

Gabon



key figures

- Land area, thousands of km² 268
- Population, thousands (2004) 1 351
- GDP per capita, \$ (2003) 4 566
- Life expectancy (2000-2005) 56.6
- Illiteracy rate (2004) ...

Gabon

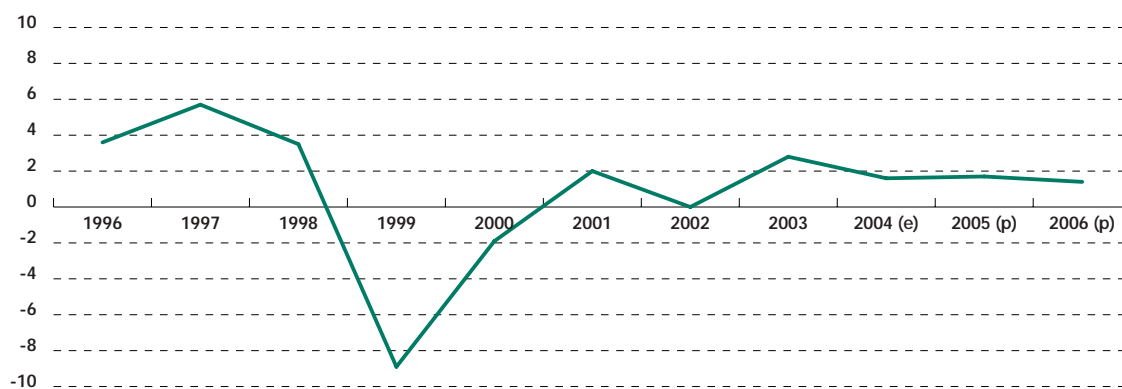
IN MAY 2004, AFTER TWO YEARS of negotiations with the IMF and on completing its efforts to make structural adjustments and settle its external debt, Gabon obtained a 14-month stand-by agreement with the IMF. Domestic debt to the private sector piled up in 2002 and 2003, however, leading to a deterioration in companies' cash positions and to job losses in some sectors. During the same period, the non-oil sector, which is heavily dependent on public sector contracts, suffered from the absence of major state projects and a slowdown in donor activity. Oil production, reinvigorated by the very sharp increase in the price per barrel, rose 7.1 per cent in 2003 and stabilised (+0.7 per cent) in 2004 at 13.6 million tonnes instead of falling

as expected. Unfortunately, this recovery has not reversed the downward trend in oil production in Gabon, as no substantial new deposits have been discovered. Household living standards, which are above the average for sub-Saharan Africa, have been falling, and as a result the government has made the fight against poverty one of its priorities and has begun drawing up a poverty reduction strategy paper.

Diversification of the economy is essential to compensate for reduced oil production.

The forestry sector is still in crisis owing to a variety of problems. Log exports fell again in early 2004, but timber processing held up well thanks to the positive impact of the new forestry code. Prospects looked more

Figure 1 - Real GDP Growth



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Source: Direction Générale de l'Economie data; estimates (e) and projections (p) based on authors' calculations.

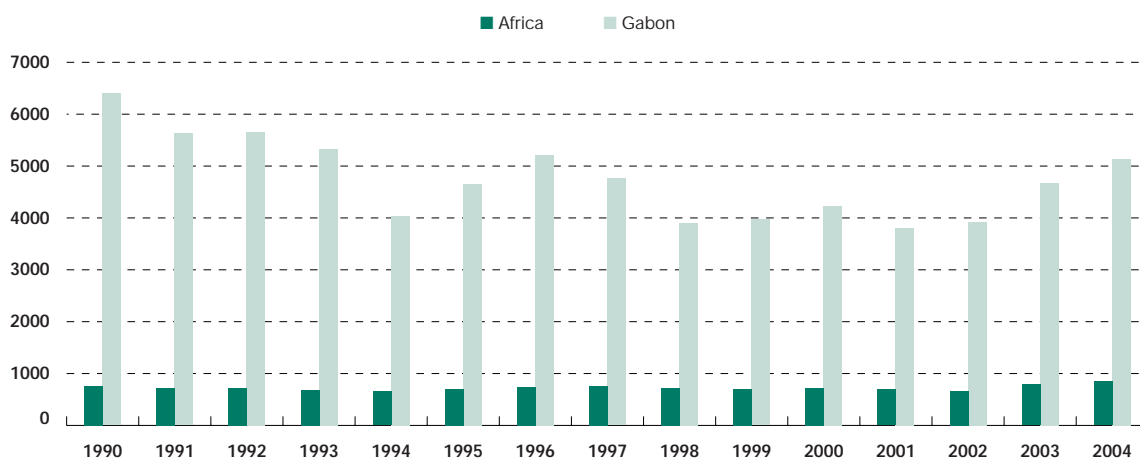
favourable in mining, with Brazilian and Chinese investors interested in working the country's manganese deposits. Comilog, the French subsidiary of Eramet Group, is also expected to increase its activity, encouraged by a rise in world prices. In the future, iron could also contribute to the diversification of the Gabonese economy.

The private sector consists of 20 or so major companies belonging to European or other international groups and a majority of informal sector businesses

belonging to non-Gabonese nationals from Central and West Africa. On the whole, its level of activity is low. The main constraints on its development are the small size of the local market, with only 1.3 million inhabitants; high factor costs, particularly for credit; and the critical shortage of infrastructure.

Although all sectors of the economy suffered from the deterioration in public finances and longer delays in government payments, the real GDP growth rate excluding oil is estimated to have reached 2.3 per cent

Figure 2 - GDP Per Capita in Gabon and in Africa (current \$)



Source: IMF.

in 2004, driven by a pick-up in public investment. The overall annual GDP growth rate of 1.6 per cent is still less than the annual rate of population growth, which is estimated at 1.9 per cent for the 2002-05 period. Within our forecasting period, the government should reactivate its plans to build social housing in partnership with Morocco. Each country is to finance 2 000 housing units, which would stimulate the construction sector. The economy is projected to grow by 1.7 per cent in 2005 and 1.4 per cent in 2006.

Recent Economic Developments

One of the first oil-producing countries in sub-Saharan Africa, Gabon was the third largest producer in the region in 2003, after Nigeria and Angola¹. Since the discovery of the Rabi oil field in 1989, however, no other field of similar size has been discovered, and production has started to decline from its 1997 high point of 18.5 million tonnes. The recent favourable movement in the price of Brent crude has stimulated investment in the sector, however, and made it possible to reactivate projects that had hitherto been considered unprofitable. In 2003, production increased 7 per cent

to around 13.5 million tonnes, or 98.5 million barrels, as against the expected 97.6 million barrels. These results were due in particular to an improvement in recovery of residual oil from mature wells and to the start of production on new fields – Atora, Toucan, Etame and Gombé Sud – over the last two years. Some exploratory wells drilled in 2003 yielded further discoveries, not yet brought on stream, that slightly increase the country's proven reserves but are not large enough to reverse the downward production trend. Three new production-sharing contracts were signed in 2003. In 2004, oil production again increased slightly and should total 13.6 million tonnes, as against the expected 13.3 million tonnes.

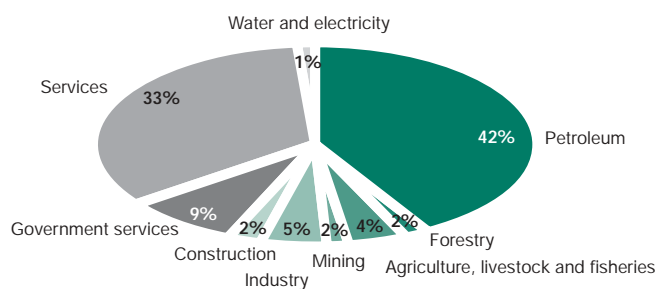
Forests cover three-quarters of Gabon's territory and were the leading source of public revenue prior to the start of oil production. The timber industry has been identified by the government as a sector offering high potential in the post-oil era. The implementation of a new forestry code, designed on the one hand to develop sustainable management programmes² and on the other to encourage domestic timber processing³ through the introduction of tax incentives, was at first an obstacle to investment and forest management projects. Firms

1. It was due to be overtaken by Equatorial Guinea in 2004.

2. At the end of a four-year transitional period, all logging permits will have to comply with the new law by 1 January 2006.

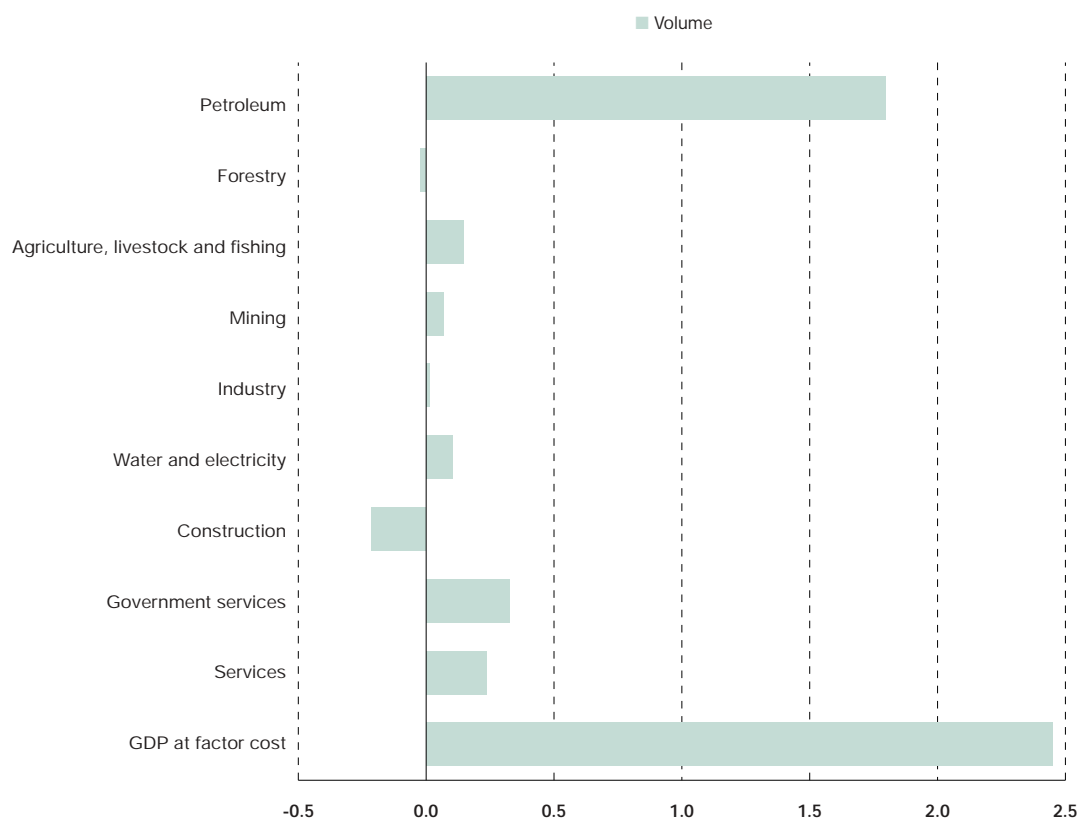
3. The law's declared objective is to have 75 per cent of log production processed domestically by 2012. This level is currently estimated at 30 per cent.

Figure 3 - GDP by Sector in 2003 (percentage)



Note: The oil sector comprises crude oil production, refining, exploration and oil services.
Source: Authors' estimates based on *Direction Générale de l'Economie* data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Source: Authors' estimates based on *Direction Générale de l'Economie* data.

had difficulty, notably, in finding enough unoccupied land to use the rotation system featured in the management plans. Others had their harvestable area reduced by the creation of 13 national parks, apparently without receiving any compensation. Lastly, as the purpose of the current reforms is to create transparent conditions for the harvesting of forest resources by

providing for the sale of permits by adjudication, as opposed to the current practice of person-to-person transactions, the Water and Forestry Department was confronted with the difficulty of estimating the real value of timber resources by area of adjudication, which is holding back the development and implementation of a real sectoral strategy. The reform provoked acute

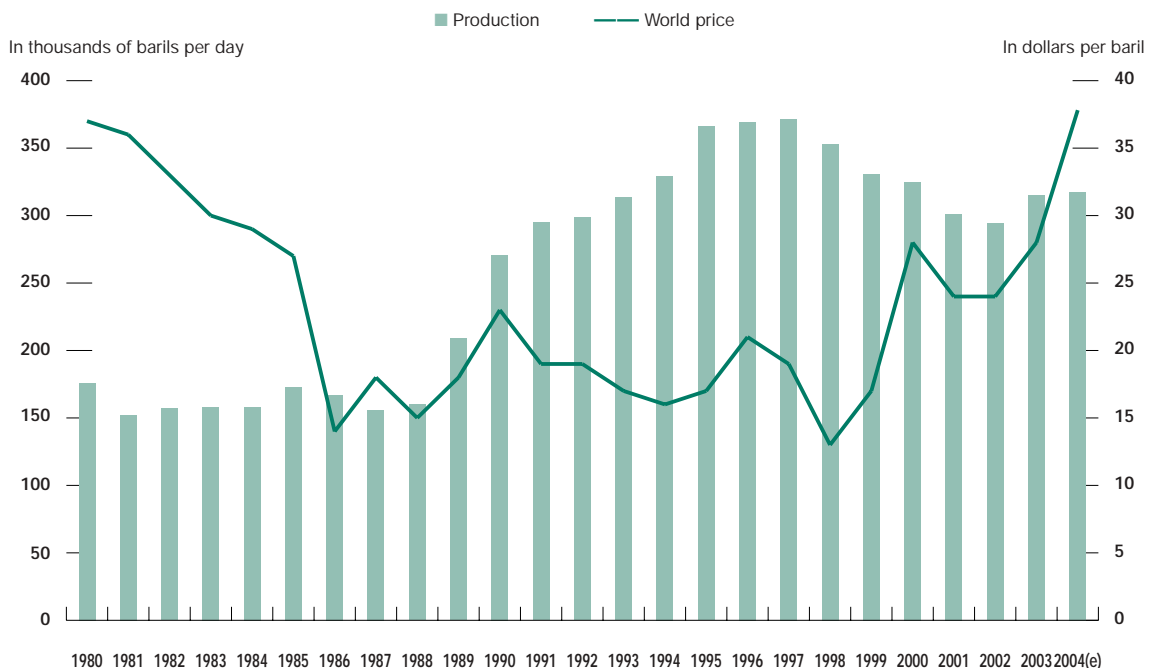
social tension, and some timber firms laid off workers in late 2003 and early 2004 in response to the deterioration of their financial situations.

Production of okume, the main harvestable species among the 400 trees and bushes found in Gabon, continued to fall in 2004 owing to shipping constraints, stiffer competition from neighbouring countries and the policy of local timber processing. In the first half of 2004, total timber exports fell a further 13 per cent year-on-year, but this fall did not affect all varieties in the same fashion. Exports of the traditional varieties of okume and ozigo fell 28.3 and 91.7 per cent respectively during this period, while exports of “mixed timber” increased substantially, rising 13.2 per cent year-on-year during the first half of 2004 owing to strong Asian demand for high-quality timber. On an unfavourable international market, the competitiveness of Gabon’s forestry industry was constrained by keener competition from Asian timber, depreciation of the US dollar and the industry’s internal problems, which included higher freight costs, a tax burden which was

judged excessive and the unattractive producer prices offered by the Société Nationale de Bois du Gabon (SNBG). To ensure that the reforms essential to the sector’s development are continued, an action plan aimed at gradual elimination of the SNBG’s marketing monopoly⁴ was adopted in December 2003.

In the primary sector, Gabon has very high mining potential which could contribute more to the diversification of its economy. It is the world’s second largest producer of manganese after South Africa, thanks to the Moanda deposit worked by the Compagnie Minière de l’Ogooué (Comilog), a subsidiary of Eramet. In the first half of 2004, manganese production, boosted by demand from China, rose to 1.2 million tonnes, an increase of 30 per cent over the same period in 2003. The country is also rich in gold and diamonds. A number of projects in progress and visits by several foreign delegations, notably from Asia, should improve prospects for investment in this sector. Gabon’s iron resources, which have never been mined despite their excellent quality, hold real potential for the economy.

Figure 5 - Oil Production and Prices in Gabon



Source: Energy Information Administration, *Direction Générale de l’Economie* (production) and OECD (international price).

4. It has been decided that SNGB will lose its monopoly on the marketing of okume and ozigo in January 2006.

The government is currently considering the possibility of mining the Belinga deposit, which has proven reserves of approximately 640 million tonnes and has attracted the interest of Chinese investors. Agriculture, livestock and fishing are very little developed in Gabon, generating only 4 per cent of GDP in 2003, despite soil quality comparable to that of neighbouring Cameroon.

In the secondary sector, the crisis in the construction industry continued with a 15 per cent fall in activity in 2003, principally as a result of a slowdown in building caused by an accumulation of government payment arrears to suppliers, which reached a total of 180 billion CFA francs, and the low level of public investment. Activity in the sector started to recover in the first half of 2004, however, when production rose 8.6 per cent thanks to the resumption of roadwork and construction of some buildings. Sales of construction materials picked up, as indicated by the 8.4 per cent increase in cement production end-June 2004. At the same time, exports of cement skyrocketed (+112.9 per cent) in response to brisk demand from Equatorial Guinea.

Power and water production, which is the responsibility of the Société d'Electricité et d'Eau du Gabon (SEEG), increased by 5 per cent in 2003 over the preceding year. Although its turnover grew by nearly 7 per cent, SEEG also suffered from the delays in government payments and was able to finance only 20 billion CFA francs' worth of construction work to increase production capacity, extend its distribution network, modernise its operations and replace plant and equipment, compared with 30 billion CFA francs in 2002. In the first half of 2004, the electricity sector continued to grow with a 1.7 per cent increase in net output. Net water production increased by 6.4 per cent, slightly less than the 6.9 per cent increase in turnover.

The tertiary sector, comprising commercial and public sector services, accounts for 42 per cent of GDP and should show growth of around 1.3 per cent in 2004. Within this sector, the telecommunications network was opened up to mobile telephone service with the arrival of Libertis, Celtel and Telecel, which are overseen by the telecommunications regulation agency

ARTEL. Modernisation of the sector has continued recently following the "official" connection in May 2002 to the SAT3 submarine fibre-optic cable linking Africa and Europe. Gabon also has access to a broadband Internet network and, according to a recent ARTEL study, possesses a stock of some 25 000 micro-computers, or one for every 50 inhabitants. Despite the morose economic situation, the number of subscribers increased from 255 000 to 336 000 for the three operators together, which represents an increase of about 32 per cent in 2003. At the same time, the improvement of fixed telephone services remains an important challenge since this is a preferred tool of businesses. The latter continue to suffer from long connection delays and especially from prices that are extremely high compared to those in the rest of the sub-region, particularly for international calls. In this context, the privatisation of Gabon Télécom recommended by the IMF should take place during the first quarter of 2005.

The Société d'Exploitation du Transgabonais (Setrag) has been running the national railway on behalf of the state since May 2003. Revenues have been falling steadily despite a price increase in May 2003. The volume of freight transported increased slightly in 2003 to 3 million tonnes from 2.9 million tonnes in 2002. Transportation of sawn timber showed strong growth (+40 per cent), while that of manganese ore rose to a lesser extent from 1.7 million tonnes in 2001 to 1.8 million in 2002 and 1.9 million in 2003. Log and oil traffic registered marked reductions in volume (-11 and about -15 respectively) in 2003. In the first half of 2004, rail transport activity improved. Overall freight volume rose 23.5 per cent, while that of sawn timber and manganese showed increases of 40 and 32.7 per cent respectively. The number of passengers also increased by about 15 per cent during the celebrations of Gabon's independence, known as "rotating festivals" because they are held each year in different provinces in the interior of the country.

Port activities slowed as a result of the fall in imports of containerised goods. The port of Libreville was badly affected, seeing its traffic fall by 10 per cent from 2002 to 2003, whereas traffic in Port Gentil rose 11 per cent

owing to the oil exploration and production programme initiated in 2002. On the export side, containerised goods showed strong growth in 2003 – 12 per cent at Libreville and 65 per cent at Port Gentil – thanks to buoyant sales of processed timber. Air transport suffered from the slump in domestic passenger traffic. During the first half of 2004, domestic and international air transport, measured by number of passengers and aircraft movements, fell by 11.2 and 15.8 per cent respectively year-on-year, despite Air Gabon's ambitions to become an African hub.

New vehicle sales stagnated in 2003 at 2 950, compared with 2 938 in 2002, and were increasingly accounted for by two main customers, Gabon Télécom and the state. This relatively small sector suffered from the diminution of the public investment budget and the accumulation of payment arrears. It was also

adversely affected by slowness in registering vehicles and issuing registration documentation, for which there is sometimes a wait of six months. Sales of commercial vehicles continued to fall. In the first half of 2004, sales dropped by 11.6 per cent compared with the same period in 2003, although there was a slight pickup (+13.4 per cent) in sales of industrial vehicles.

The hotel market, which is primarily geared towards business customers, is having difficulty in attracting the tourist trade. Hotel occupancy, which stands at an average of 50 per cent for the three main hotels in Libreville, was down 3 per cent in first half of 2004 year-on-year, reflecting the poor business climate. In addition, as three big hotels – the Meridien, the Intercontinental and the Novotel – are still publicly owned, this sector also suffered from the government's payments difficulties.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	20.0	30.4	31.6	29.7	29.5	31.8	37.0
Public	5.3	7.0	6.8	7.0	6.7	6.8	7.3
Private	14.7	23.5	24.8	22.7	22.8	25.1	29.7
Consumption	54.3	50.8	52.2	51.7	46.8	44.6	45.8
Public	11.2	15.5	15.1	14.3	13.0	12.3	12.5
Private	43.0	35.3	37.0	37.4	33.8	32.3	33.3
External sector	25.8	18.8	16.2	18.6	23.7	23.6	17.2
Exports	60.9	57.4	55.5	56.0	59.3	59.2	54.4
Imports	-35.1	-38.7	-39.2	-37.4	-35.7	-35.5	-37.2

Source: Direction Générale de l'Économie and IMF data; estimates (e) and projections (p) based on authors' calculations.

Oil production in 2004 was virtually stable (up 0.7 per cent) after the jump recorded in 2003 as a result of the improvement in oil recovery rates. Consumption was flat owing to the sluggishness of the economy and the fall in incomes, particularly in the timber sector. In addition, after several years of growth, oil sector investments began to drop. There is some reason, however, for thinking that the Gabonese economy is starting to diversify. First, iron and manganese mining projects should get underway within the period covered by our forecasts, and investments are also planned in the energy sector. In addition, the approval of a programme with the IMF and the gradual rollback of domestic debt should improve economic

visibility and restore business confidence by re-establishing liquidity levels. On 24 March 2004, a transfer of 38.9 billion CFA francs was made to the Libreville Club in settlement of the first tranche of domestic public debt.

Macroeconomic Policies

Fiscal and Monetary Policy

As a member of the Central African Economic and Monetary Community (CEMAC), Gabon must meet certain convergence criteria. In 2004, it complied with

all these criteria, which relate to its basic budgetary balance, inflation, public debt levels and the absence of payment arrears. This performance marks an improvement over 2003, when the criterion on arrears was not met.

After failing to complete two programmes – a stand-by agreement in 2000 and an extended fund facility in 1995 – Gabon obtained in May 2004, after two years of negotiations, a 14-month stand-by agreement with the IMF in the amount of 69.44 million SDR (45 per cent of quota), to be paid in five instalments of 13.89 million SDR. The aim of this programme is to promote the growth of the non-oil sector through appropriate structural reforms, to support budgetary adjustment and to improve management of public spending.

Gabon's public finances are characterised by the dominant position of the oil sector, which accounts for more than half of revenues, a low level of investment spending and a heavy debt service burden (interest and repayment of principal) that absorbs about a third of public revenue. In this context, the low tax ratio is problematic, especially since a fall in the apparent tax

ratio has been observed recently in the oil sector. This situation shows the urgency of the need to diversify the state's tax base, increase non-oil revenues and stimulate investment so as to make the debt burden sustainable.

Budget performance in 2004 was marked by a 10 per cent increase in revenues, including grants, and a contained spending increase of 4 per cent. The improvement in revenues was primarily due to the small increase in oil production, which raised public oil revenues to 640 billion CFA francs (\$1.2 billion), up 12 per cent, while non-oil revenues increased by 7 per cent. The apparent tax ratio in the oil sector fell between 2000 and 2004, however, owing to the fall in oil production at the beginning of the year, the low level of adjustments for the 2003 fiscal year and, above all, the increased cost of extracting oil from mature fields.

Budget spending continues to be marked by the predominance of current expenditure, which accounts for 74 per cent of total expenditure and remained virtually stable in 2004. The year also saw a 3 per cent increase in spending on transfers and interventions and a very sharp 24.3 per cent surge in capital expenditure. At 3.6 per cent of GDP, however, the investment budget

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants^a	25.9	34.0	31.7	29.8	29.7	29.7	28.3
Tax revenue	9.3	11.2	12.4	12.3	11.8	11.8	12.1
Oil revenue	15.4	21.8	17.7	16.2	16.3	16.5	14.8
Total expenditure and net lending^a	23.7	30.7	28.2	22.4	20.9	19.2	19.5
Current expenditure	18.4	24.9	23.7	18.7	17.3	15.6	15.7
<i>Excluding interest</i>	<i>12.0</i>	<i>16.1</i>	<i>19.3</i>	<i>14.7</i>	<i>13.4</i>	<i>12.7</i>	<i>12.9</i>
Wages and salaries	6.3	6.4	6.4	6.5	5.8	5.4	5.4
Interest	6.4	8.8	4.4	4.0	3.9	2.9	2.7
Capital expenditure	5.3	4.7	4.0	3.7	3.6	3.6	3.9
Primary balance	8.6	12.0	7.9	11.4	12.7	13.5	11.5
Overall balance	2.3	3.2	3.5	7.4	8.8	10.5	8.7

a. Only major items are reported.

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

remains structurally low with respect to the country's long-term infrastructure needs, and this cannot be sustained over the long term. The overall budget balance, which is generally in surplus, will rise to 8.8 per cent of GDP compared to 7.4 per cent in 2003.

The budget bill for 2005, a presidential election year, was adopted in October 2004. It is based on the hypothesis of 2.4 per cent growth in GDP and a 28.7 per cent increase in oil revenue. Revenue and expenditure balance out at 1 184.2 billion CFA francs, a lower

Oil Taxation, or Why Oil Revenue Fell in 2003 When the Price per Barrel Was Soaring

Public oil revenues in Gabon are derived mainly from the proportional mining fee, company tax, revenues from operating and production-sharing contracts, and dividends. In the past, falls in revenue have naturally been mainly attributable to lower production and falling oil prices. In 2003, however, although production volume increased by 7 per cent to 13.5 million tonnes owing to an improved recovery rate and although the price per barrel soared, total revenues fell 6.4 per cent, from 609 billion CFA francs (\$877.4 million) in 2002 to 570.2 billion CFA francs (\$983.3 million) in 2003. This apparently paradoxical decline may be attributed to several factors:

- the depreciation of the dollar, which was on the same scale in 2003 as the increase in the price of a barrel of oil on the international market, led to reduced fiscal revenues in local currency;
- an increase in the quality markdown, which has risen by 60 per cent – from an average \$0.63 to \$0.99 in 2003 – as the main Gabonese oil fields have reached maturity;
- the increasing impact of operating and production-sharing contracts on oil taxation⁵, as this practice leads to a reduction in the permit fee⁶ to attract oil companies and a reduction in company tax;
- the scale of the investments made to maintain production on mature fields, which require cost recovery mechanisms that can have a negative impact on revenues.

It would seem, then, that in Gabon the apparent tax ratio moves in the opposite direction from world prices.

figure than in the 2004 budget. The debt restructuring granted in 2004 by the Paris Club reduced the debt service burden in the 2005 budget, but this debt relief has benefited current spending, which will rise from 31 per cent of budget expenditure in 2004 to 41 per cent in 2005, more than investment spending. Despite the government's priorities in favour of housing, education, social affairs, agriculture and the family, investment will account for only 14 per cent of budget expenditure in 2005, compared with 11 per cent in 2004. The education budget, however, will increase 45 per cent in 2005 to 68 billion CFA francs (\$134.4 million), of which 8 billion CFA francs (\$15.8 million) will be devoted to investment.

As regards the government's domestic arrears, an agreement was reached in April 2004 with a group of

domestic creditors known as the Libreville Club. This group is open to all creditors with claims exceeding 50 million CFA francs (\$94 500) and maturing in less than 18 months. Claims submitted to the Libreville Club amount to 38.9 billion CFA francs (\$73.5 million). The repayment plan provides for payments of 2.2 billion CFA francs (\$4.2 million) per month on arrears totalling 21.2 billion CFA francs (\$36.6 million) at the end of 2003, bringing the total down to 5.5 billion CFA francs (\$10.4 million) by the end of June 2004. The Treasury now undertakes to meet all claims for payment within 120 days. This commitment constitutes a real advance which should be welcome to businesses, as their credibility with the banking system has been seriously compromised. From 2005, surplus oil revenues are to be used to retire domestic debt more quickly, with the remainder going

5. When it grants a concession, the state receives royalties and, in theory, levies a 73 per cent tax on corporate profits (a level unchanged since 1999). For production-sharing contracts, the state receives royalties but subsequently receives a share of the sales proportional to its stake in the project. Giving up the profits tax for a share of production is the price to be paid for encouraging new investment.

6. Whereas concession contracts provide for non-renegotiable royalty rates ranging from 10 to 20 per cent, under operating and production-sharing contracts the rates ranged from 0 to 20 per cent in 1999 and were reduced to 0 to 15 per cent in 2003

into a fund for future generations. At this pace, according to the IMF, all domestic public debt will be eliminated by 2013, as its maturity is generally short term.

Like the other CEMAC countries, Gabon has a fixed exchange rate with respect to the euro and its monetary policy is directed by the Bank of Central African States (BEAC), which leaves it with budgetary policy as its principal policy tool. Inflation, after rising 2.1 per cent in 2003, fell slightly to an annual average of 1.5 per cent in 2004 owing to the dollar's depreciation against the euro and a fall in the price of local products, notably food. In 2005 and 2006, inflation is expected to climb back to 2.5 per cent, fuelled by the further increase in oil prices.

External Position

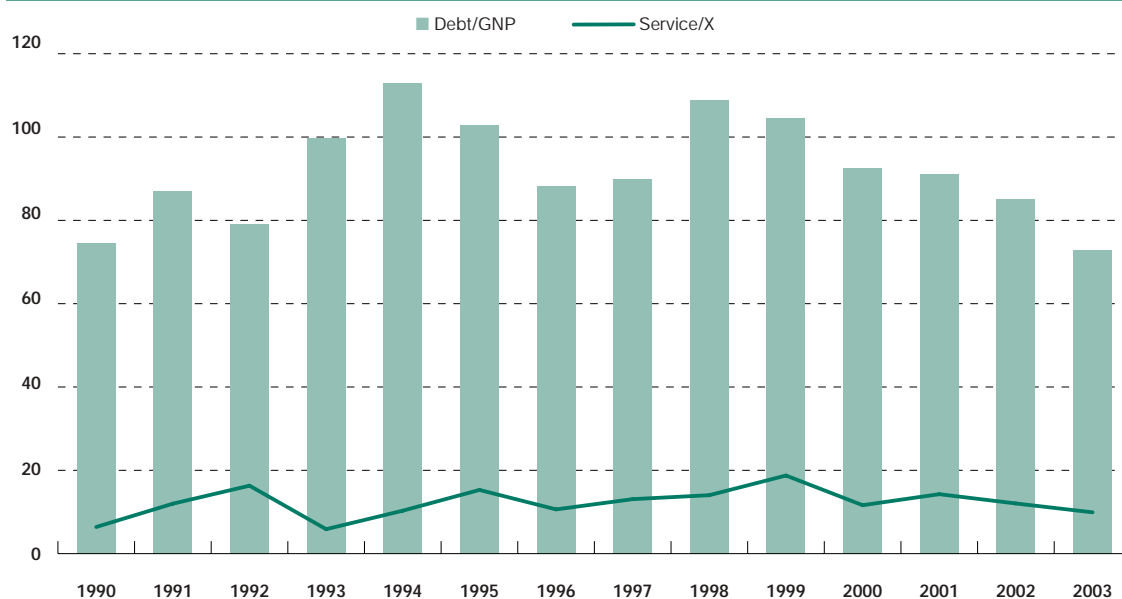
In 2004, the trade balance showed a surplus of 1 502.4 billion CFA francs (\$2 835.5 million), representing a coverage level of 260 per cent. This result was due to a 28 per cent increase in the value of exports, itself resulting mainly from a 25 per cent increase in oil sales over 2003. In the first half of 2004, timber sales were up 10 per cent over 2003. This recovery is attributable to an increase in exports of processed timber and furniture, in accordance with the sectoral industrialisation policy. Export sales of logs also increased 6 per cent over the same period. Imports in 2004 rose by 11.5 per cent over 2003 as a result of a general price increase for all categories of imported

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	39.0	37.5	33.2	35.6	39.6	39.3	33.9
Exports of goods (f.o.b.)	56.0	55.5	52.6	53.5	57.2	57.2	52.3
Imports of goods (f.o.b.)	-17.0	-18.0	-19.3	-17.9	-17.6	-17.9	-18.5
Services	-19.7	-17.2	-22.9	-21.3			
Factor income	-5.7	-7.6	-3.5	-3.2			
Current transfers	-3.2	-1.7	-1.7	-1.5			
Current account balance	10.4	11.0	5.2	9.6			

Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

products, particularly capital equipment. At the same time, Gabon saw an increase in imports of low-quality products and an increase in import fraud which damaged its competitiveness.

Overall, external trade, which is in structural surplus in Gabon, is dominated by oil (which accounted for 80 per cent of exports in 2003), tropical timber (11 per cent) and manganese (5 per cent). The country's main customer is the United States, which absorbed 75 per cent of Gabon's exports, mainly in the form of oil. Its principal supplier is France, which, despite some erosion of its position, still accounts for a third of the import market.

As part of the stand-by agreement granted by the IMF, the Paris Club rescheduled 717 million euros of Gabon's debt in June 2004. This sum comprises arrears totalling 456 million euros and 261 million euros in payments falling due between 1 May 2004 and 30 June 2005. The rescheduling reduces debt service due to the Paris Club over the period from 953 million euros to 270 million euros, or 28.3 per cent of its initial level. Towards the end of 2005, the Paris Club may consider another rescheduling operation on Gabon's debt under a further agreement with the IMF, with the principal aim of reducing domestic debt and thus helping to revive private investment, which is necessary for successful diversification of the economy. This agreement will also help to make Gabon's public debt sustainable in the short term, as the new scenario indicates that public debt and external debt will fall steadily as a percentage of GDP in the medium term. Since priority will be given from 2005 to retiring domestic debt, the external debt ratio will fall less quickly than that of total debt.

Structural Issues

Gabon still needs to make a great deal of progress with respect to privatisation outside the banking and energy sectors, as well as in the modernisation of infrastructure, particularly roads, in the interior. The development of the private sector is severely hampered by these structural constraints, as well as by the difficulties of small and medium-sized enterprises in

obtaining bank credit and by high transaction costs which detract from the country's competitiveness. Oil apart, the mining sector offers good prospects in Gabon but its potential remains to be explored.

The business environment is reasonably reassuring for investors, thanks to Gabon's political stability and its central geographical position on the Gulf of Guinea and in Central Africa. The country also boasts a modern banking system. Business law has been revised in line with the principles of the Organisation for Harmonisation of Business Law in Africa (OHADA), and the tax situation is relatively attractive with company tax at 35 per cent. As a result of a VAT revision in 2003, however, there are now several VAT rates, contrary to good international practice. The country's key problem is that the government, which is the main customer of private sector firms, puts their liquidity at enormous risk in times of crisis. In addition, businesses have been complaining in recent years of the lack of visibility in the economy in the absence of a clear macroeconomic framework and major projects.

With five commercial banks, a development bank and six specialised credit institutions, Gabon has a modern banking network. The sector suffered in 2003 from the crisis in the timber, mining and construction sectors, with the result that its overall activity fell and the quality of loan portfolios declined. This slowdown continued in the first half of 2004 with a fall in the stock of deposits collected, outstanding loans and the profitability of net capital stock. Fixed-term savings deposits fell in favour of demand deposits, reducing banks' available resources by nearly three percentage points. The percentage of loans covered by deposits rose by eight points – from 127.7 per cent in the first half of 2003 to 134.8 per cent in the first half of 2004 – but this improvement masks the fact that new loan applications fell in relation to deposits, as a result of banks' strong reticence about granting loans combined with a lack of eligible projects. Over the same period, banks' return on capital fell six points to 12.7 per cent in June 2004, compared with 19 per cent in June 2003. The banking sector, which was deeply affected by the crisis it went through in the 1990s, lends very little to small and medium-sized enterprises (SMEs).

It is difficult to ascertain the precise number of SMEs in Gabon. The official definition in law 1/81, which is based on investment level, currently applies to virtually all businesses in Gabon. The Ministry for SMEs considers, however, that there are about 4 000 firms in this category, as well as 6 000 to 9 000 small trading businesses and other small units in the informal sector. Generally speaking, businesses in Gabon fall into three categories. First, there are some 20 major companies, which are well structured and have regular legal status. Most of these are subsidiaries of major European or other international groups, operating mainly in sectors such as construction, transport, import-export and services (banking and insurance). By virtue of their links to multinational groups, they can withstand crises and obtain financing from local banks. Second, there are some medium-sized companies, mainly in retailing (pharmacies, commerce and book shops), hotels, restaurants and services (private schools and laundries). Their value added is low and their lifespans highly variable. There are too few of these companies to form an economic fabric of the density required by the Gabonese economy, and they have difficulty obtaining loans. This category also includes some “opportunistic” companies that are formed in response to public contracts and disappear as soon as the work has been completed. Third, there are many small enterprises in the informal sector, run by West Africans or nationals from other Central African countries. In most cases, small informal sector enterprises are created by individual entrepreneurs, who conduct their businesses without accounts, capital or registration. Their turnover is small, and they cannot obtain loans from financial institutions, which regard them as lacking in credibility.

All SMEs face many obstacles which hamper their development. One of the principal barriers is the small size of the local market, with a population of only 1 351 000. According to the Agency for Promotion of Private Investment (APIP), however, there are opportunities for expansion, notably in timber processing, fish farming, fishing and agriculture. Although Gabon enjoys favourable conditions for

agriculture, this sector is virtually undeveloped⁷, leaving the country heavily dependent on food imports from neighbouring Cameroon. Many observers have pointed to an absence of entrepreneurial spirit as a factor holding back private sector development in Gabon, where the state has always been the leading employer and where young people start preparing for civil service careers while still in school, because of a lack of suitable training facilities such as business and management schools.

Most Gabonese banks have not forgotten the low level of loan recovery from SMEs that led to the severe crisis suffered by the banking sector in the 1980s, and this does not facilitate such firms' access to credit. The financing of small businesses is handicapped by the lack of appropriate institutions and by the high cost of credit. Organisations specifically devoted to assisting these firms – the Ministry for SMEs, PromoGabon, the SME development and expansion fund (FODEX), the SME assistance and guarantee fund (FAGA), APIP and others – are poorly co-ordinated and inefficient. Since the withdrawal of the African Development Bank, FODEX, which is a public fund under the authority of the prime minister, has only its own funds to work with, and its loan recovery ratio is mediocre. New statutes are being prepared for FODEX for early 2005 to make it more effective in financing SMEs by refocusing its activities on micro-credit. PromoGabon, a business promotion body under the authority of the Ministry for SMEs, has few resources and helps barely 30 businesses per year with their start-up procedures. FAGA hardly exists any more, and APIP, with just one reception point, registers companies but provides no follow-up or support.

In October 2004, after several failed attempts and postponements, declarations of interest were invited for the sale of a 51 per cent stake, as opposed to 35 per cent initially, in Gabon Télécom, which is wholly owned by the state. The privatisation of this major company, which employs more than 2 000 people, has proved to be a sensitive matter but should be carried out during the first half of 2005. A deadlock over privatisation was finally broken by agreements on

7. Cereals production in Gabon in 2003, for example, was one-third of the average for the five preceding years, according to the FAO.

The Ministry of Finance Wants to Promote Micro-financing, which is still Undeveloped in Gabon

Owing to the inefficiency of the existing system, the Ministry for SMEs is undergoing a major restructuring. A bill aimed at clarifying the status of SMEs is to be introduced in early 2005. With SMEs clearly divided into four categories by turnover and investment level, the ministry will be better able to define its own new programme, which is designed to help the smallest companies get over the barrier between the informal and formal sectors. The ministry is also making use of external experts such as Planète Finances to set up more appropriate aid structures. At present, micro-financing is still little developed in Gabon, where 0.25 per cent of the population has access to micro-finance institutions, compared to 4 per cent in Cameroon. The Financial Bank, which specialises in micro-financing, is currently studying the feasibility of micro-projects so as to propose a range of services meeting the needs of very small companies. Solutions such as business “incubators”⁸ could be another possibility to explore.

In addition, a national unit for the promotion of micro-financing was set up by the Ministry of Finance in December 2003, as was an association of micro-financing institutions, the APEMFG. In July 2004, the micro-financing unit conducted a campaign to raise awareness about micro-financing and explain how it works. The unit is supposed to draw up an operational strategy for the development of this activity, but in 2005 the emphasis will be more on the search for funding, in the form of a line of credit from donors for the benefit of local businesses.

employment issues and the procedure for registering land rights and property holdings. Some 450 people will be made redundant at a total cost of 11.8 billion CFA francs (\$22.3 million). In contrast, the division of the Office Public de Telecommunications into two entities, Gabon Poste and Gabon Télécom, and the creation of regulatory bodies have been completed, and the new entities have been in operation since early 2002.

In the transport sector, the privatisation committee, which is the adjudicating body, issued a call for expressions of interest in the partial privatisation of the national airline, Air Gabon. Since 2002, the state has been the company's sole shareholder. Air France had a 20 per cent stake but decided not to join the state in assuming the liabilities of Air Gabon, totalling some 60 billion CFA francs, on 31 December 2001. Efforts were made in 2003 to improve operating results, with technical assistance from Lufthansa Consulting. The creation of a regional airline has often been presented as the preferred framework for the future privatisation of Air Gabon, scheduled for 2006. This idea became a reality following the partnership agreement concluded

in Libreville on 3 December 2004 between two other CEMAC countries and Royal Air Maroc. The new airline should become operational during the first half of 2005. The management concession for the ports of Libreville and Port Gentil was awarded to the Spanish firm Sygeprag in September 2003 and came into effect in mid-2004. This company must undertake renovation work and manage the assets of the ports within the customs barrier. To this end, its business plan calls for investments totalling 18.2 billion CFA francs (\$34.4 million) during its first ten years and 35.6 billion CFA francs (\$67.3 million) for the 2014-18 period.

In the agricultural sector, the assets of AgroGabon, which mainly produces palm oil, and Hevegab, specialising in rubber, were sold in May 2004 to the Belgian group SIAT (Société d'Investissement pour l'Agriculture Tropicale) for 1 and 2 billion CFA francs (\$1.9 and \$3.8 million) respectively. The group also acquired the Nyanga cattle ranch, which belonged to Sogadel, for 720 million CFA francs (\$1.3 million). A single company, SIAT Gabon, was set up, with its head office in Lambarène and a sales office in Libreville. The company is to invest 10 billion CFA francs

8. According to Pickard and Thornburgh, a business incubator is “a place where small businesses can start up and grow”.

(\$18.9 million) over the next 18 months on rehabilitation of its industrial assets and rolling stock and the construction of a meat processing plant.

Although Gabon is the wealthiest country in Central Africa, its road infrastructure is in very poor condition; in fact, road density and the level of paved road per capita are among the lowest in sub-Saharan Africa. Out of a total of 9 170 km of roads in Gabon, only 936 km are paved. A further 7 600 km are laid with laterite and 630 km are dirt tracks. The road network improvement programme launched in 1992 aimed to make up the shortfall in two phases over five years at a cost of 280 billion CFA francs (\$529 million). Execution of the programme has been rather poor, with only 519 km of roads – 27 per cent of the initial programme – paved between 1993 and 2001. Work was due to start up again under a World Bank project, but the country's needs remain enormous. In addition to the lag in road investment, the road maintenance fund, set up in 1997, has run into difficulties over its supply of funding and the performance of its tasks.

Gabon's mineral wealth is not limited to oil. Uranium was mined for many years by the firm Comuf, until the deposit was exhausted and, through Comilog, the country is today the world's second largest producer of manganese. Gabon's principal manganese mine at Moanda is operated by Comilog. The deposit is of very good quality with a 50 per cent ore content. In 2004, the Compagnie Minière des Trois Rivières (CMTR), a subsidiary of Brazil's Companhia Vale do Rio (CRVD), obtained two permits to prospect for manganese at Okondja and Franceville. For the time being, work is limited to evaluation of reserves, but prospects for a production start-up in 2005 are promising. The terms of the concession contract between the company and the Gabonese government have yet to be settled. The Chinese company Xuzhan has also expressed interest in producing manganese in Gabon and has obtained authorisation to prospect in the Bembele Mountains near Ndjole.

The other ore offering strong potential and highly encouraging short- and medium-term prospects is iron. The biggest and most thoroughly explored deposit is

at Belinga, where the ore is rich and resources are estimated at 640 million tonnes. In the same region, smaller deposits can be found at Boka-Boka (194 million tonnes), Baouala (117 million) and Minkebe (60 million). There has been some prospecting in the Milingui area, where proximity to the sea and the presence of offshore gas could facilitate the mining and marketing of ore. The government is even considering creating a port at Mayumba to remove the iron, as well as timber, barite, talc and marble, and to make the area less isolated. To date, however, no investment has been made. Gold was mined in Gabon from the arrival of the first colonial settlers in 1937 to the 1950s. Today, despite the discovery of a deposit at Ndangui in 1961, production has fallen considerably and amounts to only 50 kg per year, which is used on the arts and crafts market. Potential annual production is estimated at between 300 kg and 700 kg, most of it in the Eteke region. The South African group Avalanche is currently prospecting actively in the Ndangui-Longo region, as is the Canadian firm SouthernEra in the Kolissen area. The company Searchgold has just confirmed the existence of reserves in the Bakoudou region and could start production quickly if the project proves profitable. Gabon also produces diamonds and has plentiful supplies of as yet untapped iron, niobium and phosphates in virtually all its provinces except Ogooué Maritime.

Political and Social Context

The next presidential election is scheduled for December 2005. President Omar Bongo Ondiba, who has been in power since 1967, is expected to be a candidate, as the constitution was amended in July 2003 to remove the limit on the number of terms of office. The composition of the government was once again modified on 4 September 2004, when a member of the opposition was appointed. Gabon is the only country in Central Africa to have had no internal conflicts since independence and to enjoy relative social calm. After Nigeria, Ghana and the Republic of the Congo, Gabon decided in May 2004 to join the Extractive Industries Transparency Initiative (EITI). This initiative, which aims to encourage the publication

of transactions between governments and the mining and oil industries, represents an improvement in terms of transparency for the country's oil sector.

Despite a GDP per capita of \$6 590, Gabon has, paradoxically, the human development index of a poor country. It ranks 122nd out of 177 in the 2003 HDI, a fall of four places compared to 2002. Faced with this decline in social indicators, the authorities decided to draw up a poverty reduction strategy paper, although Gabon is not eligible for the HIPC Initiative. A poverty assessment was carried out on the basis of two existing studies, the consumption budget survey and the demographic and health survey for 2000, which are to be supplemented by a participatory survey of perceptions of poverty. As regards public sector employment, the workforce grew by 3.1 per cent in the first half of 2004 with respect to June 2003 to total 45 573 civil servants. The government departments that benefited most from this increase were social services (up 7.6 per cent, now accounting for 11.8 per cent of the public sector workforce) and transport (up 5.1 per cent to 1 per cent of the workforce). Numbers of employees fell principally in general administration (down 2.1 per cent to 13.8 per cent of the total public workforce). Life expectancy at birth in Gabon was estimated at 57.4 years in 2004, the highest in Central Africa, 12 years more than in Chad and Cameroon and 8.5 years more than in Congo. The infant mortality rate in 2004 was 53.9 per thousand, considerably better than Cameroon's 84.9 per thousand.

According to UNAIDS estimates, the rate of HIV/AIDS prevalence was 7.5 per cent at the end of 2003, but a 2003 report on the HIV/AIDS epidemic in Gabon, based on a greater number of tests, found a much higher rate in 2003 (14.9 per cent). The highest levels were found in the Libreville region, the maritime region and the eastern region. Progress was made in terms of gender inequality with respect to the virus: in 2000/01, two women were infected for every man, whereas parity was reached in 2002. Prevalence is higher for women over the age of 50 and for men over 45. This trend could be a sign of changes in behaviour, particularly among pregnant women, who increasingly ask of their own accord for prenatal testing (the

proportion requesting such tests has risen from 12.9 to 23.1 per cent). The prevalence of HIV/AIDS infection is low among school pupils at 2.16 per cent in 2003, but interviews revealed high-risk behaviour and practices and a lack of information which could constitute a long-term menace. It is also low in the armed forces (4.2 per cent), where ignorance of the means of transmission is still widespread. Progress remains to be made, therefore, in the areas of preventive education and early detection.

Health infrastructure remains insufficient, unevenly distributed and largely privatised. The centre of the country, in particular, has a very low level of health coverage in terms of infrastructure and personnel in both public and private health facilities. Hospitals are inequitably equipped: the regional Libreville, Franceville and Kouiloutou hospitals are well equipped, while those in the south and north lack equipment for endoscopy, intensive care, laboratory services and so forth. Malaria is by far the most frequent reason for hospital consultations, for both adults and children. Despite an increase in the number of trained personnel, the number of doctors per 100 000 inhabitants remains low: 35 in Libreville, 10 in the north, east and centre, and 19 in the west and southeast.

Gabon has an overall enrolment rate (primary, secondary and higher education combined) of 74 per cent, which puts it at the same level as Malawi even though income per capita is comparable to that of Tunisia. The education system is in a very poor state and, according to the Ministry of Education, in urgent need of a diagnostic appraisal. Although nearly all children go to school in Gabon, repetition rates are among the highest in Africa for both primary and secondary education. Many children leave the school system without obtaining a primary education certificate and, when they reach adulthood, contribute to the growing demand for non-formal education and adult literacy training before joining the mass of job seekers. The percentage passing the *baccalauréat* secondary school-leaving examination is generally low and is expected to be particularly bad in 2004. The worst results are in technical and vocational education.

In the 2005 budget, the Ministry of Education is seeking to pursue three main policy objectives: increasing the coverage of the education system by improving access to and participation in the various educational levels; improving teaching quality; and improving planning and management. Schools are short of teachers despite an increase in the number of volunteer teachers, who are estimated to number more than 500. Teaching quality, which is already very low, seems nevertheless to be threatened by the very practices denounced by the minister, namely the pressure exerted on teachers

with respect to obtaining good marks, admission of pupils to the next grade and enrolments. Several donor projects are due to be reactivated shortly, notably the African Development Bank's projects to rehabilitate all technical and vocational schools and build vocational senior secondary schools in Bikele and Ntoun. Lastly, the Islamic Development Bank might finance the construction of a senior secondary school in Franceville at a cost of 1.2 billion CFA francs (\$2.3 million) once it withdraws its sanctions for arrears.