Gabon

key figures

- Land area, thousands of km² 268
- Population, thousands (2002) 1 306
- GDP per capita, $ (2002) 3 791
- Life expectancy (2000-2005) 56.6

Gabon

GABON HAS ENTERED A PERIOD of meagre growth, as petroleum output declines from its 1997 peak and other sectors cannot compensate. Forestry-related activities are the best bet for diversification but the sector is in crisis. Would-be investors are put off by the small local market (1.3 million inhabitants) and poor infrastructure that isolates somewhat Libreville from the rest of the sub-region, despite the advantage of political stability.The country also lacks a large enough trained labour force and is attracting more and more unskilled immigrants. However, oil production picked up in 2003 owing to an increase in further oil extraction and to new small oil field production. GDP growth was put at 2.2 per cent in 2003. It should fall slightly to 1.8 per cent in 2004 and rise again in 2005 to 2.4 per cent.

In 2004 Gabon is expected to contract a programme with the IMF and deal with debt under a Paris Club agreement, which will facilitate foreign aid. Gabon has, nevertheless, triggered a net reduction in debt since 2000 in reducing massively its external arrears. Debt relief will also involve better management of public funds, greater openness and continuing disengagement of the state. This is the country's toughest challenge amid high unemployment and growing social unrest.

Despite an unexpected increase in oil production, the country still needs diversification and social investment.

Figure 1 - **Real GDP Growth**

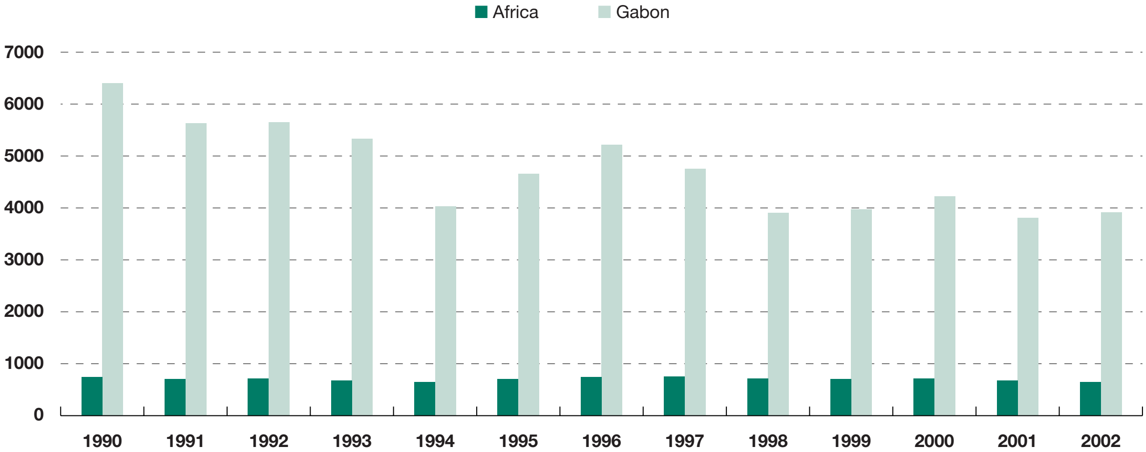
Source: *Direction Générale de l'Economie* data; projections based on authors' calculations.

Recent Economic Developments

The fall in petroleum output since 1997 has sent the country into a period of uncertain growth. But due to the minor contribution of non-oil sectors to GDP and their insignificant advance in 2002 (+0.2 per cent) and 2003 (estimated at +0.5 per cent), oil production (-2.3 per cent in 2002 and an estimated +6.9 per cent in 2003) remains the backbone of growth (zero in 2002 and about 2.2 per cent in 2003).

Oil production which accounted for 44.5 per cent of GDP in 2002, has many important economic offshoots and provides substantial government revenue. Such dependence is disturbing given the fall in production since its 1997 peak (corresponding to the top production year of the country's main oilfield at Rabi). Results were better in 2003 when, for the first time since 1997, oil output rose (6.9 per cent, from 12.6 to 13.4 million tonnes of crude), owing to a better rate of recovery of residual oil from mature wells (42 per cent recovered

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



Source: IMF.

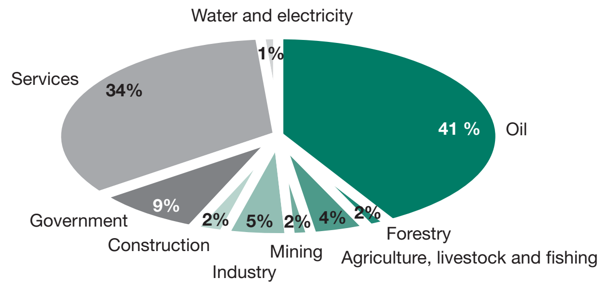
in Rabi phase III) and the opening of small and medium-sized fields (such as Étamé and Toucan). Good world oil prices in 2003 encouraged new prospecting as well as further extraction from mature wells. But the future of oil production remains uncertain in Gabon. Inshore fields are mature, so expansion there is limited to discovering medium-size deposits. Finding a new Rabi-sized field to substantially boost national production would need deep-water exploration, which may not be carried out. Big companies such as Total and Shell are still prospecting, notably with seismic surveys, and increased investment by 40 per cent between 2000 and 2002. The government is trying to encourage exploration in new areas by offering flexible deals called technical evaluation agreements (TEAs).[1] But enthusiasm for deep-water exploration off Gabon and for prospecting in general is limited. The "bonuses" required by the government for granting exploration licences have fallen considerably compared with levels at the height of such activity in Gabon, while companies are drilling only the minimum number of wells stipulated in their licences ("incentive wells").

Timber production could be a way to diversify the economy thanks to huge forest reserves. But despite its substantial spill-overs to the rest of the economy, especially through jobs (20-30 per cent of the workforce), the sector only contributed 2 per cent of GDP in 2002. Log production has also been in crisis since 2001, falling 20.6 per cent in 2002 and an estimated 4.4 per cent in 2003, partly due to poor organisation and regulation of the sector. The state timber firm SNBG's monopoly of marketing ozigo and okume logs is criticised by the big forestry companies who say the firm's inefficiency and enormous overheads lead it to sell timber on the world market at very high prices, far above those paid to producers. They also complain about the high cost of using the ports authority (Oprag) and the railway, increased fuel prices in recent years and the difficulty in moving timber transporters. Other gripes include discouraging taxes and the uneven application of tough sustainable development clauses about felling in the 2001 forest law. The sharp increase in taxes in the 2002 budget, especially on areas being felled, sparked a tax boycott in 2002 and 2003 that was called off in early 2004. The sector's inefficiency puts it at a disadvantage in the face of strong international competition. This is compounded by the high cost of moving logs by boat and poor export prices, which fell 5 per cent because of the rise of the CFA franc against the dollar.

Funding agencies are pressing for the forestry sector to be restructured and at the end of 2003 the government

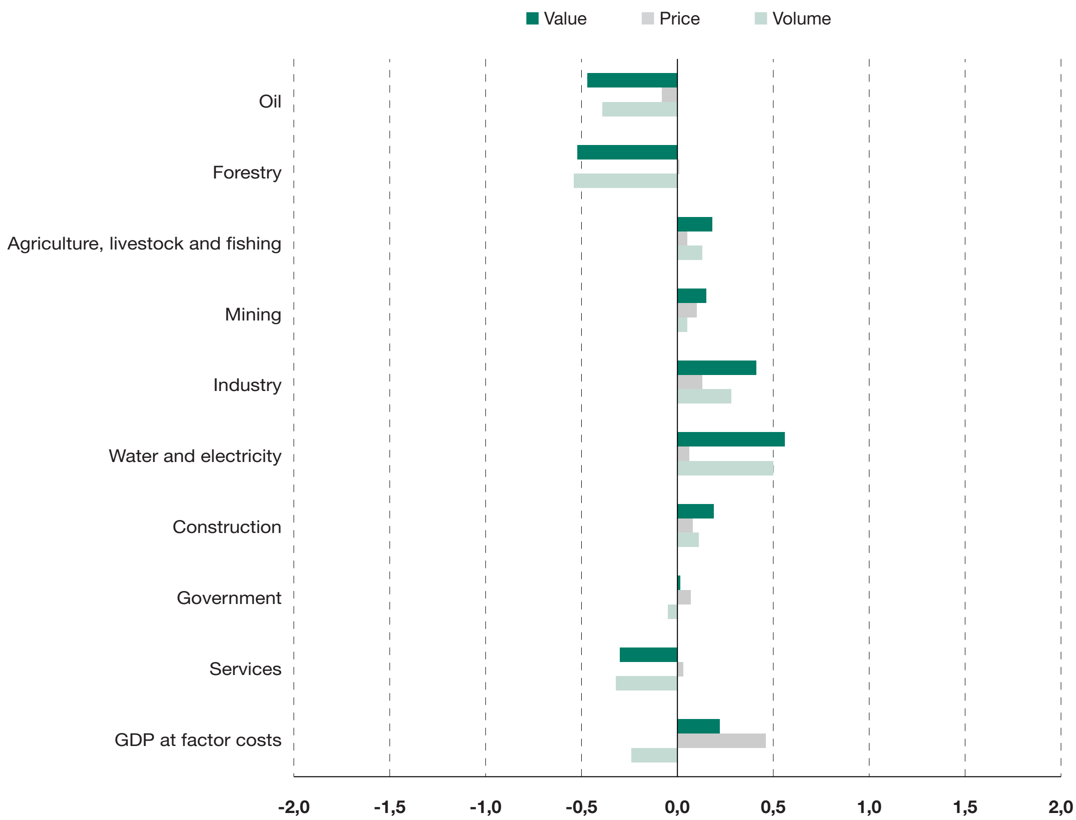
1. A TEA was first made with the South African energy firm SASOL and then the Chinese refinery company SINOPEC (February 2004). TEAs are signed before licences are granted and, unlike licences, do not require the payment of a "bonus".

Figure 3 - **GDP by Sector in 2002**



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

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**

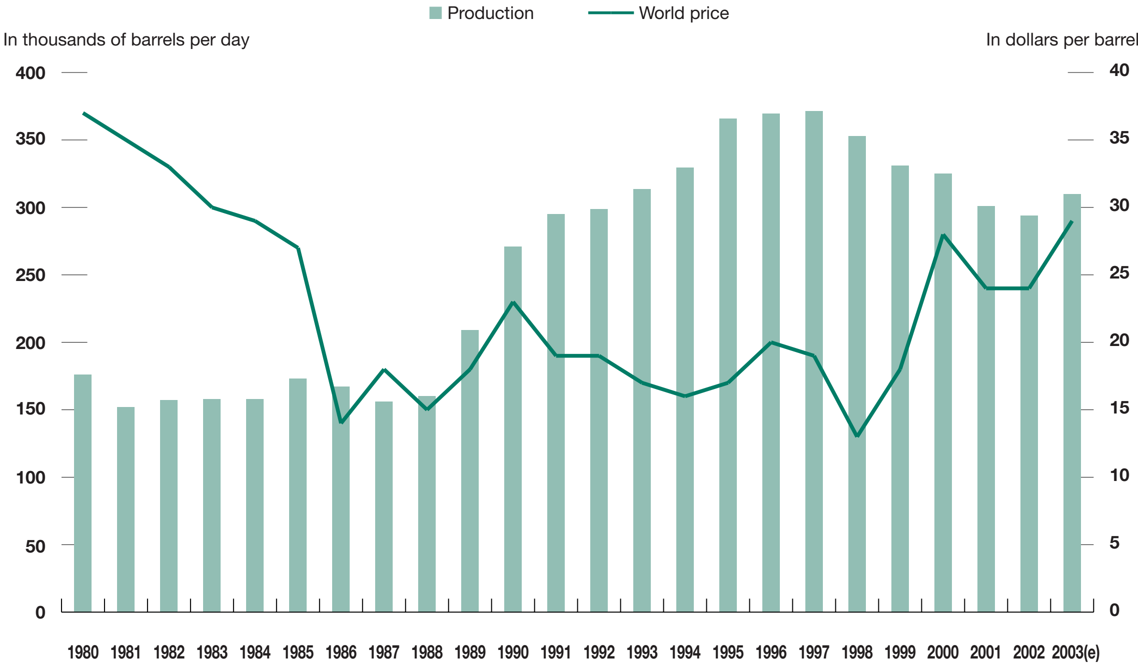


Source: Authors' estimates based on the *Direction Générale de l'Économie* data.

promised the IMF that it would audit the SNBG and the sector's costs. It is considering the conversion of the SNBG into a chamber of commerce limited to regulation (such as felling quotas) and marketing only small logging firms. The industry's crisis has obliged firms to diversify and increase their processing activities to areas with lower taxes where the SNBG's marketing monopoly can be avoided. Thus, timber peeling, unlike log production, grew 19.7 per cent in 2003.

Mining (2 per cent of GDP in 2002, with estimated growth of 4.8 per cent in 2003) is another diversification possibility. Gabon has become one of the world's main manganese producers since the opening of the Moanda

Figure 5 - **Oil Production and Prices in Gabon**



Source: Energy Information Administration (production) and World Bank (international price).

mine and sinter plant run by Comilog (Compagnie minière de l'Ogooué). Brazilian investors are thought to be interested in mining a second deposit at Okondja, in southeastern Gabon. Extensive geological surveys have found reserves of iron, nobium and phosphates, but mining them would need heavy investment (a railway line in the case of Okondja) and would depend on world prices.

Agriculture's contribution to GDP has steadily fallen in recent decades (from 16 per cent in 1964 to 4 per cent in 2002) because of lack of interest by both government and the population since the discovery of oil. Rapid urbanisation (76.8 per cent of people lived in towns in 1999) and shortage of adult males in the countryside (83 for every 100 females, compared with 102 in towns and cities) has also meant lack of labour for expanding farmland. The country does not have a strong agricultural tradition, especially in raising cattle, and 59 per cent of food is imported. Cocoa and coffee plantations have not been looked after and vegetable production, by Agripog (Société Agricole de Port-Gentil), which has serious financial problems, is hampered by outdated equipment. The semi-state livestock companies Sogadel and Siaeb have been wound up.

The government, backed by donors, is now intervening. The companies Hévégab (rubber) and Agrogabon (palm oil) have been modernised to prepare for privatisation and IGAD, the country's development support body, is trying to increase market gardening in suburban areas. Agricultural output rose about 2.4 per cent in 2003.

Industrial development has also suffered from the focus on oil, and industry was only 9 per cent of GDP in 2002 partly because high production costs and higher profits from oil create lower incentives. Apart from timber processing, industrial activity is confined to food processing, oil refining, construction and electricity generation. Electricity is doing well (up an estimated 3.8 per cent in 2003) thanks to growing urban demand, but refining was down 4.9 per cent as a result of outdated equipment. Construction declined 15 per cent for lack of major public investment programmes and because of government financial problems (including delayed payments) creating uncertainty in the sector.

The tertiary sector was 43 per cent of GDP in 2002. It only grew an estimated 0.4 per cent in 2003, but transport and telecommunications did well (+3 per cent), with the launching of new airlines (Air Max, Avirex) taking over from Air Gabon on domestic routes, 14.1 per cent more passengers and 87 per cent more freight. A 24.4 per cent increase in mobile phone subscribers in 2003 buoyed the telecom sector. Banking and insurance grew 2.7 per cent.

The government plans to boost tourism, currently negligible despite big eco-tourism potential, with the help of external funding sources such as the European Union's Ecofac programme to promote the conservation and sustainable use of central Africa's forests. Thirteen national parks have been created. But the task is huge, given the lack of infrastructure, poor air services and high entry formalities for tourists.

Heavy petroleum-linked investment explains the over 20 per cent global investment rate (13.6 per cent for oil alone in 2002), which is very high for an African country. After forging ahead by 40.7 per cent between 2000 and 2002, oil-sector investment declined by an estimated 6.6 per cent in 2003. Oil exports also largely accounted for the positive contribution of foreign trade to GDP in 2003.

Table 1 - **Demand Composition** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Oil production	**45.3**	**52.9**	**45.9**	**44.5**			
GDP excluding oil	**60.8**	**52.7**	**59.9**	**60.2**			
Gross capital formation	**23.7**	**21.8**	**25.8**	**24.4**	**22.9**	**22.8**	**23.6**
Public	5.5	2.9	4.7	4.0	3.9	4.0	4.2
Private	18.2	18.9	21.0	20.5	19.0	18.8	19.4
Consumption	**52.7**	**43.8**	**50.9**	**52.3**	**54.3**	**55.3**	**56.0**
Public	14.1	9.5	11.5	10.9	10.8	10.5	10.3
Private	38.6	34.3	39.4	41.4	43.5	44.7	45.8
External sector	**23.6**	**34.3**	**23.3**	**23.3**	**22.8**	**22.0**	**20.4**
Exports	57.5	67.0	59.0	58.0	57.0	55.5	54.0
Imports	-33.9	-32.6	-35.7	-34.7	-34.1	-33.5	-33.6

Source: *Direction Générale de l'Economie* and *Direction générale de la statistique et des études économiques* data; projections based on authors' calculations.

Private investment, after rising strongly until 2001, especially in forestry and mining, fell back 2.5 per cent in 2002 and an estimated 5 per cent in 2003, partly due to uncertainty about the economy, government arrears and lower consumer demand, as well as problems in the forestry sector, whose profitability in the past had enabled investments to be quickly recouped.

Growth in 2004 should remain modest (1.8 per cent) with almost zero growth of private investment. Oil investment ought to decline again (oil prices are expected to remain steady or ease slightly in 2004 et 2005), while non-oil investment should be helped by a better business climate, especially if a confirmation agreement is signed with the IMF and the Libreville Club is established to settle internal debt.

Macroeconomic Policy

Fiscal and Monetary Policy

As a member of the Central African Economic and Monetary Community (CEMAC), Gabon has to comply with various convergence criteria. It met them all in 2003, improving on the previous year, when it had debt arrears. The basic budget balance improved with oil revenue higher than expected. Despite this good performance, inflationary pressure returned in 2003 after a stable 2002

Gabon has not had any IMF funds since 2000 – the last IMF programme could not be completed because of overspending. But talks resumed in mid-2003 and Gabon promised to keep to basic spending limits and

Table 2 - **Public Finances** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Total revenue and grants[a]	**29.5**	**33.4**	**34.0**	**31.6**	**32.3**	**31.7**	**31.2**
Tax revenue	10.8	10.4	11.2	12.4	12.5	12.5	12.6
Oil revenue	17.9	22.5	21.8	17.7	18.3	17.7	17.1
Total expenditure and net lending[a]	**26.7**	**21.7**	**30.8**	**28.1**	**23.3**	**23.5**	**22.5**
Current expenditure	21.2	18.6	24.9	19.9	19.4	19.5	18.3
Excluding interest	*12.7*	*12.8*	*16.1*	*15.5*	*15.4*	*15.1*	*14.8*
Wages and salaries	7.2	6.0	6.4	6.4	6.3	6.1	5.9
Interest	8.5	5.9	8.8	4.4	4.0	4.3	3.6
Capital expenditure	5.5	2.9	4.7	4.0	3.9	4.0	4.2
Primary balance	**11.3**	**17.5**	**12.0**	**7.9**	**13.0**	**12.6**	**12.3**
Overall balance	**2.8**	**11.7**	**3.2**	**3.5**	**9.0**	**8.3**	**8.7**

a. Only major items are reported.
Source: *Trésor public* data; projections based on authors' calculations.

make structural reforms under a four-month staff-monitored programme (SMP). A $90 million 15-month confirmation agreement is expected to be signed in mid-2004, leading to a longer-term extended credit programme to help cope with post-oil structural challenges.

In 2002, the overall surplus structurally high in Gabon stabilised to 3.5 per cent of GDP after a huge decrease in 2001 due to zero growth. Debt also fell sharply: 13.8 per cent of revenues went to government debt interest payments and almost 22.3 per cent to principal repayment. However, this result consistent with mutual obligations on external debt concealed budget problems that persisted in 2003 (further delay in payments to construction firms, greater internal debt arrears, and delayed scholarship payments to students). The government owes about 8 billion CFA francs ($13.6 million) to the state electricity company.

The effect of the 16.6 per cent rise in the dollar price per barrel of oil in 2003 was cancelled out for Gabon as the dollar depreciated by the same percentage. In addition, despite the unexpected 6.9 per cent increase in oil output, revenue fell by an estimated 6.3 per cent to 570.2 billion CFA francs ($973 million). Non-oil revenue was steady at 478.9 billion CFA francs ($817.5 million), which was below the budget target. The tax boycott by the forestry sector in protest against tax reforms produced a revenue shortfall of 8 billion CFA francs ($13.5 million).

Total expenditure fell in 2003 thanks to cheaper transfer costs and the absence of social costs such as those in 2002 (that accounted for 6.1 per cent of revenues), when Air Gabon was restructured and the national social security fund was bailed out. The government gave subsidies of only 18.1 billion CFA francs ($30.8 million), compared with 38.3 billion ($54.9 million) in 2002 to state-owned firms, including 12 billion CFA francs ($20.4 million) for the national post office (Gabon Poste).

The government wage bill, stable since 1995, rose by 3.9 per cent in 2003 owing to contractual regularisation in civil servants recruited in health, education and security fields and hiring for various institutions (parliament, council of state, constitutional court, national auditing board and supreme court) and new councils (economic and social council, national communications council and Republican Guard committee). The government kept up its regular external debt repayments as agreed under the interim IMF programme. Government spending fell 18.5 per cent overall.

The 2004 budget, approved by parliament in December 2003, is counting on 1.5 per cent growth, 2 per cent inflation and a stronger external position. The government plans to continue reforming public accounts by increasing revenue (especially non-oil revenue) and controlling spending, including its phone, water and electricity bills, and travel expenses for civil servants (by setting quotas and limits). These measures, launched in 2003, did not reduce costs much. Spending will be curbed through computerisation of the integrated spending management system with French help. The state will continue to withdraw from the productive sector. Planned privatisation of Hévégab and Agrogabon will relieve the state of nearly 4 billion CFA francs ($7 million) in current spending over a year. Current expenditure in 2004 (195.6 billion CFA francs – $341.1 million[2]) is expected to remain stable.

In 2003, in spite of a decrease in external debt internal arrears grew by between 150 and 200 billion CFA francs ($256-340 million), but the matter seems in hand, as efforts to renegotiate it with the creation of a "Libreville Club" comprising the government and an association of its creditors in early 2004. The government pledged to settle all debts presented to and acknowledged by the national treasury within four months. If successful, the new negotiation framework will enable firms to sort out their accounts and resume activities and will help fight corruption related to the debts. It is timely too because the government will soon have to raise money on the bond market when the BEAC changes its system of statutory advances.

The exchange rate in Gabon, as in other CEMAC member states, is pegged to the euro and monetary policy is in the hands of the BEAC, leaving budget policy as the main economic instrument. After being virtually zero (+0.2 per cent) in 2002, inflation was 1.8 per cent in 2003 and food and transport prices came under pressure. The importance of Gabon's imports from the dollar zone caused the price of products imported from that zone to fall with the weak dollar. In the years to 2005, inflation should be around 2 per cent. The year 2003 also saw a substantial increase in external assets through higher export earnings.

External Position

Foreign trade is not very diversified, with 77.9 per cent of exports being petroleum, 13.5 per cent timber and 4.3 per cent manganese. In 2003, exports to the United States and Asia (mainly China) increased, while fewer went to Europe and Africa. Europe remained the source of most imports, followed by Asia, which overtook the United States. Only Asian imports increased. Cameroon is the largest African supplier especially for food goods. Gabon mostly imports machinery and equipment, followed by food and beverages and non-food consumer goods.

Table 3 - **Current Account** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Trade balance	35.2	47.4	36.5	34.7	34.6	33.8	32.3
Exports of goods (f.o.b.)	53.3	63.2	55.6	54.5	54.0	52.6	51.0
Imports of goods (f.o.b.)	-18.1	-15.8	-19.2	-19.7	-19.4	-18.8	-18.7
Services	-13.6	-13.6	-13.7	-11.9			
Factor income	-14.4	-26.7	-21.6	-21.2			
Current transfers	-4.0	-1.0	-1.0	-0.9			
Current account balance	**3.2**	**6.2**	**0.3**	**0.7**			

Source: *Direction Générale de l'Economie* data; projections based on authors' calculations.

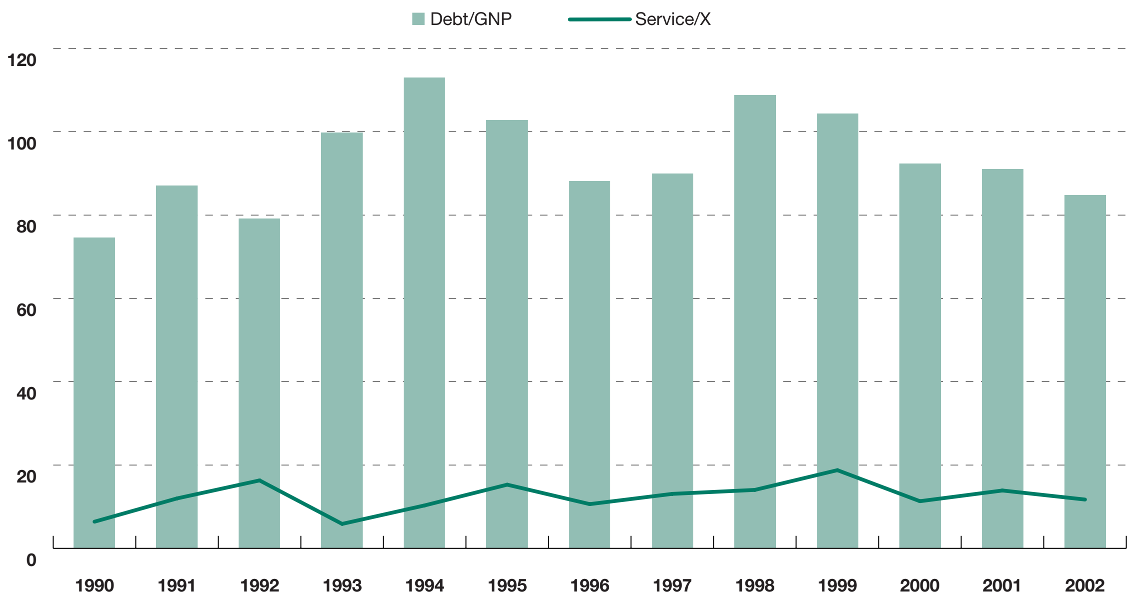
Exports rose 2 per cent in 2003 to 1 866.4 billion CFA francs ($3.1 billion). After a poor year in 2002, oil revenue was up 4.8 per cent in 2003 due to 5.8 per cent greater export volumes, the low dollar having cancelled out the effects of a higher price. More disturbing for long-term diversification prospects despite a 5 per cent increase in manganese exports by volume, earnings fell 13 per cent because of a 17 per cent drop in the CFA franc price. In addition, the continuing fall in timber revenue (down 10 per cent in 2003), was mainly due to a 5 per cent drop in export prices. Customs figures, however, showed that 19 per cent more sawn logs were exported, making up for sluggish exports of logs (up only 3 per cent).

Imports fell 2 per cent to 653 billion CFA francs ($1.1 billion), with economic problems sharply reducing purchases of machinery and equipment (-23 per cent, according to customs) and non-food items (-22 per cent), though vehicle imports rose 19 per cent.

Gabon has an overall trade surplus which improved in 2003 despite the dollar's fall. The trade balance was estimated at 34.6 per cent of GDP. Export/import coverage improved to 285 per cent. Without oil, there would be a trade deficit of 118.3 billion CFA francs ($201.9 million).

External debt in Gabon was sharply reduced : it accounted for $3 534 million in 2002 (84.8 per cent of GNP), 22 per cent lower compared to the highest point in 1998 where it stood at 108.8 per cent of GNP. Gabon is considered an intermediate income country and is thus only eligible for standard treatment of its debt by the Paris Club. However, a third of external debt is not renegotiable. An IMF assessment of debt sustainability in October 2003 showed the ratio of interest to budget revenue should peak at 45.5 points in 2008. This projection is based on significant growth of the non-oil sector (2.4 per cent in 2003, 3.5 per cent in 2005 and more than 4 per cent until 2010) which is slow in developing. Gabon's debt will be more tailored to long-term sustainability under the Paris Club's more flexible "Evian" approach (after the G8 summit where it was launched). But it will first have to agree to an IMF programme and seek similar arrangements with other foreign creditors.

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



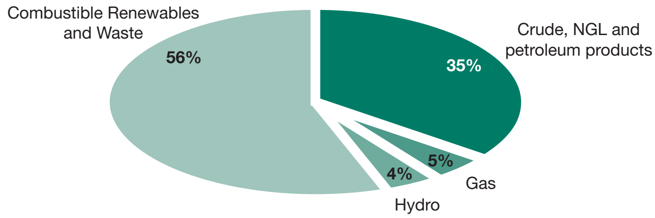
Source: World Bank.

Structural Issues

The need to raise revenues and diversify the economy has obliged the continuation of structural reforms, some of which are conditions in negotiations for a confirmation agreement with the IMF.

The country has a wealth of raw materials. Main energy sources are oil, gas, wood (which was the backbone of the economy before petrol took over) and uranium (though mining of it ceased in 1999). Some of the oil is processed for local needs by the national refinery company Sogara, but refined petroleum products, especially diesel, have to be imported. Natural gas is little used and only supplied to the city where it is produced, Port Gentil, since there is as yet no pipeline to Libreville. Two-thirds of it goes to generate electricity and fuel local industry, such as breweries, and the rest is increasingly used as a cheap way to recover residual oil by injection into wells. Expansion of the gas industry

Figure 7 - **Structure of Domestic Energy Supply in 2001**



Source: International Energy Agency.

is held back by the limited local market and a lack of industry in Libreville.

Electricity is produced mainly by hydroelectric plants (69 per cent of national production in 2003) for the main grids, which are in Libreville and in the east and south, but not linked to each other. Hydroelectric potential is barely touched (less than 1 per cent), and current to the rest of the country is supplied by thermal plants fuelled by diesel, heavy fuel or gas. Total national capacity is 346 MW (half hydroelectric and half thermal) which produced 1 315 GWh in 2003 (3.8 per cent up on the previous year) that was distributed over 3 612 kilometres of lines. Electricity is supplied by the water and power company SEEG, which was privatised in July 1997 with a 20-year franchise (though since then the government has reduced its own holding to only one share). SEEG has a monopoly on transporting and distributing current in its franchise area, which covers the needs of 90 per cent of the population, but production is open to competition. Operating costs rose significantly between 1999 and 2001 owing to more expensive diesel, heavy fuel and gas, greater reliance on thermal plants (since hydroelectric units cannot keep up with demand) and higher distribution costs because of efforts to improve service. Rates fell 17.25 per cent in July 1997 thanks to the discount deal negotiated by the franchise winner, the Compagnie générale des Eaux (the Vivendi Environnement group, later Véolia). Later, as stipulated in the contract, rates went up at three-month intervals according to the price of fuel, local labour, imported goods and local inflation. But rates are still not as high as in 1997 and firms do not consider electricity expensive. Since there is no statutory agency, contracts are used for regulation.

SEEG pledged to meet five-year coverage targets in major towns, cities and country areas and to bring electricity to new places. The last review of coverage, in 2000, showed it had exceeded targets in Libreville (74 per cent against a goal of 73) and Port Gentil (91 per cent against 83). In the countryside, 89 per cent of isolated towns had current but none of the 30 new places set for electrification had received it, though five have been connected since then. SEEG is contracted to spend 400 billion CFA francs ($682 million) between 2004 and 2017 on water and electricity projects. This includes better distribution and linking Libreville and Port Gentil in order to make use of the natural gas and the thermal plant capacity in those cities (3 turbines of 21 MW are under-employed in the capital and one in Port Gentil). This is more expensive than expanding the capacity of the hydroelectric plants, which will last much longer than the period of the franchise, and would cost at least 100 billion CFA francs. However, it can be made to pay before the end of the franchise and is preferable to building polluting fuel-fired plants.

A major privatisation will occur in early 2004 with the joint franchising of Hévégab and Agrogabon to the Belgian group NV Siat S.A. An attempt to privatise them failed in 2000. The government put together an employee compensation package for Hévégab and modernised its production facilities. This and higher world rubber prices made the firm more attractive. The government had to spend one billion CFA francs ($1.7 million) to renovate Agrogabon's equipment, which had been left in poor condition by its previous operator, the Malaysian firm Winnerpac. The government will take over the two firms' combined debts of 10 billion CFA francs ($17 million) and the sale of the franchise will earn it about 2.7 billion CFA francs ($4.6 million). The three main firms due for privatisation but whose disposal has been delayed are Gabon Télécom, the national railway and Air Gabon. The IMF and World Bank are keen to privatise rapidly Gabon Télécom, but this has been put off several times. The government plans to offer 35 per cent of its capital to a strategic partner who would manage the firm. The remaining capital is to be disposed of two years later. However, a dispute between Gabon Télécom and its mobile phone subsidiary Libertis about shared costs of interconnection is delaying the offer for sale. The franchising of the Octra (Office du Chemin de fer Transgabonais), which runs the Libreville-Franceville railway line, is being held up by a dispute between the government and the former operators, a forestry group. Setrag (Société d'Exploitation du Transgabonnais), a subsidiary of Comilog, which took over from the forestry group in May 2003, thus had its management contract extended by 18 months in January 2004. The interested parties eventually agreed to increase Octra's capital to include the line's main users (the forestry group and Comilog, to transport manganese). Privatisation of Gabon Poste and Air Gabon is some way off. The post office, structurally in deficit, requires a sectoral analysis and revamping of Air Gabon (upgrading data systems and management supervision, and reorganising routes) is far from complete.

Transport costs in Gabon are very high because of the widely-scattered population, especially in the east. The weather makes some roads impassable for part of the year and helps to destroy them rapidly, especially as they are sometimes poor quality in the first place and are worn by passing timber carriers. This damage, also in towns, is worsened by lack of maintenance and the government's use of money from the road maintenance fund (FER) to build new infrastructure. In response, funding sources made money for new roads conditional on the good management of FER. The lack of roads has led to the building of many airfields and numerous small airlines took over routes abandoned during the restructuring of Air Gabon. Air travel is still very expensive though. Dock facilities at Owendo and Port Gentil, run by Oprag, are inefficient and have to compete with the Douala port in Cameroon.

The banking and finance sector is healthy and BEAC's prudential ratios were being kept to by nearly all banks and credit houses on 31 December 2003. In fact, banks have too much liquidity. The gross rate of non-performing loans was no more than 10.7 per cent at the end of 2003 and almost all were secured. Banking infrastructure is being modernised. Payment procedure for large sums is being hooked up with the TARGET system and computerisation and dematerialisation of inter-bank cheque-handling is underway. Despite this healthy situation, financial intermediation activity is limited. The number of dubious loans has risen sharply in the past three years (19 per cent in 2003), causing problems for the government (which had 38.7 per cent of such loans) and the forestry sector (agriculture as a whole had nearly 20 per cent). The banking sector's profitability fell 5.7 per cent in 2003 and its excess liquidity was a sign of a weak financial system (gross loans were only 14.3 per cent of GDP in 2003, down 9 per cent on the previous year) and lack of opportunities in the economy (oil companies do not borrow on the local market). This also explains the banks' narrow investment range and risk-taking by over-reliance on the public sector and the timber industry (as shown by the pattern of dubious loans). The Central African Regional Stock Exchange (BRVMAC) is expected to open in 2004 and its growth depends on how privatisation (especially of Gabon Télécom) goes and whether investors use it or its rival in Douala. The indefinite postponement of BEAC's reform of its statutory advances system makes a local bond market unlikely any time soon.

The business climate (especially for foreign investors) is considered satisfactory by the private sector, despite parafiscality and cumbersome procedures. Gabon is helping draft labour standards under the OHADA Treaty, which it has signed. This has highlighted the fact that its laws are more pro-business than most other member countries. The government is also setting up a national arbitration court to help settle trade disputes. Efforts are being made to improve transparency. A new system of awarding government contracts was adopted in December 2002 with the help of the World Bank and in 2003 an anti-corruption law came into effect, along with another on declaration of assets by government officials, and a properly-equipped national commission against illegal enrichment (CNCEI) was set up. Unlike in the past, these laws should be implemented.

But progress is still negligible in the key area of transparent handling of oil revenues, despite progress in auditing oil companies. Budgetary treatment of revenues (through special funds) and transparency in the relationship between the government and companies (contracts and calls for tenders) may be a key issue with the IMF in 2004.

Political and Social Context

The big event of 2003, as political stability was maintained, was the amendment of the national constitution – abolishing the two-term limit to allow President Omar Bongo Ondimba to stand again in 2005 and limiting elections to one round instead of two. Parliament said it proposed the voting change to reduce the cost of holding elections and to weed out fringe candidates. The amendments set off much national debate and were seen, especially abroad, as a setback for democracy. It once more postponed discussion about the succession to Bongo, who has been in power since 1967. But rising unrest among trade unions, which staged many strikes and demonstrations, led the government in August 2003 to negotiate for a social truce, which was signed on 26 September. The agreement included price cuts of about 100 consumer items by 15 per cent, but these had not been implemented by early 2004. The rest of the accord seemed impractical as the economy was increasingly liberalised.

Gabon is a paradox where social, health and educational development is concerned. It ranked 88th in the world in per capita income (in terms of purchasing power parity) in 2002 and 117th on the UN Human Development Index. The windfall of oil in recent decades has not eradicated poverty, which remains severe, especially in the countryside, as shown by social indicators – only 55 per cent of rural households have access to clean water and most houses do not have solid walls (76 per cent in Ogooué-Lolo province). The exodus from the countryside has unbalanced life in towns and cities and 80 per cent of Libreville's population in 1999 had inadequate garbage collection, water supply and sewage facilities.

Another contradiction is that despite relative wealth, social spending is small both in the budget and relative to GDP. Spending on education was only 4.6 per cent of GDP between 1998 and 2001, compared with 9.3 per cent in Botswana, which has similar national income. This is disturbing because poverty seems to have worsened (though there are few recent figures). The end of uranium mining, declining livestock and plantation activity in eastern Gabon, constant crises in the forestry sector (a major employer), the government's financial problems (resulting in no new public sector jobs) and restructuring linked to privatisation have been largely responsible.

The government drew up its first poverty reduction strategy paper (PRSP), even though it did not have to because it is not eligible for HIPC debt relief or poverty reduction and growth facility (PRGF) funding. It was sent to the funding agencies in early 2003 and was welcomed, though it was criticised for not providing adequately for participation (though Gabon's civil society is small) and for its lack of clear priorities and recent data on poverty.

The healthcare situation is another contradiction. Life expectancy is about 53, the highest in central Africa but well below the average 70 years of "intermediate" countries. Government-supplied infant/child mortality figures are poor – 61 per 1000 between 0 and 11 months and 91.4 per 1000 between 0 and 4 months (100 per 1000 in rural areas). In the absence of a national blood survey, local population surveys and hospital and laboratory data led the government to estimate a 6 per cent incidence of HIV/AIDS among adults in 2002 (7.7 per cent in urban areas). This figure is rising fast in a situation where blood tests are still rare.

Medical services are also inadequate and in 2002 only 26.4 per cent of children between 12 and 23 months had received all necessary vaccinations (BCG, DTP, polio and measles), while 35 per cent of births took place without trained personnel. Hospital facilities are seriously lacking (2 beds per 1000 inhabitants) and run-down. Most country clinics are very dilapidated and have stopped operating for want of money and supplies. This overcrowds the main hospitals in the towns and cities, reducing quality and widening the urban-rural gap in availability of medical care.

The problem is not just lack of money but also the government's failure to assess health needs and formulate policy, as well as problems of implementation – none of the health ministry's 2002 investment budget of some 4.1 billion CFA francs ($5.8 million) was spent – and the priority given to major hospitals (which absorbed 77 per cent of the health budget) to the detriment of primary care facilities (10 per cent of the budget), especially clinics.

Gabon is one of the few African countries offering free universal education and in 1999 gross primary enrolment was 152 per cent, with gender parity up to secondary level. But performance and quality were major problems. A government demographic and health survey in 2000 showed 19 per cent illiteracy (49 per cent in the countryside) and 70 per cent of the workforce with only primary-level education.

Retention and dropout rates are also very high (18.3 per cent of primary pupils are older than 15 and only 56 per cent of 10-year-olds graduate to secondary school). These problems are due to lack of money, equipment and follow-up of pupils. Broken-down infrastructure and overcrowded classrooms are matched by lower teaching quality and growth of corruption and favouritism in enrolment. Student rioting in Owendo in January 2004 sharply highlighted these problems in spite of the country's free education.

Teacher training was also inadequate and very low pay made for extensive absenteeism and even abandonment and refusal of jobs in the countryside (partly due to a dearth of cheap housing and geographical remoteness). Apart from financial difficulties, the education system's problems also stem from poorly-coordinated educational policy, bad career management for teachers and an elitist attitude that neglects intermediate education (especially vocational training).