Immigration Town Hall *Assemblée*	- - - ? ?	5,000 2,000 2,000 2,000 1,000	5,000 2,000 2,000 2,000 1,000	- - - ? ?	5,000 2,000 2,000 2,000 1,000	5,000 2,000 2,000 2,000 1,000	- - - ? ?	5,000 2,000 2,000 2,000 1,000	5,000 2,000 2,000 2,000 1,000
Loading fee	Town Hall	?	1,000	1,000	?	2,000	2,000	?	5,000	5,000
Customs Exit fee	Customs	2%	10,000	N/A	2%	15,000	N/A	2%	15,000	N/A
Phytosanitary	Phyto Police	5,100	5,000	(100)	8,500	10,000	1,500	8,500	10,000	1,500
LVO fee	BGFT	5,000	5,000	-	10,000	10,000	-	15,000	10,000	(5,000)
Exit fee Paid at the Post avancé. *Information only available for mid-size trucks.*	Police Army	? ?	? ?	? ?	? ?	? ?	? ?	- -	2,000 2,000	2,000 2,000
Costs to Enter Gabon										
Overtime fee	Customs	?	5,000	5,000	?	5,000	5,000	?	15,000	15,000
Phyto Inspection	AGASA	10,000	5,000	(5,000)	20,000	25,000	5,000	30,000	50,000	20,000
Identification note fee	CGC	10,000	5,000	(5,000)	10,000	10,000	-	10,000	25,000	15,000
Certificate of authorization for consumption (issue fee)	DGCC	?	5,000	5,000	16,800	25,000	8,200	48,000	48,000	-
Unspecified fees	Town Hall *Assemblée* Army Police	? ? - -	2,500 5,000 5,000 5,000	2,500 5,000 5,000 5,000	? ? - -	5,000 5,000 5,000 5,000	5,000 5,000 5,000 5,000	? ? - -	10,000 15,000 5,000 10,000	10,000 15,000 5,000 10,000
Total Costs at Border										
Total per vehicle (CFAF) Cost per ton (CFAF)		**30,100** 30,100	**70,500** 70,500	**30,400** 30,400	**65,300** 16,325	**134,000** 33,500	**53,700** 13,425	**111,500** 11,150	**234,000** 23,400	**107,500** 10,750
Total per vehicle (USD) Cost per ton (CFAF)		**56.90** 56.90	**133.27** 133.27	**57.47** 57.47	**123.44** 30.86	**253.31** 63.33	**101.51** 25.38	**210.78** 21.08	**442.34** 44.23	**203.21** 20.32

? = Information on official costs not available from responsible agency.
Source: World Bank 2018a

Table A.2: Checkpoints between Abang Minko and Libreville (20-ton truck)

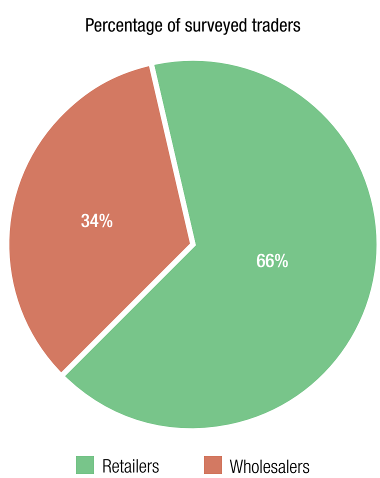
Type of checkpoint	Number	Total delays caused	*Tracasserie* (yes/no, depending on level for formality)	Average cost (CFAF)	Total average cost for the one-way trip (CFAF)
Police	7	2 hours 27 min	Yes	47,143	330,000
Phytosanitary police	4	1 hour 44 min	Yes	45,000	180,000
Gendarmerie	18	6 hours 18 min	Yes	45,000	810,000
Municipality	4	1 hour 10 min	Yes	47,500	190,000
Customs	4	1 hour 38 min	No	42,500	170,000
Others	7	2 hours 27 min	No	42,857	300,000
Total	**44**	**15 hours 34 min**			**1,980,000**

Source: World Bank 2018b

B. Survey of Agricultural traders on Administrative Burden and Petty Harassment

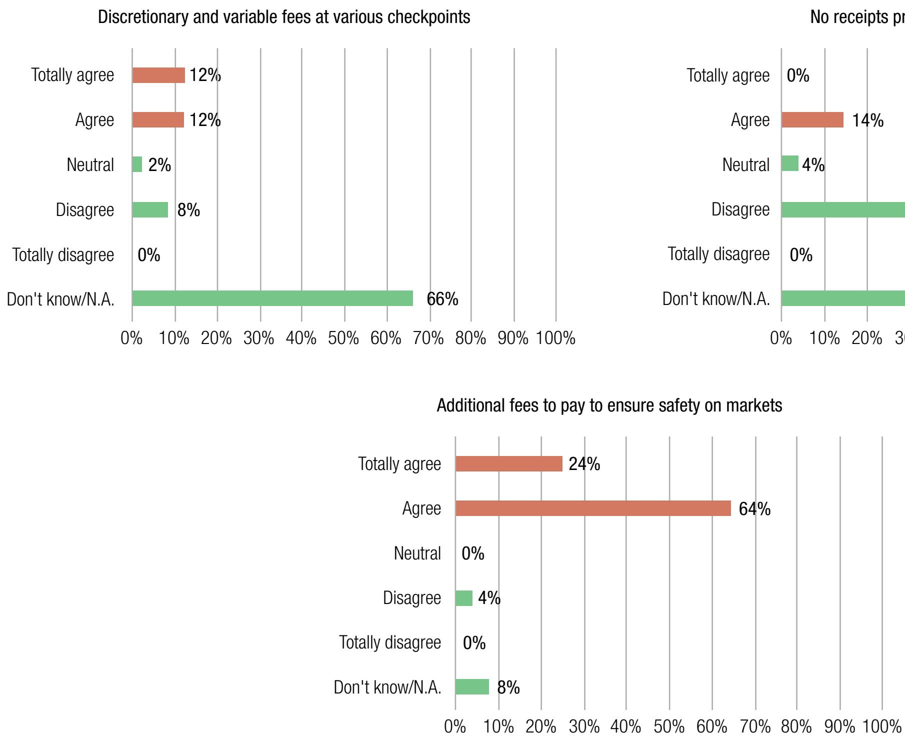
We conducted an original survey on 50 agricultural traders during May 2022 in the B2, Pk8, and *Venez-voir* private markets of Libreville and elicited feedback on regular administrative processes, petty harassment, and the consequences of COVID-19 lockdowns. The respondents were self-employed traders who transport and sell agricultural products in Libreville. Of the traders surveyed, two thirds were retailers, and one third, wholesalers. To transport their goods, two thirds of traders declared that they lease a vehicle with a formal contract, while others employ different informal arrangements and other means to secure transportation. The traders sell bananas (98 percent), taro (54 percent), potatoes or tubers (50 percent), chili peppers (22 percent), onions (20 percent), cassava (14 percent), and cabbage, tomatoes, and yam (10 percent or less). Survey participants were asked about petty harassment, administrative burdens, and the impact of COVID-19 on their activities.

Figure B.1: Characteristics of traders



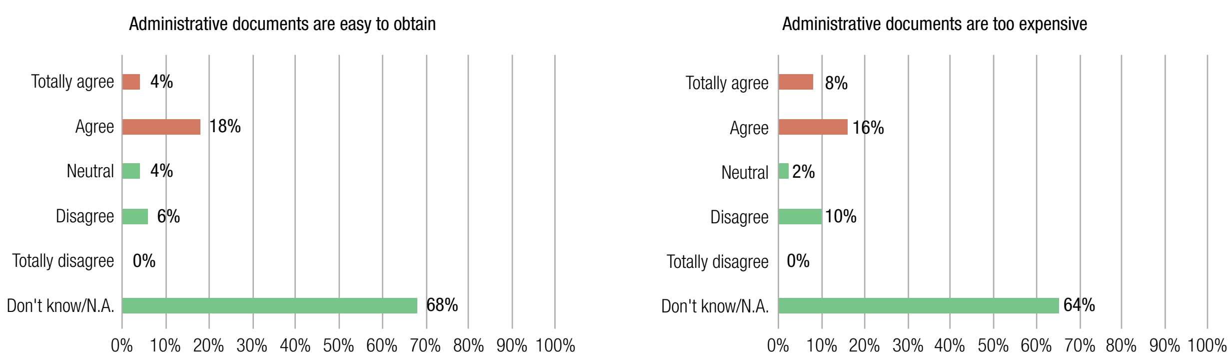
Source: Authors' own survey

Figure B.2: Petty harassment and cash extortion in agricultural trade chains



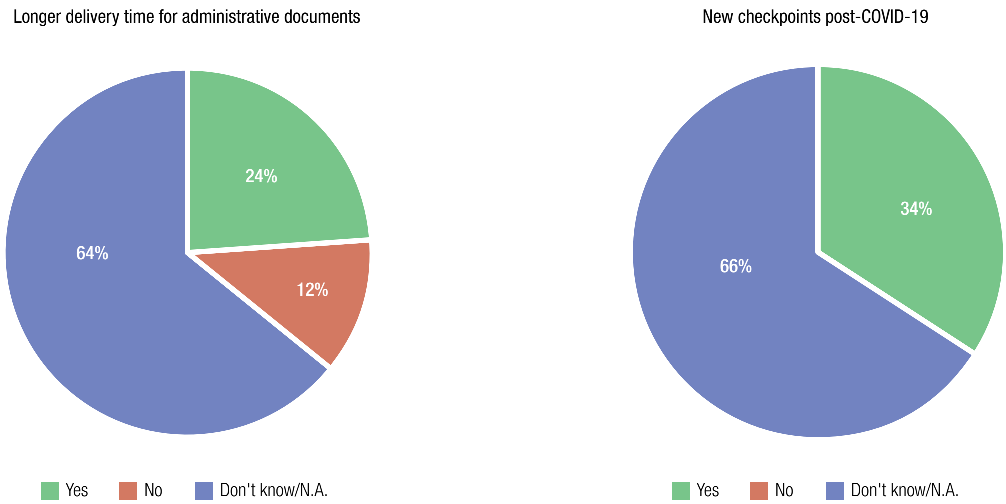
Source: Authors' own survey

Figure B.3: Administrative burdens



Source: Authors' own survey

Figure B.4: Impacts of the COVID-19 pandemic to trading activities



Source: Authors' own survey

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