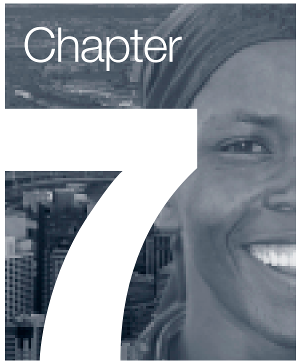


Gabon—Struggling to Diversify from the Oil Sector

Gabon's economy contracted 0.3% in 2002 due largely to oil's poor performance. Oil GDP declined an estimated 2.4%, partially offset by a slight increase in nonoil GDP of 0.6%, leading to a marginal contraction in overall GDP. As the government intensifies economic reforms and higher oil prices boost oil GDP, overall real GDP is expected to recover by 0.7% in 2003 and 1.7% in 2004.

The fiscal balance remained positive but deteriorated from a surplus of 7.6% of GDP in 2001 to 5% in 2002, reflecting the 38% decline in oil revenues. Nonoil revenues increased 27%, topping oil revenues for the first time since the early 1970s.

> *Gabon's economy contracted by 0.3% in 2002, due largely to oil's poor performance*

The tight monetary policy of the central bank, coupled with the government's fairly strict fiscal stance, kept inflation at about 2% a year during 2000–02. Because Gabon imports mainly from Europe and Cameroon, the appreciation of the CFA franc against the dollar did not affect domestic prices.

Government borrowing from the banking system was down 14%, compared with a phenomenal increase of more than 100% the previous year. This enabled the government to redress its assets coverage ratio with the central bank and thus improve its position in the operations account, severely depleted in 2001 by excessive and unbudgeted government borrowing. The reduction in government credit from the banking system also made more credit available to the private sector, resulting in an increase of 23% in 2002, more than twice the 11% increase in 2001. Overall, net domestic assets increased by a modest 8.2% in 2002, while net foreign assets improved from $10.9 million in 2001 to $29.7 million in 2002.

The overall balance of payments is estimated to have improved significantly in 2002, mainly from higher inflows of foreign investment and a reduction in the government's external debt. Even so, the level of debt stood at $4 billion in 2002, about 109% of export earnings, with debt service payments equivalent to 37% of government revenue.

Because of mounting debt problems, social infrastructure and urban services have deteriorated. About 80% of the population in the largest city—Libreville—lives in poor neighborhoods without adequate water, sanitation, and health facilities. Rural areas were equally affected, as transfers and government services both declined.

Poverty remains deep, with 60% of the population living below the poverty line, a level that has not changed much since independence in 1960, though the number of the extremely poor has declined significantly. At the same time, income inequality is high, with a Gini coefficient of 0.45 for the two major cities—though probably lower for rural areas.

> *The Gabon development experience is a classic example of the Dutch disease*

The Gabon development experience is a classic example of the Dutch disease. Revenues from large oil exports led to distortions in the economy, resulting in contraction of the nonoil tradable sector as relative prices shifted in favour of the nontradable sector. With the nontradable sector expanding, traditional sectors, particularly agriculture, stagnated because they had become unattractive for investment. That led to a large influx of workers—especially youths—to urban areas, swelling the urban population and unemployment.

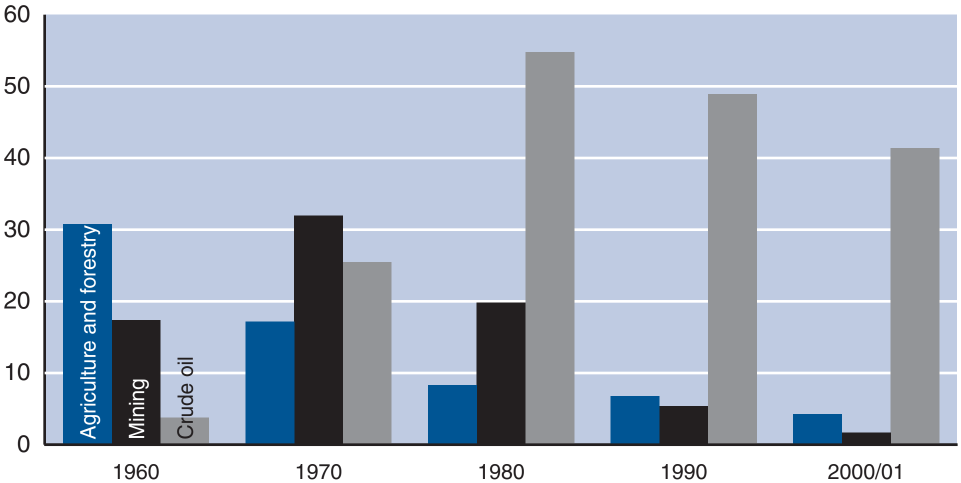
After the first oil boom of 1973 oil replaced forestry, uranium, and manganese as the dominant sector and the driving force of economic growth. Its share of GDP reached a peak of 55% during 1980–84 (figure 7.1), and it contributed 85% of export earnings. Although oil's dominance of the economy has declined in recent years, it remains the main source of growth, contributing about 41% of GDP, 78% of export earnings, and 66% of fiscal revenues in 2000/01. Gabon is the third largest producer and exporter of crude oil in Sub-Saharan Africa.

Although the government has long recognized the need for diversification, little has been done to advance it. Unlike other commodity-dependent economies, Gabon has many unexploited opportunities in agriculture, fishing, forestry, and mining. The

Figure 7.1

Oil on the decline

Contribution to GDP of selected sectors, 1960–2000/01 (% of GDP)



Source: *Economic Commission for Africa, from official sources.*

government's failure to take advantage of these opportunities will prove costly as oil production continues to decline—with output expected to be exhausted in 10–15 years unless new deposits are discovered. Oil earnings in the short term will delay economic stagnation, but with consequences for growth, employment, and poverty. Gabon thus appears primed for an economic setback in the medium term—and the government seems unprepared for the impending crisis. The impact of the decline in the oil sector will be felt largely through a tightening of domestic and external financing.

"As oil production continues to decline, the outlook for the economy remains bleak"

To address the economic challenges, the government started a major reform programme in 1994, underpinned by the 50% devaluation of the CFA franc. Key reforms included privatization, reductions in fiscal spending, liberalization of the economy, and encouragement of foreign direct investment. There has been some progress, but the government has not been consistent in implementing the needed reforms. As a result, the programme agreed with the International Monetary Fund (IMF) in 2000 was allowed to lapse in April 2002 due to delays in structural reforms and fiscal slippages.

As oil production continues to decline, the outlook for the economy remains bleak. These concerns have been echoed by ratings agencies, which recently downgraded Gabon's financial standing. And the failure to diversify means that the nonoil sector will be unable to pick up the slack. Gabon therefore urgently needs to implement structural measures required for diversification, promote private investment, and guard against macroeconomic instability associated with fiscal mismanagement.

Recent economic developments

A notable feature of Gabon's economy is its extreme dependence on natural resources, which account for about 50% of GDP. Primarily due to oil, Gabon is a middle income country with a per capita income of about $3,800—about 10 times the Sub-Saharan average. Yet inequality is high, and a large proportion of the population remains poor.

Economic performance—weak overall growth

Gabon's overall economic performance has been weak and erratic (table 7.1 and figure 7.2). Following a profound recession in 1999, when real GDP contracted 9.6%, the economy improved slightly in 2000 but not enough to turn positive. After a modest recovery to 2% in 2001, the economy contracted 0.3% in 2002. The poor growth performance was also due to an unfavourable business environment, weak and inefficient infrastructure, and a huge and growing external debt, at more than 100% of GDP.

The slight recovery in 2001 was helped by higher oil prices and higher than expected oil production. Oil GDP is estimated to have contracted 2.4% in 2002, while the nonoil

Table 7.1

GDP by sector, 1997–2002 (1991 US$ millions)

Sector	1997	1998	1999	2000	2001	2002[a]
Gross domestic product	6,493	6,718	6,076	5,959	6,078	6,065
Primary sector	2,632	2,577	2,375	2,172	2,086	2,060
Agriculture, animal husbandry, and fishing	351	367	372	382	392	402
Timber industry	129	118	139	150	143	143
Crude oil	2,030	1,939	1,721	1,505	1,424	1,390
Mining	122	153	143	134	127	125
Secondary sector	1,037	1,140	960	943	977	973
Industry	378	433	418	418	442	464
Agro-food industry	138	159	151	149	155	163
Timber industry	22	40	52	39	52	54
Other industry	218	234	216	231	235	247
Refinery	116	119	121.6	127	130	124
Electricity and water	124	127	137	138	143	135
Construction and public works	385	412	251	204	206	194
Research and oil services	35	48	31	56	56	56
Tertiary sector	2,508	2,684	2,496	2,662	2,494	2,675
Transport and telecommunications	406	429	365	415	344	425
Services	785	875	841	912	849	916
Trade	511	537	415	449	441	453
Bank and insurance services	76	67	53	57	54	53
Nonmarketed services	731	777	822	829	806	828
Import duty and other taxes	316	318	245	353	287	357
Oil GDP	2,181	2,107	1,874	1,687	1,610	1,572
Nonoil GDP	4,312	4,612	4,202	4,271	4,468	7,795
GDP growth (%)	5.7	3. 5	–9.6	–1.9	–2.0	–0.3

a. Estimated.

Source: *Economic Commission for Africa, from official sources.*

sector grew 1.7% in 2000, 4.6% in 2001, and an estimated 0.6% in 2002. Behind this growth was the improved economic environment—as key structural reforms began to take effect and the fiscal situation improved following the government's efforts to reduce its debt and arrears, both domestic and external. This boosted private investment in services, agriculture, and wood processing.

The central bank's monetary policy, coupled with the government's fiscal stance, kept inflation firmly under control at 2% a year during 2000–02. With Gabon importing mainly from the Euro area and Cameroon, the appreciation of the CFA franc against the dollar did not affect domestic prices. With the global economic recovery and high oil prices, real GDP is expected to recover by 1% in 2003 and 1.7% in 2004.

Employment—sluggish

Overall employment in the public and private formal sector increased 2%, from 107,334 workers in 2000 to 109,521 in 2001. The increase was attributable to better performance in the oil sector, with prices and output higher than projected, and greater activity in the private and quasi-public sectors (timber, services, agriculture, transport, and telecommunications).

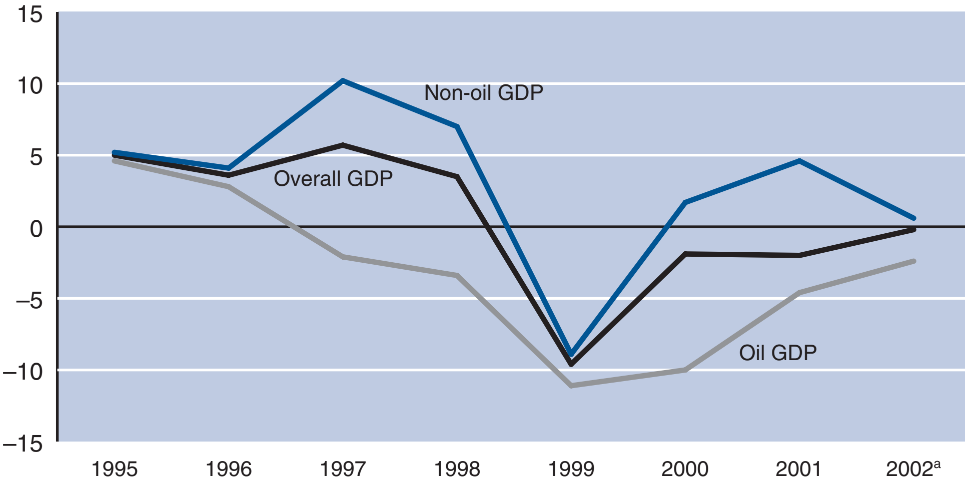
Despite the increase, the labor market has deteriorated considerably. According to the National Labour Office, 20% of the economically active population is out of work. This trend will only worsen as the supply of labor grows 2.8% a year (12,600 job seekers in 1998) while the labor market can absorb only 4,000 job seekers a year. The imbalance between supply and demand is attributable to a mismatch between the skills and training of the labor force and the requirements of employers. Government estimates show that 80% of the unemployed are unskilled. There is also little real tradition of entrepreneurship.

"Overall employment in the public and private formal sector increased 2%, but the labor market has deteriorated considerably"

Sectoral performance—stunted by Dutch disease

Although the government has long recognized the need for diversification, as evidenced in many policy announcements, implementation has lagged far behind. The average diversification index stood at 0.853 during 1980–90 and 0.917 during 1990–95, showing little progress since 1980.[1] After devaluation of the CFA franc in 1995, the index improved slightly, but it has been declining since with the rising share of services and the persistently low share of all industrial sectors (IMF 2002). The most critical challenge for Gabon in thus to expand the nonoil sector.

Figure 7.2
GDP tracks oil—down, then up slightly
Real GDP growth, 1995–2002 (%)



a. Estimated.
***Source:** Economic Commission for Africa, from official sources.*

Oil—a slight reprieve as small fields cushion projected decline in production

Oil continues to be the key driving force of economic activity since the first oil boom in the early 1970s. In 2000/01 oil contributed 66% of government revenues, 78% of export earnings, and 41% of GDP. But in direct employment it lags behind agriculture and forestry, which provide more than 70% of primary sector employment. Oil has remained largely an enclave, with little impact on the nonoil sector except through oil taxes, equivalent to a foreign transfer (IMF 2002).

"Despite extensive exploration, no large new oil fields have been discovered to compensate for the declining output"

Until the mid-1990s the government's main concern was oil's vulnerability to fluctuations in prices and world demand. This changed in 1997 when production started to decline, from 18.5 million tons in 1997 to an estimated 13 million tons in 2001. Unless new reserves are found, production is set to fall by half by 2005.

The decline in oil production will deal a major blow to the economic reform and development programme and will have ripple effects throughout the economy. Given the heavy dependence on oil tax revenue—which averaged about 56% of total receipts over the last five years—the decline will precipitate major cuts in investment in physical and social infrastructure. The problem will be compounded by the high indebtedness and the need to repay accumulated arrears.

The government's immediate response has been to encourage more oil exploration, not to implement the reforms required to boost nonoil sectors. The government revised its production sharing contracts to attract new investors and increased the number of permits issued. In the ninth licensing round, 27 blocks were offered, 13 onshore, 9 in deep waters, and 5 in shallow waters. But the response was disappointing. Despite extensive exploration, no large new oil fields have been discovered to compensate for the declining output. Some smaller discoveries raise the country's oil reserves to about 2.5 million barrels, helping to slow the decline in production and earnings. But most of these small wells are low yielding—and cannot be economically exploited unless oil prices rise. The government must confront the prospects of a future without oil, with reserves exhausted in the next 10–15 years if current exploration efforts do not bring success.

Agriculture and fishing—underdeveloped

For a country endowed with adequate rainfall and arable land, the contribution of agriculture to the economy is unusually low—declining from 10.8% of nonoil GDP to 9.7% between 1990 and 2001. The 800 kilometre coastline and interior water resources provide abundant fishing opportunities, which if fully exploited could meet domestic needs and produce a surplus for export. In 2001 and 2002 agriculture and fishing grew only 2.5%.

The dismal performance of agriculture is attributable to the Dutch disease that came with oil. Before the first oil boom, Gabon produced significant amounts of food and cash crops, such as cocoa and coffee. But with agriculture neglected, production stagnated. And today the country depends on imported food from Europe and from other African countries.

Weak and inefficient infrastructure makes it costly to market agricultural produce. Production costs, especially for labor, are high. And productivity is low because of traditional farming methods and poor support services to farmers. A revival of the sector could go a long way towards improving the depressed incomes of rural dwellers, about 25% of the total population.

> *Most timber is exported unprocessed, resulting in very low valued added from forestry*

To increase domestic food production and reverse dependence on imports, the government prepared a rural development programme to:

- Increase food production and reduce imports.
- Improve the production of cash crops.
- Renew the rural population with young settlers.
- Diversify agricultural production to increase sources of income.
- Improve production and marketing strategies.
- Reorganize and strengthen agricultural research and training.
- Train farmers in cash crop production.

Forestry—potential untapped

About 80% of Gabon is covered with virgin tropical forest containing species highly valued in international markets. And forestry remains among the top sectors in the economy, in recent years contributing about 3.8% of nonoil GDP, 12% of exports, and 8% of employment. Between 1998 and 2000 the primary timber industry grew 27% in real terms, and after declining in 2001 it is estimated to have increased by 0.5% during 2002, thanks to strong world prices and reforms to improve the incentives for private participation (see table 7.1).

Gabon's main timber importers—Asian countries—are very price sensitive, and they can easily substitute cheaper, low quality products for high quality Gabonese wood. During the Asian crisis Gabon saw a dramatic 43% decline in exports. And there is stiff competition from neighbouring countries, particularly Equatorial Guinea. Although exports rebounded strongly in 1999 and 2000, they declined 15% in 2001, due mainly to lower world demand. One export species, okoume, dominates with about 70% of the total. Most timber is exported unprocessed, resulting in very low valued added from forestry.

The private sector is a key player in logging, but so is the government, with 51% ownership of the Société National des Bois du Gabon (SNBG), which has monopoly export rights for okoume. SBNG has been facing serious financial and management problems, with adverse ripple effects on private suppliers, interrupting production and shipments of okoume and ozigo. The government has allowed partial liberalization of these two types of wood, permitting private operators to export up to half of their production in 2001.

Forestry offers great opportunities for diversification as Gabon grapples with the realities of dwindling oil reserves. If managed well, forestry can increase export earnings and employment—and thus benefit the majority of the population, especially the poor, while preserving biodiversity. According to World Bank estimates, 1.7 jobs are required per year to exploit 1,000 cubic meters of timber and an additional 2 jobs per year for processing, thus potentially making forestry a leading source of employment. To realize the potential, the government is enacting legislation to encourage local processing, while emphasizing sustainable exploitation.

Mining output, down by 17% in real terms between 1998 and 2001, is projected to remain flat in 2002

Mining—weak performance

Mining started to decline after 1999, with the closure of the Mounana uranium mine. Mining output, down by 17% in real terms between 1998 and 2001, is projected to remain flat in 2002 (see table 7.1). Significant for export earnings, its contribution to GDP is still low—at 2.7% of nonoil GDP in 2001.

Gabon is the fourth largest producer of manganese, with the main mine having 200 million tons, 25% of the world's reserves of high concentrate ore. Manganese exports were about 4.5% of the total in 2001, making it the third largest export earner.

The potential for future development is high, with unexploited reserves of iron ore, phosphate, niobium, and titanium. The main obstacles to further exploitation of mineral wealth are inadequate infrastructure and unfavorable mining, labor, and investment codes. Legislation was recently passed providing tax and other incentives.

Industry—growth impeded by delays in privatization

Industry grew about 5% in real terms in 2002, from $442 million in 2001 to $464 million (see table 7.1). Agribusiness contributed 2.3% of nonoil GDP in 2001, and wood processing 1.1%. Growth has been hampered by inefficient and poorly managed state marketing enterprises for vegetable oil, soap, coffee, and sugar, all enjoying monopolies on marketing imported and domestic products, crowding out private involvement. Further support is provided through tariff and nontariff protection.

Despite the support to agribusiness, prices for consumers are high, so the government embarked on a comprehensive programme of privatization and liberalization. Progress in privatizing the key state enterprises has been slow, however, because few policy intentions are implemented.

As part of efforts to diversify the economy away from oil and create employment, legislation for the duty-free zone of Port-Gentil was enacted in October 2002 after 10 years of deliberation. The duty-free zone extends over 1,500 hectares on Mandji Island near Port-Gentil, Gabon's oil center, with a deepwater port. The state owns a 20% stake, and a foreign technical partner will manage it.

The main incentives of the zone are no minimum investment; no restrictions on the origin of investment or the numbers of employees, though after five years 95% of staff must be Gabonese; no stamp duties during the first 10 years of operations; no customs duties on imports or exports; no duties on primary, intermediate, and semifinished goods coming from Gabon to free-zone enterprises; and no price controls, import and export quotas, or import and export licenses.

Macroeconomic developments

Although the economy contracted slightly during 2001–02, the overall macroeconomic situation has improved significantly since 1999, with the recovery from the breakdown of financial management in 1998. The fiscal slippages in 1998 have been largely corrected through measures to strengthen expenditure control and monitoring, improve transparency and governance in financial operations, and reorganize the Ministry of Finance. Financing remains fragile, however, because the government must generate resources for development, debt repayments, and reductions in arrears.

> *In the budget framework for 2002 the government took measures to strengthen fiscal consolidation and reinvigorate growth*

Fiscal developments—need for balance between fiscal consolidation and increased spending in priority sectors

Since the fiscal crisis of 1998 the government has been preoccupied with maintaining a high primary budget surplus to service obligations, clear arrears, and reestablish confidence with creditors—while ensuring sufficient revenues to finance priority sectors and provide adequate liquidity for the private sector. Helped by higher oil prices, the primary surplus was 16.5% of GDP in 2001, still short of the target because of transfers and net loans to meet the cost of restructuring state enterprises. In 2002 the primary surplus declined slightly, to 10.2% of GDP, mainly because of the 38% decline in oil revenues. The fiscal adjustment was achieved mainly through reductions in capital and current expenditures (table 7.2). As a result, the overall balance remained in surplus, but was down by 40% between 2001 and 2002.

In the budget framework for 2002 the government took measures to strengthen fiscal consolidation and reinvigorate growth. Allocations to social services and physical infrastructure were higher. Taxes were increased on petroleum, beer and soft drinks, logs, and manganese. The government also implemented measures to increase transparency and efficiency in fiscal management, including a 1% of GDP limit on subsidies to state enterprises and a reduction in the wage bill through civil service reform. The government also undertook to accelerate privatization. But the fiscal measures are unlikely to result in significant savings unless further debt rescheduling is forthcoming in 2003.

To stimulate growth and reduce poverty, spending on social and physical infrastructure needs to increase. Also needed is generating enough savings to repay debt and increase liquidity for the private sector.

Financial sector—generally stable

Monetary developments in 2002 were marked by a 14% reduction in government borrowing from the banking system, after a phenomenal 100% increase the previous year. That enabled the government to redress its asset coverage ratio with the central bank and begin to restore its severely depleted operations account. The reduction in government borrowing also made more credit available to the private sector, with a 23% increase in 2002 compared with 11.2% in 2001. Net domestic assets increased 8.2% in 2002. Net foreign assets improved from −$10.9 million in 2001 to $29.7 million in 2002 (table 7.3).

“The government retains a strong role in the financial sector, both as owner and as client, either directly or through state enterprises”

Past fiscal laxity generated government arrears to the banking sector and to the banks' clients. The government was to stick to the statutory ceiling set by the central bank at 3% of GDP in 2001, but fiscal slippages eroded much of that margin. The government concentrated on strengthening public finances and reducing its indebtedness to the banking system, to avoid new arrears to banks and suppliers. A public debt management strategy, including sales of treasury bills, was proposed to help mitigate the risks.

With a shrinking oil economy, weaknesses in the banking sector required diversification, internationalization, and better risk monitoring by the regional supervisory agency, the Central African Banking Commission (COBAC). The government retains a strong role in the financial sector, both as owner and as client, either directly or through state

Table 7.2

Financial operations of the central government, 1998–2002 (US$ millions)

Item	1998	1999	2000	2001	2002[a]
Total receipts	1,545.9	1,323.6	1,700.9	1,624.9	1,374.9
Oil earnings	844.6	599.9	1,147.5	1,066.8	665.0
Nonoil earnings	701.3	723.7	553.4	558.1	707.3
Grants	0.0	0.0	0.0	0.0	2.6
Total expenditure	2,172.2	1,267.7	1,107.0	1,275.5	1,156.9
Current expenditure	1,557.3	1,074.3	950.3	1,051.2	850.9
Salaries and allowances	347.3	348.0	305.1	291.3	272.6
Goods and services	346.1	202.0	180.7	185.0	180.8
Transfers	522.2	205.7	165.9	161.5	166.9
Interest payments	341.7	318.6	298.6	413.4	230.6
Capital expenditure	614.9	193.4	148.0	190.0	278.2
Loans and advances (net)	0.0	0.0	8.7	34.3	27.8
Primary balance	–284.6	374.5	892.4	762.7	448.6
Overall balance, commitment basis	–626.3	55.9	593.8	349.4	217.9
Change in arrears	137.3	4.9	–389.0	–57.2	–40.2
Overall balance, cash basis	–489.0	60.8	204.8	292.2	177.8
Financing	489.0	–60.8	–204.8	–292.2	–177.8
External	489.0	–60.8	–204.8	–292.2	–177.8
Nominal GDP	4,483.1	4,618.6	5,038.0	4,623.9	4,390.9

a. Estimated.

***Source:** Economic Commission for Africa, from official sources.*

enterprises. Efforts to promote broader access to credit and financial markets—through Banque Nationale de Crédit Rural and Fonds d'Expansion et de Développement—have had little effect.

Gabon and the six other African countries of the Central African Economic and Monetary Community (CEMAC) share a common currency, the CFA franc, issued by the Bank of Central African States (BEAC) and pegged to the euro at a fixed exchange rate. BEAC and COBAC undertake monetary policy and banking supervision. The fixed exchange rate restricts the independent use of monetary instruments for economic management. Performance indicators, as monitored by COBAC, show that financial institutions as a whole are relatively healthy. But there are differences in the compliance of individual banks with prudential ratios. Gross nonperforming loans averaged 3.5% of assets over the past five years. Two banks were not adequately capitalized, three did not meet risk diversification requirements, and two held marginally insufficient liquidity (BEAC 2001).

"In 2002 the current account balance continued to worsen, with a deficit of $212.7 million, up from $48.6 million in 2001"

External sector—relatively healthy

Developments in Gabon's external sector are driven largely by the price and output of oil. In 2002 the current account balance continued to worsen, with a deficit of $212.7 million, up from $48.6 million in 2001. A 24% decline in oil export earnings in 2002

Table 7.3

Trends in money and credit, 1998–2002 (US$ millions, end of period)

Item	1998	1999	2000	2001	2002[a]
Net foreign assets	–81.8	–67.4	251.4	–10.9	29.7
Central bank	–96.8	–64.5	103.3	–61.8	18.2
Deposit money banks	14.9	–2.9	148.1	50.9	11.5
Net domestic assets	899.5	751.8	496.8	772.3	835.7
Credit to government (net)	585.4	466.3	183.0	367.6	315.0
Central bank	354.0	267.6	162.0	300.4	242.3
Deposit money banks	227.0	195.1	15.5	64.1	69.4
Post office savings	4.5	3.7	5.5	3.1	3.4
Credit to public agencies (net)	–24.4	–27.4	–43.0	–43.8	–47.4
Credit to the economy	563.0	489.5	506.3	563.2	692.4
Other items (net)	–224.5	–176.6	–149.5	–114.7	–124.3
Broad money	817.5	684.7	748.1	761.4	865.4
Currency outside banks	221.8	161.3	164.8	172.2	195.7
Demand deposits	281.8	250.6	289.8	274.1	311.6
Time deposits	313.9	272.9	293.5	315.1	358.1
Velocity of broad money	4.1	3.9	3.5	3.4	3.5
Exchange rate (CFA francs per dollar)	562.2	653.0	705.0	744.3	687.2

a. Estimated.

***Source:** Economic Commission for Africa, from official sources.*

was partially compensated for by a 7% increase in nonoil exports (mainly manganese and wood products). Government imports rose by more than 50%, contributing to import growth of 5.3%.

> *It would be to Gabon's advantage to consider further liberalization of services*

In the capital account, long-term capital flows improved from a deficit of $419 million in 2001 to a surplus of $42 million in 2002, with a decline in government external borrowing and an improvement in the net services balance. The overall balance improved to a deficit of $98.9 million (2.3% of GDP), after a huge deficit of $315 million in 2001.

Gabon's exchange system is basically open and free of administrative and quantitative restrictions on payments and transfers for current international transactions—except for sugar, whose quota will be eliminated at the end of 2003. As a member of CEMAC, Gabon applies a common external trade tariff at four levels (5%, 10%, 20%, and 30%). But it has problems meeting World Trade Organization (WTO) commitments because about 40% of its tariffs lines under the common external tariff exceed the agreed 15% WTO ceiling.

Table 7.4

Balance of payments, 1998–2002 (US$ millions)

Item	1998	1999	2000	2001	2002[a]
Current transactions	–839.0	–408.4	163.0	–48.6	–212.7
Exports, fob	1,906.4	2,504.5	3,218.6	2,633.7	2,181.2
Oil	1,412.5	1,859.2	2,574.4	2,060.2	1,570.0
Nonoil sector	493.9	645.3	644.2	573.5	611.1
Imports, cif	–1,102.7	–847.9	–926.9	–998.5	–1,051.9
Oil	–302.4	–291.4	–402.0	–409.8	–386.7
Nonoil private sector	–460.2	–475.9	–472.1	–511.8	–545.6
Government	–340.2	–80.7	–52.8	–76.9	–119.6
Trade balance	803.7	1,656.5	2,291.7	1,635.2	1,129.2
Services (net)	–1,445.9	–1,883.1	–2,079.0	–1,638.2	–1,301.2
Transfers (net)	–196.8	–181.8	–49.7	–45.6	–40.8
Movement of medium and long-term capital	–69.7	–98.6	–37.2	–419.1	42.7
Government	–275.8	–268.8	–309.0	–399.5	–233.7
Direct and portfolio investment	159.0	162.8	193.7	–112.9	190.1
Private debt	47.1	7.5	78.2	93.2	86.2
Short-term capital	242.5	98.1	–215.4	152.4	71.1
Errors and omissions	–53.4	279.7	22.0	0.0	0.0
Overall balance	–666.1	–408.8	–89.6	–315.4	–98.9
External debt to GDP ratio (%)	74.4	79.2	62.9	56.8	0.00
Debt service to exports ratio (%)	29.8	22.1	17.3	27.4	0.00

a. Estimated.

Source: *Economic Commission for Africa, from official sources.*

The government plans to renegotiate its bound tariffs to remove these inconsistencies. In addition, the 20% CEMAC surcharge, to have been eliminated by mid-2000, is still being applied to 25 tariff lines. Given Gabon's high degree of openness, it would be to Gabon's advantage to consider further liberalization of services through stronger commitments under the General Agreement on Trade in Services in order to attract more foreign direct investment and make services available at more competitive prices.

"While there has been some progress in the reforms, the government has not been consistent in implementation"

Structural and institutional reforms—slow pace with mixed results

Structural reforms in Gabon were part of a comprehensive economic recovery strategy initiated in 1994, when the CFA franc was devalued 50% relative to the French franc, to improve international competitiveness and revive growth. The devaluation brought the government face to face with economic reality and prompted a redefinition of the government's role in the economy.

The government embarked on a broad range of structural reforms to unlock Gabon's growth potential in the nonoil sector. The reforms were to improve the efficiency and financial performance of public enterprises and reform the civil service. The legal and institutional framework was to be liberalized by revising the labour code, enacting a competition law, updating business legislation, and adopting a new investment code. The government also committed to privatize and restructure key public utilities and to finalize privatization plans for agricultural and commercial public enterprises. These measures were to be underpinned by a sound macroeconomic framework, reducing internal and external debt to release more resources to the private sector.

While there has been some progress in the reforms, the government has not been consistent in implementation, leading to an on-and-off relationship with the IMF and the World Bank, creating uncertainty, and reducing the credibility of the government commitment to reform. The most recent programme, agreed with the IMF in 2000, lapsed in April 2002 because of delays in structural reforms and fiscal slippages. The weak commitment to structural reforms has discouraged private investment, particularly the foreign direct investment essential for Gabon to revive its economy (box 7.1).

There has been little tangible progress in governance reform. Good political and economic governance are the cornerstone for economic growth and poverty reduction. The main governance issues are to eradicate corruption and to implement sound public financial management. Democracy and political freedom are important parts of good governance.

The constitution recognizes and guarantees the inviolability of human rights. Despite attempts to democratize the political process, the 20% voter turnout suggests a lack of confidence in the process. But with a weak and divided opposition, the country remains

Box 7.1
Fiscal reforms—agenda and recent progress

The government has undertaken to implement the following structural reforms:

- The integrated budget information system (CRYSTAL) was operational in early 2002, covering financial transactions by all ministries and government agencies and all treasury operations, special funds, and domestic debt operations. Although transactions on special funds were to be covered by CRYSTAL from early 2002 on, the special funds had not yet been fully integrated into the government budget. The authorities undertook to overhaul all special funds and to incorporate any remaining ones in the budget starting with the 2003 budget.
- The authorities committed to address the shortcomings identified in the public investment review undertaken with the World Bank and other donors in July 2001. The preliminary report identified institutional weaknesses in the formulation and execution of the investment budget, including an irregular updating of sectoral strategies, a lack of coordination between the Ministry of Finance and sectoral ministries, and delays in the communication of budget appropriations to spending ministries, leading to the circumvention of normal procurement procedures and the accumulation of arrears.
- A decree introducing the new procurement code is to be adopted shortly, and a national commission on government contracts (and its secretariat) established. A new directorate of public procurement will be created within the Ministry of Finance. Purchases above 25 million CFA francs would require international bids. The authorities estimate possible savings of at least 1% of GDP under the code. Steps have been taken to strengthen financial control by the Ministry of Finance. The Directorate General of Financial Control was strengthened by the creation of the unit to control services rendered. Financial controllers were redeployed from the Ministry of Finance to the spending ministries in the second quarter of 2002. The draft legislation relating to the introduction of the General Inspectorate of Finance was finalized, and the government was to adopt it thereafter.
- The Ministry of Finance has initiated the preparation of a detailed expenditure classification scheme (economic, administrative, and functional), with technical assistance from Canada. The new classification scheme was adopted in the context of the 2003 budget law. As a first step, budgetary spending items have been systematically classified under a common administrative heading system, including those previously recorded under the lump-sum category of "common outlays".
- The financial audits of three small oil companies were completed in late 2001. The audits of the two major companies under the concession regime (with more than two-thirds of production) were initiated in March 2002 and are to be completed with the help of external auditing firms.
- The Direct and Indirect Tax Department, now being restructured and strengthened, will incorporate the unit in charge of the government estates (*domaines*, including oil royalties and dividends). This restructuring will entail a significant increase in the number of tax assessors and controllers. The staff has recommended that the new tax directorate maintain and further strengthen the Large Enterprise Unit.

Source: *IMF 2002.*

dominated by one party. In the political elections of December 2001 the ruling party and its allies won 107 of the 120 seats. And in the municipal elections of December 2002, some opposition leaders claim that voter turnout was below 10%. With a divided and weak opposition, the country remains dominated by one party. But unlike many other African countries, and despite the political and economic problems, Gabon has remained fairly peaceful and stable since independence in 1960.

"Unlike many other African countries, and despite the political and economic problems, Gabon has remained fairly peaceful and stable since independence in 1960"

Corruption, a serious problem in Gabon, is largely responsible for the poor performance of the economy—despite the massive oil resources. Perceived to be high, it works through a number of channels, including overpricing of government contracts, fictitious contracts, lax tax assessments, agency fees, and commissions to interest groups linked to the oil sector. With low or negative growth in recent years, the social and economic infrastructure is dilapidated, and levels of poverty have remained very high.

The effects of corruption on growth and development in Gabon are well documented (Soderling 2002; U.S. Senate 1999). As part of the institutional reforms the Gabon Senate adopted a watered down anticorruption law, after rejecting the one adopted by the National Assembly. As with other institutional reforms, there has been lack of political will and commitment to implement the legislation.

Poverty and the social sectors

Typical of other poorly managed resource-rich economies, Gabon is a middle income country with poverty levels comparable to those of low-income Africa. Education and health indicators have improved, but outcomes are still poor and resources are inefficiently used.

Trends in poverty—the paradox of oil wealth

Gabon has a per capita GDP of about $3,800, making it one of the richest countries in Africa. But the high income has not translated into significant reductions in poverty and inequality. Two measures of the poverty line for Gabon (one at the minimum wage level and the other at two-thirds of average consumption) show that the number of poor people remained high between 1960 and 1994. But extreme poverty (intensity) fell significantly between 1960 and 1992, worsening slightly thereafter (table 7.5). Inequality declined slightly between 1960 and 1975, from a Gini coefficient of 0.68 to 0.60, where it has remained. But inequality remains severe, especially between urban and rural areas.

Other indicators confirm the disturbing trend in poverty. The UNDP Human Development Index was 52.5 in 1992, giving Gabon a ranking of 91 out of 173 countries. In 2000, the index was 52.4 and the ranking 123. In both cases, the ranking for Gabon was more than 40 positions below that of countries with similar GDP per capita, indicating that Gabon's wealth has done little to raise the living standards of the majority of the people.

The government has had little success in combating poverty. To distribute the benefits of the oil wealth, it invested massively in social and physical infrastructure resulting in substantial increases in employment and wages in the public sector, including state enterprises. But the projects were undertaken without careful analysis of their rates of return—and thus their long-term viability. Moreover, the expansionary budgetary policy led to higher costs of living and hindered the development of agriculture and small enterprises, undermining the country's external competitiveness. With the collapse of the oil sector after the 50% price decline in 1986, unemployment spiked to 30%.

"The government has had little success in combating poverty"

In 2000 the government renewed its commitment to significantly reduce poverty. Given the importance of social security in assisting the poor, the government has undertaken to restructure two key social programme funds and strengthen their financial and management standing. To this effect, a new restructuring legislation for the social guarantee fund was initiated in 1995 to ensure regular and sufficient funding. The restructuring of the social security fund was begun in 2001 and completed by end 2002.

Although Gabon is not eligible for assistance under the Heavily Indebted Poor Countries Initiative, the government has been working with the IMF and the World Bank to develop a comprehensive poverty reduction strategy. Consultations have been started with the key stakeholders, and a Poverty Reduction Strategy is to be completed by the end of 2003 (box 7.2).

Table 7.5

Income inequality and poverty, 1960–94

		Poverty line								
	Gini	Minimum wage			Two-thirds of average consumption			$1 a day		
Year	coefficient	Incidence	Intensity	Severity	Incidence	Intensity	Severity	Incidence	Intensity	Severity
1960	0.68	87	60	47	68	39	27	66	38	26
1968	0.64	89	61	46	67	35	21	57	27	15
1975	0.60	86	54	38	62	30	18	26	8	4
1985	0.60	85	53	38	62	30	18	15	4	1
1990	0.60	84	51	35	62	51	18	14	3	1
1991	0.60	83	50	35	62	50	18	12	2	1
1992	0.60	83	50	34	62	50	18	10	2	1
1993	0.60	84	51	36	62	51	18	11	2	1
1994	0.60	83	50	35	62	50	18	23	7	3

Note: Incidence *is the proportion of individuals living below the poverty line;* intensity *is the gap between the level of poverty and the poverty line, calculated as the weighted sum of individual spending deviations below the poverty line;* severity *is the degree of inequality among those living below the poverty line.*

Source: *World Bank 1997.*

Box 7.2

Gabon's Poverty Reduction Strategy

In moving to a growth model that benefits the poor, the programme of reforms aims at:

- Diversifying the economy into sectors with a high demand for unskilled labor.
- Developing the nonoil private sector and increasing labor productivity through better social services.
- Disengaging the state from economic and commercial activity.
- Redirecting public spending towards the poor.
- Laying the groundwork for better governance, through resource management and institutional reforms, including reforming the public service, strengthening the role of nongovernmental organizations, and coordinating social initiatives.

Gabon's Poverty Reduction Strategy has six primary objectives:

- *Reducing unemployment*. Encouraging the private sector to create new employment opportunities through the New Labour Code; promoting an entrepreneurial spirit for small and medium-size enterprises; facilitating access to the micro-business loans of the Assistance and Guarantees Fund and the Economic Growth and Development Fund; providing more effective basic social services for the poor; improving education for the poor by reducing the cost of instruction, limiting the number of school repeaters, launching literary campaigns, and bringing back dropouts; and sustaining improvements in the quality of instruction by promoting technical and vocational education, expanding the school system, and decentralizing administration and budget management.
- *Enhancing the incomes of small rural producers*. Providing adequate transport facilities and credit to small farmers and diversifying income generating opportunities for regional development.
- *Improving basic health*. Preventing intestinal diseases, malaria, and infectious and parasitic illnesses; providing access to potable water; launching information, education, and communication campaigns to promote use of hygienic latrines and protection against mosquitoes; ensuring the availability of low-cost medications; setting priorities for public spending on health; decentralizing health sector management by providing a health map; and revising laws, regulations, and procedures.
- *Rehabilitating the urban environment*. Improving sectoral policies and living conditions for the poor in major urban centers; promoting road and sanitation projects; developing procedures for managing public works and contracting; introducing appropriate regulatory and fiscal instruments; and reforming land tenure (urban property rights).
- *Redirecting safety nets and social integration policies*. Promoting labor-intensive public works projects to absorb the growing numbers of jobless people; supporting the unemployed to ease their re-entry to the labor market as wage-earners or self-employed entrepreneurs; reinforcing the social component of the privatization programme; training unskilled workers and the unemployed; and improving social safety nets.

(continued on next page)

Box 7.2 (continued)

Gabon's Poverty Reduction Strategy

- *Establishing a reliable statistical system*. Ensuring a sound statistical system by conducting surveys essential for proper economic and social management; providing regular data on economic performance and social conditions; creating a body responsible for collecting and processing basic statistical data, aggregate and sectoral, national, and provincial; and complementing the nationwide survey with a Demographic and Health Survey.

Source: *World Bank 1997; Economic Commission for Africa, from official sources.*

Education—stronger indicators, but weak outcomes

Gabon had a literacy rate of 71% in 2000, with rates lower for women than for men, and a combined gross school enrolment rate of 86% for primary, secondary, and tertiary levels—higher than the Sub-Saharan average of 61.5% for literacy and 42% for enrolment.

Despite these good education indicators, the educational system still suffers from great inefficiency and poor results at all levels. Of a total primary enrolment of 249,000 in the academic year 2000/01, 92% repeated the same grade at least once. Only 8% of students (20,500) ages 6 to 11 years old are of the appropriate age for their course level. And with oil revenues declining, education expenditures have fallen in recent years. Spending per pupil fell by half from $651 in 1984 to $337 in 1994 and to $250 in 1996, but Gabon still spends more per pupil than the $53 average for most other French-speaking African countries.

Technical and vocational training are underdeveloped, and schools continue to turn out people whose skills do not match the needs of the economy. Public institutions pay little attention to the agricultural or informal sector, both growing but with no apprenticeship system. The result is a paradox: graduates cannot find jobs, while employers clamor for more skilled workers.

Health—high spending, misdirected

Life expectancy in Gabon was 52.7 in 2000, up from 35.2 years in 1960, while the gross mortality rate fell from 30 per 1,000 in 1960 to 16 per 1,000 in 1995. Moreover, there was a major reduction in child mortality, which fell from 287 per 1,000 to 90 between 1960 and 2000. Total health spending is 3.1% of GDP, with per capita spending of $121, more than twice the Sub-Saharan average. Gabon has an average of one doctor for every 2,196 inhabitants and one nurse for every 1,369 inhabitants, heavily concentrated in urban centers.

In Libreville, women testing HIV-positive increased from 1% in 1988 to 4% in 1995. In 1996–97, 17% of patients with sexually transmitted infections in major cities tested

HIV-positive, and 6% of military personnel did in 1997. According to the Joint UN Programme on HIV/AIDS and the World Health Organization (UNAIDS and WHO 2000), there were 23,000 adults and children with HIV/AIDS in 1999, with an adult prevalence rate of 4.2%. There have been an estimated 2,000 AIDS deaths, and about 8,600 children have lost their mother or both parents to HIV/AIDS at age 14 or younger since the beginning of the epidemic.

The government has shifted its strategy to primary health care

Poor returns to health care spending are due to policies that give priority to tertiary health care rather than primary health care—added to poor planning and ineffective supervision and management (World Bank 1997). Medical facilities are concentrated in the capital city, and the system operates inefficiently, suffering from a lack of personnel, use of obsolete equipment, and shortages of drugs. The cost of medical care has increased substantially, with private care more than doubling since the 1994 devaluation.

The government has shifted its strategy to primary health care. It is establishing health regions for coordinating, supervising, and controlling health department activities. It is preparing a health map as a basic instrument for planning human and material resource allocation and decentralizing management of health facilities. It is standardizing equipment and supplies, encouraging the use of generic drugs, and diversifying health service financing, including direct financial contributions from users.

Gender mainstreaming—some biases remain, despite legal equality

The law provides for equality between men and women, with women officially free to enter any profession and subject to the same terms and conditions under the Labor Code in both the government and private sectors. The law also provides for maternity leave for women.

The female labor force participation rate was relatively high, at 80% in 1999, compared with a Sub-Saharan average of 70%. Common with other countries, women have a higher life expectancy than men—54 compared with 51.5 in 1999. And the combined gross enrolment ratio is higher for women at primary, secondary, and tertiary levels. But these statistics conceal biases against women.

Although the constitution confers full rights on women, certain provisions of the civil code contradict it. Values and traditional beliefs are based on customary laws, often unwritten and often restricting the application of measures to empower and advance women. So women are more vulnerable to socioeconomic risks. The HIV prevalence rate for women is twice that of men—4.7% compared with 2.3% in 1999. Women in high-level decisionmaking positions constituted only 7% of the total in 1994, declining to 4% in 1998 (World Bank 2002).

Medium-term prospects and policy challenges

The prospects for growth in the medium term depend on developments in the oil sector, diversification of the economy, and the macroeconomic policy stance of government. All indications point to a decline in oil production, with estimates showing a 50% reduction in the next five years.

"Resuming arrangements with the IMF and the World Bank will be critical for medium-term growth"

Future growth in the economy will therefore have to come from the nonoil sector and its many unexploited opportunities. Diversification to agriculture and fishing, forestry, mining, and other industries will be the driver for growth, employment, and poverty reduction. These sectors have a high growth potential and a high demand coefficient for unskilled labor.

Diversification must be supported by the appropriate macroeconomic environment, underpinned by a credible fiscal policy stance, as well as structural and institutional reforms. Given the weak financial position of the government and the need for higher expenditures in priority sectors, the availability of domestic and external financing will be important determinants of future growth. Resuming arrangements with the IMF and the World Bank will be critical.

The economic programme that the government started to implement after 1994 identified the key elements of reform. These remain valid today. But there has been a clear divergence between policy announcements and implementation. This must change. The challenge is for the government to take the lead in implementing the required policy and institutional reforms:

- Take a prudent fiscal stance to strengthen nonoil revenues and increase expenditure in priority sectors, particularly human resources and physical infrastructure.
- Clear the debt arrears and avoid the accumulation of new debt.
- Pursue the privatization programme vigorously to permit the private sector to undertake activities that it can do more efficiently.
- Concentrate government resources on areas necessary to support growth and the private sector.

It will also be important to implement the regulatory and institutional reforms started in the mid-1990s—to strengthen the incentive structure for private sector development by reducing the cost of doing business and enhancing competitiveness. This should be accompanied by efforts to further liberalize the economy and increase the efficiency of resource allocation, thereby enhancing productivity. Given the small size of the economy, it will be important for the government to support regional integration initiatives.

These programmes will not succeed without sound and efficient economic management for high and sustained growth. This will require eliminating corruption and enhancing accountability and transparency in economic management, including privatization, revenue collection, and financial management and control. The government will need a credible system for eliminating and preventing corruption and ensuring efficient public financial management.

Note

1. The Hirschmann diversification index ranges from 0 to 1 with higher values reflecting increased concentration in sectors or products.

References

Asea, Patrick, and Amartya Lahiri. 1999. "The Precious Bane." *Journal of Economic Dynamics and Control* 23: 823–49.

Auty, Richard. 2001. "The Political Economy of Resource-Driven Growth." *European Economic Review* 45 (4-6): 839–46.

BEAC (Banque des Etats de l'Afrique Centrale). 2001. *Annual Report 2001*. Yaoundé.

EIU (Economic Intelligence Unit). 2002. *Country Report: Gabon*. September. London.

Gabon, Ministry of Finance. 2000, 2001, and 2002. "Loi de Finances." Libreville.

Gylfason, Thorvaldur. 2002. "Mother Earth: Ally or Adversary?" *World Economics* 3 (1): 7–24.

IMF (International Monetary Fund). 2002. "Gabon: Selected Issues and Statistical Appendix." Country Report 02/94. Washington, D.C.

Lucas, Robert E. 1993. "Making a Miracle." *Econometrica* 61 (2): 251–72.

Manzano, Osmel, and Robert Rigobon. 2001. *Resource Curse or Debt Overhang?* NBER Working Paper 8390. Cambridge, Mass.: National Bureau of Economic Research.

Mauro, Paolo. 2002. "The Persistence of Corruption and Slow Economic Growth." IMF Working Paper WP/02/213. Washington, D.C.

Morgan, P. 1999. *Modèle et emploi des clignotants de Développement des Capacités*. Ottawa: Canadian International Development Agency.

OECD/DAC (Organisation for Economic Co-operation and Development, Development Assistance Committee). 1999. *Rapport sur la coopération pour le développement 1999*. Paris.

Sachs, Jeffrey, and Andrew Warner. 2001. "The Curse of Natural Resources." *European Economic Review* 45 (4-6): 827–38.

Soderling, Ludvig. "Escaping the Curse of Oil? The Case of Gabon." IMF Working Paper WP/02/93. Washington, D.C.

Tanzi, Vito, Ke-Young Chu, and Sanjeev Gupta, eds. 1999. *Economic Policy and Equity*. Washington, D.C.: International Monetary Fund.

Thisen, Jean K. 2002. "Monetary Union in the CFA Franc Zone: An Evaluation." Paper presented at the Workshop on "Feasibility of Monetary Unions in Africa," October 8-10, 2002, Accra.

UNAIDS (Joint United Nations Programme on HIV/AIDS) and WHO (World Health Organization). 2000. *Report on the Global HIV/AIDS Epidemic*. Geneva.

UNDP (United Nations Development Programme). 1998. *Human Development Report 1998: Consumption for Human Development*. New York: Oxford University Press.

———. 1999. *Human Development Report 1999: Globalization with a Human Face*. New York: Oxford University Press.

———. 2000. *Human Development Report 2000: Human Rights and Human Development*. New York: Oxford University Press.

———. 2001. *Human Development Report 2001: Making New Technologies Work For Human Development*. New York: Oxford University Press.

———. 2002. *Human Development Report 2002: Deepening Democracy in a Fragmented World*. New York: Oxford University Press.

U.S. Senate. 1999. "Minority Report for Permanent Sub-Committee on Investigations Hearing on Private Banking and Money Laundering: A Case Study of Opportunities and Vulnerabilities." Washington, D.C.

World Bank. 1996. "Gabon: Etude sur la pauvreté." Washington, D.C.

———. 1997. "Republic of Gabon: Poverty in a Rent-Based Economy." Report 16333-GA. Washington, D.C.

———. 2000. *African Development Indicators 2000.* Washington, D.C.

———. 2002. *African Development Indicators 2002.* Washington, D.C.

Yates, Douglas A. 1996. *The Rentier State in Africa: Oil Rent Dependency and Neo-colonialism in the Republic of Gabon*. Trenton, N.J.: Africa World Press.

Zee, Howell H. 1998. "The Sustainability and Optimality of Government Debt." *IMF Staff Papers* 35 (December): 658–85.