

Report No. 35247-GA

Republic of Gabon Public Expenditure Management and Financial Accountability Review (PEMFAR)

September 20, 2006

Poverty Reduction and Economic Management Sector Unit (PREM3)
Africa Region



Document of the World Bank, co-produced with the Government of Gabon,
African Development Bank and the International Monetary Fund

FISCAL YEAR OF BUDGET

January 1 - December 1

CURRENCY EQUIVALENT

Currency Unit: Franc CFA (FCFA)

US\$ = 516.12

(Exchange Rate Effective September 20, 2006)

WEIGHT AND MEASURES

Metric System

ABBREVIATIONS AND ACROYNYS

ACCT	Central Accounts Agency of the Treasury (<i>Agence Centrale de Comptabilité du Trésor</i>)
AfDB	African Development Bank
AFROSAI	African Organization of Supreme Audit Institutions
ANFPF	National agency for Training and Professional Development (<i>Agence National de formation et de perfectionnement professionnel</i>)
APs	Program Authorizations
BEAC	Central African States Bank (<i>Banque des Etats d'Afrique Centrale</i>)
BPPs	Budget Program Priorities
CAS	Country Assistance Strategy
CDC	Audit Court (<i>Cour des Comptes</i>)
CDMT	<i>Cadre de Dépenses à Moyen Terme</i> (see MTEF)
CEO	Bid Evaluation Commission (<i>Commission d'Evaluation des Offres</i>)
CF	Financial Control Officer – Finance Controller (<i>Contrôleur financier</i>)
CFA	African Financial Community (<i>Communauté Financière Africaine</i>)
CFAF	CFA Franc (see FCFA)
CFAA	Country Financial Accountability Assessment
CGP	Planning Commission
CHL	<i>Centre Hospitalier de Libreville</i>
CNCEI	National Council Against Illicit Enrichment (<i>Conseil National contre l'Enrichissement Illégitime</i>)
CNMP	National Contracts Board (<i>Commission Nationale des Marchés Publics</i>)
COFOG	Classification of Functions of Government
CP	Payment Credits
CPAR	Country Procurement and Audit Review
DGB	Department of the Budget (<i>Direction Générale du Budget</i>)
DGCF	Department of Financial Control (<i>Direction Générale de Contrôle Financier</i>)
DGCP	Department of Public Accounting (<i>Direction Générale des Comptes Publics</i>)
DGER	Department of Road Maintenance (<i>Direction Générale d'Entretien Routier</i>)
DGGT	Department of Civil Works (<i>Direction Générale des Grands Travaux</i>)
DGMP	Department of Public Procurement (<i>Direction Générale des Marchés Publics</i>)
DGST	Department of Treasury Services (<i>Direction Générale des Services du Trésor</i>)
ECB	European Central Bank
EITI	Extractive Industry Transparency Initiative
EU	European Union
FCFA	Franc CFA
FER	Road Maintenance Fund (Fonds d'Entretien Routier)
FGF	Future Generations Fund

GDP	Gross Domestic Product
GOG	Government of Gabon
GPRS	Growth and Poverty Reduction Strategy
HDI	Human Development Index
HIV-AIDS	Human Immunodeficiency Virus - Auto Immune Deficiency Syndrome
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
I-PRSP	Interim Poverty Reduction Strategy Paper
MDAs	Ministries, Departments, and Agencies
MDGs	Millennium Development Goals
MINECOFIN	Ministry in charge of the Economy and Finance
MINIPLAN	Ministry in charge of Planning and Programming
MTEF	Medium-Term Expenditure Framework
MTPEC	Ministry of Public Works, Equipment, and Construction
MSAIPAFC	Ministry of State Audit, Inspections, Poverty Alleviation, and the Fight against Corruption
NDP	National Development Program
PARR	Road Network Development Plan (<i>Plan d'Aménagement du Réseau Routier</i>)
PDIT	Master Plan for Inter-Modal Transport
PIP	Public Investment Program
PEMFAR	Public Expenditure Management and Financial Accountability Review
PER	Public Expenditure Review
PFM	Public Financial Management
PRM	Contracting Authority
PRS	Poverty Reduction Strategy
GPRS	Poverty Reduction Strategy Paper
SNBG	National Timber Marketing Company (<i>Société Nationale de Bois du Gabon</i>)
TG	Treasurer-General
TGPE	General Table of State Property (<i>Tableau de Bord de la Propriété de l'Etat</i>)
TPG	Paymaster-General
UDEAC	Central African Customs Union (<i>Union Douanière de l'Afrique Centrale</i>)
UNDP	United Nations Development Program
VAT	Value Added Tax

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ACKNOWLEDGEMENTS

The Public Expenditure Management and Financial Accountability Review (PEMFAR) for Gabon was initiated in 2005 by the World Bank at the request of Gabonese authorities. This analytical work, intended to reinforce the Government's poverty reduction strategy was undertaken in collaboration with key line and sectoral ministries and major development partners, including the International Monetary Fund (IMF), the French Development Agency (L'AFD), the African Development Bank (ADB) and the European Union (EU).

The first draft report on PEMFAR was discussed at a workshop held in Libreville, Gabon, in January 2006. Detailed comments on the first draft were provided by various development partners as well as the ministries of Finance and Economy, Health and Education. The Audit Court, which has surveillance powers over public spending, also made useful observations. The various comments were taken into account in a revised version of the report.

The findings and recommendations contained in the second draft report on PEMFAR were subsequently discussed at a second workshop, held at Libreville, in March 2006. This workshop was chaired by Mr. Regis Immongault, Senior Advisor to the Minister of Planning and was attended by representatives of the various development partners as well as representatives of various Government ministries and agencies. Parallel consultations on PEMFAR were held with parliamentarians, the private sector and civil society groups, thereby strengthening the participatory process and country ownership of the strategy. The completion of PEMFAR by mid-2006 was facilitated by the active participation of four main parties, working in close collaboration, namely: the Government of Gabon, Civil Society, the World Bank team, and the donor community. The roles played by the Government and the Bank were mutually reinforcing.

To facilitate consultations with the Bank, the Government of Gabon established a Task Force under the leadership of Mr. Regis Immongault (Sr. Advisor at the Ministry of Finance), and comprised of core team at the Ministry of Finance led by Madame Yolande Okoulatsongo, and four sector task forces led by Mr. Jean-Philip Ndong Biyogho (Ministry of Planning), Mr. Gaston Biyogho Bi Ndong (Ministry of Health), Ms. Lucie ADA (Ministry of Education) and Mr. Francis Brahim (Ministry of Public Works). The team gratefully acknowledges the government team, particularly staff in the Ministry of Finance and Economy, Education, Health and Public Works for their substantive contributions to the analytics, and in conducting workshops.

The Bank team benefited from the active guidance and support of Mr. Ali Khadr, the Country Director (AFC07) and Madame Mehrnaz Teymourian, Country Manager (AFMGA). PEMFAR was initiated and undertaken under the supervision of Mr. Cadman Atta Mills and Madame Yvonne Tsikata (Sector Managers, AFTP3) and supported by Messrs. Hinh Dinh and Chukwuma Obidegwu (Lead Economists, AFTP3).

The Task Team Leader and the main author of the PEMFAR was Mr. Emmanuel Doe Fiadzo (AFTP3). Peer reviewers comprised of Mr. Sudharshan Canagarajah (ECSPE) and Mr. Alberto Agbonyitor (FRM), both of whom provided valuable suggestions at various stages, from conceptualization, through analysis and finalization. The launching of PEMFAR and its evolution through the various stages was greatly inspired by Mr. Roger Nord and Mr. Emilio Sacerdoti of the IMF, Mr. Benoit Deschamps (L'AFD), Mr. Mamadou Lamine N'Dongo (African

Development Bank); they provided constructive advice on the need for enhanced fiduciary responsibility in Gabon.

The end product-PEMFAR report was made possible by various members of the Bank's team participating in drafting various parts of the report, as follows: Chapter 1: Mr. Emmanuel Fiadzo (Economist, AFTP3); Chapter 2: Mr. Emmanuel Fiadzo, Mr. Timothy Williamsom (U.K. Overseas Development Institute), Mr. Rick Emery Tsouck (Economist-AFTP3) and Messrs. Joseph Ntamatungiro (Senior Economist, AFR-IMF), and Gabriel Di Bella (Economist, PDR-IMF); Chapter 3: Mr. Emile Finateu (Senior Financial Management Specialist, AFTFM), Mr. Robert Cauneau (Consultant), Mr. Abdoulatif Bernoussi (Economist, ADB), Mr. Yvon Gousdoue (L'AfD), Mr. Leif Jensen (Lead Financial Management Specialist-AFTM), and Madame Bhanoumatee Ayoung (Senior Procurement Specialist-AFTPC); Chapter 4: Mr. Timothy Williamson (Consultant), Mr. Assitan Diarra-Thoune (Senior Economist, ADB) and Mr. Ludovic Sodjahin (European Union) and Mr. Emmanuel Fiadzo; Chapter 5: Mr. Tim Williamsom, Madame Cynthia Cook (Consultant) and Mr. Emmanuel Fiadzo. Mr. Roberto Rigobon (Professor, MIT) was responsible for the Macro Economic Modelling – Annex B. Mr. Rick Emery Tsouck (Economist-AFTP3) was responsible for the collection and preliminary tabulation and analysis of data from different sources, assisted in the preparation of Public Expenditure Management and Financial Accountability Review indicators (PEFAR), revision of the French version of the PEMFAR report and helped in the organization of workshops. Madame Cynthia Cook (Consultant) reviewed and edited the main report at various stages in addition to harmonizing draft English and French versions of the report.

The final report also benefited from written inputs and advice from the following members of the Bank's Gabon Country Team: Madame Andrea Kucey (Operations Officer, AFC07), Mr. Guido Rurangwa (Economist, AFC07), Oscar Melhado (Senior Economist, AFR-IMF), Tahsin Saadi (Economist, FAD-IMF), Madame Chantal Reliquet (Senior Urban Specialist, AFTU2), Mr. Ali Zafar (Consultant) and Mr. Quentin Wodon, as well as consultants commissioned by the EU and the ADB to prepare key background papers. Mr. John Otienco (consultant) participated in the review, translation and formatting of the sectoral PER background documents and the main report while Madame Hedwige Jullien-Mercier worked on translating the main report into French. Last, but not least, administrative and logistic support contributing to the successful completion of PEMFAR and production of the final report was provided by Mesdames Maude Jean-Baptiste, Josiane Luchmun, Lucia Chuo and Angel Moutou.

This report was produced in a fully participatory manner with the Government of Gabon. The substantive role played by the Government's team, particularly the staff of the Ministries of Finance and Economy, Education, Health and Infrastructure was significant. Particular mention must be made of the effective guidance and leadership provided by the Minister of Finance and Economy (Hon. Paul Toungui) at various critical stages in the preparation of PEMFAR.

PREFACE

Recent strategic shifts in Gabon's development policy, the adoption of the Millennium Development Goals (MDGs), the ongoing preparation of a Growth and Poverty Reduction Strategy (GPRS) and the absence of a formal review of the Public Financial Management systems, all underscore the need to undertake a Public Expenditure Management and Financial Accountability Review (PEMFAR) for Gabon. Since the GPRS will be the comprehensive development strategy for Gabon, a PEMFAR could play a central role in its final stages of preparation as well as support the implementation of the PFM element of the GPRS.

The standard PER assesses public expenditure strategies and programs and makes recommendations to facilitate the alignment of public spending with development objectives and policies. A PER was recommended in the 2005 CAS to provide inputs to the Poverty Reduction Strategy and future Bank lending activities. However, this report goes more deeply into systemic public financial management issues than a conventional PER. The PEMFAR is a consolidated diagnostic tool designed to enhance the understanding of public financial management arrangements and reform challenges on the part of the Bank's development partners and member countries. This report, therefore, covers tasks that have been undertaken previously in separate Bank reports such as Public Expenditure Reviews (PER), Country Financial Accountability Assessments (CFAA), and the initial assessment of the procurement arrangement in Gabon.

In addition, this report focuses selectively on a few issues and sectors which are important for public finance management, GPRS and its implementation. The three sectors chosen for this review: education, health, and infrastructure, are those identified in the I-PRSP as the priority sectors. Analysis of their public spending patterns should help to sharpen the sectoral contents of the GPRS.

This PEMFAR represents a collaborative effort between the government and its principal development partners, namely the World Bank, the European Union (EU), the French Development Agency and the African Development Bank (AfDB). It was prepared by the World Bank in close collaboration with a Government counterpart team, chaired by a senior Economic Advisor to the Minister of Finance. Detailed analytical work in the priority sectors of health, education and infrastructure was supported by the EU and AfDB, with the terms of reference for the task discussed among the partners. Other donors, such as the IMF and the French Cooperation, also participated in the core group that worked with the Bank and the Government in drafting this report.

The Government is committed to improve the public expenditure process and has created a task force working with the Bank and other donors on ongoing reforms in public financial management. Initial public consultations were carried out with sector ministries, donors, parliamentarians, and civil society in May 2005 on public financial management system in Gabon. A second round of consultation on the key findings and recommendations of this report was undertaken in March, 2006. This PEMFAR

establishes a baseline for an annual expenditure performance assessment process to guide the alignment of budget allocations with GPRS strategies and monitor the achievement of GPRS objectives. It aims to strengthen the strategic focus on results, especially on improving transparency and accountability of the public expenditure management process. The PEMFAR also aims to inform development partners of progress and challenges in public expenditure management, gaps in public expenditures, and institutional development and capacity building needs, to help donors define the appropriate mix and levels of future support.

Chapter 1 of the report describes the recent evolution of Gabon's development policy. Chapter 2 provides an overview of the country's economic and fiscal situation. Chapter 3 describes and analyses the public financial management systems. Chapter 4 discusses public spending in the three priority sectors of health, education, and infrastructure. Chapter 5 highlights the main findings and recommendations.

EXECUTIVE SUMMARY, MAIN FINDINGS AND PRIORITY ACTIONS

(i) **Gabon has remained relatively stable and peaceful since independence in 1960.** Over the last fifteen years, it has undertaken fiscal and structural reforms, and in recent years, it has also recognized the importance of transparency and good governance in promoting development. Gabon's economic performance has been mixed over the last decade. It remains strongly dependent on oil revenues. Despite some improvement in macroeconomic performance, it continues to have weak social indicators. The country's development priorities are defined in the Interim PRSP and the National Development Plan. It has also adopted the Millennium Development Goals and Growth and Poverty Reduction Strategy.

(ii) **This report aims to support the reform process by making recommendations to improve the management of public expenditures in general and of priority sectors, in particular.** A comprehensive review has been carried out on the outcomes of the public financial management systems in Gabon, and on the strengths and weaknesses of those systems. The three key objectives of a public financial management system are aggregate fiscal discipline, resource allocation efficiency and operational efficiency. We have reviewed the Government of Gabon's performance against these objectives.

Aggregate Fiscal Discipline

(iii) **Over the past four years the Government of Gabon has taken steps to improve aggregate fiscal discipline** by reducing primary budget expenditures in relation to GDP, and using oil revenues to reduce the external debt burden. **However, Gabon's aggregate fiscal position remains vulnerable.** There was a sharp decline in oil revenues in 2001-2004, only partially offset by a small increase in non-oil revenues. As a result, the Government had to reduce public expenditures. Debt service and the wage bill have been given highest priority, leaving inadequate resources to cover the costs of public services. The recurrent budget is generally executed in full, but the rate of execution of the investment budget is low, particularly for externally funded investments.

(iv) **While scope remains for further improvement in revenues, the main instrument for achieving development goals in Gabon is better management of public expenditure.** If Gabon maintains fiscal discipline, refrains from increasing the public sector wage bill, and expands recurrent expenditures no faster than the rate of growth of the non-oil sectors, it could eliminate domestic debt by 2010 and all public debt by 2015. However, this projected outcome is vulnerable to external shocks.

(v) **Sound debt management is essential for fiscal sustainability in Gabon.** The level of public debt is high in Gabon (over 60 percent of GDP in 2004). This generates high levels of interest payments (about 7 percent of non-oil GDP and almost 30 percent of non-oil revenues in 2004). Higher than expected oil revenue, resulting from higher oil prices and a slower decline of oil production than projected provides the Government with a crucial choice: spending or saving the windfall. If Gabon maintains its budgetary discipline, and manages its oil windfall prudently, domestic debt could be eliminated and

external debt reduced to sustainable levels. If, however, Gabon relaxes fiscal policy and uses oil revenues to fund current or investment expenditures rather than to clear debt, external debt will remain at or above current levels and the fiscal situation is likely to become unsustainable.

(vi) **Non-oil revenues should be maintained in parallel to the growth of non-oil GDP.** This does not mean that there is an unchanged tax effort. Indeed, some non-oil revenues are related to oil sector activities (e.g., taxes on wages for employees in oil companies; tax revenues from consumption by expatriates working in oil companies, etc). These revenues will decrease with the decline of oil production, raising pressures on other sources of revenue so that non-oil revenue will remain constant as a percentage of non-oil GDP. Thus, Government should maintain and enhance its tax efforts on non-oil tax sources.

(vii) **Another key element for Gabon's fiscal sustainability is to contain the wage bill.** The recently promulgated civil service law poses risks for maintaining control of the wage bill. In particular, the creation of five separate civil service structures could reduce discipline in public sector hiring and remuneration decisions. To have its full impact, implementing decrees and a number of complementary laws need to be enacted. These decrees and laws should enable the Government to contain the wage bill. If the new civil service law inflates the wage bill, there would be serious risks for public debt sustainability.

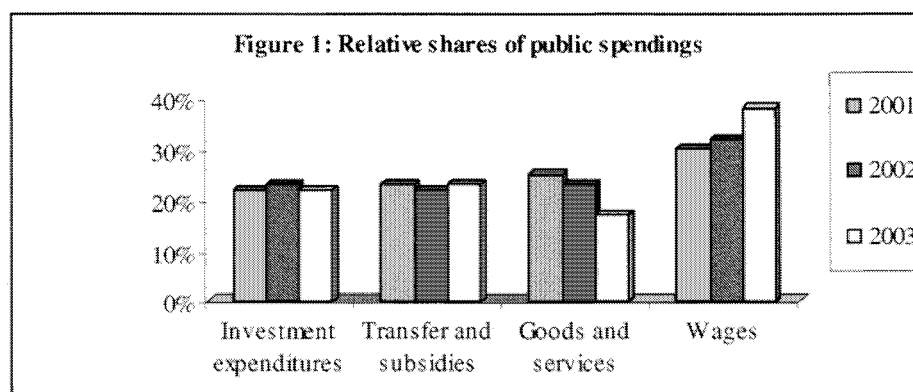
(viii) **Finally, the Government of Gabon should improve its ability to project revenues in order to** provide reliable resources for the expenditure budget. If this is not done, the implementation of planned expenditures will be difficult, and the likelihood of incurring expenditure payment arrears will be increased.

Allocative Efficiency

(ix) **Both at the national and the sectoral level, the budget is not oriented towards the strategic priorities of the Government.** A large proportion of public expenditure is made up of debt servicing and fixed administrative costs, which leaves little space for re-orientation of the budget towards GPRS objectives. In the health and education sectors, expenditures are biased towards secondary and tertiary services.

(x) **Assessing the resource allocation efficiency of Gabon's budget process is made more difficult by a lack of clarity on the Government's policy goals and objectives, as well as by the administrative arrangements for budget presentation.** Through the preparation of the GPRS, the GOG is developing a set of policy objectives. Past expenditure patterns can only be assessed in relation to these emerging objectives. A large share of the budget goes to horizontal costs ("*charges communes*"). These costs, which are not allocated to a particular ministry, and the annual independence anniversary projects accounted for about 35 percent of public expenditures net of debt service in 2003. These costs, as well as the wage bill, are not allocated by sector. Another major feature is the high proportion of the budget, which is spent on transfers and subsidies. In Figure 1, a brief overview of public spending across cost items for 2001-03 is presented.

Wages make up an increasing part of the budget, while "transfers and subsidies" and "investment expenditures" remained relatively constant during this period.



Source: Ministry of Finance

(xi) **The current and investment budgets are prepared separately, resulting in recurrent cost of investment projects not being adequately provided for and multi-year investment projects not being adequately funded.** In contrast, investment in economic services is far greater than their share in the recurrent budget. Coordination and links between investment budget planning and recurrent budget planning are weak.

Operational Efficiency

(xii) **The Government has had difficulty respecting the timetable for budget preparation.** Consequently, budget projections are not made on the basis of planned activities but rather on the basis of previous years' allocation patterns. Recurrent budget allocations are incremental rather than zero-based, and are not linked to investment decisions, which are often taken outside line ministries. The roads sector, for example, represents particularly poor value for money. The Road Maintenance Fund has not worked as envisaged. In all sectors, the implementation of public investments has been less than satisfactory. The commencement of the 2005 fiscal year was delayed due to computer problems. Expenditure commitments are only made for ten months because of the lengthy process of authorizing actual expenditures.

(xiii) **The annual budget presented to and approved by Parliament is not reliably executed. Numerous amendments** are approved by Parliament in the course of each fiscal year. The amount of funds transferred to implementing agencies by the Treasury may vary considerably from the amounts indicated in the budget. Recently, economic and social services have received considerably less funds than budgeted, while amounts spent for public order and security and the horizontal expenses which a priori are not allocated to ministries (the *charges communes*) were higher than budgeted. The implication is that emerging GPRS priorities are not taken into account during budget implementation.

(xiv) **The spending procedure is complex, and the number of offices involved is large.** Furthermore, expenditures financed with external resources are not reflected in the administrative or governmental accounting system. There is no assurance that such expenditures conform to financial legislation. A number of exceptional procedures allow funds to be transferred without adequate oversight by the Treasury. While some of these procedures facilitate flexibility in crisis situations, others, notably the Independence Anniversary budgets, present a high risk of misuse of public funds.

(xv) **The lack of a Medium Term Expenditure Framework and sector strategies mean that sector managers have little guidance in the choice of investment projects and planned expenditures.** Consequently, their proposals are often unrealistic. Direct intervention by political authorities or parliamentarians often leads to changes in the budget estimates. Newly appointed ministers may make significant changes to budgetary allocations. Since 2004, the Planning Commission has resumed monitoring and evaluation of investment projects.

Public Financial Management

(xvi) **The legal and regulatory framework for financial management in Gabon is generally acceptable.** The Procurement Code is globally in line with international norms. However, several implementing instruments for this code are not available. The present institutional framework has pitfalls due to the simultaneous holding of incompatible duty posts (regulation and awarding of contracts) and weak capacity for management. Old practices persist, notably the excessive use of sole source procurement practices and amendments leading to contract amounts higher than initially proposed. With few exceptions, line ministries lack the skills to evaluate bids, award contracts, and supervise their execution. Capacity enhancement is needed throughout the system.

(xvii) **The quality of financial control operations needs to be improved.** The administrative control of expenditures is still highly centralized and overlapping in function. Prior control on expenditures is provided by the finance control officers assigned to the respective Ministries. This control is partly iterated by the Finance Control Office in the Ministry of Finance, and again by the Planning Commission in the case of investments. Financial control officers often lack the necessary knowledge, skills, and/or computer support, and under-perform relative to professional standards. The role of public accountants is undermined by the use of exceptional payment procedures. No financial control officer has been posted to decentralized services.

(xviii) **The Internal Auditing Office, formerly under the responsibility of the Prime Minister, has recently been transferred to the Ministry of State Control,** responsible for inspections, the fight against corruption, and the fight against poverty. It is responsible for carrying out *ex-post* expenditure controls. However, its reports are not published. Controllers do not have manuals of procedure or in-service training. There is insufficient coordination between the Internal Audit Office, the Cours des comptes (CDC, the supreme audit institution), the Parliament, and the recently created internal inspection offices in ministries.

(xix) **The institutional framework for the *Cours des comptes* (CDC), the highest institution responsible for control of public finances, is generally well established.** The CDC has the independence necessary to carry out audit and control functions, and it has a large and well-qualified staff. However, its equipment is limited, and computer support is rudimentary.

(xx) **In contrast, Parliamentary controls are weak.** Parliament is ultimately responsible for monitoring public finances through its review and approval of settlement laws. Parliamentary control of budget execution is hampered by the weak technical capacity of the legislative branch (to play effective role in ensuring that the budget is implemented as agreed) in dealing with budgetary issues, the complexity of the annual public accounts and by a lack of information and coordination with other bodies. Lengthy delays in the passing of settlement laws tend to make parliamentarians lose interest. Parliamentary committees of inquiry are infrequent, may be denied access to information, and their reports are not published. Thus, they can hardly provide effective controls.

Public Expenditure in the Priority Sectors

(xxi) **Public expenditure priorities within the health sector are not aligned with national policy goals or achievement of the MDGs.** The National Health Policy (2004) sets out pro-poor objectives. However, from 2001 to 2004, the proportion of sector expenditures oriented towards tertiary care has increased, while the proportions spent on primary care and secondary care have diminished. Priority health programs and projects (malaria, HIV/AIDS, tuberculosis, respiratory infections, vaccination campaigns, and water and sanitation projects) account for only 6 percent of the health care budget. Within primary care budgets, little is allocated to preventive activities or to facilitate community participation. The execution rates of the recurrent budget for health care are low.

(xxii) **Similarly, spending patterns in the education sector are not consistent with national priorities.** Sector policy goals are outlined in the 2002 National Action Plan for Education for all, as well as in the forthcoming GPRS. The share of education financing in the budget and in relation to GDP has been increasing in recent years. However, sector expenditures do not reflect the strategic priority placed on primary education and technical/vocational training. Much of the growth can be attributed to scholarships for higher education. In budget execution, spending allocations for national and vocational education tend to be revised downward while allocations for higher education are revised upward. Budgeted investment in higher education has grown sharply in recent years. Budgeted investment in national and vocational education has also grown, but at a much lower rate. The implementation rate of the recurrent budget for education is improving and is relatively reliable. However, the investment budget remains highly unreliable.

(xxiii) **Spending in the roads sector is extensive but inefficient.** The Government allocates substantial funds to road construction in the investment budget. Recurrent

expenditures for road maintenance are met from the Road Fund, which maintains a separate account funded from tax revenues. Road construction outputs since 1962 represent less than 30 percent of planned targets, while road construction expenditures since 1962 represent about 66 percent of planned expenditures. Many projects have been discontinued after a large amount of investment, and the expected unit costs for the remaining projects appear exorbitant.

(xxiv) **The sector has incurred substantial debt** for road maintenance and civil works construction. Road Fund resources have sometimes been used to finance large scale construction/rehabilitation projects at the expense of routine road maintenance. Road maintenance is further impeded by poor management of local contracts among other things. Disbursements by Treasury to the Road Fund are unreliable. The 2004 Road Fund was largely used to clear outstanding debts, so that little, if any, road maintenance was carried out.

(xxv) **Urban infrastructure has been relatively neglected, especially infrastructure serving the needs of low-income neighborhoods.** Urban streets, drainage and sanitation investments in low-income areas need more support from the central government. The government should give greater priority in the public investment program to projects that can be implemented by local contractors such as the LIL (Learning and Innovation Loan) infrastructure development project. The LIL supported by the Bank encourages the development of community-based small-scale infrastructure and the growth of small construction contractors. The successful implementation of the pilot project has led to proposals to replicate it on a larger scale. Reliable budget execution, transparent public procurement, and prompt payment procedures will be needed to maximize the positive effects of such projects on the domestic private sector.

Conclusions and Recommendations

(xxvi) **There are four main issues in public expenditure management and financial accountability that the Government of Gabon needs to address**, if it is to achieve a sustainable improvement in human development outcomes. First, it will be important to *continue efforts to diversify Gabon's economy* in order to reduce the vulnerability of public finances to external shocks. Secondly, it will be important to *maintain aggregate fiscal discipline* and continue to use oil revenues to clear external debt, as well as to improve macroeconomic management and the overall predictability of the budget. Third, there is a need to *improve the efficiency and effectiveness of public expenditures*, by orienting the budget towards the delivery of basic services consistent with GOG priorities. Finally, there is a need to *improve the reliability of budget implementation* processes, ensuring that public financial management systems support the implementation of budgets as planned, and strengthening the capacity and accountability of those institutions.

(xxvii) **The GOG has taken steps to diversify the economy and to improve aggregate fiscal discipline.** However, Gabon's fiscal position remains vulnerable. Both at the national and sectoral levels, the budget is not oriented towards the strategic

priorities of the government. Neither does the budgetary process provide an efficient mechanism for the delivery of services.

(xxviii) **As the Government of Gabon prepares its poverty reduction strategy, it will become possible to evaluate the effectiveness of expenditure patterns in the context of a clearer set of objectives.** The GPRS provides an opportunity for the restructuring of public services towards these objectives. At a sectoral level, the development of clear strategies, priorities, and time-bound and costed programs will also help provide the basis for more effective resource allocation.

(xxix) **In the meantime, a number of actions can be taken to improve the development effectiveness of public expenditure.** The share of the budget allocated to priority sectors, especially health, could be increased, while the share of general public administration could be reduced. Within the health and education sectors, budget allocations should give greater priority to primary service delivery, consistent with the goals of sector policy. Regional disparities in service delivery should also be reduced. Allocations to the Road Fund should be used only for road maintenance, giving priority to routine maintenance of the entire maintainable road network. Infrastructure investments should be subject to strict cost-benefit criteria, as well as to an assessment of their potential benefits and costs for the poor. Monitoring and evaluation systems need to be improved at both the central and sectoral levels.

(xxx) **Improving the effectiveness and efficiency of public expenditures begins with a better budgeting process.** Revenue projections should be based on the results of previous budget exercises, and all state revenues should be included in the national budget. Reliable budget ceilings should be provided for recurrent and development spending, preferably over the medium term. Future budgets should disaggregate the wage bill, *charges communes*, and the budget for 17th August celebrations, allocating them appropriately among the functions of government and sector ministries.

(xxxi) **There is a clear need to improve coordination and communication** between the investment budget planning by the Planning Commission (CGP) and the recurrent budget preparation by the *Direction Générale du Budget* (DGB). Line ministries need to be more involved in budget preparation. Presenting the budget according to major functions, using a COFOG compliant classification system, will help to increase transparency and accountability. Greater use could be made of Program Authorizations and Payment Credits to accommodate activities that take longer than one year to complete. The budget should be presented to Parliament as a single document in which planned investments are linked to recurrent expenditures.

(xxxii) **Although the framework for public financial management is generally acceptable, there is a strong need to improve the implementation of the system.** The organic law on public finance management could be revised to integrate performance budgeting and performance evaluation. Additional instruments needed to promote implementation of Gabon's Procurement Code should be drawn up rapidly and distributed widely. A code of ethics should be developed, and penalties for fraud and

corruption applied as provided in the new Procurement Code. There is a need to further strengthen institutional capacity for financial management, especially in line ministries, and in regional and local authorities.

(xxxiii) **Expenditure procedures could be simplified**, by eliminating the DGB commitment voucher, allowing budget administrators to establish payment orders, and shifting payment order approval from Financial Control to the Treasury. A streamlined procedure for financial control could be introduced for minor expenditures. The role of CGP in approving investment expenditures financed by domestic resources could be eliminated. The time allowed for making expenditure commitments should be extended. However, the use of exceptional and extra-budgetary spending procedures must be strictly limited.

(xxxiv) **Procedures should be implemented that would allow sector ministries greater control over the execution of their budgets.** Financial controllers should be assigned to the spending ministries and provided with the necessary equipment to carry out their mission. Greater financial autonomy and accountability may require capacity building in the sector ministries and eventually in regional and local authorities. Ex-ante controls carried out to ensure legal compliance and conformity of expenditures should be limited. The relevance of systematic control of all expenditures could be questioned, since additional controls have not succeeded in improving the quality of expenditure.

(xxxv) **Procedures for public accounting and reporting need to be improved.** The DGCF should produce an annual activity report. The quality of the Treasurer General's management accounts can be improved. In the longer run, and in tandem with the decentralization of resources and responsibility and the development of local capacity, the Ministry of Finance should also implement a program to produce management accounts for public enterprises and local authorities.

(xxxvi) **Audit procedures and the role of Parliament in financial control require strengthening.** A manual of procedures for internal audits needs to be prepared and published. In addition, the reports of the State Audit Office (internal audit agency) should be published. The performance of the *Cours des comptes* should be improved by publishing more quickly its annual report on the execution of the previous year's finance law needs to be accelerated, in order to speed up the parliamentary vote on the settlement law. The practice of parliamentary reviews should be encouraged, and the conclusions of these reviews should be published.

Proposed Action Plan

(xxxvii) This report recommends a number of priority actions to improve public financial management and service delivery in pursuit of the emerging GPRS objectives. **In Chapter 5, the main findings and suggested actions, as outlined above, have been prioritized and organized in short-term and longer-term proposed initiatives. Table 1(a) shows the priority actions which should be taken no later than the current**

calendar year. Table 1(b) lists the longer term actions which need to be taken in subsequent years.

TABLE 1
PRIORITY ACTION PLAN

1. PRIORITY ACTION PLAN					
OBJECTIVES	PRIORITY ACTIONS	RESPONSI- BILITY	TIME HORIZON		
			Short- Term	Medium- Term	Long- Term
	Macroeconomic Framework				
Maintain Financial Discipline	1. Pursue a vigorous debt management policy.	MEFBP	X		
	2. Ensure growth of non-oil revenue consistent with that of non-oil GDP.	MEFBP	X		
	3. Ensure that real wages do not increase in real terms.	MEFBP	X		
	4. Implement IMF's recommendations on fiscal management.	MEFBP		X	
	5. Implement National Strategy on Government Revenue Collection.	MEFBP		X	
	Budget Preparation				
Improve Budget Allocative Efficiency	1. Finalize sectoral policy inputs for the DSCR. P.	MPPD/Sectoral Ministries	X		
	2. Assess the cost implications for implementing DSCR. P's priority actions.		X		
	3. Define the criteria for sectoral objectives relating to budgetary resources earmarked for the priority sectors (on the basis of health and education sector maps).	MPPD/MEFBP/ Sectoral Ministries		X	
	4. Formulate the Medium Term Expenditure Framework (MTEF).		X		
	5. Validate and establish functional budgetary nomenclature.	DGB/DGSEE			X
	6. Define administrative functions in a manner consistent with functional budgetary nomenclature.	DGB			X

	7. Increase the share of budgetary resources earmarked for health and other MDG-related sectors.	MEFBP/ MPPD		X	
	8. Reorient budgetary allocations within the health and education sectors towards primary services.	Sectoral Ministries		X	
	9. Reduce regional disparities in the allocation of health and education expenditures on the basis of information provided by health and educational maps.	MEFBP/ MPPD		X	
	10. Ensure that allocations to the Road Maintenance Fund are exclusively utilized for road maintenance, placing priority to the maintenance of the existing road network.	MEFBP	X		
	11. Modify the legislation on public finance with a view to introducing a mechanism for performance evaluation.	MEFBP		X	
Improve Budget Preparation Process	1. Improve revenue projections by basing them on previous experience and putting in place revenue forecasting units within fiscal administrative departments.	MEFBP	X		
	2. Formulate and implement a system for integrating external financing into the budget.	MEFBP/MPPD		X	
	3. Introduce a standard format for submitting budget requirements for ministries and review documentation to ensure satisfactory assessment of recurrent costs of projects.	MEFBP/ MPPD		X	
	4. Introduce objective and transparent criteria for prioritizing investments.	MPPD/ Sectoral ministries		X	
	5. Institutionalize the holding of Government seminars for the purpose of defining the budgetary framework and defining priorities.	Prime Minister	X		
	6. Institutionalize the holding of joint Budget Conferences between the Ministry of Finance, the Ministry of Planning and sectoral ministries.	MEFBP/MPPD	X		
	7. Prepare a database on prices of goods procured by the State.	DGMP/ DGCF		X	

	8. Designate the Ministry of Public Works as the entity responsible for all public construction works.	Prime Minister		X	
	Budget Implementation				
Rationalize Public Spending Process	<p>Shorten the spending process by:</p> <ol style="list-style-type: none"> 1. Speeding up budgetary allocation process. 2. Speeding the computerization of various administrative services and establishing computer terminals within the sectoral ministries in order to eliminate the intermediation phase of the DGB. 3. Develop a program for progressive decentralization of the financial control functions in relevant ministries and strengthen their role. 4. Define the job description of budget managers and administrators since some of them spend 2-3 months in dealing with compliance related problems. 5. Determine a deadline for processing files at each administrative phase. 6. Equip the Directorate General of Public Procurement (DGPP) with a computerized facility which would oblige budget managers to obtain the required approvals before making expenditure commitments. 7. Determine ceilings for procurement or public tenders which would be paid and subjected to audit (monitoring and control) by the DGPP. 8. Implement independence anniversary expenditure allocations in accordance with normal budgetary procedures. 9. Develop a database on public investment projects. 10. Take into account the multi-year nature of investment expenditures in observing procedures relating to program authorization and payment of budget allocations. 	<p>MEFBP/MPPD</p> <p>MEFBP</p> <p>MEFBP</p> <p>Prime Minister</p> <p>MEFBP</p> <p>MEFBP</p> <p>MEFBP/MPPD</p> <p>Prime Minister MPPD</p> <p>MPPD/MEFBP</p> <p>MEFBP/ MEFBP</p>	<p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p> <p>X</p>		

	11. Ensure a strict application of the statutory provisions relating to the certification of services rendered.	MEFBP/ DGCF	X		
	12. Ensure prompt preparation of monthly financial statements of the Treasury.	Treasury/ DGCP	X		
	Budgetary Control				
Improve Budgetary Control Efficiency	1. Speed up the establishment of a unit for coordinating various control organs whose initial task would be to establish a plan for eliminating redundant control organs.	Audit Court DGCF/DGMP/ State Controller	X		
	2. Regular dissemination of budget implementation reports of DGFC and DGPP and State Controller to the Auditor-General for Action.	Control Organs	X		
	3. Preparation of Manuals of Procedures for all control or audit organs.	Govt. /Parliament.		X	
	4. Institutionalize consultations between the Government and Parliament at the beginning and at the end of each fiscal budget year.	DGB			
	5. Develop an indicative list of all supporting documents needed to justify expenditures for use by budget managers in order to avoid rejections of spending proposals, the main source of budget implementation difficulties.		X		
	6. Speed up the publication of audit reports on the implementation of financial legislation in order to facilitate a prompt certification needed to reduce delays in the enactment of finance settlement legislation.	Audit Court Parliament	X		
	7. Expand resources put at the disposal of CDC, particularly of computer equipment.	DGCP		X	
	8. Institutionalize the publication of activity reports of the judicial agency of the Treasury.	Parliament	X		
	9. Institutionalize the practice of setting up parliamentary commissions of enquiry and publishing their conclusions.		X		

Strengthen Parliament's Capacity for Comprehending and Following the Budget	Improve budget presentation to Parliament by: <ol style="list-style-type: none"> 1. Presenting an integrated budget organized according to the functional classification based on "CFAP" nomenclature. 2. Transmitting information to Parliament promptly. 3. Provide parliamentarians with assistance intended to enhance their knowledge-base in the area of public finance. 	DGB CGP/DGB/CDC Parliament	X X X		
Improve budget dissemination	<ol style="list-style-type: none"> 1. Improve budget monitoring and evaluation system through a periodic publication of budget reports. 	MEFBP/MPPD	X		
MEFBP= Ministry of Economy, Finance, Budget and Privatization; MPDP= Ministry of Planning and Development Programming; DGB= Department of Budget; DGMP (Department of Public Procurement; DGCF= Department of Financial Control; DGCP= Department of Public Accounting.					

CHAPTER 1: INTRODUCTION AND BACKGROUND

Introduction

1. Despite favorable macroeconomic indicators, Gabon continues to have weak social indicators compared with countries with similar per capita incomes. Gabon is a middle income country with GDP per capita estimated at \$5,439 (in 2004), about four times that of most sub-Saharan African nations. However, its social indicators are among the lowest for countries in the same per capita income category. It ranks 123rd out of 177 countries on the 2005 Human Development Index of the United Nations Development Program. Gabon, as shown in the Bank's 1997 Poverty Assessment, has done little to reduce relative poverty or ensure sustainable development.

2. **Reducing poverty and improving delivery of social services to all households remains one of the major challenges facing the Gabonese authorities.** In 2002, Gabon adopted the Millennium Development Goals (MDGs), which provide international benchmarks for monitoring success in key development areas. Gabon also prepared an Interim Poverty Reduction Strategy Paper (I-PRSP) in 2003. Currently, it is preparing a Growth and Poverty Reduction Strategy (GPRS), in collaboration with civil society and the donor community. The success of Government's effort to achieve the Millennium Development Goals depends on the allocation of increasingly scarce resources to support its development objectives of improving human capital and creating the enabling environment for private investment and economic growth.

3. **The ongoing preparation of the GPRS has the potential to help direct the Government's policy setting and allocation processes to areas most likely to assist in achieving the MDGs.** Achieving the development objectives of the GPRS will require strengthening public expenditure management, including improvements in budget preparation and execution, as well as more effective prioritization of activities, more efficient provision of public goods and services, and improvements in public financial management. This report is intended to contribute to the GPRS process, by analyzing current practices in public financial management, and recommending ways to make it more efficient and effective in reducing poverty and improving social welfare.

Reform Agenda

4. **Since 1994, Gabon has undertaken fiscal and structural reforms with support from the International Monetary Fund, the World Bank and other development partners.** Some of these reforms have attempted to restructure budget procedures in order to strengthen the programmatic links between the budget and the Government's poverty reduction objectives. For instance, in 2002, a full-scale FSAP (Financial Sector Stability Assessment) was conducted. In the following year the Government introduced the concept of Budget Program Priorities (BPPs) and initiated the development of a Medium-Term Expenditure Framework (MTEF).

5. The Government has embarked upon a wide range of structural reforms to facilitate diversification of the economy and poverty reduction. These reforms have involved (i) reducing external debt and eliminating external and domestic arrears, (ii) improving revenue collection, particularly in the non-oil sectors, (iii) drastically reducing government participation in public enterprises, and (iv) promoting private investment. In the forestry sector, for instance, the Government has undertaken a number of important measures, including preparing a list of all forestry concessions, to ensure the proper payment of area taxes by concession holders, and adopting a time-bound action plan to restructure the national timber marketing company (SNBG) to relinquish its parastatal functions (i.e., lifting of its monopoly on export of logs) and limit itself to providing marketing services to small timber producers. The Bank has also been working with the authorities to reform other sector policies, especially with regard to transport, telecommunications, and the privatization of parastatal enterprises.

6. The Government has, in recent years, recognized the importance of transparency and good governance in promoting development, and has undertaken measures to advance this agenda. The National Commission Against Illicit Enrichment (CNCEI) began preventive operations in 2004 by organizing awareness-raising workshops with financial administrations in two subcommittees, the Prevention and Education Subcommittee and the Investigation Subcommittee. The Department of Public Procurement (DGMP), established in 2003, started its operation with an audit of the Road Maintenance Fund which has been reviewed by the Audit Court. DGMP has also undertaken an audit of public investments related to the Independence anniversary expenditures. In 2004, the Government endorsed the Extractive Industries Transparency Initiative (EITI), and is currently working with the Bank and the Fund to fully comply with the principles governing this initiative. A recent mission by the Fund on the Stand-by Arrangement (in November, 2005) concluded that progress is being made in the implementation of EITI. An independent auditor has been recruited to work with the Ministry of Finance on the template identifying oil-related payment streams to both the Government and the oil companies.

Country Background

7. Gabon has remained relatively stable and peaceful since independence in 1960. Gabon and Cameroon are the only countries in the Central Africa region that have not known civil war since independence. Despite the transition from one party rule to a multi-party system since 1990, it is essentially dominated by one political party. Its social and political stability has been assured through a patronage system financed by revenue from extractive industries and an economy with significant Government participation. About half of all salaried workers are employed by the state. In the evolving context of reduced oil production and oil revenues, this model of government is likely to face some tensions. However, the political stability enjoyed by Gabon since attaining independence has provided an environment where socio-economic development can be fostered by planned policy and institutional reform and judicious use of public resources.

Poverty and Human Development

8. **Gabon's social indicators remain weak for a middle income country.** Gabon has the fourth highest per-capita gross national income in Sub-Saharan Africa, and its human development outcomes are relatively good compared to the vast majority of Sub-Saharan Africa. However, they are low in comparison to those of countries with comparable levels of per capita income. Only four countries have a higher disparity between their Human Development Index (HDI) rankings and their GDP – South Africa, Botswana, and Gabon's neighbor, Equatorial Guinea. Figure 1 below shows that in 2004, Gabon had the third highest per capita income of the 14 countries with comparable levels of human development in terms of the HDI, whilst countries with far lower per capita incomes have been able to reach equal or higher levels of human development. Figure 2 reinforces this point by showing that in 2004, Gabon had the lowest adult literacy rate (71 percent) of fourteen countries with comparable per capita GDP, and the second lowest life expectancy of the same sample at 57 years.¹ This is far below the averages of 85 percent and 69 years respectively for those countries.

9. **A recent survey of welfare indicators shows that about one-third of the population is living in poverty.**² The proportion of poor is lower in urban areas, but because of the high concentration of Gabon's population in urban areas, a large majority of the poor are found there. The unemployment rate is estimated at 15 percent nationally (10 percent for men and 20 percent for women). About half of poor households are employed in agriculture. Lack of adequate housing and sanitation affects poor households in urban areas, while the rural poor suffer from the lack of clean and potable water.

¹ The 2005 Human Development Report shows a sharp drop in this figure, to 54.7 years.

² World Bank, "Core Welfare Indicator Questions (CWIQ) Survey," forthcoming.

Figure 1. Per capita GDP for Countries with Similar Human Development Indices

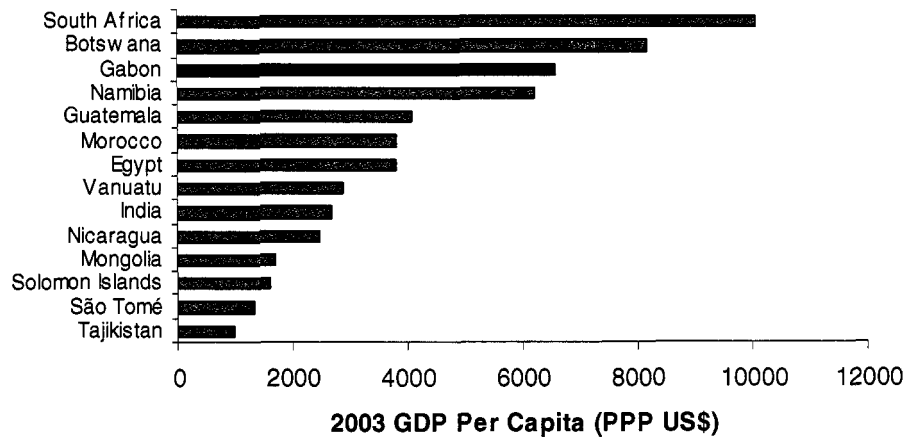
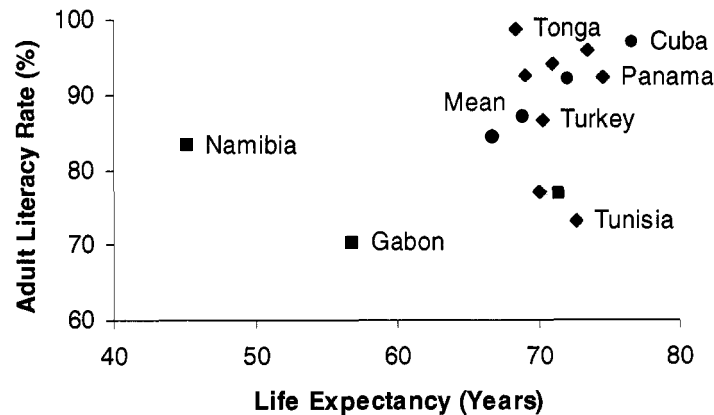


Figure 2. Human Capital Development Outcomes for Countries of Similar Per Capita GDP



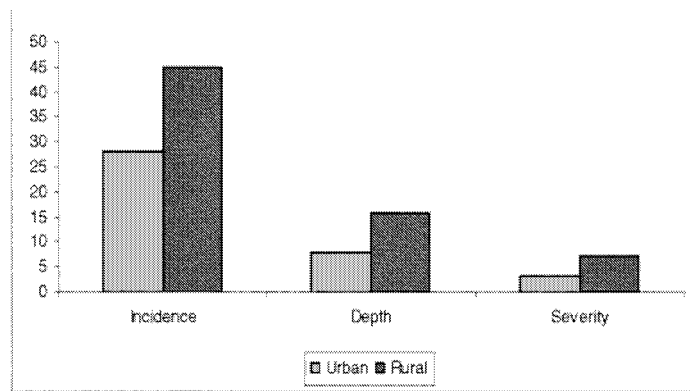
Source: Human Development Report, 2004.

Shown are all countries within +/- \$500 of Gabon's per capita GDP of \$6590 (PPP 2002), plus Botswana and South Africa.

10. In addition, **Gabon's public expenditures are relatively high as a proportion of GDP.** They amounted to 22 percent of GDP, compared to an average of 20 percent for the countries in this income bracket (IFS 2004). Between 1997 and 2001, Gabon's average Government expenditure was 32 percent of GDP (domestically financed), high in comparison to other oil-producing countries such as Cameroon (18 percent), Chad (19 percent), Equatorial Guinea (18 percent), and Nigeria (23 percent) over the same period.³

³ IMF, *Regional Economic Outlook*, April 2005.

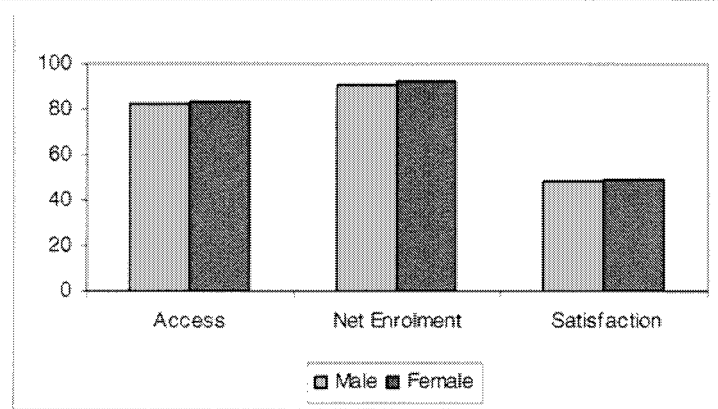
Figure 3: Poverty Indicators (percent of population)



Source: CWIQ Data 2005, Ministry of Planning.

than in the North and Southern regions. Slightly less than 50 percent of all households in the Southern region are poor, whilst this rate reduces to 26 percent in the Western region. Roughly 45 percent of all rural households are poor, compared with 30 percent in the urban areas. The depth and severity of poverty are also more pronounced in the rural areas.

Figure 4: Indicators of Primary Education by Gender (percent of population)



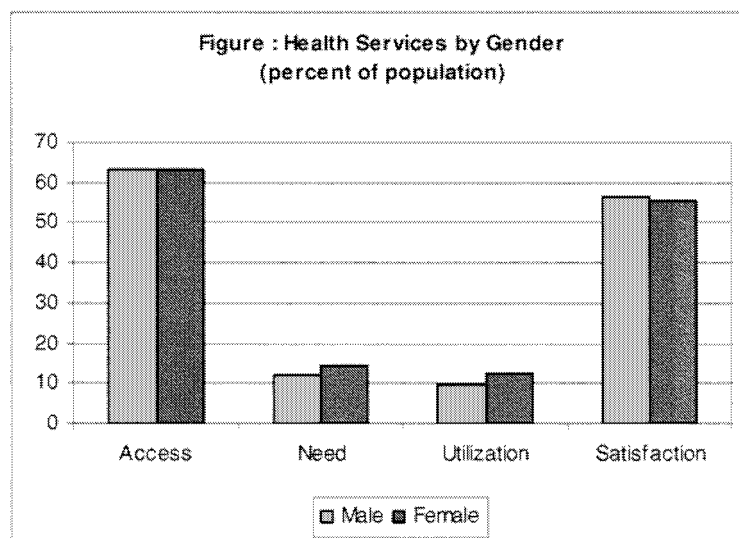
Source: CWIQ Data 2005, Ministry of Planning.

a middle income country at 71 percent, Gabon's child literacy and primary school enrollment rates are more respectable, at 85 and 91 percent respectively. Gender disparity in access, enrollment and satisfaction rates appears not to be a problem. Over the past few years, significant progress has been made in increasing the child literacy rate and reducing the gap between male and female enrollment rates. Of the total number of households with children in school, half were dissatisfied with the school system due to lack of books and other related school materials.

11. However, Gabon's high public expenditures have not been effective in delivering the desired human development outcomes. Disparities in the social conditions of different segments of the population have been observed, showing that females and rural households tend to be worse off than their male and urban counterparts. Geographically, social conditions in the East and Western regions of the country are generally better

12. Among the indicators of poverty in Gabon is the level of human capital development. Households with little or no formal education are more likely to be poor than those with secondary or higher levels of education (42 percent of poor individuals have no formal education, while only 10 percent of those with superior education are poor). Whilst adult literacy is low for a

Figure 5: Health Services by Gender (percent of population)



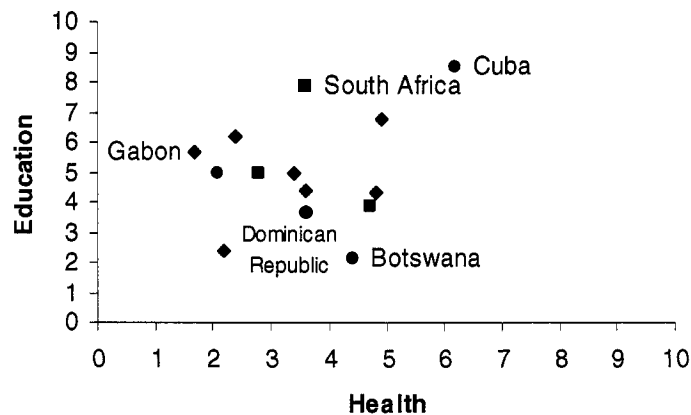
Source: Ministry of Planning.

13. While Gabonese have relatively good access to health care facilities, reported utilization of those facilities is remarkably low. Of those individuals using health facilities, slightly more than 50 percent are satisfied with the services received. Vaccination coverage is low (only 63 percent of children needing vaccinations have them) and so is the proportion of deliveries occurring in hospitals (less than 70 percent of deliveries take place in the hospital). These factors may

contribute to Gabon's relatively high rate of infant mortality (about 63 per 1000 life births in 2002 compared with the average of 54 per 1000 life births for middle income countries).

14. When one compares health and education spending in Gabon against twelve other countries in the same per capita income category, one finds that Gabon expenditure on health is the lowest as a proportion of GDP, at 1.7 percent, whilst education expenditure is above average at slightly below 6 percent of GDP. The low levels of health spending are likely to be related to poor health outcomes, whilst the relatively high levels of education expenditure imply that spending has been inefficient in ensuring basic literacy levels.

Figure 6: Public Expenditure on Health and Education as a % of GDP, 2001



Source: UNDP, Human Development Report, 2004.

Shown are all countries within +/- \$500 of Gabon's per capita GDP of \$6590 (PPP 2002), plus Botswana and South Africa.

Economic Growth

15. **Gabon's economic performance has been mixed over the last few years.** Following the devaluation of the CFA franc in 1994, Gabonese authorities embarked on macro-economic and structural reforms to help improve its economic performance. This was carried out under the auspices of a structural adjustment program which called for reforms to correct macroeconomic imbalances and improvement in the investment climate. Among the reform programs implemented were the introduction of a Value Added Tax and an overhaul of the trade regime. The World Bank supported the structural program with an Economic Recovery Loan and the IMF with a Stand-by Arrangement. The reform measures introduced after the devaluation contributed to GDP growth of about 3.7 percent between 1994 and 1997.

16. **Gabon underwent a severe economic recession in 1999 due to a decline in oil production (production fell from 15 million tons to 11 million tons), resulting in contraction of real GDP by 9 percent in 1999 and 2 percent in 2000.** Drastic cuts in public investment programs, coupled with weakening performance of the public corporate sector, contributed to the contraction in GDP. Following additional reforms in recent years, Gabon's economic performance has begun to improve. Growth in the non-oil sectors was 2.3 percent in 2004 and is estimated to have reached 3.7 percent by end 2005. Oil GDP is expected to have increased by 1 percent in 2005 with no significant drop in production. Overall GDP growth was 1.4 percent in 2004 and is expected to have reached 2.9 percent in 2005.

17. **Oil production has been the main source of economic growth,** accounting for 40 percent of GDP, 80 percent of export earnings, and about 50 percent of Government revenue in 2004. In that year, only 99.5 million barrels were produced, compared to

138.1 million barrels in 1998. Although oil production has declined by 33 percent during the last eight years, the high oil prices prevailing during 2003-05 led to significant investment and growth in oil-generated GDP, offsetting the low growth of 2.0 percent in the non-oil sector. As a result, overall GDP growth was about 1.4 percent in 2004. Gabon's oil sector is projected to decline gradually over the medium term and, without significant new discoveries, oil reserves could be depleted over the next 30 years. It is expected that increased growth in non-oil GDP will result from increased investment in the non-oil sectors. The non-oil GDP growth rate is expected to reach 3.7 percent (on average) during the period 2005 to 2008, compared to 2.3 percent in 2003. Projected high prices for oil and manganese will also help the external position. Standing at 13 percent of GDP in 2004, the current account surplus is projected to decrease to about 10 percent of GDP in 2006.

18. Gabon's heavy reliance on oil production and its vulnerability to fluctuations in oil prices have impeded economic policy management in the past and delayed socio-economic development. In previous decades, fiscal balances have largely mirrored the volatility in international oil prices, resulting in episodes of large, often wasteful public investments followed by deep economic crises. Oil production peaked in 1997, and non-oil growth has been weak. Sustaining GDP growth rates will depend on the Government's commitment to continue the rigorous application of prudent fiscal policy.

19. Gabon's reliance on oil is becoming a source of concern for the national authorities due to volatility of oil production and prices. The sharp increase in oil prices in the last two years triggered more oil exploration, using advanced technology to boost production and increase oil revenue. The Gabonese are now supporting the exploration of offshore fields and diversification of the economy to non-oil sectors, including gold and diamond mining, as well as increasing exploitation of other natural resources such as timber, manganese, and uranium.

Table 1: Medium-Term Prospects (Selected Indicators)

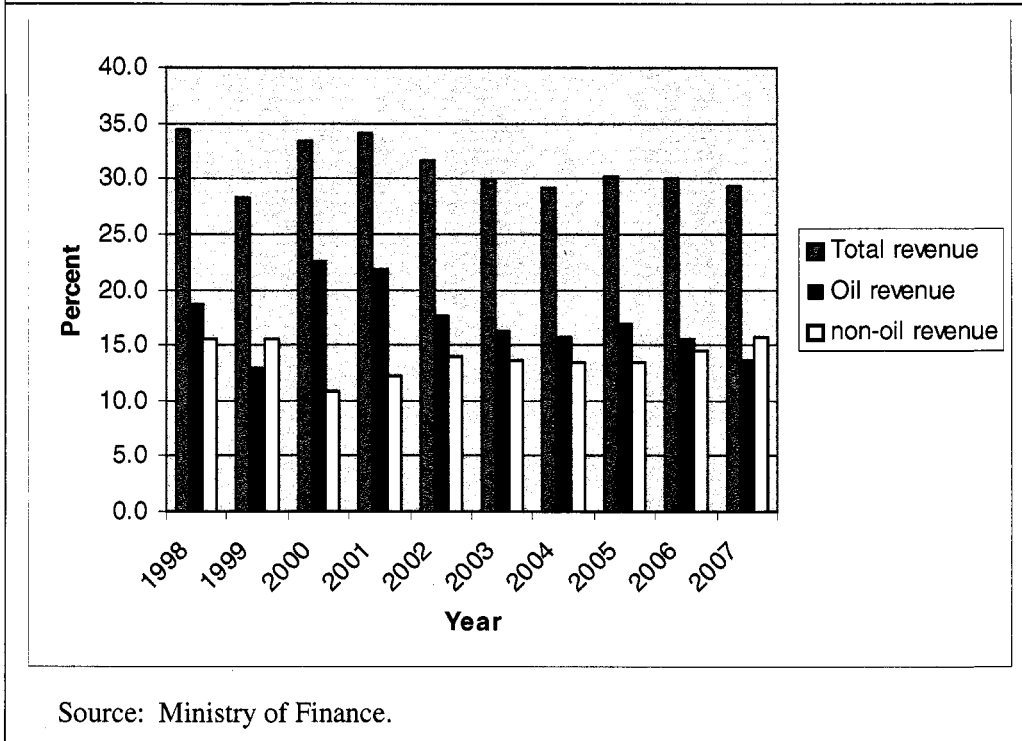
	2002	2003	2004	2005	2006
GDP at constant prices, annual growth rate	0.0	2.8	2.0	2.0	0.2
Oil –based GDP	-1.4	6.6	-1.0	-0.6	-8.6
Non-oil based GDP	0.6	0.8	2.3	3.0	3.5
Consumer Price Index (average annual change)	0.2	2.1	2.0	1.0	1.0
Government revenue (% of GDP)	31.4	29.8	29.1	30.3	30.0
Of which oil revenue	17.7	16.2	15.7	16.9	15.5
Government expenditure (% of GDP)	28.1	22.4	21.7	19.6	20.7
Current expenditure (% of GDP)	19.9	17.4	17.1	14.1	15.1
Capital expenditure (% of GDP)	4.0	3.7	4.4	4.0	4.3
Overall fiscal balance (Payment order basis)	3.5	7.4	7.5	10.8	9.5
External public debt/GDP	62.8	56.0	49.6	43.0	40.1
External public debt/Export	117.7	103.3	82.2	68.3	67.1
Debt service/government revenue	37.1	30.4	34.0	29.3	33.0
Debt service/GDP	11.6	9.1	9.9	8.9	9.9
Gross investment (% of GDP)	24.4	24.4	24.3	22.0	22.3
Oil price-per barrel (US dollars)	25	28.9	38.3	48.0	45.3
Oil production (millions of barrels)	91.7	98.6	99.5	98.1	88.7

Source: IMF Fiscal Tables.

Macroeconomic Management

20. **Gabon's track record for maintaining fiscal discipline has not been consistent.** There have been intervals of satisfactory progress followed by periods of sudden surges in Government spending, particularly associated with the political cycle, giving rise to large fiscal deficits and accumulation of external and domestic arrears (Table 2). However, in recent years, steps have been taken to strengthen budgetary management capacity, improve governance, accelerate the privatization process, and foster private sector development.

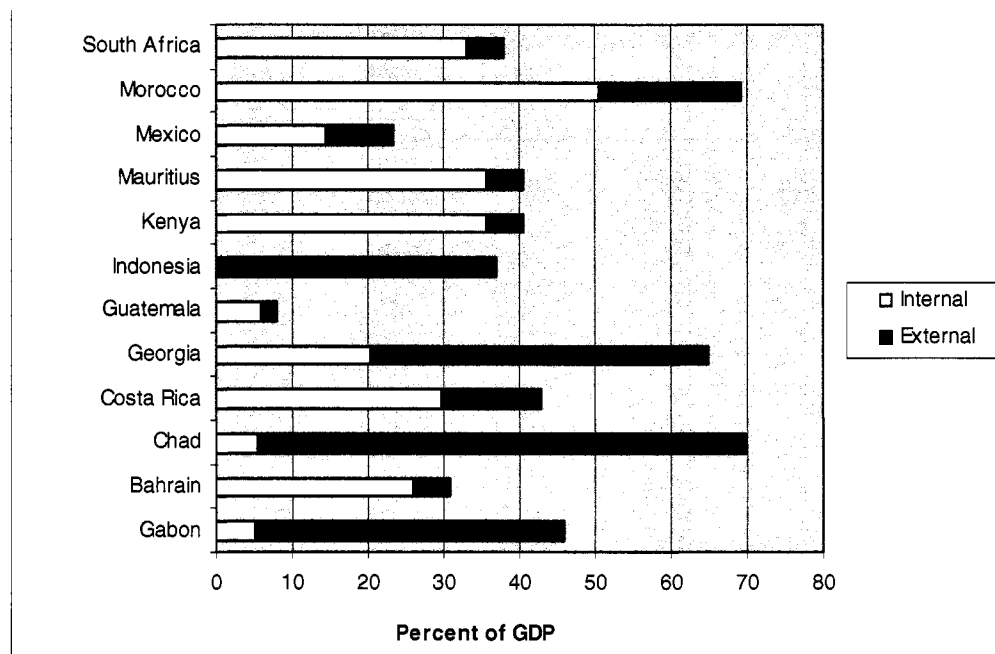
Figure 7: Breakdown of Total Revenue in Percent of GDP



21. **Recent revenue performance has been satisfactory.** High oil prices buoyed exports and Government revenue, resulting in large external and fiscal surpluses in 2004. Non-oil revenue also rose, and paired with expenditure control – including a reduction of the wage bill in nominal terms – contributed to a reduction in the non-oil primary deficit. Inflation remained low and non-oil growth accelerated, reflecting a broad-based economic recovery and satisfactory competitiveness. As a result, total public debt fell by over 10 percentage points of GDP to reach 62 percent of GDP at end-2004 and is estimated to have fallen further, to about 45 percent of GDP, by end-2005. Compared to other oil-producing countries in sub-Saharan Africa, Gabon has a larger non-oil revenue base and a smaller non-oil primary deficit – although it still has higher debt levels than most of them (Figure 8).

22. **The projected decline in oil production, if it occurs, is likely to have a substantial impact on the sustainability of the fiscal situation.** Gabon’s oil sector currently contributes 55 percent of government revenues. At the same time, given the high level of public debt (over 60 percent of GDP in 2004), interest payments, at about 7 percent of non-oil GDP and almost 30 percent of non-oil revenues in 2004, are high and pose a heavy burden on Government finances. The country has done well in reducing external debt. However, this effort needs to be continued for some time to come. Debt service requirements constrain the resources available to pursue development goals, including poverty alleviation.

Figure 8: Internal and External Public Debt Selected World Bank Client Countries (2002-2004)



Source: IMF International Financial Statistics and World Bank Data.

23. **Monetary policy in Gabon**, conducted by the regional central bank (BEAC) of which Gabon is a member, **has been relatively tight**. The BEAC (similar to the European Central Bank, ECB) has a fixed exchange rate regime, maintaining the peg of the CFA franc to the euro). Depreciation of the dollar vis-à-vis the euro led to the appreciation of the real effective exchange rate in 2002-2003. Increased activities in the non-oil sector, including forestry, are expected to have contributed to broad monetary growth of about 5.3 percent on the average between 2004 and 2005. High commercial bank liquidity and low inflation rate (which was held at 2 percent in 2003) are supposed to allow the central bank enough margins to reduce nominal interest rates.

24. **Helped by high oil prices, the external current account balance improved** from a deficit of 8.8 percent of GDP in 1999 to a surplus of 3.2 percent in 2000, before turning to a deficit of 1 percent of GDP in 2001, mainly on account of lower oil exports and higher external interest. Weak domestic demand, debt reduction, and higher oil exports helped widen the external current account surplus to 10.5 percent of GDP from 5.2 percent in 2002 and is expected to narrow further in 2006 and 2007. Government's decision to pay down debt as oppose to increasing consumption has helped stabilized domestic demand, resulting in the overall improvement in the external current account balance.

Development Goals and Priorities

25. **Gabon's national development strategy aims to tackle its poor human development outcomes by generating sustained growth and by using resources**

generated by increased growth to reduce poverty. The Interim PRSP, elaborated in 2003, and the NDP (National Development Program), prepared on a consultative basis, highlight the Government's commitment to ensure that the fruits of growth reach the poor, not only in the form of delivery of essential services but also in the form of productive employment. Health, education and infrastructure are considered as the priority sectors that need special attention if there is to be significant progress in the Government's effort to fight poverty. The GPRS, which is at the final stages of finalization, will have master plans for these priority sectors, including costing of priority programs. Implementing these programs will require progress in public expenditure management, including budget preparation, execution, the maintenance of sound accounting practices, and the maintenance of fiscal discipline.

CHAPTER 2: GABON'S ECONOMIC AND FISCAL SITUATION

26. In this chapter, we first examine the prospects for maintaining macroeconomic stability through strategic management of public revenues, expenditures, and debt. Then, we consider the effectiveness of budgetary allocations and the efficiency of public expenditures in relation to Gabon's development goals.

Fiscal Trends and Fiscal Discipline

27. **The first objective of any public financial management system should be macroeconomic stability through the maintenance of aggregate fiscal discipline.** This section focuses on aggregate trends in public revenues, expenditures and debt. In doing so, we assess the Government of Gabon's track record of fiscal discipline and the sustainability of the current fiscal situation. The section outlines the main medium-term fiscal challenges that Gabon will face under decreasing oil production, and considers possible areas of reform both on the revenue and the expenditure side.

28. **The Government of Gabon has begun to reassert fiscal discipline and move towards fiscal sustainability.** However, there is a long way to go. The analysis in this section highlights the importance of fostering the development of the non-oil economy by encouraging private sector development and the diversification of Gabon's economic base, as well as the importance of capturing a share of that growth in fiscal revenues from the non-oil sectors of the economy.

29. **Although the Government has a sophisticated model for projecting oil revenues, it does not have a standard method to make non-oil revenue projections.** The DGB plans to define in the months ahead a standard method likely to make it possible for more credible revenue projections to be made. As a result of declining oil revenues, the Government has prepared a strategy to optimize revenue collection from other sources. If this strategy is implemented as planned, it should help the Government offset the expected decline in oil revenues.

30. **While scope remains for further improvement in revenues, the main instrument for achieving development goals in Gabon resides in better management of public expenditure.** Given Gabon's history of unrealistic and often over-optimistic revenue projections, there is need to improve the quality of fiscal projections so that expenditures can be kept under control, and ensure that neither new arrears nor new debt are incurred. Similarly, it is important that the Government makes efforts to maximize the efficiency and effectiveness of public expenditures.

31. Given continuing progress by Government on reducing the external debt, **international and bilateral donors should also take a pragmatic approach to debt rescheduling**, ensuring that adequate resources can be allocated to meet Gabon's development goals.

Overview of Government Operations

32. **Recent public expenditure trends and fiscal policy adjustments have broadly reflected the impact of declining oil production** on Government resources, as well as an emphasis on reducing the public debt burden and arrears.

Table 2: Government Operations 2000-2004 as a Percent of GDP

	2000	2001	2002	2003	2004
Total Revenue	33.4	34.0	31.6	29.8	29.2
Domestic Revenue	33.4	34	31.5	29.8	29.1
Oil revenue	22.5	21.8	17.7	16.2	15.7
Non-oil revenue	10.9	12.2	13.9	13.6	13.4
Foreign Grants	0.0	0.0	0.1	0.0	0.1
Total Expenditure	21.7	30.8	28.1	22.4	21.7
Current Expenditure	18.7	25.0	19.9	17.4	16.4
Wage bill	6.0	6.4	6.4	6.5	5.9
Other current spending	6.8	9.8	9.1	6.9	6.6
Interest	5.9	8.8	4.4	4.0	3.9
Capital Expenditure	2.9	4.7	4.0	3.7	4.2
<i>Total Expenditure, excl interest</i>	15.9	22	23.7	18.4	17.7
Net Lending	0.2	1.1	0.5	0.0	0.0
Primary Balance, incl. grants	17.5	12	7.9	11.4	11.5
Overall Balance, incl. grants	11.6	3.2	3.5	7.4	7.5

Source: IMF.

33. **Since 2001, there has been a steep decline in oil revenues, only partially offset by an increase in non-oil revenues.** Domestic revenues fell by 5 percent of GDP since 2001. Underlying this has been an even sharper (7 percent) decline in oil revenues, which has been slightly ameliorated by an increase in non-oil revenue collection, representing approximately 2 percent of GDP. As a result, the Government has had to reduce public expenditures. Recurrent public expenditure in relation to GDP declined from 25 percent in 2001 to 16.4 percent in 2004, with the payroll cost component declining from 6.4 percent to 5.9 percent during this period. Though the wage bill has declined, the share of wage expenditure has increased. The composition of public expenditures suggests relatively high spending on wages and salaries, and on interest payments. Together they represent 60 percent of total current expenditure. Capital expenditure in Gabon is considered a residual budget item that fluctuates with revenue flows, such that Government investment rises when revenue, particularly oil revenue, is high, and declines when oil revenues go down.

34. Furthermore, the non-oil primary deficit is projected have risen to 8.5 percent of non-oil GDP at end-2005, reflecting weakening prospects for economic diversification. Although this figure declined from 8.2 percent of non-oil GDP in 2003 to 7.7 percent of GDP in 2004, total expenditures, which were 39.3 percent of non-oil GDP in 2004, remained high. In 2004, wages and salaries represented 10.8 percent of non-oil GDP and interest payments 7 percent of non-oil GDP.

Domestic Revenues

35. **Gabon's tax-based revenue structure compares favorably with that of other countries in the middle-income category.** The main sources of fiscal revenue in Gabon are oil royalties, custom duties, and domestic taxes. Gabon's tax system has evolved over the years, with the addition of a broad based value-added tax (VAT) complemented by excise and corporate taxes. In 2004, total revenue in relation to GDP was about 30 percent, of which non-oil revenue to GDP was 14 percent.

36. **A series of measures adopted between 1995 and 2003, particularly improvements in the tax system, contributed towards an increase in the GDP share of non-oil revenue** of 1.6 percent in 2003, with higher proportions expected in subsequent years. An IMF mission to Gabon in 2004 proposed further improvements in the tax system (Box 1). These recommendations are being implemented as a part of a broad reform agenda in which fiscal adjustments feature prominently. Customs and excise taxes in Gabon range between 5-30 percent and 20-32 percent respectively. The high end of both taxes applies to luxury items such as cigarettes and alcoholic beverages.

Box 1: IMF Recommendations to Improve Tax Administration

IMF recommendations in 2004 included:

- streamlining tax incentives and elimination of discretionary exemptions granted to specific businesses;
- simplifying the structure of VAT and limiting exemptions;
- strengthening the recovery of tax arrears, particularly VAT and forestry taxes;
- modernizing tax administration, including transferring all tax collection responsibilities from the Treasury to the *Direction Générale des Impôts* (DGI);
- increasing the number of tax auditors;
- widening the coverage of tax audits, and
- creating a large taxpayers unit.

Source: Benon, Olivier, Eric Lesprit, Maureen Kidd and Alain Jousten, « *Gabon : Amélioration du Système Fiscal et Modernisation de la Direction Générale des Impôts,* » Washington : International Monetary Fund, February 2004.

Source: IMF.

Table 3: Major Taxes and their Rates

	Tax	Taxpayers	Rate
1	Income Tax	Non-Resident Consultants	10%
2	Corporate Tax	Parastatals Resident Entities	25% 35%
3	Value-Added Tax	Resident and Non-Resident Entities	18%
4	Profit Tax	Resident Entities	20%

Source: Ministry of Finance.

37. **The rate of revenue collection has been unpredictable, however.** Total receipts varied between 116 percent and 89 percent of revenue projections. The GOG has found it difficult to predict changes in oil and non oil revenue. Although oil revenues have been particularly volatile, it appears that trends in non-oil revenues have been more consistent.

Table 4: Revenue Collections and Performance Against Budget

	2000		2001		2002		2003	
Total Receipts	1,207	116%	1,173	92%	1,088	102%	1,049	89%
Oil Revenue	814	105%	754	73%	609	110%	570	89%
Non Oil Tax Revenue	392	117%	420	95%	479	93%	479	87%
Total Arrears (IMF 2004)	-	-	96	-	108	-	-	-
Value Added Tax	-	-	19	-	27	-	-	-
Corporate Tax	-	-	15	-	20	-	-	-
Individual Income Tax	-	-	28	-	29	-	-	-
Other Taxes	-	-	35	-	33	-	-	-

Source: Ministry of Finance.

38. **Revenue projections have been over-optimistic, especially in recent years.** In particular, non-oil revenues, which appear to be more predictable, have been consistently over-estimated. In practice, revenue projections do not take into account the past performance of revenue collection. The appendices to the 2005 financial legislation only contain information relating to revenue collected during the first quarter of the previous year, and there is no reference to data collected in the years before 2004.

39. **In addition, not all revenue enters the Treasury accounts.** The aggregate fiscal data presented here may actually underestimate revenues. Some public revenue is collected by the units of some ministries and not by the public accountant and so is not included in Government accounts. Examples of these include the proceeds of fines collected by The Police Department, and some duties collected by the Department of Water and Forestry and the Department of Lands.

40. **Fluctuations in revenue require periodic amendments to the annual financial legislation.** The unpredictable revenue results have an impact on budgetary expenditures. This compels that the Government of Gabon to seek parliamentary approval for amendments to financial legislation and changes to initial budgetary allocations.

Expenditure Outcomes against the Budget

41. Aside from 2001, **the rate of execution of the budget is far below the budgeted level.** Table 5 below shows the rate of execution of the budgeted allocations. It suggests that only on very rare occasions are expenditures higher than the budgets allocated. This is due, not to recurrent expenditures where the execution rate stands at about 100 percent, but to investment expenditures. **Externally funded investments have particularly poor results.** This situation is likely due to a combination of factors, including lower than expected revenues, the fact that counterpart funding for externally financed projects often has the last call on revenues that are received, and poor project design and/or execution. In some cases externally financed projects are not well reflected in the budget, resulting in budget execution rates that are higher than 100 percent (see Table 5). As regards the national debt, it is important to highlight that, apart from 2001, when debt servicing exceeded the amount allocated to it in the budget, this planned expenditure is executed at levels half or lower than the amount set aside for it in the annual financial legislation.

Table 5: Percentage of Total Expenditure Execution

	2000	2001	2002	2003
Total Public Expenditure	60.1	98.6	71.3	66.8
- Personnel	99.9	101.1	102.0	101.1
- Non-Salary Recurrent	98.2	96.4	98.2	100.0
- Investment	78.0	84.3	83.9	87.6
. Domestic Resources	63.7	87.0	95.7	96.5
. External Resources	110.0	43.0	44.2	51.0
- Public Debt	43.8	105.8	51.0	45.3

Source: Ministry of Finance.

Debt, Arrears, and Sustainability

42. **A key reason why Gabon has been running a large budget surplus in recent years is the use of oil revenue to reduce external debt.** This has been reflected in the decline of the external debt/GDP ratio from 63.1 percent in 2001 to 49.6 percent in 2004. This ratio is projected to fall further to 42.4 percent in 2006. The proportion of total debt to GDP was 73.0 percent in 2003 but dropped to 61.9 percent in 2004; it is projected to decline further to 43.1 percent in 2006. Also, due to improved liquidity management, the

country's capacity to service commercial debt owed to banks and commercial entities has been enhanced. Gabon has one of the lowest ratios of domestic debt to GDP among developing countries, standing at less than 7 percent (see Figure 8, Chapter 1).

43. **During the past two years, the Government's overall debt management strategy has improved.** Most external debt is owed to official creditors (e.g. Paris Club). Since France is the largest source of bilateral debt, and in view of its strong and historical trade and monetary relations with Gabon, the potential risks of rollover and rising cost of debt have been lessened. In the aftermath of the IMF program, the Paris Club took cognizance of the country's improved macroeconomic and fiscal performance, and in June 2004, it reached an agreement with the Government of Gabon to reschedule the country's external debt. The Paris Club consolidated about Euros 717 million, which resulted in a reduction of debt service to Paris Club creditors from Euros 953 million to € 270 million. The average interest rate on Paris Club debt is 6 percent.

44. **Under the 2003 IMF program, the Government reduced considerably the float at the treasury, and cleared all external debt that cannot be rescheduled.** At the end of 2002, Gabon had a substantial stock of domestic and external arrears, equivalent to 15.6 percent of GDP. The domestic arrears are comprised of a large float at the treasury (equivalent to 5 percent of GDP), arrears on domestic debt obligations mainly owed to suppliers, and wage arrears to civil servants, resulting from the non-payment of wage adjustments for promotions and merit increases. External arrears included arrears to multilateral organizations and Paris Club creditors that cannot be rescheduled as well as arrears obligations on pre-2000 Paris Club agreements, on non-previously rescheduled debt, and to London Club creditors. The 2004-05 programs envisaged a further reduction of the float and of wage arrears, and the elimination of domestic arrears to suppliers.

Table 6: Domestic and External Arrears in 2002-03

(Billions of CFA Francs, Unless Otherwise Specified; End-Period Data)

	2002	2003 (Est.)
Domestic Arrears	258.6	179.3
Conventional Debt Agreements with Suppliers	25.4	21.2
Float at the Treasury	156.8	91.7
Other	76.4	66.4
Compensation for Political Violence 1/	15.4	10.2
Regularization of Civil Servants' Salaries 2/	61.0	56.2
External Arrears	278.1	325.9
Debt that can be Rescheduled 3/	184.1	321.1
Debt that cannot be Rescheduled 4/	94.0	4.8
Total Stock of Arrears	536.7	505.3
In percent of GDP	15.6	14.4

Source: IMF, 2004.

1/ Debt resulting from court rulings on compensation for property destroyed during the 1990 and 1993 riots.

2/ Represents the estimated stock of wage arrears arising from nonpayment of merit and promotion increases before 2002.

3/ Reschedulable obligations toward Paris Club and London Club creditors.

4/ At end 2003, it includes CFAF 4.8 billions of obligations due on nonreschedulable debt paid in early January 2004.

45. **A recent debt sustainability analysis underscores (i) the need to maintain fiscal discipline, even in the presence of higher oil production and prices; and (ii) the need to sustain steady growth in the non-oil sector and to translate this growth into higher non-oil fiscal revenues.** The size and composition of Gabon's debt represents the cost of earlier borrowing, but it also reflects a large non-oil fiscal deficit. This analysis is summarized below, while the detailed results are given in Annex A.

46. **The baseline scenario assumes that the current oil windfall is used to decrease the public debt and increase the assets of the Fund for Future Generations (FGF).** Current oil production remains constant for 3 years and declines thereafter. A slight fall in oil prices is also envisaged. Non-oil growth is assumed to be approximately 3.8 percent, higher than previous growth trends. The public sector wage bill is kept constant in real terms, whilst non-oil revenues and non-wage recurrent expenditure remain constant as a proportion of non-oil GDP.

47. **Given these assumptions, the baseline scenario shows a steady decline in the external debt-to-GDP ratio.** The analysis indicates that between 2005 and 2008, the external debt-to-GDP ratio would decrease by 16.5 percentage points to 23.6 percent of GDP. After 2008, the baseline scenario projects a further decline in the external debt-to-GDP ratio, mainly reflecting (i) continued buoyant oil revenues; (ii) steady growth of non-oil output; (iii) debt amortization in excess of new borrowing; and (iv) continued fiscal discipline. This scenario indicates that virtually all outstanding domestic public debt, including the float at the treasury and that with the regional central bank; could be eliminated by 2010. External debt could be totally eliminated by 2015.⁴

48. Despite this positive outcome, sensitivity tests⁵ reveal that **Gabon's external debt sustainability remains extremely vulnerable to external shocks, non-oil output growth, changes in the production and the price of oil, and to the degree of fiscal discipline.** The sensitivity analysis tests the effects of:

- Setting real GDP growth rates and nominal interest rates at their historical averages;

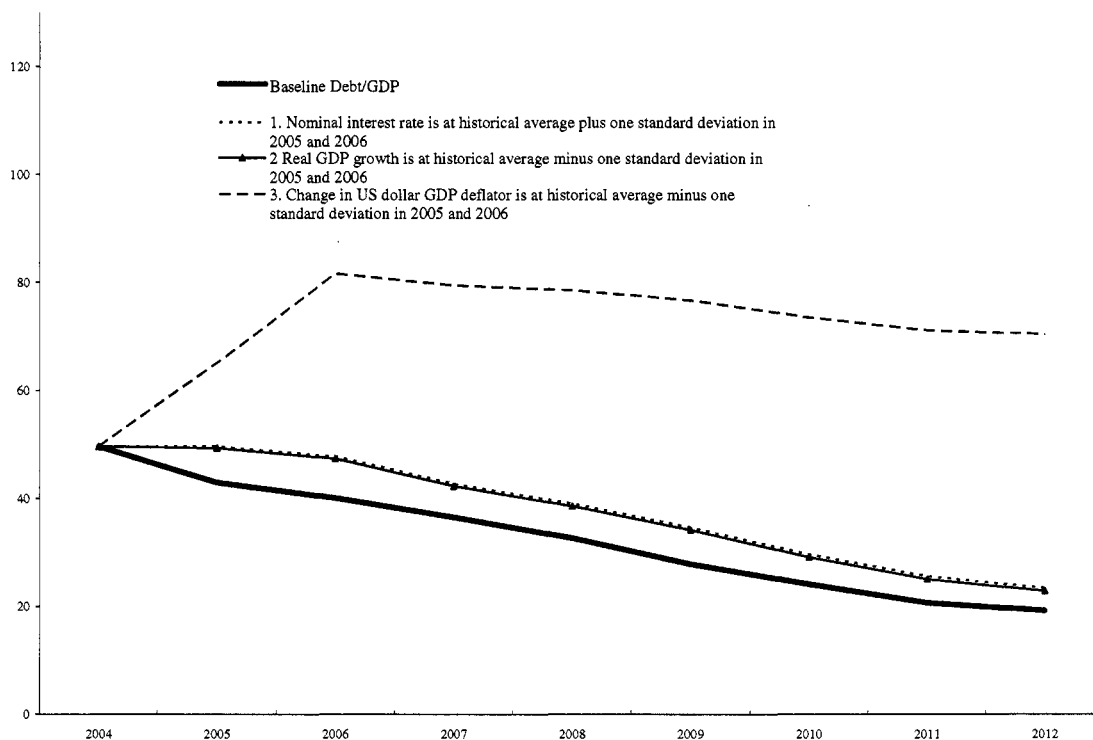
⁴ The domestic debt declines due to (i) the government's reimbursement of domestic debt to suppliers and public contractors; (ii) the repayment by the government of public enterprise debt to the social security system, wage bill arrears and to suppliers (assumed by the government in recent years in the context of the restructuring of such enterprises); (iii) the repayment to commercial banks of domestic debt; (iv) the repayment of virtually all unpaid float at the treasury; and (v) the repayment of statutory advances to the central government by the regional central bank. All these debts have relatively short maturities.

⁵ The test that combines the effect of setting all key variables at their historical values is not presented, since the relatively large average non-interest current account surpluses would dominate the results. Thus, the results obtained would not be realistic given the projected steady decreases in oil production.

- Sharp depreciation of the U.S. dollar;
- Shocks to the non-interest current account balance (budget overruns, due to less-than-expected revenues and/or unplanned expenditures);
- A combination of the above.

49. In each of the tests, which assume adverse shocks to each key parameter individually and jointly, the debt ratio declines more slowly and remains above the baseline.⁶ The analysis includes additional sensitivity tests to other external shocks, which lead to varying degrees of deterioration of the external current account⁷. The unsustainable paths for the debt-to-GDP ratio in the cases of a lower oil price and lower non-oil tradable GDP growth underscore the need for Gabon to adopt macroeconomic policies that promote economic diversification and the strong dependence of the baseline scenario on the (expected) higher oil prices.

Graph 1: Baseline Debt to GDP

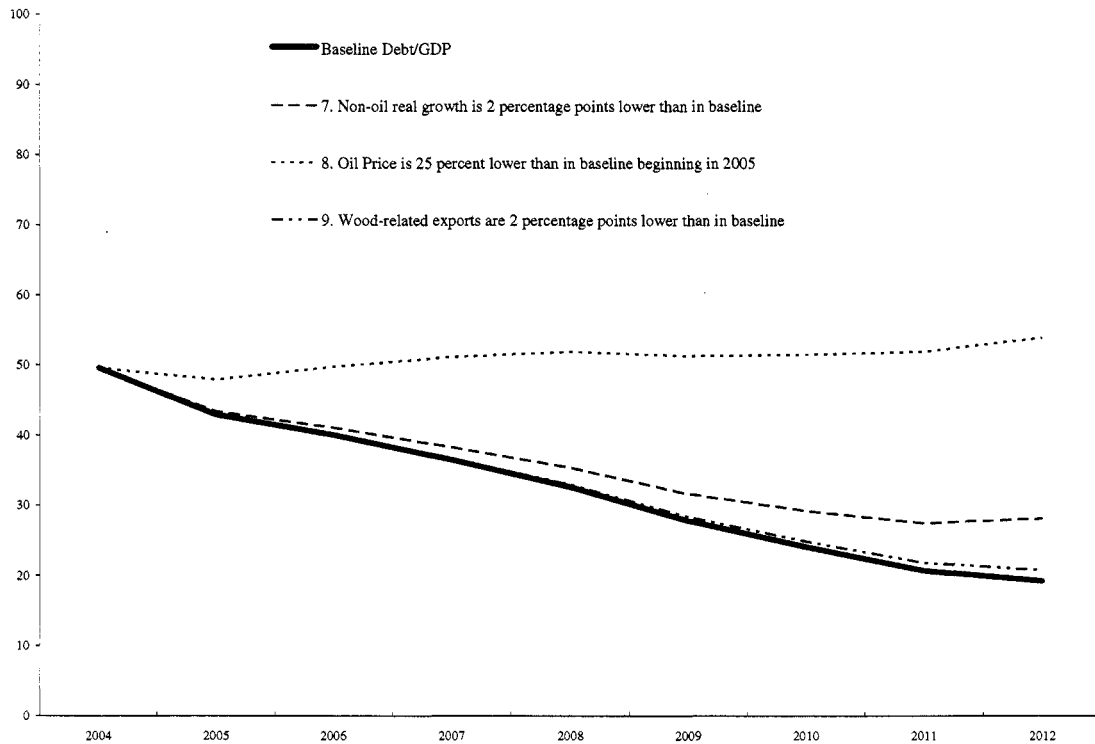


Source: IMF, 2004.

⁶ These sensitivity analyses consider adverse shocks of one standard deviation, lasting two years (i.e., transitory shocks) for each key parameter.

⁷ A temporary shock to oil production, a long-term shock to non-oil output growth, a long-term shock to Gabon's second export commodity, timber, and a long-term shock to the price of oil.

Graph 2: Baseline Debt to GDP 2



Source: IMF, 2004.

50. **The vulnerability of Gabon's overall public debt sustainability is underscored by examining the sensitivity of debt to changes in the aggregate fiscal position and the maintenance of fiscal discipline.** Shocks that affect the primary fiscal balance result in less public debt being retired. The sustainability analysis relating to fiscal discipline includes three additional sensitivity tests, namely (i) a higher wage bill than in the baseline; (ii) a higher level of transfers financed by the oil windfall; and (iii) the combined effect of a higher wage bill and oil revenues. The first shock assumes that the wage bill remains constant as a percentage of non-oil GDP (instead of remaining constant, in real terms, at its 2005 level). Given the high oil prices, such a policy may be sustainable in the short to medium term. In the long run, however, the higher wage bill generates unsustainable debt dynamics. The second shock assumes that the oil windfall is spent rather than saved, beginning in 2005.⁸ The effect of this shock is immediate, and long-lasting. Moreover, the debt dynamics caused by the higher expenditures make public debt unsustainable. Finally, the third test considers both higher oil revenues (on account of higher oil production) and, at the same time, a wage bill that remains constant as a percentage of non-oil GDP. Although the effect of the higher oil revenues dominates through 2014, the public debt-to-GDP ratio increases in the second half of the next decade. The implicit dynamics in this case also suggest that, if this wage bill policy is sustained, public debt would finally turn unsustainable.

⁸ The oil windfall is defined as the difference between fiscal revenues in the baseline scenario and the fiscal revenues that would result if Brent prices were US\$35 per barrel.

51. **To ensure a sustainable path for the government debt-to-GDP ratio over the medium term, both mobilizing more non-oil revenue, and containing and prioritizing the current level of expenditure, are essential.** As non-oil revenue already accounts for a relatively large share of non-oil GDP, the room for a large increase of non-oil revenue to offset the reduction of oil revenue may be limited. Gabon's revenue performance is well above the sub-Saharan African average and is comparable to those of upper-middle-income countries.⁹ Thus, while scope remains for further improvement in non-oil revenues, the main instrument of adjustment in Gabon must be found on the public expenditure side.

Use of Oil Revenues

52. **Gabon experiences both price uncertainty and production uncertainty in an environment where oil production is declining.** Gabon has to deal with the short run fluctuation of the revenues (the typical problem of stabilization), whilst ensuring that future generations are not left with a substantial burden of debt, once oil revenues have disappeared. In many countries, the preferred approach is to develop a stabilization fund. However, given the debt sustainability situation in Gabon discussed above, the priority in Gabon should be to reduce the external debt to a minimum.

Table 7: Rate of Spending of Oil Revenues (in %)

	2000	2001	2002	2003	2004
Oil Revenues Spent	48	85	80	54	53
o/w Recurrent Spending Net of Non Oil Revenues	35	59	34	23	19
o/w Development Expenditure	13	26	56	31	34

Source: Ministry of Finance.

53. Simulations of the volatility of oil revenues (Annex B) indicate that **no more than 20 percent of oil revenues should be consumed each year; the rest should be used to clear external debt.** The Government of Gabon now spends 50 percent of its oil revenues. If one considers recurrent expenditure alone, it now spends less than 20 percent. However, in view of the observed problems in the quality of public investment, capital spending cannot be considered as equivalent to saving.

54. The main implications of the analysis can be summarized as follows:

- *Gabon's economy remains highly vulnerable to changes in oil revenues (i.e. both oil production and oil prices).* Although Gabon's current fiscal stance appears sustainable, a drop of oil prices in the order of 20 percent from projected levels would generate financial gaps and public debt would become unsustainable.

⁹ See Keen and Simone (2004) for an international comparison of the level and composition of government revenue performances.

- *Sustaining steady growth in the non-oil sector through diversification is a crucial element of debt sustainability.* A low growth rate in the non-oil sectors will undermine fiscal sustainability.
- *Maintaining control of primary expenditure, and in particular the wage bill, is another crucial element of ensuring fiscal sustainability,* even with an optimistic path of oil production.
- *Government should continue to reduce oil revenue spending* (excluding debt service and saving), aiming to spend no more than 33 percent by 2007 and 20 percent by 2010. If the Government were to spend more of the oil windfall, as opposed to using it to clear debt and arrears, this would have a significant impact on fiscal sustainability.

55. **It is clear that, given the vulnerability of Gabon to oil revenue shocks public expenditure curtailment might be necessary.** The GOG may not be able to meet this target immediately, but a medium term target could be to ensure that only 33 percent of oil revenues are spent by 2007, with the rest devoted to savings and debt reduction. By 2010, the target of 20 percent could be reached. Since non-oil revenues are not likely to grow at a pace sufficient to compensate for this decline in available oil revenues, public expenditure (apart from debt reduction) may decrease in absolute terms. Though such a decline would have a negative effect on the growth of the non-oil sector, and consequently on the rate of growth of non-oil revenues, this effect may be offset by the benefits to the non-oil sector.

56. The effects of the proposed policy should be considered in the preparation of the Medium-Term Expenditure Framework for 2007. At that time, the policy could be adjusted in the light of actual experience.

Strategic Resource Allocation and Operational Efficiency

57. In this section we examine the degree to which resource allocation is strategic in Gabon, or allocatively efficient, and whether public expenditures, in the aggregate, are operationally efficient, in terms of the appropriateness of intersectoral and intrasectoral resource allocation. In so doing, we will examine whether public expenditure allocations have reflected the objectives of the Government in the past, or those emerging from the GPRS process. We then examine the overall efficiency of planned public expenditure, the economic composition of expenditures, and the links between investment and recurrent expenditures. Finally, we examine the reliability of the budget as an instrument for delivering the Government's policy, by examining actual expenditures in relation to the original budget.

Strategic Resource Allocation

58. **A key element of any budget is that it reflects the objectives of the Government.** It is therefore important to examine whether public resource allocation

and expenditures actually reflect the GOG's policy priorities, implicit or explicit. This presents two major problems in Gabon. Firstly, until recently there has been little attempt to articulate the GOG's policy objectives and priorities, and therefore it is only possible to extrapolate implicit policy priorities from past expenditure patterns. Through the development of the GPRS currently underway, the GOG is developing a set of policy objectives for the fight against poverty, shown in Box 2 below. What we can do therefore is to assess the appropriateness of past expenditure patterns in the light of these emerging objectives.

Box 2: Emerging Priority Objectives in the GPRS

The principal objectives established in the poverty reduction strategy fall into seven categories:

- Reducing unemployment;
- Stopping the decline of the rural economy
- Improving access to basic social services;
- Revitalizing social protection nets;
- Improving the livelihoods of the poor
- Promoting gender integration
- Promoting effective governance.

In this context, the education, health and urban sectors are given priority, and the relevant agencies are preparing strategies which will include costed expenditure programs.

Source: <http://www.finances.gouv.ga/memo.htm>

59. This brings us to the second problem: **The GOG presents its budget in administrative form.** That means that the budget is allocated according to spending ministries, departments and agencies (MDAs), and their corresponding administrative structures, rather than by the function for which the Government expenditure is allocated. A factor compounding this problem is the dual budget. The recurrent and investment budgets are presented separately, and it is difficult to link recurrent allocations and expenditures to their investment counterparts which are divided into multiple projects within each administrative unit. This means that it is difficult to assess the total spending on different sectors, such as education and health.

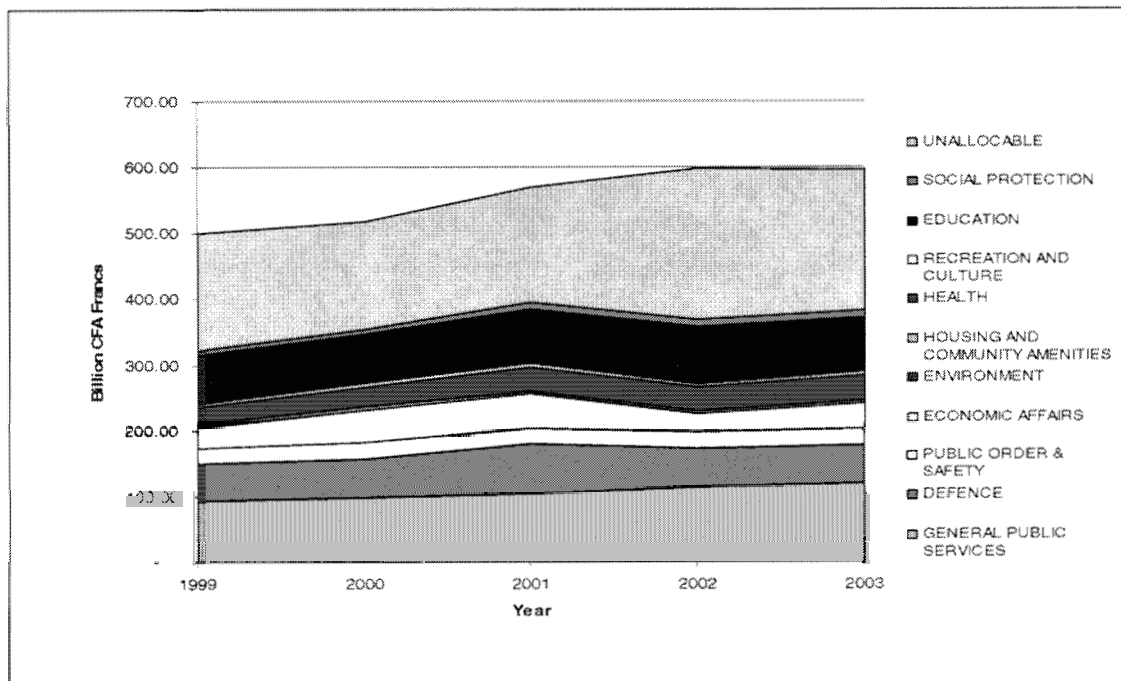
60. This structure creates problems for those preparing budgets, and for the legislature which is supposed to scrutinize the budget to ensure that expenditure allocations are in line with policy objectives. In addition, it becomes difficult to analyze the effectiveness of future spending plans, as budget projections are only annual, and are a highly unreliable guide to actual expenditure.

61. **We have attempted to categorize the different MDAs according to the standard major Government functions** as defined in the international standard classification of functions of government (COFOG) under the IMF's Government Financial Statistics (Box 3). Not all of the GOG's expenditure can be easily assigned to COFOG functions. For example, a large portion of the investment budget each year is

62. This exercise enables us to examine the degree to which past resource allocations reflect emerging GPRS objectives, and the likelihood that they will be effective in achieving those objectives. By grouping the budgets of MDAs by major government function, we can see whether functional allocations reflect these objectives. The COFOG classification includes education, health, housing and community amenities, which correspond to the emerging GPRS objectives of improving access to basic services. The objectives to address unemployment and improve rural livelihoods would fit under COFOG categories of economic affairs. Figures 9 and 10 below show the budget outturns by major COFOG function between 1999 and 2003, the latest fiscal year for which budget data are available.¹¹

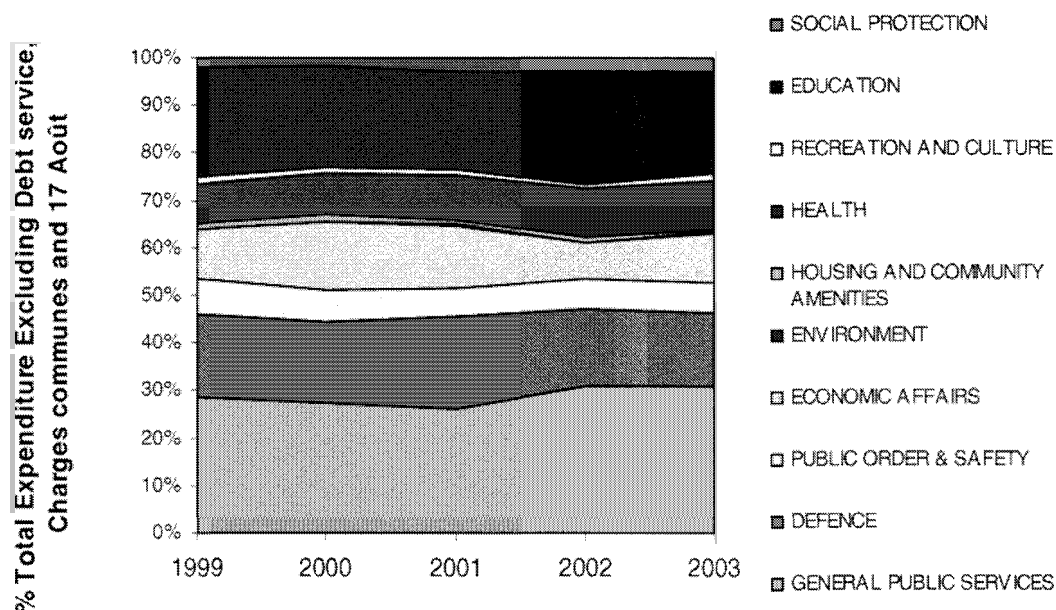
63. A large share of the budget is allocated to Charges Communes and Independence anniversary expenditures, which are not explicitly allocable to different functions of government. In 2003 these amounted to 35 percent of public expenditures net of debt service. The Independence anniversary expenditures accounted for 36 percent of the national investment budget, while Charges Communes amounted to 45 percent of the non-salary recurrent budget. Whilst these may have been perfectly legitimate expenditures, having no information on the functions on which Charges Communes and the Independence anniversary expenditures were spent, makes it difficult to assess the effectiveness of past allocations. **Hence, the overall conclusion of this section is that strategic prioritization of public spending is weak or at least unclear.**

Figure 9. Expenditure by Function of Government, Excluding Debt Service



¹¹ Details of the functional grouping of administrative units are given in Annex B to this report. Salary expenditures have been assumed to be proportional to actual budget allocations in 2003. The 2001 figures are based on approvals (*ordonnancements*) and not disbursements (*règlements*) – data on *règlements* for year 2001 are not available.

Figure 10: Sector Shares, Excluding Debt Service and Un-earmarked Expenditures



Source: Ministry of Finance.

64. **There has been no clear shift towards GPRS priorities.** Looking at the shares of public expenditure, excluding unearmarked expenditures, in terms of allocations to the functions relating to GPRS objectives, there has been no clear pattern of change over time. One can see that expenditures in the social sectors such as health and education have remained relatively static. There was actually a decline in the share of education spending, from 23 percent to 21 percent of public expenditure, between 1999 and 2003. There was a slight increase in the share of health spending, from 8 percent to 10 percent, (9.4 percent in the 2005 Finance Law), which would be consistent with a rebalancing between the health and education sectors. There has been little change to the allocations for social protection and housing and community services, whose allocations remained low at 3 percent and 1 percent of expenditures respectively.

Operational Efficiency

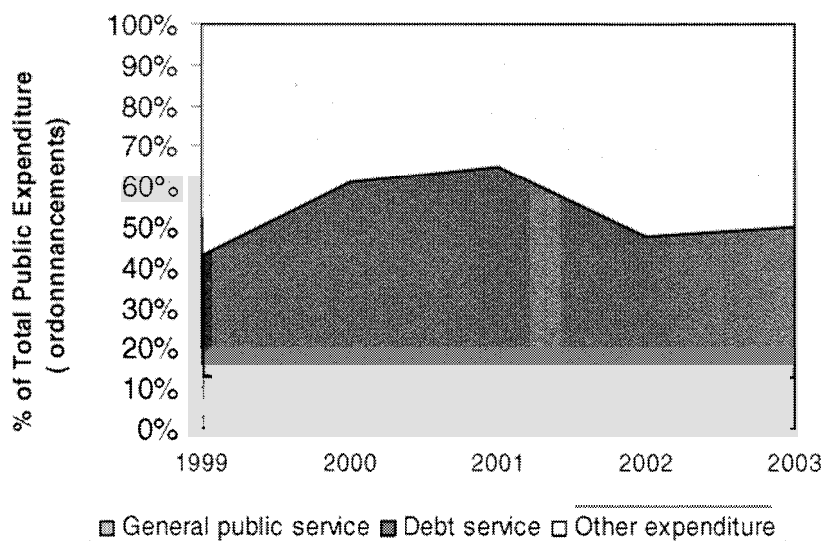
65. After analyzing whether Government spending is in line with government objectives, the next step is to examine the overall operational efficiency of public expenditure in Gabon. It is also a key to understanding whether or not public services are providing value for money. Here we analyze the potential for efficiency in service delivery by examining the economic composition of expenditures, and the coherence between recurrent (salary and non-salary) and investment budgets.

66. **The overhead costs of Government are increasing.** The rising share of general public administration in total public expenditure between 2000 and 2003, from 291

percent to 31 percent as a proportion of total expenditure excluding debt service and *charges communes*), is an area of concern. The increase in allocations to agencies included in general public administration (see Box 3 above) implies that a lower proportion of funding is available for GPRS priorities. If one combines expenditures on general public administration with debt service expenditures, they amount to a substantial share of aggregate public expenditure – over 43 percent in 2000, and more recently the share has been about 50 percent of public expenditure. (See Figure 11.) In other words, less than half of public expenditure has been available for allocation to GPRS priorities. This implies that public expenditures are likely to be both ineffective and inefficient in meeting Government goals.

67. **There has been relatively little change in the economic composition of expenditures.** The distribution of expenditures among major economic categories is shown in Figure 12. Aside from debt service, which has been erratic, the only significant shift in shares of major economic items was the reduction of investment expenditure in the budget, from 34 percent to 19 percent of non-investment expenditure between 1998 and 1999, as the GOG drastically cut public investment to stabilize the economy over that period. There was also a reduction in transfers and subsidies over that period.¹² As a consequence of these shifts, the share of expenditures on salaries and goods and services has increased.

Figure 11: High Overheads in Government Spending



Source: Government of Gabon, Budget Report and IMF Staff Reports.

68. **A high proportion of the GOG budget is spent on transfers and subsidies.** This reflects the GOG's history of intervention in the economy. In the past, such

¹² Transfers and subsidies include transfers to parastatal enterprises, and also university scholarships. This category does not include social welfare expenditures.

transfers have been as high as 29 percent of total expenditures, but they have since fallen to around 20 percent. The reduction of spending on transfers is largely due to measures taken to reduce funding for security and sovereignty (security and sovereignty expenditures were misclassified as transfers) in 2003.

69. **The relative shares between wages, other recurrent expenditures, and investment appear balanced.** (See Figure 13.) Wages and salaries take roughly a third of total expenditure, leaving room for recurrent expenditure on goods and services as well as investments. This distribution should not be precluding efficient delivery of Government services. However, one cannot say categorically that expenditures are efficient. These trends need to be examined in the context of sector expenditures, to see whether within those sectors, funds have been channeled towards service delivery inputs. An assessment of the efficiency of public expenditure is further hindered by the high allocations to *Charges Communes* and the Independence anniversary expenditures.

70. **General public administration receives the lion's share of non-wage current budget expenditures** (Figure 14). Furthermore, 30 percent of these expenditures were incurred by Parliament. This indicates that recurrent expenditures are not being allocated towards sustaining service delivery and maintaining the value of existing Government assets, but rather to less productive areas of expenditure. Aside from this, however, the balance between functional wage and non-wage expenditures seems sound. It is also important to note that **recurrent expenditures are relatively predictable**, with deviations in functional expenditures from the budget averaging only 6 percent in 2003. .

Figure 12: Public Expenditure by Major Economic Category

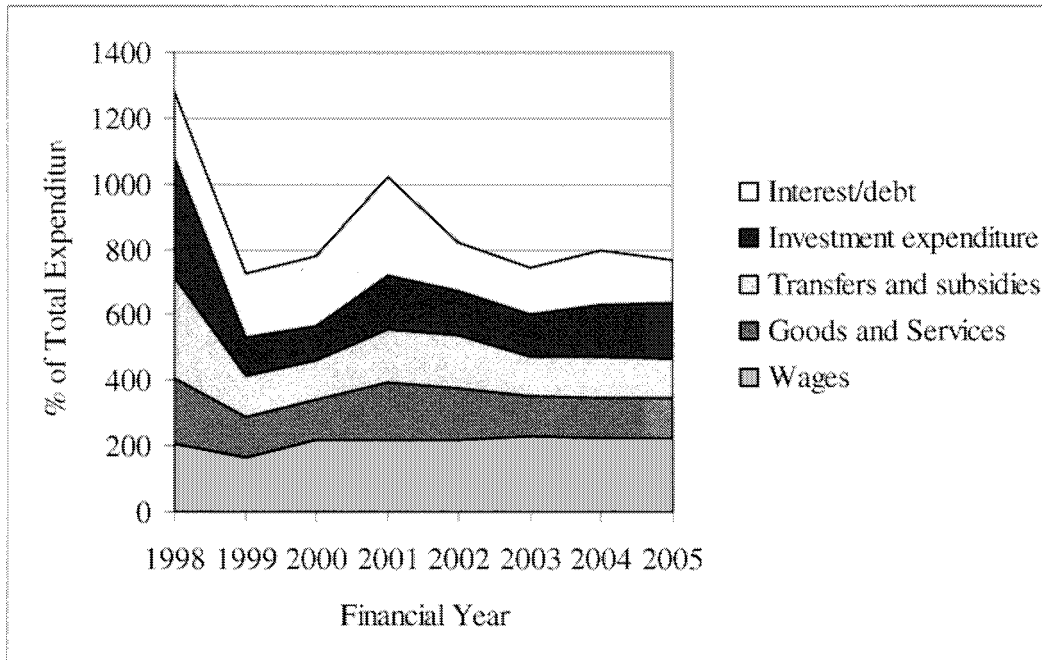
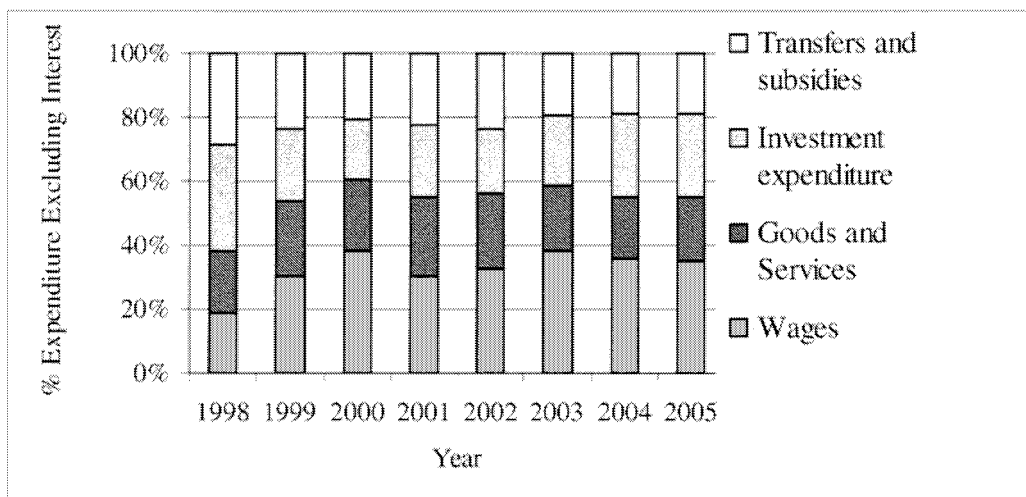
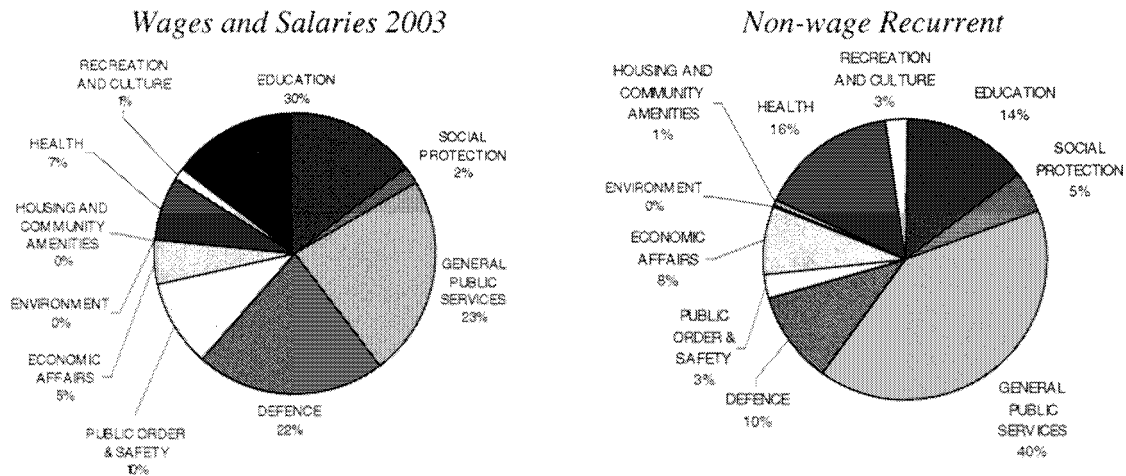


Figure 13: Relative Shares of Wages, Goods and Services, Transfers and Subsidies, and Investment Spending



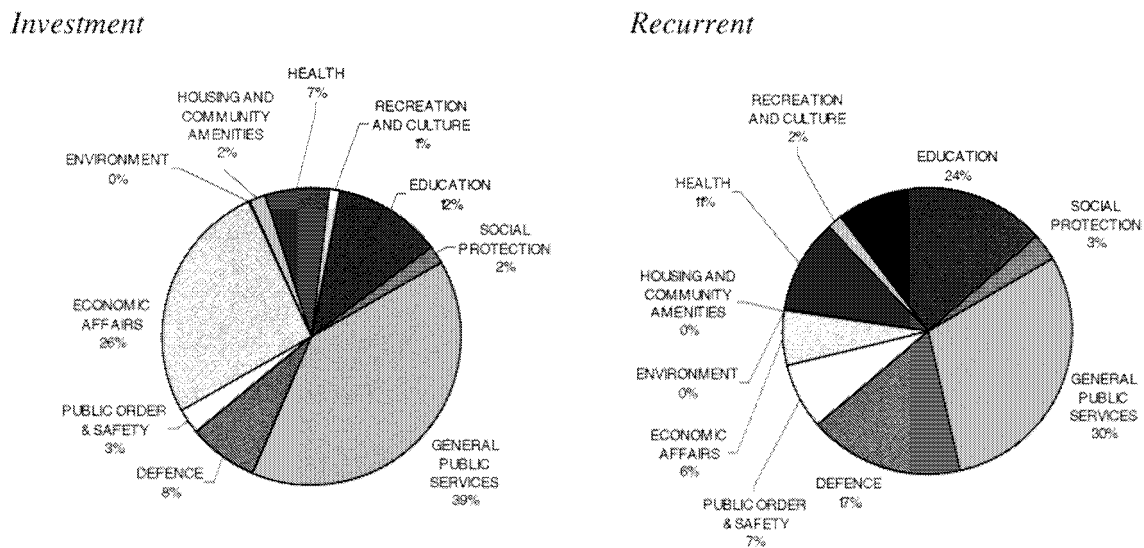
Source: Ministry of Finance/IMF Data.

Figure 14: Functional Shares in the 2003 Recurrent Budget



Source: Ministry of Finance.

Figure 15: Comparing Functional Shares in the Investment and Recurrent Budget, 2003



Source: Ministry of Finance.

71. The recurrent and investment budgets are prepared separately resulting in recurrent cost of investment projects not being adequately provided for and multi-year investment projects not being adequately funded. A comparison of the functional composition of the recurrent and development budgets (Figure 15) shows that social services account for 38 percent of the recurrent budget but only 23 percent of the investment budget. Expenditures for Economic Affairs appear more consistent across recurrent and investment allocations, although investment expenditures appear to be given a higher priority than current operation and maintenance costs. Again the high share of general public services in the investment budget is a cause for concern, taking up

nearly one fourth of the public investment budget excluding Independence anniversary expenditures.

72. Another factor which is likely to undermine the effectiveness of public expenditure is the weak link between investment decisions and the recurrent budget. Given the annual nature of the budget cycle, and the low implementation rate of projects, sector ministries do not and often are unable to plan in advance for the recurrent implications of investments. This issue is further discussed in Chapter 3.

Reliability of Expenditures

73. **In Gabon, the budget approved by Parliament does not represent a credible statement of the Government's policy intent.** A crucial area to examine is the reliability of the budget as an instrument for implementing Government policy. In Gabon, a large number of budget revisions are approved by Parliament during the financial year. The difference between the original and final budgets has varied substantially across financial years. However, the average variation in budgeted non-wage recurrent expenditures is large, averaging 37 percent between 1999 and 2003 (Table 8).

**Table 8: Variance in Ministry Non-Wage Expenditures (%)
Payment Orders vs. Original Budget (Excluding Interest)**

	1999	2000	2001	2002	2003	Average
A: Original vs. Revised Budget						
Non-Wage Recurrent Budget	65	16	39	22	45	37
B: Original Budget vs. Disbursements						
Non-Wage Recurrent Budget	71	35	28	31	113	56
Wage Recurrent Budget	n/a	38	n/a	32	52	41
Investment Budget	n/a	34	n/a	77	66	59
Total Budget					113	

Source: Ministry of Finance.

74. The variation of actual non-wage recurrent expenditures against the budget is even higher, at 56 percent. Wage expenditures are slightly less variable, while the execution of the investment budget is even more variable. The significance of the budget deviations is likely a combination of weak systems and institutional capacity in budget implementation (as discussed in Chapter 3), as well as the lack of commitment to adhere to priorities set out in the budget by the Government.

75. **The aggregate figures for budget variation disguise even greater variations in recurrent and development spending and deviations by administrative units are far higher than for the budget as a whole.** In two out of the three years where data is available, deviations in the investment budget were far higher than the recurrent budget, peaking at 77 percent in 2002. However, deviations were also high in the recurrent wage budget, at over 50 percent in 2003. There is no evidence that the situation is improving. In fact, the highest deviations were recorded in 2003, where total deviations against the budget were higher than the overall budget at 113 percent. A spending agency is very unlikely to have confidence that it will actually be able to implement programs and services as originally envisaged or to carry out investments in the approved PIP. This lack of confidence in the investment budget, in particular, was confirmed by interviews with managers in the health and education sectors.

76. **The functional, as opposed to administrative, breakdown of budget variations still shows high levels of variation,** despite the fact that the functional classification is highly aggregated (Table 9). This means that actual expenditures do not reflect the sectoral priorities in the budget approved by Parliament. This breakdown also shows that there are consistent over-expenditures against categories which cannot be allocated to budget functions. Importantly, it shows that expenditures in the education and economic affairs sectors averaged 33 percent and 46 percent below budget respectively, between 1999 and 2003, compared to an average of 20 percent in other sectors. Health fared somewhat better, with actual expenditures averaging 11 percent below budget.

Table 9: Budget Reliability - Payment Orders as a Percent of Original Allocation

	1999	2000	2001	2002	2003	Ave
General Public Administration	-77	-8	-11	-27	2	-24
Defense	-75	-11	41	-26	-2	-15
Public Order & Safety	-65	-21	-21	-49	38	-24
Economic Affairs	-61	-6	-49	-69	-45	-46
Environment	-22	59	-39	-7	-10	-4
Housing & Community Amenities	-80	-47	-54	-37	-7	-45
Health	-22	43	-2	-45	-28	-11
Recreation And Culture	-75	-26	-39	-39	18	-32
Education	-80	-8	-21	-40	-16	-33
Social Protection	-90	4	-14	7	-7	20
Charges Communes	192	63	12	-11	29	57
Total	-77	19	-9	-28	1	-19

Source: Ministry of Finance.

77. Table 10 shows budget deviations in the recurrent and development budgets by function in 2003. In that year, education, health and economic affairs performed well below average. In particular, the health sector showed significant under-spending against both the recurrent and development budgets. Economic affairs, which includes infrastructure spending, and education also suffered major under-expenditure in their investment budgets. Both recurrent spending and targeted public investment in these

sectors is likely to be a key in any future strategy for reducing poverty. Budget under-performance is therefore a matter of significant concern.

Table 10: Budget Reliability in 2003 – Payment Orders vs. Original Allocations (in %)

	Recurrent(*)	Investment	Total (*)
General Public Administration	-3	10	2
Defense	-5	5	-2
Public Order & Safety	-5	275	38
Economic Affairs	-20	-51	-45
Environment	-21	14	-10
Housing And Community Amenities	-25	5	-7
Health	-19	-46	-28
Recreation And Culture	2	156	18
Education	-1	-33	-16
Social Protection	0	-24	-7
Charges Communes	28	52	29
Average Deviation by Function	15	-15	1

(*) Excluding the wage bill (*Solde Permanente*).

Source: Ministry of Finance.

78. **In summary, it is clear that the budget is unrealistic.** Furthermore, GPRS priority sectors are not given priority during budget implementation, as their approved budgets are eroded relative to other sectors. It is imperative for the GOG to increase the credibility of the budget by improving its realism, limiting budget revisions during the financial year, and monitoring budget implementation. Without these measures, budgeted expenditures and financial controls are unlikely to prove effective at implementing Government policies.

Conclusion

79. **Currently, public spending in Gabon is not being effectively directed towards the Government's objectives emerging from the GPRS process.** This pattern of public expenditure is not always intentional. It may be a consequence of weak budget planning and management systems, which have not been geared towards ensuring efficient and effective allocation and spending decisions. This is particularly evident at the budget formulation stage - a combination of the absence of a functional presentation of the budget and the lack of a clear set of Government priorities, making it difficult to arrive at an effective and efficient expenditure allocation.

80. **There is substantial scope for improving both the effectiveness and efficiency of public spending in Gabon.** Several concrete actions can be taken to help improve the efficiency and effectiveness of public spending in aggregate:

- Develop a sectoral/functional presentation of the budget, so that the links between policies, priorities and the budget can be more clearly demonstrated.

- Present a unified budget, showing the linkages between investment and recurrent expenditure.
- Improve the realism of budget revenue estimates and the reliability of budget execution.
- Either reduce significantly the use of *Charges Communes*, or explicitly allocate and account for such overhead expenditures against specific functions of government.
- Expenditures relating to the Independence anniversary budget should be allocated among functions of Government and placed under the control of sectoral ministries.
- Develop and implement a strategy to reduce Government overheads by managing down the share of expenditures allocated to general public services. The increased fiscal space could then be allocated towards priority sectors.

CHAPTER 3: GABON'S PUBLIC FINANCIAL MANAGEMENT SYSTEMS

81. In this chapter, the strengths and weaknesses of Gabon's public financial management (PFM) system are assessed, starting with the legal and institutional framework governing public financial management, and then moving step by step through the phases of the budget cycle.

Legal and Institutional Framework

82. **Gabon's constitution and legislative documents provide an acceptable framework for the management of public finances.** The legal and institutional framework in Gabon for the management of public finances mainly consists of the Constitution (revised in 1991), Law No. 4/85 relating to annual financial legislation, and Law No. 5/85 which lays down the general rules governing the Government's public accounts. Based on the French legal system, these statutes are based on the following principles:

- (i) The separation of expenditure authorization function from the accounting function. The Minister in charge of the Economy and Finance (MINECOFIN) is the principal and only expenditure authorizing officer for the national budget and the Treasurer (TG) is the Government's Chief Accounting Officer.
- (ii) Budgetary unity: this principle implies that all of the Government's revenue and expenditures must be presented in one document.
- (iii) Budget specialization: The budget has to be implemented in line with the specific administrative purposes as indicated for each budgetary allocation.
- (iv) Treasury unity: this principle refers to the requirement that all public entities should deposit revenues into the accounts of the Treasury at the Central Bank.

83. In 1995, the organic law governing annual financial legislation was amended by Law No. 1/95, which stipulated the terms and conditions of submitting the Finance Bill to Parliament, the deadline for voting on the bill and for any proposals and amendments made by Parliament to the bill. Law No. 6/2002 laid down the conditions and deadlines to be respected in preparing the budget. Decrees No. 481 and 484 of July 19, 2002 laid down the conditions for making budgetary advances.

84. The legislation laying down general rules and regulations on public accounting was revised by Ordinance No 11/PR/94, stating clearly that MINECOFIN is the sole entity with budget authorization powers; and by Law No 1/95, which established the jurisdiction of the High Court of Justice (Supreme Court). In 2004, various decrees (i) clearly defined the duties of the Financial Controller, (ii) gave Secretaries General of ministries the status of principal managers of the budget and special treasury accounts, and (iii) streamlined expenditure implementation procedures.

85. **The laws in effect are based on traditional budget administration practices, not on management by objectives.** Pre-expenditure controls carried out both by the Financial Controller and the Treasurer-General play a very important part, whereas result-based management would put greater emphasis on post-expenditure controls. Also, with the introduction of results-based management, the current rule of specificity would be too rigid. In fact, this approach would give increased responsibility to budget managers, and therefore requires giving them greater autonomy in managing their budget.

86. Gabonese authorities are aware of the need to orient public financial management toward a system with well-defined objectives that can be measured, using performance indicators. A planned reform program aims to put in place a medium-term expenditure framework (*Cadre de dépenses à moyen terme* - CDMT). Five ministries have been selected to launch this reform: education, health, defense, housing, and public works and equipment. The Government intends to start implementing this program beginning in fiscal year 2007.

Budget Preparation

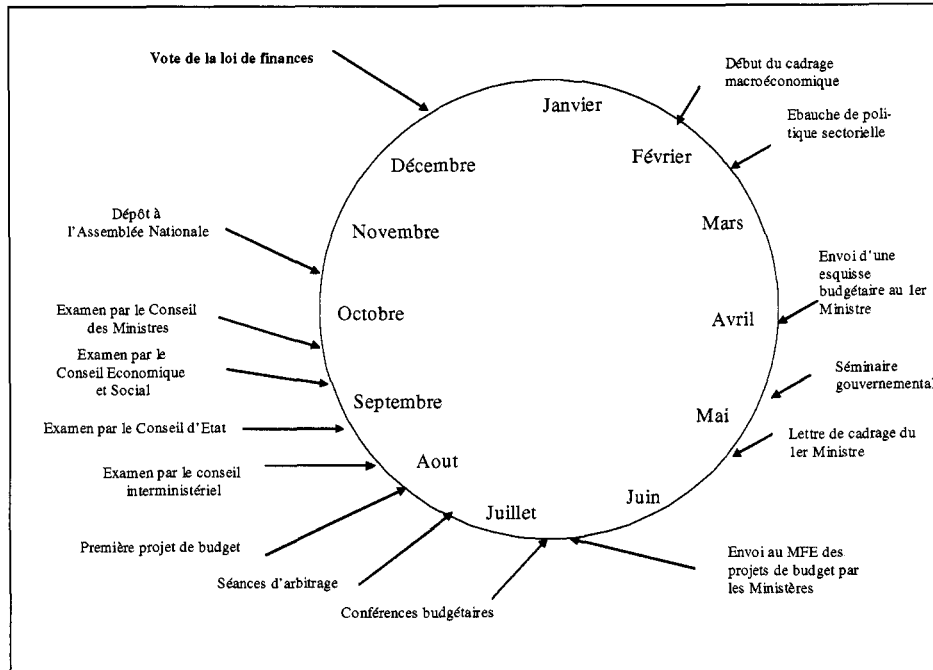
87. **An effective budget formulation process is crucial if the Government's policy objectives are to be translated into resource allocations and actions on the ground.** Here we give an overview of the budget formulation process, applicable to both investment and recurrent budgets.

88. There are four key stages in the budgeting process in Gabon, which take place between January and October of each year:

- **Macroeconomic Framework and Draft Budget.** The first phase, which outlines general guidelines and prospects, is an internal phase in MINECOFIN and the Ministry of Planning (MINIPLAN). During this phase, preliminary sectoral allocations are established and macro-economic projections are drafted. At the end of this phase, a draft budget is submitted to the Prime Minister. This takes place between January and mid-May.
- **Budget Negotiations.** The second phase begins in mid-May with a Government seminar on budget policy. At the end of this seminar, and not later than 31 May, the Prime Minister forwards budget guidelines to the Cabinet. From mid-June to mid-July, budget conferences are in principle held under the joint chairmanship of MINECOFIN and MINIPLAN, in the presence of the ministers concerned. Budget conferences end by drafting a Finance Bill at the end of July.
- **Examination by various review bodies.** The third phase is devoted to the examination of the Finance Bill by the Inter-ministerial Council (early August), the State Council (mid-August), the Economic and Social Council, a high level advisory group (early-September), and the Council of Ministers (mid-September).

- **Examination by Parliament.** The fourth phase consists of Parliament's examination of the bill. The Finance Bill, including its explanatory reports, must be submitted by the Government to the National Assembly bureau not later than 45 days after opening of the second ordinary session or the last quarter of the year.

Figure 16: Budget Preparation Cycle



89. **Although the timetable presented above appears logical and well organized, the Government has had difficulty respecting it in the past.** Its observance has been hampered by late production reports on budget execution for the previous financial year and late submissions by line ministries, and especially by the parallel preparation of the recurrent and investment budgets by the Ministries of Finance and Planning. MINECOFIN has proposed changes to speed up the process, and the timetable has been better respected.

90. **The preparation of a Public Investment Programme (PIP) was reintroduced in 2004.** The PIP provides a three year indicative plan which may evolve over time and has a seven-year horizon. The GPRS is expected to provide a better framework for future investment planning.

Issues in Budget Preparation

91. As the formulation of the macroeconomic framework for the budget begins in January, **the results of the previous year's budget exercise are not used to make projections for the future budget.** In fact, the figures proposed in the current year's

Finance Bill can only be compared to parts of the preceding Finance Act, and not to the actual amounts collected or paid out. Recurrent budget allocations are based on incremental changes to the previous year's budget. The level of investment expenditure is set through a process of negotiation that makes budget planning a particularly frustrating experience for line ministries. There are no medium term budgetary ceilings for line ministries, either for recurrent or development spending.

92. **A key problem in the budget process is that the recurrent and investment budgets are prepared separately.** The Directorate General of the Budget (DGB) of MINECOFIN is in charge of the recurrent budget, while the Planning Commission of MINIPLAN is responsible for the development budget. This results in the organization of separate budget meetings.¹³ Investments are often planned without making provision for the corresponding recurrent costs. Moreover, some expenditures (e.g., salaries) appear in the investment budget whereas by nature they are recurrent expenditures. The full budget is realized through a mere juxtaposition of two statutory documents.

93. **Budget estimates for the wage and salary bill are not disaggregated by sector.** Rather, they are based on total numbers and projected turnover. Only the Ministry of Public Service (*Fonction Publique*) can recruit new personnel, with the approval of MINECOFIN if there are sufficient funds. The Ministries of Education and Health are the principal employers. Recruitment takes place only when there is a need to replace employees leaving the public service. For more transparency, MINECOFIN has started to request line ministries to submit three-year recruitment plans. There is now a centralized public service personnel database, facilitating the preparation of the payroll budget. Despite the fact that salaries depend on limited allocations, personnel expenditure sometimes exceeds the allocated funds.

94. **The investment budget is prepared in a more consultative manner.** The Planning Commission organizes two budget conferences in the course of the preparation of the investment budget. The first establishes priorities among the many projects proposed by ministries. The second is devoted to an examination of the selected projects.

95. **Generally speaking, however, the investment budget is not prepared in a sufficiently rigorous manner.** The Planning Commission considers that the projects presented by ministries are not well prepared. Budget estimates are often not based on well-identified needs. Evaluation procedures are inadequate, and estimated costs are often revised in the course of execution. In addition, the lack of procedural discipline motivates some ministries to contact parliamentarians directly, to instigate changes in their budgets. Thus, new projects may be inserted into the process late, without proper analysis of feasibility or relevance. The absence of predictable funding for the investment budget for future financial years undermines the incentives for spending agencies to plan the use of resources effectively to achieve results over the medium and the long- term.

¹³ For the 2006 budget, however, the Ministries of Finance and Planning held joint budgetary conferences.

Budget Presentation

96. **Current budget documentation is complex and confusing.** The budget document includes several volumes: the finance bill, the economic and financial report, an annex showing the operating budget, an annex showing the investment budget, and various other appendices (subventions to local authorities, subvention to the National Social Insurance Fund). The budget of the Road Maintenance Fund, a special treasury account, is also presented as an annex. Other special treasury accounts are not included in the budget package.

97. **The current presentation of the budget makes it difficult to link policies and resource allocation.** In fact, the budget is separated by major economic categories, and by administrative recipient unit. However, there is no functional classification, nor any link between recurrent expenditures and development expenditures. This makes it difficult to evaluate inter-sectoral allocations and to determine the relationship between these allocations and priority sectors. The budget is therefore resource-driven rather than objectives-driven. A functional specification, based on the COFOG classification system, will play a key role in ensuring that GPRS priorities are reflected in the budget and that the associated programs will be executed. Work is ongoing to make the current budgetary specification comply with international norms.

Budget Approval and Public Information

98. **Parliament receives, in addition to the draft finance bill, two separate budget documents: one dealing with recurrent operations and the other with investments.** The Ministers in charge of the Economy and Planning present the general framework of their draft budgets before the Finance Committee. Then, each of the line ministers is heard in turn. The Finance Committee of Parliament is composed of all 120 parliamentarians. The Chair of this Committee considers that the members of his committee have the necessary skills to examine the finance bill. He also believes that the time set aside for the examination of the budget estimates is sufficient. The draft budget is released to the public and commented upon by the print media. Parliamentary plenary sessions are re-broadcast on radio and television.

99. **Parliamentarians are not satisfied with the way budget proposals are presented to them.** They view them as not detailed enough and therefore not adequately transparent. They also believe the draft budget could be better presented, to make it easier for parliamentarians to weigh the relevance of proposals. There is insufficient cooperation between parliamentarians and technical advisors. The representatives of the finance committee of Parliament are of the view that it might be desirable to involve parliamentarians at an earlier stage in the budget preparation process.

100. **Parliament does not have enough communication with the Audit Court (*Cour des Comptes*),** which intervenes in the preparation of the settlement law. Parliament

considers the annual report of the Audit Court on budget execution to be an essential document input for its work.

Budget Execution

101. **Law N° 5/85 of July 27th, 1985, which regulates the Government’s public accounting system, is currently under revision.** This law outlines procedures governing financial and accounting transactions. It states: “the Minister in charge of Finance is the sole authority (*ordonnateur unique*) of the Government’s general budget and special treasury accounts.” According to the provisions of this legislation, the budget manager of each ministry can commit funds for specific expenditures and authorize payments. However, disbursements can only be made by the Ministry of Finance. Participants in executing the budget include: the budget manager of each recipient ministry (who is an employee of each ministry), four departments of the Ministry of Finance,¹⁴ and the Ministry of Planning, responsible for the investment budget. The general rules and regulations on public accounting outline the four phases of public expenditure: commitment (*engagement*), authorization (*liquidation*), payment order (*ordonnancement*), and disbursement (*paiement*). The reform of Law 5/85 should help to eliminate duplication between services, simplify administrative procedures, and hold participants accountable for their performance.

Issues in Budget Execution

102. **The start of the fiscal year is often delayed.** The period for budget execution, in theory, starts on January 1st of year N and ends on March 31st of year N+1(end of the budget extension). In practice, it begins from the time the budget becomes operational (mid February in 2005). The delay in the start of the fiscal year appears to be due to the difficulty faced by some computer systems in managing two fiscal years simultaneously.

103. **In addition, commitments are discontinued early because the expenditure process takes so long.** Therefore, expenditure commitments can only be made during 10 months. This short period, in conjunction with the multiplicity of approvals (Table 11) can only result in poor quality public procurement and foster non-compliance with regulations. Although reducing the budget extension period will have a positive effect, making it possible to submit the Government’s accounts to the CDC¹⁵ within the prescribed time frame, it would be desirable to gain a few weeks of budget execution at the beginning (in January) and at the end of the year (in November).

104. **Newly-appointed ministers may modify or even terminate investment projects that have not yet been completed.** This situation results in a low rate of execution of planned public investments, particularly those funded with external

¹⁴ The Budget Department (DGB); the Financial Control Department (DGCF); the Treasury Services Department (DGST), for equipment and personnel expenses; and the Public Accounting Department (DGCP), for debt service payments.

¹⁵ Section 31 of law No. 4/85 provides that the settlement law shall be accompanied by a report from the account judge indicating conformity between administrators’ accounts and public accounts.

resources. In this manner, the Government has not always respected its commitments to suppliers and contractors. This can cause serious financial problems for the businesses involved.

105. **The status of project execution is not well known.** The Planning Commission, which is responsible for the monitoring and evaluation of investment projects, resumed this activity in a more consistent manner in 2004. A monitoring and evaluation mission was recently conducted by the four divisions of the Planning Commission. The report has not yet been made available.

Payment Procedures

106. **The same budget execution process applies,** irrespective of the nature of expenditures. (See Table 11, indicating the eleven steps involved in the execution process). *Payments by the Treasury* are made periodically, on the 5th, 15th and 25th of each month. In principle, payments are made through inter-bank transfers. There are a few exceptions, such as field allowances and the salaries of Government employees in areas where there are no banks or where wages are so low that employees cannot open bank accounts.

Table 11: Path for Operating Expenses

Supplier	Budget Administrator (Implementing Agency)	Budget Department (Central Accounting Service) (DGB)	Financial Control Department (DGCF)	Treasury
Pro-Forma Invoice (1)	Commitment Order (2)	Commitment Voucher (3)	Commitment Approval Commitment Confirmation Voucher (4)	
Service Delivery Invoice (6)	Order for Service (5) Certifies Service Rendered (liquidation) (7)	Payment Order (8) Documentation Summary(10)	Payment Approval <i>Génération de la journée comptable</i> (9)	Approval Accounting Payment (11)

107. **The spending procedure is complex and long.** The number of offices involved is excessive, both in terms of the number of relevant departments and the number of

offices or officials involved within each department. However, expenditure files are tracked by computer, and the list of documents needed for commitments and payments order is available on the Financial Control Department's (DGCF) Website. Suppliers are informed about the status of their accounts on the Internet (www.trésor.ga).

108. **Payment performance has recently improved.** With respect to payment deadlines, the Treasury Department has for some time been committed to making payments within a period of 120 days from the date the payment order was issued. This represents a remarkable improvement over past performance and should help restore the suppliers' confidence vis-à-vis the Government.

109. **The role of the Budget Department (DGB) should be more limited.** The involvement of this Department may be explained by the need to present, within an appropriate time frame, complete and straightforward administrative accounts. Nevertheless, it has become necessary that budget managers, who initiate expenditures, be authorized to manage these administrative accounts. Thus, the commitment voucher provided by the DGB could be eliminated, and the preparation of payment orders could be delegated to the spending ministries, at least for the "big" ministries with appropriately skilled personnel.

110. **The lack of multi-year expenditure management has a negative effect on the continuity of Government action, especially in the area of investments.** Although current regulations allow Parliament to authorize program expenditures for the duration of a project, in practice, these funds are approved only for one year. In addition, the Planning Commission's procedures only allow for annual expenditure commitments. Moreover, the financial settlement bill for 2003 did not contain any carried-over credits, so that investment projects risk being abandoned during execution.

Financial Controls

111. **In the expenditure process, the DGCF controls for conformity and legal compliance.** This department is responsible for control before and after commitment. Internally, each commitment file must be handled by five people, and each payment order file must be handled by four people. Expenditures up to CFAF 10 million can be approved by controllers, between CFAF 10 and 50 million by the Deputy Director General, and higher than CFAF 50 million by the Director General. Financial controllers assigned to the "big ministries" lack computer equipment. They have to go to the premises of the DGCF to have documents signed.

112. **With respect to investment, the process has been made even more complex by the participation of the Planning Commission (CGP).** Every investment expenditure commitment must be submitted to CGP for conformity approval (*visa d'opportunité*). CGP also assures that Gabon's procurement code (*Code des Marchés*) is respected. This role is related to the fact that when Law No. 5/85 was adopted, the Planning Commission held delegated budget authorization for investment expenditures.

This delegation was suspended by Ordinance N° 11/94. The participation of CGP is now restricted to the commitment phase.

113. **The approvals and controls carried out by the CGP duplicate controls carried out by the competent departments of the Ministry of Finance.** The continued practice of CGP involvement does not conform to the statutory provision that the Ministry of Finance is the sole and principal budget authority. The regulations governing public contracts do not seem to be well understood. Expenditure controls on public procurement are not effective. Moreover, technical supervision is often insufficient due to the lack of budgetary allocations to this function (1 percent of contract value while the international norm is around 5 percent). The multiple controls exercised by different departments do not seem to promote spending efficiency.

114. **Investment expenditures financed with external resources are not reflected in the administrative accounting system maintained by the DGB, nor in the general public accounts maintained by the Treasury.** The Ministry of Finance, the Audit Court, and Parliament do not have complete information on these operations. Financial commitments are made by the line ministries. Investment expenditures financed with external resources are not subject to legal controls either before or after the fact. There is no assurance that such expenditures conform to the annual financial legislation. The rules applicable to Government employees or in the domain of public contracts may be disregarded. However, such expenditures may be subject to the rules and regulations specified by donors.

115. **There are four exceptional procedures for public expenditures in Gabon: imprests, the commitment-liquidation procedure, budget advances, and Independence anniversary expenditures.** Expenditure advances or imprests are instituted and governed by Law No. 5/85, which spells out the general rules and regulations governing the public accounting system and sets out the terms and conditions for the creation, operation and control of imprests. This procedure consists in providing cash to the imprest holder on the basis of a commitment voucher approved by the financial controller. The expenditure advance is then subsequently regularized and approved by a payment order backed by supporting documents. Expenditures payable through the imprest system are limited to minor departmental expenses or those of an urgent nature.

116. **Imprests involve relatively small amounts but are often subject to abuse.** In practice, funds are often released after the issuance of a payment order drawn up by the DGB, and then posted as final budget expenditure. Then, the imprest holder's supporting documents are not presented to the Treasury. Sometimes, the funds are deposited into current accounts of imprest holders in commercial banks. This is a prohibited and irregular practice, which is prejudicial to public finance and should be discontinued..

117. **Commitment-liquidation procedures present a greater risk of abuse.** Budgeted expenditures relating to missions abroad, medical evacuations, imprests - are, under certain conditions, executed according to the commitment-liquidation procedure.

These are, in fact, expenditures made without previous commitments. The three phases of expenditure – commitment, authorization (*liquidation*), and payment order are combined. In this case, expenditures are approved, without an invoices or expense vouchers t, before services are rendered. This procedure must be strictly supervised and applied exceptionally.

118. **Budget advances are needed due to delays in budget approval.** In the absence of budgetary allocations at the start of the financial year, the budget is executed during the initial months on the basis of budget advances. A recent legislation was enacted to oversee the use of these advances. These expenditures are therefore not made without examination. The DGCF controls advance allocations and amounts with respect to budget estimates. They are monitored by the DGB and paid upon receipt of statements produced by the Treasury. In future, budget advances will be limited to certain emergency expenditures. Such advances must be regularized before the end of the financial year in which they are paid.

119. **Independence anniversary expenditures are not transparent.** Each year, during preparations for the Gabonese Independence Day, two of Gabon's nine regions benefit from an investment program amounting to CFAF 50 billion, representing 30 percent of the investment budget on rotating basis. The allocations in the Government budget for the Independence anniversary expenditures are placed in a deposit account in the Treasury, and spent outside of the normal public expenditure procedures. A recent survey indicated that the selection and programming of these investments and the preparation of related documents are poorly done, with negative effects on the quality of investments. The implementation of this exceptional measure engenders a very high risk of mismanagement of public funds.

120. **Government salaries are paid without prior payment order out of earmarked allocations.** The Ministry of Public Service (*Fonction Publique - FP*) is the sole employer of personnel on the Government's payroll. Recruitment and personnel management decisions are subject to oversight by the DGCF. Salaries are prepared by the payroll unit and forwarded monthly to the Treasury by electronic means.. The Government now has only one centralized permanent personnel data base which shows that salary arrears have built up over the past few years. The amount, originally overvalued at CFAF 50 billion - 80 billion, has been fixed at CFAF 30 billion by the Inspection Department of the Ministry of Finance.

121. **The management of Government property is the responsibility of the Department of Administrative Property and Collective Expenses (*charges communes*)** of the Ministry of Finance. This Department has three divisions: the Housing and Equipment Unit, the Administrative Property Unit, and the Collective Expenses Unit. The first unit manages housing rented by the State to civil servants and ensures that they are furnished. The third unit handles Government expenditures for water, electricity and telephone services.

122. **The Administrative Property Unit does not have a complete inventory of the Government's movable and immovable property.** This unit is responsible for the Government's stores. In this capacity, it controls the acquisition, maintenance and allocation of administrative vehicles. A management software is available but does not seem to be used.

Procurement

123. This review of public procurement in Gabon is based on an analysis of present trends compared with internationally recognized performance indicators. These indicators are classified under four "pillars" as follows:

Pillar 1: The legislative and regulatory frameworks

- The legislation is in accordance with best internationally recognized practices and community agreements;
- Decrees and documentation are available to ensure the efficient implementation of the said rules and regulations;

Pillar 2: The central institutional framework and management capacities

- Procedures exist to ensure the effective integration of public contracts in the budget management mechanism;
- A public contracts regulatory body is in effect to guarantee efficient and objective management of reforms in the public contracts sector, and external control of the process of awarding public contracts;
- Institutional capacity contributes to the efficiency of public-contract award operations;

Pillar 3: Contracts award operations and the performance of the private sector

- Public contracts award operations (procedures and practices) ensure satisfactory management of public contracts by the contracting parties and adherence to best practices in this domain;
- The private sector is functional and competitive to ensure proper execution of public procurement orders;

Pillar 4: The contracts award mechanism

- Internal and external control operations at the contracting authority level, as well as an external audit system, are effective and operational;
- Appeal mechanisms for bidders are independent and efficient, and encourage the private sector to participate in and contribute to public contracts, with a view to building confidence in the competition;
- The degree of access to information on public contracts is sufficient to ensure transparency and promote broader participation;
- The ethics code and anticorruption measures in the public contract sector gradually eliminate acts of fraud and corruption and ensure the effective implementation of penalties.

Legal and Regulatory Framework

124. **The legal and regulatory framework for public procurement in Gabon is generally acceptable.** The public contracts statutory framework in Gabon is governed mainly by Decree No 001140/PR/MEFBP of December 18, 2002. The provisions of the code globally appear to be in line with international norms. The methods of awarding contracts, conditions for taking part and submitting bids, criteria for evaluating bids and awarding contracts are generally acceptable. In addition, some necessary implementing instruments (approvals for enterprises, subcontracting, streamlining of procedures, revision of prices, litigation committee, etc.) for the public contracts code and standard acquisition forms are not yet available.

A Need for Strengthening Institutional Capacity

125. **The institutional framework in Gabon presents problems for the effective and efficient management of public contracts.** The present institutional framework comprises bodies responsible for both controlling and approving public contracts, namely the Department of Contracts (*Direction Generale des Marchés Publics* – DGMP) and the National Contracts Board (CNMP). These bodies are placed under the authority of MINECOFIN and the Prime Minister’s Office, respectively. These agencies are mainly represented by the Contracting Authority (PRM) and the Bids Evaluation Commission (*Commission d’Evaluation des Offres* - CEO).

126. **Capacity-building is needed in DGMP and the sector ministries to change current practices and speed up the process of contract awards.** CNMP currently combines the functions of regulating and awarding public contracts. DGMP still has inadequate personnel and equipment for its proper functioning. Line ministries lack organized services to award and manage contracts. Problems such as these could be further addressed in future CFAAs and CPARs.

Public Contracting and Private Sector Performance

127. **In practice, public procurement does not always respect current rules and regulations.** A preliminary analysis of operations involving public contracts underscores the persistence of old practices, notably the excessive use of sole source contracting and amendments leading to contract amounts higher than initially agreed. These problems could be minimized if private sector operators show more interest in improving the transparency in public contracting.

Table 12: Number and Value of Government Contracts Signed in 2004

Terms and Conditions of Signing Contracts	Amounts (in CFA Francs)	Number	Rejected	DGMP Approval
Sole Source	50.4 billion	160	71	89
Invitation to Tender	23.4 billion	22	10	12
Total	73.8 billion	182	81	101

Transparency and Accountability

128. **The integrity of the public contracts award mechanism in Gabon poses a real problem.** Although there are inspectors of finance, the MINECOFIN does not have an effective and operational service to ensure the internal control of public contracts. The Department of Contracts has no power to monitor or control expenditures related to public contracts.¹⁶ The external control of public contracts is the responsibility of the Ministry of Government Audit, Inspections, Poverty Alleviation and the Fight Against Corruption (MSAIP AFC), which carried out about 20 audits in the last year. This ministry was set up only recently and lacks sufficient qualified personnel. The annual audit of public contracts required by law is not carried out by the Audit Court—the appropriate institution—partly due to the lack of complete and reliable financial information at each level (ministries and centralized and decentralized entities), and partly due to the limited capacity of the court itself.

129. **Access to information is almost non-existent.** There is no documentation whatsoever on public contracts, apart from a few invitations to tender published in the national daily, *L'Union*. Although appeals mechanisms are provided for bidders in the new Public Procurement Code, notably through the Litigations Committee, they do not guarantee objective decisions. This is because the committee is attached to DGMP, with no role provided for the private sector. Finally, there is no code of ethics governing the award and management of public contracts. Provisions for combating fraud and corruption in the new Code are not effective, since penalties are not enforced.

Accounting and Reporting

130. **The legal and regulatory framework for the public accounts is acceptable.** The Government accounts use a double entry system. The books cover both revenues and expenditures. The rules and regulations laid down by Law No. 5/85 are applicable only

to national accounts, namely direct Treasury accounts and special accounts.¹⁷ Public accounts are managed under the UDEAC accounting plan, and the Organization and Procedures Guide of the Directorate General of Treasury Services. The UDEAC accounting plan has been in use since 1974. It will soon be replaced by the OHADA accounting plan. Laws Nos. 4/85 and 5/85 together with the UDEAC accounting plan form a coherent whole, whose prescriptions, if strictly followed, would lead to the production of public expenditure accounts that are authentic, transparent and exhaustive.

131. **Since 1995, accounting responsibilities have been divided between two departments:** the Department of Public Accounting (DGCP), which is responsible for regulation and supervision of the network of accounts, and the Department of Treasury Services (DGST), which is responsible for accounting operations. The DGCP, through six departments or boards, is responsible for studies, regulations, control, verifications, debt management, the centralization of accounting operations, and the representation of the Government in the law courts. It does not have the capacity needed to carry out all these functions.

132. The DGST has six departments and is responsible for the execution of expenditures and recording of revenues. It also manages the Government's cash flow and its pension service. Treasury Services have modern computer equipment: the central treasury has about one hundred computer terminals. Provincial treasuries and that of the city of Libreville are connected to it by VSAR or radio. The central treasury is also connected by computer to various other departments of the Ministry of Finance, such as the Payroll Office and the Budget Department. The Treasury is planning to further modernize and automate some of its operations.

133. The network of accounting offices comes under the DGST, and is headed by the Paymaster General (TPG). It comprises 7 central services, 9 provincial treasuries, 35 divisional sub-treasuries and revenue offices, 1 tax revenue office, 20 accounts agencies, and 9 payroll offices in embassies abroad. All of these offices are directly accountable to the Paymaster General. Treasury accountants deposit guarantees and are held personally and financially liable. The implementation of this principle promotes quality and professional rigor, ensures the accountants' independence vis-à-vis the implementing agencies, and provides a financial guarantee for public institutions in case the Treasury accounting unit fails to function properly.

134. **The division of the Treasury into two distinct departments is an innovation in Francophone sub-Saharan Africa.** It was intended to separate the units responsible for budget execution from those responsible for centralization and control. However, in practice, this change poses a problem of competence, since the DGST has all the accounting tools, while the Central Accounts Agency of the Treasury (ACCT), which centralizes the accounting books kept by the network of treasury accounts, is attached to the DGCP, which is not able to carry out its functions.

¹⁷ The accounting systems of local authorities (departments and communes) have been excluded from the present review. They should be subjected to a special review, considering the level of annual expenditures, amounting to 26.4 billion FCFA for the communes and 7.6 billion FCFA for the departments in 2004.

135. **Government's general accounts have been completely automated.** Interfaces exist with the departments of taxation and customs. However, due to the failure to develop integrated CRYSTAL software services, DGST decided to acquire the ASTER software, already in use in Benin and Cote d'Ivoire. This software is used to follow up general accounts, third party accounts and payments. A general national accounts statement is produced after each monthly closure. The centralization of accounts is carried out by the Treasury General twice a month. Monthly data are available within 45 days of the end of the reference month, whereas the rules and regulations state that there is a 10-day time limit for the production of monthly accounting statements. Annual statements of accounts are produced within the prescribed deadlines, six months following the end of the financial year concerned. This period could be reduced further, with increased discipline.¹⁸

136. **The Paymaster General submits an annual report to the Audit Court** by September 30 of the following year. In recent years, this deadline has been respected. This financial report shows actual revenues and expenditures, is compared by the Audit Court with the administrative accounts drawn up by the DGB. If the accounts are correct, the CDC issues a statement of conformity to the National Assembly in support of the draft settlement legislation. Keeping to schedule is essential so that the annual financial legislation can be prepared and approved within the statutory time limits.

137. **Many third party accounts are opened, the methods used in auditing them seem to be irregular, and the balances appear high.** Such irregular operations have distorted the results of the execution of the Finance Act in the past and continue to do so today. An audit plan for auditing third party accounts should be introduced. Deposit accounts at the Treasury are opened by ministries or administrative units, suggesting that accounting operations may be executed in violation of existing rules.

138. **The centralization of accounts is carried out in practice by units placed under the authority of the DGST, while it is supposed to fall under the authority of the ACCT, officially placed under the DGCP.** Also, the general statements of accounts as well as budget implementation reports on revenues and expenditures are submitted to the Minister's office without analysis or any explanatory notes. The function of providing financial information and accountability to the Minister of Finance seems not to be well understood within the Treasury.

Management of the Treasury and Debt

Treasury Management

139. **Treasury statements are prepared by the Division of Resource Programming and Payment of the DGCP, and then submitted to the Minister's office, which determines payment priorities.** If there are sufficient funds in the Treasury, expenditures are paid within 120 days from the date of payment order. Priority is given

¹⁸ The Directorate General of Taxation effectively issues tax standings only in April N+1.

to paying the salaries of civil servants and debt service obligations due. Expenditure payments are made following a known schedule. Suppliers may monitor the status of payment of their invoices by accessing the Treasury's website. Access to information on Treasury payments by suppliers is a sure guarantee for transparency in the execution of budget expenditures. However, the principle of treasury unity is often violated, notably due to separate bank accounts opened in the names of imprest holders, or for projects financed with external resources.

140. Several bank accounts have been opened in the name of the Treasury. Accounts in the Central Bank (BEAC) include the general current account, the road fund account, the "future generations" account, and the VAT account to guarantee the payment of VAT credits to businesses.¹⁹ The Treasury has an account for its foreign currency transactions in a private bank, as well as another account, established at the Postal Checking Center. Only Treasury offices located in towns where there are branches of BEAC have bank accounts. The other Treasury offices manage their expenditure payments on cash basis..

Debt Service

141. Debt service is managed by a special department in the DGCP using the SIGAV software (UNCTAD), introduced in the year 2000. The annual dates of payment of this debt are respected by following a special procedure of payment without prior order (see above analysis of exceptional expenditure procedures) and then regularized by payment order. For a year now, Gabon's foreign debts have been paid regularly at maturity. At the end of 2003, Gabon had built up foreign debt arrears of FCFA 21.2 billion. As regards domestic debt, Gabon's Treasury estimated at the end of 2003 that it owed FCFA 94 billion.

142. The debt recorded in Treasury accounts does not correspond exactly to the debt recorded by the DGCP. In practice, there is no complete monitoring of drawings on loans. This inadequate financial and accounting information results from the fact that operations financed with external funds are not incorporated. Precise knowledge of the magnitude of Gabonese debt is essential, especially since the relevant departments have computers. Furthermore, the regularization of debt service payments within the financial year is not systematic, which tends to distort budget implementation performance.

Internal and External Controls on Public Spending

143. Public spending control operations are carried out before and after the fact (ex-ante and ex-post). Prior control is purely administrative, and is carried out internally by financial controllers and public accountants. Controls after the fact are exclusively external. The first external control is carried out by the Government Audit Office, then by the Audit Court, and lastly by the National Assembly and the Senate.

¹⁹ This account is "topped up" every month before the State pays salaries and wages.

Administrative Controls

144. *Ex ante administrative control: the financial Controller's Office.* **Financial control officers (CFs) intervene in expenditure management at the commitment stage.** Their role is to verify the existence of sufficient budget allocations and the regularity of expenditures being made. **They also intervene at the stage of expenditure authorization** by verifying that the services requested or supplies ordered correspond to approved commitments and by checking that services have been rendered or ordered goods have been supplied. With respect to expenditures, the CFs intervene rather rapidly, unless the proposed expenditure exceeds FCFA 50 million, in which case the control function must be undertaken by the Director General himself.

145. Under the authority of the Department of Financial Control (DGCF), **financial controllers are supposed to carry out these operations in the central office of each ministry.** However, the function is still highly centralized, as only four controllers have been assigned to a single ministry, and no financial controller has been posted to decentralized services. Financial controllers are, in principle, supposed to be involved in the preparation of the budget. In practice, however, their participation in this process is never solicited.

146. **The financial controllers' interventions are unsatisfactory.** Many anomalies identified by the CDC point to weaknesses in their operations. These include (i) expenses in excess of budget allocations; (ii) expenditures paid more than once, (iii) incorrect assignment of expenditures to budget line items; (iv) the lack of a price index, making it difficult to evaluate the reasonableness of price quotations proposed by suppliers to the Government; and (v) the fact that financial controllers intervene only for expenditures up to a limited amount. Financial controllers attribute these weaknesses partly to the fact that the new computer system installed at the DGCF two years ago does not permit them to monitor the use of budget allocations, although the former system allowed for this. The DGCF does not have enough technicians. Moreover, it has very little recurrent budget resources of its own. However, these explanations do not fully explain the lack of budgetary discipline shown by all those involved in the public expenditure management process.

147. **Public accountants are also supposed to carry out prior control of public spending at the payment stage.** However, this control function is rendered irrelevant by the existence of many exceptional procedures. Most of these procedures do not require a prior payment order, which prevents the accountants from fulfilling their role and compels them to proceed directly with the payment of expenditure requests they receive.

148. *Ex post administrative control: the Government Auditing Office.* **Government Audit is the responsibility of a newly created Ministry of Government Audit, Inspections, Poverty Alleviation and the Fight Against Corruption.** It is specifically responsible for: (i) preparing, proposing and implementing the Government's policy in matters of control and inspection, (ii) ensuring the implementation of laws and regulations for the smooth functioning of Government services, (iii) controlling the inspection services of ministries, (iv) carrying out or insisting on the conduct of all audit

inquiries, surveys and missions and (v) proposing all measures likely to ensure better organization, reduce budget constraints, and increase the efficiency of Government services.

149. **Like all internal controllers, the Government Audit Office is staffed by civil servants without any real independence.** The Office is governed by Decree No. 505 of 1 August 2002 and has a total staff of 40. The Office carries out about twenty audits per year. Some of their reports are forwarded to the CDC. These confidential reports are not published, but are provided to the Minister, relevant line Ministers, and the President of Gabon..

150. **Controls carried out by the Government Auditing Office may be duplicating the role of the CDC.** There is not enough coordination between the two institutions. Similarly, contacts with Parliament are still very limited. Internal inspection offices in ministries are a recent creation. They are not yet operational as their functions have not been clearly outlined. They do not as yet, process files.

Judicial Controls

151. **The Audit Court (*Cours des Comptes* (CDC)) is the supreme audit institution responsible for juridical control of public finances.** It is the highest court of the State in matters of audits. It is affiliated with INTOSAI and AFROSAI. It has the autonomy to manage its staff and finances. CDC collects and manages its own revenue and has its own accounting officer. It is starting to decentralize audit operations; regional auditing divisions have been set up in two provinces.

152. **The CDC is well staffed to carry out its responsibilities.** It has 125 employees, 60 of whom are judicial and legal officers, 20 court registrars and 21 verification assistants. The judicial and legal officers are graduates of the National School for Magistrates. The judicial and legal officers and their colleagues benefit from in-service training funded through bilateral cooperation. The President of the CDC is appointed by the Supreme Court (*Conseil Supérieur de la Magistrature*).

153. The responsibilities of the CDC fall into the following four domains:

- legal control of the management accounts of the Treasurer-General, public establishments and local councils;
- control of the management of public administrative services, of public enterprises and any publicly funded entities;
- control of financial management by local council mayors; and
- administrative control of the accounts of implementing agencies, verification of their revenue and expenditure reports, and control of the proper use of budgetary allocation as well as stocks and securities managed by public entities.

154. Such controls may lead to court actions. For example, the Treasurer-General or the principal public accountant may be held liable for inaccuracies in financial

statements. The consequences may also be administrative. The reports prepared by the Court may impose legal sanctions, for example, banning a public official from leaving the country.

155. **The legal basis for the activities of the CDC is highly satisfactory.** Being an Audit Court provides it with the independence necessary to carry out its auditing and control operations. The CDC has a very large staff, which enables it to accomplish its tasks satisfactorily. In fact, this audit court has many more judicial and legal officers than one usually finds in similar supreme audit institutions in other Central African countries.

156. **The CDC has carried out its responsibilities in an exemplary manner.** The CDC has found that the management of Treasury vouchers is often incomplete. Documents are often lost or misplaced, making it impossible for accounts to be properly evaluated. Only a minority of public establishments and local authorities produce management accounts. Reimbursement requests have been issued to public accountants, and bogus accountants (*comptables de fait*) have been identified. Implementing agencies have had penalties imposed on them for management accounting errors. The CDC has carried out an awareness and education campaign for local authorities. The Minister of the Interior regularly calls on the Office to carry out periodic audits on local councils.

157. **The CDC could use more logistical support.** The CDC is renting a recently constructed building, which is operational. However, its facilities including computer equipment are limited and very rudimentary.

Parliamentary Controls

158. **Parliament is responsible for authorizing, approving, and monitoring the execution of the Government's budget.** Parliament, composed of the National Assembly and the Senate, is responsible not only for passing financial legislation, but also for monitoring Government actions in matters of public finance. This control function is carried out in a number of ways, particularly by the examination and enactment of settlement laws. Parliament may also summon the Government to appear before it, pose oral or written questions, and set up committees of inquiry and control.

159. **Generally, the control function carried out by Parliament has a number of weaknesses.** Parliamentary oversight of budget implementation is hampered by the fact that the political opposition is not well represented at all. In fact, in the National Assembly, there are only 5 opposition members out of 120 parliamentarians. Because of this, there have been very few control initiatives. It should also be pointed out that very few representatives of the people have the expertise needed to carry out parliamentary audits.

160. **Parliament has been examining and enacting settlement bills for several years now.** The draft settlement law for 2001 was not approved, due to a refusal by the CDC to issue a certificate of compliance for the administrative and management accounts

of that fiscal year. This indicates a certain degree of parliamentary independence. More generally, however, the process encounters considerable delay. This tends to demotivate parliamentarians. In addition, the consolidated nature of the document makes it difficult to compare budget estimates against expenditure execution results..

161. **The scope of oral and written parliamentary questions is limited by the heavy presence in Parliament of representatives of the majority party in power.** Consequently, during the last two legislatures, only two questions were asked in the National Assembly, while the Government was summoned to make appearance only six times on finance bill. In the Senate there was none of these. Oral and written question sessions, which should normally take place once a week, are rare. Parliamentarians often do not respond effectively to the Government's financial proposals.

162. **There have been few parliamentary reviews so far.** The National Assembly has set up 12 committees of inquiry since 1991, and the Senate only 6. The most recent ones met in 2002. Even when they are set up, these committees suffer from inadequate information due to the reticence of agency administrators, a practice that appears to have become persistent. Reliable information on the execution of the Government's general budget is not made available to parliamentarians. Generally, reports by Parliamentary committees of inquiry are not published.

Conclusions

163. **The legal and regulatory framework for budget preparation and execution are generally acceptable.** With a more results-based approach to the management of public finance, it may become necessary to revise the organic law to be more consistent with the concept of management by objectives. There will be a need to define a broader role for budget managers in the different sectoral ministries, and to base budget allocations on achievement of planned performance targets.

164. **The process of budget preparation is neither efficient nor effective.** Revenue projections are unrealistic, and planned expenditures are not clearly linked either to development objectives or to past performance. In addition, investment expenditures are not clearly linked to recurrent costs. This analysis leads to the following recommendations:

- a. Put in place a Medium Term Expenditure Framework linking budget goals to development objectives defined in the GPRS.
- b. Base revenue projections on the results of previous budget exercises.
- c. Include all state revenues in the national budget.
- d. Finalize the functional budget nomenclature based on the COFOG classification, and present the budget according to major functions.
- e. Disaggregate the wage bill, *charges communes*, and the Independence anniversary budget, allocating them appropriately among the functions of Government and sector ministries.

- f. Improve coordination between the investment budget planning procedures of the CGP (Plan) and recurrent budget preparation by the DGB (Finance). Eliminate unilateral initiatives by the CGP once the budget is approved.
- g. Present the budget in a single document, including both investment and recurrent expenditure allocation.
- h. Take into account the multi-year nature of investment expenditures by using the procedures of program authorizations and payment credits.

165. **Sector ministries need to be more involved in the budget preparation process.** Consultations between the Ministry of Finance, the Ministry of Planning, and the sector ministries are inadequate. The capacity and leverage of the line ministries in the process remains weak. As in many other developing countries, ministries are not given enough time to prepare their budget estimates and to identify measures to comply with prescribed budget ceilings, as well as to conduct consultations within ministries and with their vendors or suppliers. Additional capacity building may be needed in order for sectoral ministries to meet these expanded expectations.

166. **The role of Parliament in budget preparation needs to be clarified.** On the one hand, Parliament needs to be better informed and to be presented with adequate budget documentation. The Audit Court should provide its report on the previous year's budget execution to Parliament in a timely manner. On the other hand, Parliamentary changes in the budget and financial legislation should be kept within statutory limits. Such changes should not be made in response to interventions by individual ministers.

167. **Execution of the budget presents many problems.** The period during which commitments can be made is limited by delays in budget approval and unduly prolonged payment procedures. The number of offices involved is excessive. Procedures should be implemented that would afford sector ministries greater control over the execution of their budgets. This may require capacity building in the sector ministries and eventually, in regional and local authorities. The use of exceptional and extra-budgetary spending procedures should be strictly limited. This analysis leads to the following recommendations:

- Extend the period allowed for expenditure commitments.
- Simplify the expenditure process, by eliminating the DGB commitment voucher, allowing budget administrators to establish payment orders, and shifting payment order approval from Financial Control to the Treasury.
- Decentralize expenditure management process, after adopting the necessary regulations, allowing spending ministries to manage their recurrent budgets, including keeping the administrative accounts.
- Provide the deconcentrated financial controllers with the necessary computer equipment to carry out their tasks.
- Establish a simplified procedure of financial control for petty expenditures.
- Establish a nomenclature for supporting documents "pièces justificatives."
- Limit the intervention of financial controllers in the commitment phase.

- Eliminate the intervention of CGP in approving investment expenditures financed by domestic resources.
- Integrate investment expenditures financed with external resources into the budget.
- Observe the strict application of the rules regarding budget advances (imprest).
- Close all budget advance or imprest-related accounts opened in commercial banks.
- Carry out investment expenditures associated with the independence anniversary expenditures according to normal expenditure procedures.
- Establish a General Table of State Property.
- Conduct an audit of leases held by the Government.

168. **Controls carried out to ensure legal compliance and conformity of expenditures should be limited.** The relevance of systematic control of all expenditures could be questioned, since additional controls have not succeeded in improving the quality of expenditure. During its control of commitments, the DGCF should make sure that firms have the capacity (financial, technical, and human) to execute the tasks assigned to them. The consequences of abandoning the software package CRYSTAL, resulting in increased centralization of the Government's financial management, appear today to be regrettable.

169. **Gabon's Procurement Code is satisfactory.** Additional instruments needed to promote proper implementation of the provisions of this code should be drawn up rapidly and distributed widely.

170. **Old practices persist that undermine the efficiency and effectiveness of public procurement.** CNMP inappropriately combines the duties of awarding and regulating public contracts. Sector ministries lack the skills to evaluate bids, award contracts, and supervise their execution. Collusion between public officials and the private sector results in increased costs to the Government. Capacity building is needed in DGMP, DGFC, sector ministries, and in the Ministry of Government Audit. The composition and role of the Litigations Committee should be reviewed to provide greater involvement of the private sector. A code of ethics should be developed, and penalties for fraud and corruption applied as provided in the new Code.

171. **The number of accounting offices is increasing, making the centralization of accounts more difficult and engendering additional control needs.** Such an increase entails personnel costs and weakens the technical skills of the officials. Therefore, this increase should be stopped or at least slowed down. Autonomous budgets or special accounts can in effect be managed directly by the general treasury.

172. **A summary of public accounts should be produced** for general use, while the detailed information should be used mainly for monitoring, control and verification. General accounting statements should distinguish between budgeted and other operations. The production of monthly account statements should be accelerated. Provisional "third party accounts" should be closely monitored, regularly audited, and closed when no

longer needed. A presentation note should be attached to all communications with the Minister of Finance and other authorities. To implement these recommendations, capacity building will need to be strengthened in ACCT.

173. **The quality of financial control operations needs to be improved.** The administrative control of expenditures is still highly centralized. Financial controllers often fail to perform according to professional standards. The role of public accountants is undermined by the use of exceptional payment procedures. The recently created Government Auditing Office lacks a clear definition of its role in relation to the Audit Court and to Parliament. While the Audit Court is generally effective, Parliamentary controls are weak, partly due to lack of information and coordination with other bodies.

174. This analysis leads to the following recommendations:

- Improve the quality of work performed by financial controllers, in particular by discontinuing the practice of issuing false declarations of services rendered.
- Improve the quality of the Treasurer-General's management accounts.
- Implement a program to produce management accounts for public enterprises and local authorities.
- Prepare an annual activity report for DGCF.
- Establish a price index for supplies and services ordered for procurement by the Government.
- Establish a manual of procedures for Government audits.
- Publish the reports of the Government Auditing Office.
- Accelerate the production of the Audit Court report on the execution of the annual financial legislation.
- Reinforce facilities especially computers, at the disposal of the Audit Court.
- Accelerate the enactment of the settlement law by Parliament.
- Develop the practice of parliamentary reviews and publish the conclusions.

175. The financial risks associated with each phase of the budget cycle are evaluated in Annex B.

CHAPTER 4: PUBLIC SPENDING IN PRIORITY SECTORS

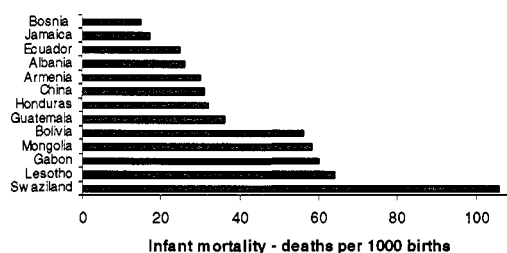
176. In this chapter we examine the allocative and operational efficiency of expenditures within the key sectors of health, education and infrastructure, asking whether the GOG's policies and strategies are effectively delivering on the GOG's goals in those sectors, and how this performance might be improved in the future. In asking whether public expenditures are *effective*, we will examine the extent to which public expenditures in Gabon are delivering on human development objectives. We then examine, for each of the three sectors, whether public expenditures are *efficient* in terms of service delivery.

Public Expenditure in the Health Sector

International Comparisons

177. Comparing Gabon's health outcomes with countries that have a similar level of public expenditure on health, it is clear that **Gabon's health expenditures have been comparatively ineffective in achieving development goals.** The infant mortality rate in Gabon stands at 60 per 1000, compared to 39 for Morocco, with the same level of health spending per capita. What is more, Gabon spends three times as much per capita on health as Ghana and still has a higher infant mortality rate. Life expectancy at birth for Gabon is lower than for Morocco and Sao Tome & Principe. The HIV-AIDS prevalence rate for Gabon remains worrisome, exceeding the average rate for Sub Saharan Africa and developing countries, whilst contraceptive prevalence is low at 33 percent.

Figure 17: Health Sector Performance In Countries with Similar Levels of Per Capita Health Sector Spending

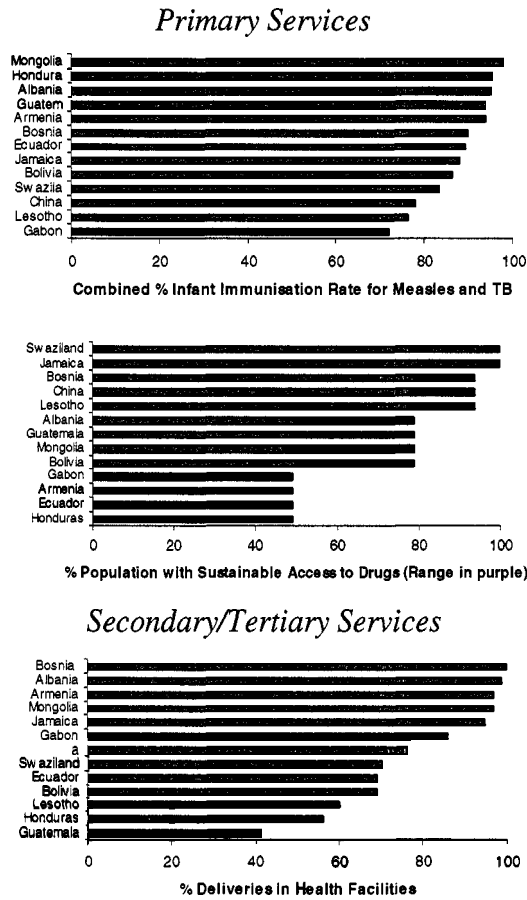


Source: UNDP, Human Development Report 2004.

178. **Government expenditures on health have not been efficient in terms of service delivery.** Figure 18 below shows the relative performance in terms of service delivery outputs for countries with similar levels of per capita expenditure. Gabon's health sector ranks amongst the lowest in terms of basic health care delivery, with the lowest immunization rates, and poor access to essential medicines. Utilization of public health facilities is low at an average 0.4 outpatient visits per person per year. Less than half of the population in Gabon has access to essential drugs. However, the health sector fares better when one looks at indicators outside primary service delivery. For example,

a relatively high proportion of women in Gabon give birth in health facilities. On the whole, however, preventive and promotion measures so far undertaken in Gabon have not had a visible impact on the country's health situation.

Figure 18: Health Service Delivery In Countries with Similar Levels of Health Sector Spending



Source: UNDP, Human Development Report, 2004.

Health Sector Policy and Strategy

179. **The ultimate objective of the health sector, as set out in the National Health Policy (2004), is to improve the standard of health and general welfare of the population, especially the poorest segment of society.** The I-PRSP stated as a major objective, the implementation of the health sector policy through the following measures:

- Improving access to essential and high quality health services for the poor;
- Increasing the participation of local beneficiaries and communities in the development and management of health sector activities;

- Strengthening programs designed to combat pandemic diseases, particularly HIV-AIDS, malaria and tuberculosis;
- Fighting against malnutrition and increasing access to potable water for the poor.

180. In 1995 the national health policy defined strategic priorities as (1) preventive programs, including maternal and child health, preventive care (e.g. vaccinations), public sanitation, education and communication, and (2) protection of vulnerable groups. A Health Action Plan was adopted in 1998 and revised in 2000. However, this plan has been implemented only to a very limited degree. In April 2005, the Government organized a general public consultation on the health sector (*Etats Généraux de la Santé*) as part of the effort to prepare a health sector strategy and programs for the GPRS.

181. Health services are reasonably available to all income groups. The recent Gabon Poverty Assessment Survey (EGEP) showed the differences in reported health status between the rich and the poor in Gabon were not significant. Both make comparable health expenditures as a percentage of household income (3 percent). However, the poor are less likely to make use of health services, due partly to cost considerations and partly to the lack of medicines in local dispensaries. As might be expected, the poor are less satisfied than the relatively well-to-do with the quality of health services provided to them.

Health Sector Institutions, Services and Performance

182. **The health care system in Gabon consists of three principal components:**

- **The public health care delivery system**, which has three levels. The primary level includes 413 dispensaries and 41 health centers located in Gabon's 47 departments. The intermediate level is made up of 9 regional hospitals which also play a technical support function. The third level deals with centrally managed facilities and programs.
- **The parapublic sector**, made up of a number of public agencies, including the National Social Security Organization (CNSS), and several major hospitals and health centers²⁰ in different parts of the country.
- **The private sector**, comprised of non-profit, for-profit, and traditional healthcare entities.

183. **Primary health care delivery systems in Gabon are ineffective.** Generally, dispensaries are not able to provide the minimum package of services required for primary care. Despite their relative accessibility, utilization is low. Departmental medical centers provide a better quality of care but at a higher cost to the patient. This tends to discourage their use by the poor, especially for primary and preventive care. Older regional hospitals have outdated equipment and inadequate staff to provide complementary services, while more recently constructed hospitals have experienced

²⁰ The national general hospital (Jeanne Ebori Foundation in Libreville), Paul Igamba Hospital at Port Gentil, a specialized Pediatric Hospital at Owendo, and 9 health centers.

technical problems with new equipment. Primary health care is most effectively delivered in urban areas.

184. **Health infrastructure coverage is relatively good.** Approximately 70 percent of the population lives within 5 kilometers of a health facility. In rural areas, however, 75 percent of the population must travel more than 15 km to reach a pharmacy (since dispensaries often do not have medicines), and nearly 90 percent of rural women live more than 15 km from the nearest maternal and child health center.

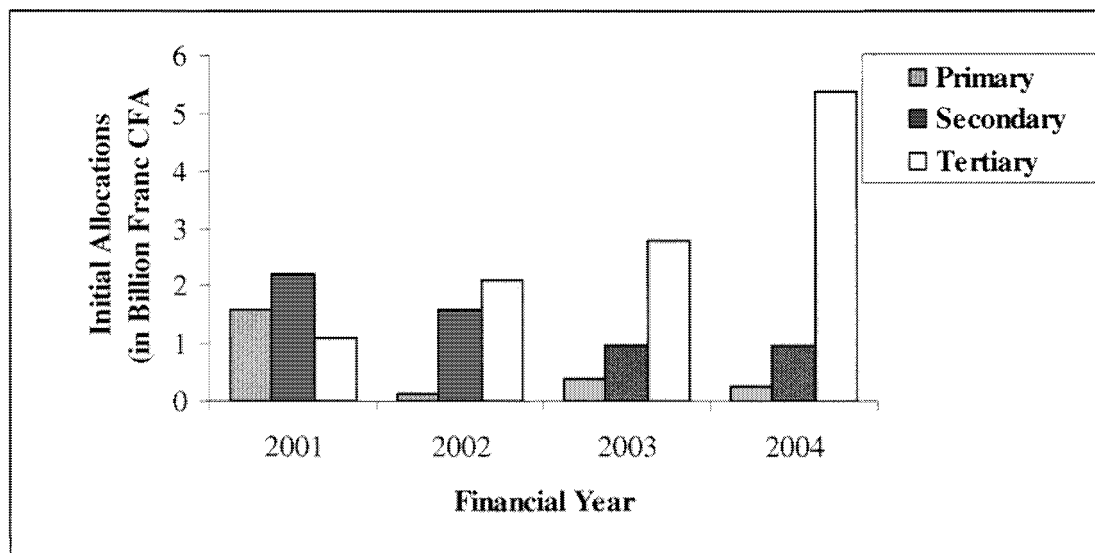
185. **There are significant regional variations in access to health facilities.** Accessibility varies from 67 percent of the population living within 5 km of a health facility in the north (L'Ogooué Ivindo) to 94 percent in the capital (Libreville). There are also large regional variations in the type and quality of care available, including the availability of equipment, medicines, and staff in facilities. The allocation of health facilities amongst regions appears arbitrary, with relatively fewer facilities in remote areas. This is compounded by the lack of information on the actual medical needs of different regions.

Health Sector Expenditures

186. **Gabon's health policy goals are not reflected in the pattern of public health expenditure.** In Chapter 2 we showed that per-capita public expenditures in health are low for a country of Gabon's wealth, which in part explains Gabon's poor health outcomes. We also showed above that such expenditures are ineffective in comparison to other countries with comparable levels of per capita spending. This poor performance can be explained by a mismatch between emerging health sector objectives, which are consistent with improving health outcomes, and actual budgetary resource allocations and expenditures for the public and parapublic sectors.

187. **Recent budgets have given priority to tertiary care.** The emerging health sector objectives imply that greater emphasis needs to be placed on primary and secondary levels of health-care. However, the following diagram shows that health sector expenditures are actually moving in the other direction, with an increasing proportion of sector expenditures being channeled towards tertiary levels of care. The recent decision to build a new 600 bed hospital in Libreville at the cost of CFAF 100 billion illustrates this trend. It would have been more in line with health policy objectives to use these budgetary resources to revitalize the primary health care system.

Figure 19: Budget Allocations for Health, 2001-2004



188. **Only a small share of public expenditure is allocated for priority programs.** At the central level, it is possible to identify budgetary allocations earmarked for different priority programs and projects. As shown in Table 13, priority health programs and projects account for less than 6.0 percent of the total health sector budget, with malaria, which is the main cause of child mortality, accounting for a mere 0.20 percent of the budget.

189. **Within primary care expenditures at the peripheral level, only small allocations are made to preventive activities.** No budget is provided for the mobilization of civil society, and in particular, local communities, to participate in health sector and related activities. If health outcomes are to improve, more active participation of the civil society is called for in a number of areas, including HIV-AIDS, tuberculosis, malaria, diarrhea and various causes of maternal mortality. There is a need to revitalize the expanded vaccination program, undertake active social marketing of condoms, popularize the use of treated mosquito nets, and enhance the quality of obstetric and pediatric services. Efforts undertaken in this connection with the assistance of the international donor community have, so far, been insufficient.

Table 13: Central Budgetary Allocations for Different Health Programs

Program	% of Allocated Health Budget
Respiratory Infections	0.01
Malaria	0.20
Water and Sanitation	0.01
HIV-AIDS	3.97
Tuberculosis	0.17
Vaccination	1.27
Others	0.19
Total	5.81

Source: Ministry of Finance.

190. **The need for reallocations within the health sector to improve allocative efficiency appears more important than the need to expand the size of public expenditure on health *per se*.** However, it is important to note that whilst GNP per capita is rising, health sector spending per capita has been falling. In addition, per capita health spending tends to fluctuate widely from year to year. Therefore, it could be justified to increase health expenditures (within the context of overall fiscal constraints), as long as those expenditures are directed toward implementing priority programs.

191. **The pattern of health expenditures is also operationally inefficient.** The fact that high levels of expenditure are channeled towards secondary and tertiary levels of delivery does not just indicate that funds are not allocated towards sector objectives. It also reflects inefficiency, as the unit cost of delivering primary care is much lower. Improved preventive and primary care can go a long way towards reducing the future burden of medical costs on the Government budget, as well as restoring equity in service delivery and improving health outcomes for the poor.

192. **There are large variations in recurrent per capita health sector spending across regions,** varying between CFAF 500 and 2000 per capita (Figure 20). Consequently, the level of services provided across regions is unlikely to be consistent.

Figure 20: Recurrent Health Spending per Capita by Region (Franc CFA)

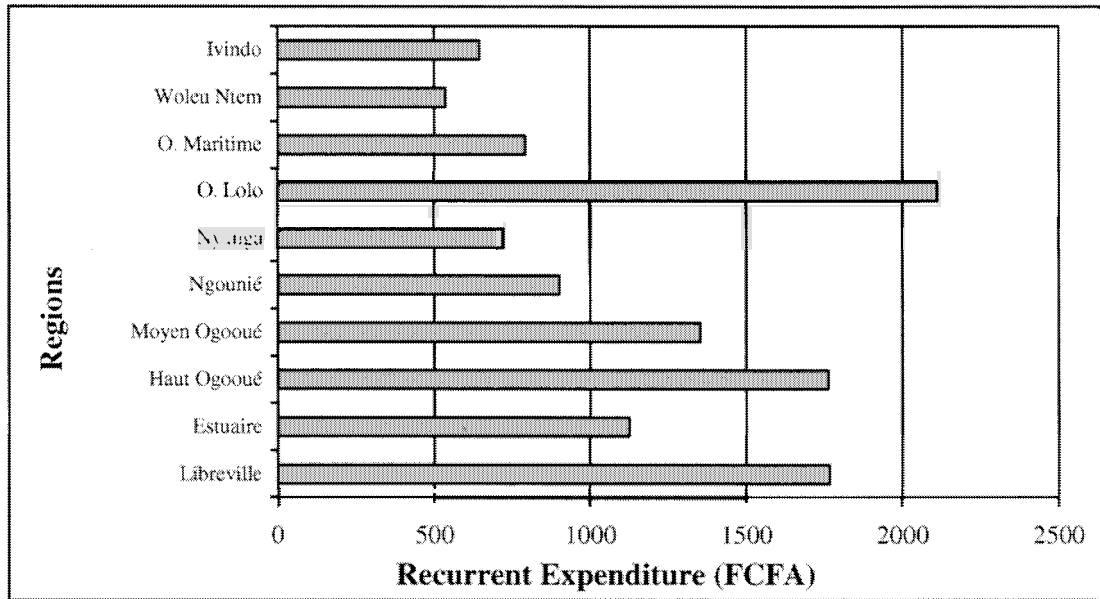
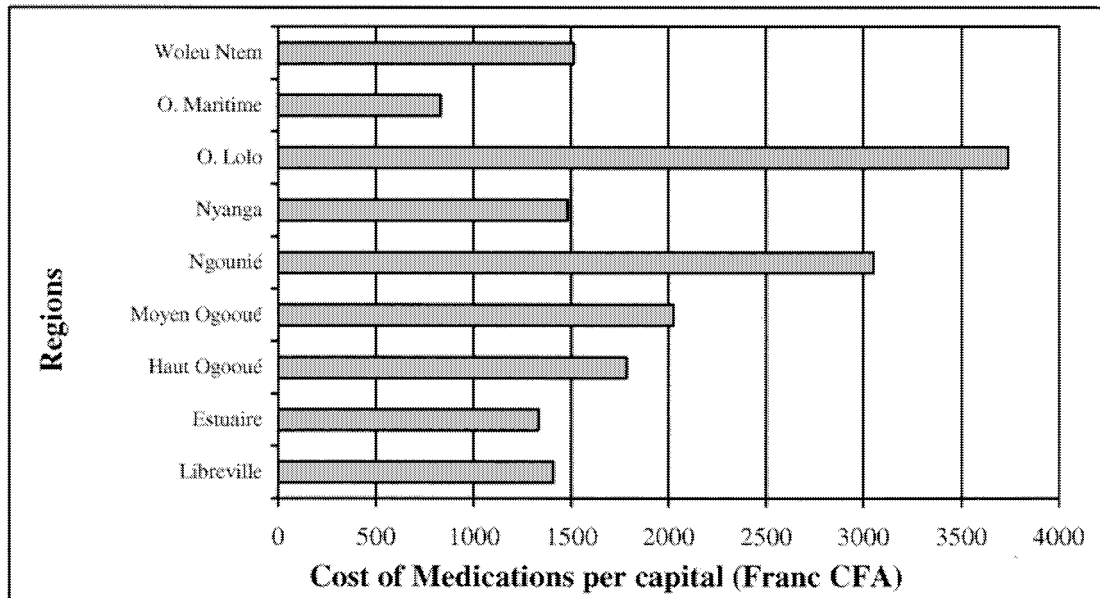


Figure 21: Expenditures on Medicines by Region, 2002 (Franc CFA)



Sources: OPN, CHL.

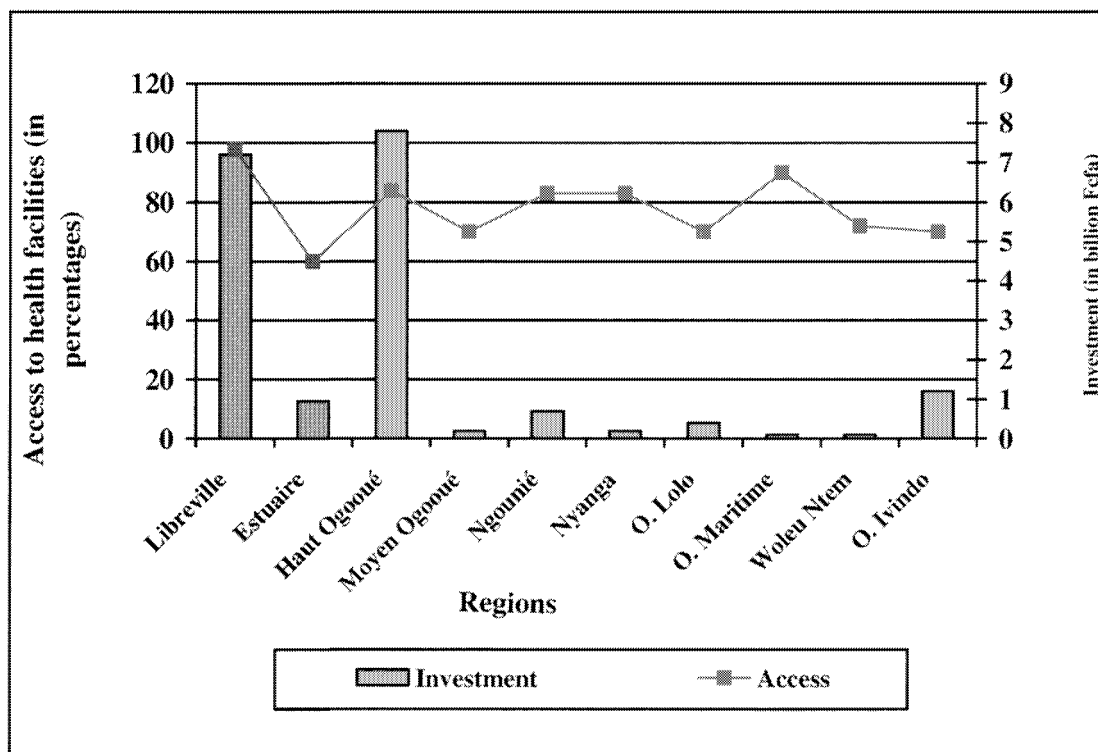
193. **There were sharp variations in per capita expenditures on medicines among regions in 2002**, as illustrated in Figure 21. The equitable distribution of medicines may be evaluated from the standpoint of the average expenditure on medicines per capita. Figure 21 demonstrates that pharmaceutical products are not distributed according to

needs. In addition, the use of generic drugs in Gabon is low, further undermining efficiency.

194. **The availability and quality of human resources varies across regions as well.** In general, the quantity and quality of health care personnel is inadequate in Gabon, and there are inadequate incentives in the public and parastatal sectors for health care personnel to deliver quality services. The number of doctors in a region ranges from two (Nyanga) to 58 (Libreville) per 1000 people.

195. **Public investments in the health sector do not reflect regional needs.** Libreville and Haut Ogooué continue to be the largest beneficiaries of health sector construction. Both areas already enjoy some of the highest rates of geographical accessibility to health care (94 percent and 87 percent of all households, respectively). Meanwhile, Ogooué Ivindo, with an accessibility rate of 67 percent, receives resources six times less than those allocated to Haut Ogooué and three times less than Libreville in total. Investment in construction of new facilities is not being used to enhance geographic accessibility to health services. Similarly, health expenditure on equipment in the regions is uneven. For example, La Ngounié and La Nyanga have the same health service utilization rate (35.4 percent). However, the former received CFAF 125 million in equipment budget allocations over four years, whereas the latter received only CFAF 50 million during the same period.

Figure 22: Construction Component of Health Investment and Geographical Accessibility by Designated “Health Regions”



Sources: Ministry of Finance, COSP 2004.

Reliability of Health Sector Expenditures

196. **The unreliability of budgeted expenditures is another factor which undermines efficiency.** Table 14 shows that the original budget allocated to the health sector was reduced by 35 percent in 2001, by 9 percent in 2002, and by 35 percent in 2003. The recurrent budget is consistently revised downwards each year. Each year between 2001 and 2003, the recurrent budget was revised downwards by between 1/3 and 1/2 of the original budget. The investment budget, on the other hand, appears not to have suffered such downward revisions. This means that **the intended balance between recurrent and investment spending is rarely maintained**, with investment expenditure taking a higher share of the budget than originally intended (up to 1/3 as opposed to 1/4 of the budget).

Table 14: Recurrent and Investment Expenditure in Health Sector Budgets

	2001			2002			2003		
	Initial Budget	Revised Budget	Revised /Initial	Initial Budget	Revised Budget	Revised /Initial	Initial Budget	Revised Budget	Revised /Initial
Recurrent	29.8	14.8	50%	29.8	19.6	66%	38.5	21.5	56%
	79%	61%		77%	76%		77%	66%	
Investment	7.8	9.6	123%	6.6	6.3	95%	11.6	11.1	96%
	21%	39%		23%	24%		23%	34%	
Budget Total	37.5	24.4	65%	28.6	26.0	91%	50.0	32.6	65%

Source : Ministry of Finance.

Conclusion

197. **Poor allocative efficiency, regional inequity, and the unreliability of budgeted expenditures are major factors behind the lack of effectiveness of public health expenditure in Gabon.** Other factors include inadequate staffing and equipment and limited access to medicines.²¹ These factors, as well as the overall level of expenditure in the sector, mean that health sector policy objectives are unlikely to be achieved.

198. **The Ministry of Health, with the support of the Ministries of Finance and Planning, needs to implement a significant reallocation of resources towards prevention and primary health care, and to ensure a more equitable distribution of funding across the regions.** Only then is the country's performance in health care likely to be improved.

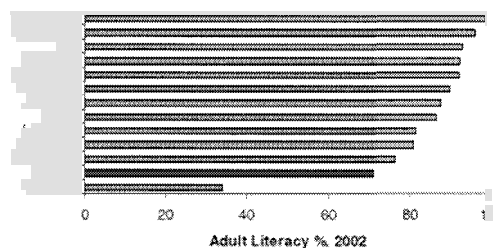
²¹ Lack of potable water in rural areas, and lack of proper sanitation in both urban and rural areas, may also contribute to poor health outcomes.

Public Expenditure in the Education Sector

International Comparisons

199. In Chapter 1, we have seen that **Gabon devotes a relatively large share of its public expenditure to education**, in comparison to other countries in the same per capita income category. However, when one compares Gabon's educational outcomes with those of countries that have a similar level of public expenditure, it appears that education expenditures have not always been effective. In 2002, the adult literacy level in Gabon was lower than in all but one of the countries with similar per capita levels of public expenditure on education (Figure 23). Literacy has, however, increased substantially in recent years, from 71 percent in 2002 to 85 percent in 2005, one of the highest literacy rates in Africa.

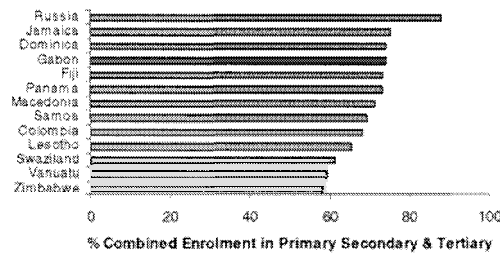
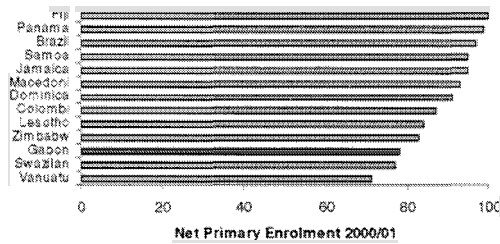
Figure 23: Education Sector Performance In Countries with Similar Levels of Per Capita Education Sector Spending



200. **Gabon has been relatively successful in making education accessible to all.** In 2000, Gabon had a net primary enrollment rate (proportion of all children aged 7-12 enrolled in primary school) of about 75 percent. Currently, the net primary enrollment rate is 92.5 percent, with only slight variations according to gender and geographical location. In addition, Gabon has a relatively high combined enrollment rate in comparison to other countries (Figure 24), indicating that a relatively high proportion of primary graduates continue on to secondary and higher education.

201. **However, problems of educational quality undermine the efficiency and effectiveness of public expenditures.** Gabon has high repeater rates and relatively low promotion rates. Consequently, many students spend more time than they should to acquire education. Others leave the system without acquiring skills that would be useful in the job market. A large share of education expenditures, including scholarships, are devoted to secondary and higher education, which often fails to meet the needs of the nation's economy.

**Figure 24: Education Sector Performance
In Countries with Similar Levels of
Education Sector Spending**



Education Sector Policy and Strategy

202. The two main goals of the Government’s strategy in the education sector are **(1) enhancing the quality of the education system, and (2) providing training with better employment prospects.** The main elements of the strategy are defined in a number of strategy documents. The draft Growth and Poverty Reduction Strategy emphasizes the Provision of Primary Education for All, and, more specifically, targets reducing the class repetition rate and school dropout rates. The 2002 National Action Plan for Education for All, responding to various resolutions and recommendations of the International Forum on Education which was held in April, 2000 in Dakar, Senegal, similarly emphasizes primary education. The Sectoral Strategy on Education-Training and the LDAT (*Loi de Développement et Aménagement du Territoire*) represent more comprehensive strategy documents, covering the entire education sector. Box 4 below highlights the key education policy outlined in these documents.

Box 4: Objectives of Key Education Policy Documents

The I-PRSP and the National Action Plan for Education for All emphasize Primary Education. These are the key objectives of the action plan:

- Develop and improve all aspects of the education and protection of children, especially the most deprived and disadvantaged.
- Ensure that by 2015, all children; particularly girls, disadvantaged children, and those from minority ethnic groups have the possibility of attending and completing free, compulsory and quality primary education.
- Respond to the educational needs of all youth as well as adults by ensuring equitable access to adequate programs whose objective are to enhance knowledge and provide capacities necessary in day-today life.
- Increase the level of literacy in the adult population, with emphasis on women, by 50 percent by 2015 and guarantee all adults access to equitable basic and continuous education programs.
- Reduce the drop out rate for girls in both primary and secondary schools, by 50 percent by 2015 and achieve gender equality in this domain by 2015 and ensure equitable access for all girls to the completion of quality education;
- Enhance all qualitative aspects of education to guarantee the achievement of excellence, with a view to obtaining well-recognized credentials as well as quantifiable achievements in indispensable areas of modern life, such as reading and mathematics.
- Reduce the prevalence rate for HIV-AIDS in the school environment by 75 percent.

The Law on Territorial Management and Development (LDAT) and the Sectoral Strategy for Education-Training have the following common priorities:

- Design the education and training system as part of the overall strategy for human resource development;
- Put in place appropriate instruments for human resource planning and management;
- Restructure the management structure of the Ministry of National Education;
- Enhance the output performance of the education system;
- Direct students of higher education towards careers that provide better prospects for employment;
- Carry out a significant reorganization of ANFPP;
- Extend the scope of access to ANFPP to students who are not able to continue in the education system after completing the first cycle of secondary education;
- Institute an Investment Charter defining fiscal incentives in order to promote vocational training.

Education Sector Institutions, Services, and Performance

203. **The responsibility for education policy and provision falls under three different ministries.** The Ministry of National Education is responsible for pre-primary, primary and secondary education (general and technical). The Ministry of Higher Education, Scientific Research and Technical Innovation is responsible for undergraduate university education and research. The Ministry of Vocational Training is responsible for professional training outside the field of national and higher education. Its objective is to provide a workforce whose skills are appropriate to the needs of the economy.

204. **Pre-primary classes are concentrated in the cities and are largely found in private schools.** In 2002-2003, pre-primary education was available in 82 schools to more than 4,000 children, almost evenly divided between girls and boys. Pre-primary education is needed for most children to acquire a working knowledge of French, the language of instruction. Gabon has therefore established the goal of making pre-primary education available to all.

205. **Primary education is widely accessible.** The gross enrollment rate in primary schools was 134 percent in 1998-2002, corresponding to over 90 percent of the 6-12 age cohort. However, classrooms are often overcrowded, especially in the rapidly growing urban areas. Overcrowding (up to 100 pupils per class) undermines teacher effectiveness. The Ministry of Education has identified a need for 2377 more primary classrooms, as well as the need for refurbishing current classrooms in poor physical condition and lacking access to potable water.

206. **Access to secondary education is more constrained.** In 2002, gross enrolment in secondary schools was 54 percent of the age cohort, corresponding to a net enrolment rate of 21 percent. The number of students admitted to secondary schools is limited by the space available. In recent years the GOG has made substantial efforts to increase capacity at this level, notably by building more secondary schools outside of the large cities.

207. **Opportunities for professional and technical education at the secondary level are still quite limited.** There are currently 11 institutions in Gabon that offer this type of education. Demand is high, with student/teacher ratios ranging from 60 to 80.

208. **Gabon offers many options at the university level.** Higher education is provided in three universities, three “*grandes écoles*,” and three institutes of higher learning.²² These institutions provide a classical liberal arts education as well as training in a broad range of professional and technical specialties. However, their curriculum and equipment are not up-to-date, and a large number of Gabonese students prefer to pursue higher education outside the country.

209. **Despite being a high priority of government in terms of expenditures, in general the Gabonese education system is characterized by poor performance.** This can be measured in terms of high repetition rates and low examination success rates at all levels. In addition, the educational system does not adequately address the needs of the productive sector.

210. **High repeater rates represent the major weakness in the education system in Gabon.** The repetition rate stands high in all the sub-sectors. During the period 2002-2003, the repetition rate was about 37 percent in primary schools 30 percent in secondary

²² Omar Bongo University, Scientific and Technical University of Masuku, and Health Sciences University; College of Education (*école normale supérieure*), College of Technical Education, and Secretarial College; Institute of Management Sciences, Institute of Technology, and Institute of Agronomy and Biotechnology.

schools, and 26 percent in secondary technical schools.²³ During the same period, the proportion of promotions to a higher class, based on examination success, was, on average, 36 percent for all students. The high level of failures is attributable to a number of factors, including but not limited to infrastructure inadequacies, overcrowded classrooms, and declining efficiency of teachers. All these factors have a psychological impact.

Table 15: The Class Repetition Rate at Primary School Level

	CP1	CP2	CE1	CE2	CM1	CM2
Promotion to Next Level	42.9	70.0	55.0	69.3	63.0	-
Class Repetition Rate	43.9	33.9	37.3	26.1	29.8	28.2
School Drop-Out Rate	13.2	-3.9	7.7	4.6	7.2	-

Source: "State of the Education System" MEN/DPPI, May 1999.

211. About two-thirds of the school age population completes primary school, and about half continues on to secondary education. In 2003 the success rate in completing the sixth grade was 66 percent; it was 54 percent for entry into the sixth grade (the level at which students are screened in relation to the space available in secondary schools). Secondary enrollment rates are higher in the main urban centers, while they represent less than 30 percent of the school age population in rural areas. This reflects the fact that secondary schools are more readily accessible in urban areas. In rural areas, students may have to travel more than two hours (25 km) to reach a secondary school facility.

212. Success rates in secondary, technical and higher education are relatively low. In addition to the high proportion of repeaters, about 20 percent of secondary students drop out each year. Of those who complete the secondary cycle, only 44 percent qualify for the general baccalaureate and 41 percent for the technological baccalaureate. At the university level, failure rates are even higher: 95 percent in the first year in the faculty of law, 83 percent in the first year in the faculty of medicine, and 67 percent in the faculty of arts and sciences. As a result of these high failure rates, about 40 percent of those who enter institutions of higher learning drop out after the first year.

213. Education costs represent a significant share of household expenses, placing a greater burden on the poor than on the relatively well-to-do. Less than half of all households are satisfied with Gabon's educational system. Their main complaints are the lack of school books and supplies, and classroom overcrowding. Other problems include the absence of teachers, the poor quality of teaching, and poor physical conditions in the schools. The cost of schooling is the main reason why students drop out before completing their education. Distance is a factor in only a few cases.

²³ The EGEP survey reported that about 20% of all students had to repeat at least one school year. According to MEN statistics, however, less than 5% of those who start primary school reach the sixth grade without repeating at least one year.

214. Both technical and vocational education, as well as primary and secondary education, are insufficiently employment oriented and do not meet the needs identified by companies in various sectors. However, there some success stories.

Education Sector Expenditures

215. **The share of education sector financing in relation to GDP is relatively high and has been increasing**, from 3.1 percent in 2001 to 3.7 percent in 2005. Education has also increased as a share of total public spending, from 10.2 percent to 15.3 percent over that period. However, the sector is not delivering value for money in terms of outputs and outcomes. As with the health sector, this can be attributed first to poor allocative efficiency, and second, to poor operational efficiency.

216. **Education expenditures do not reflect the GOG's emerging expenditure priorities of primary education and technical and vocational training.** Only about 20 percent of the recurrent budget is allocated to the primary and pre-primary sub-sector, compared to 50 percent for the secondary sub-sector and 15 percent for technical education. In addition, much of the growth in the level of public expenditure for education can be attributed to the provision of scholarships for higher education. Sub-sector shares in the investment budget are more volatile. Primary and secondary education have been given equal and high priority in the past, taking approximately 40 percent each. However, in 2005 the balance shifted towards higher education, which received over half of the total investment budget allocations.

217. **While recurrent budget allocations to national education declined from 2002 to 2004, those of higher education rose sharply** during the corresponding period. Overall, the share of public expenditure on education (excluding scholarships) allocated to higher education rose from 13.6 percent in 2002 to 17.2 percent in 2004, while the share of spending on national (primary and secondary) education remained the same (around 57 percent) between 2002 to 2004. When scholarships for higher education are included, in terms of actual expenditures, the share of national and vocational education declined from 66.0 percent in 2001 to 61.5 percent in 2005, while that of higher education increased, from 34.0 percent to 38.5 percent, during the same period.

Table 16: Recurrent Education Spending by Sub-Sector

	2002		2003		2004	
	Amount	%	Amount	%	Amount	%
Pre-Primary	552	5.8	833	9.2	792	8.3
Primary	1305	13.6	1252	13.8	1639	17.2
Secondary	4194	43.8	3950	43.4	3884	40.8
Technical	1072	11.2	894	9.8	1064	11.2
Private*	890	9.3	850	9.3	950	10.0
Other Expenses	1569	16.4	1323	14.54	1182	12.4
TOTAL	9582	100	9102	100	9511	100

Source: Finance Act: 2001 to 2003.

*Represents government contribution to recurrent costs of privately operated schools.

218. **Higher education appears to be given increasing priority in investment spending.** The distribution of education sector investment expenditures (mostly in the form of firm spending authorizations) is also tilted in favor of general secondary and higher learning. During the period 2000-2004, these two sub-sectors accounted for 25.6 percent and 43.0 percent of education investments, respectively. The rate of investment on higher education increased sharply, by 233 percent between 2001 and 2005, whereas investment in national and vocational education grew by only 29 percent. Despite the emphasis placed on basic education and vocational training in the various strategy documents, higher education continues to be favored. It is likely that these expenditures, especially those on scholarships to foreign universities, benefit mostly the wealthiest income groups.

	2000	2001	2002	2003	2004	2005
Initial Allocations (In FCF millions)	12795	16319	22178	20581	10900	28915
Pre-Primary	-	-	-	-	-	1.3
Primary	17.5	13.8	17.5	40.3	39	19.8
Secondary	31.7	47.2	26.3	38.8	31.9	18.9
Min. of National Education	22.3	7.7	12.2	4.3	7.1	1.4
Min. of Vocational Training	9.1	8.4	5.5	3.5	2.8	3.1
Min. of Higher Learning	19.3	22.9	38.4	13.1	19.3	55.4
Expenditure Authorizations	5599	10247	14908	7189	5128	Average 2002/4
Pre-Primary	-	-	-	-	-	-
Primary	20	20.7	9.6	24.5	11	16.2
Secondary	9.2	29.7	23.1	29.1	38.6	25.6
Min of National Education	17.7	9.2	3.2	2	1.5	6.1
Min. of Vocational Training	12.4	9.2	7.4	9.9	9.1	9.1
Min. of Higher Learning	40.7	31.9	56.7	34.6	39.7	43

Source: Ministry of Planning, Gabon.

219. **Data are not available to assess directly the efficiency of public expenditures on education.** Efficiency analysis presupposes the availability of reliable data on actors and direct beneficiaries of budget allocations: teachers, staff of the ministries concerned, pupils and students, as well as availability of physical resources (such as buildings, equipment and pedagogical materials). Whilst such information is not readily available for the education sector, it is possible to infer some problems of efficiency in education spending from the distribution of planned expenditure.

220. **The first indicator of inefficiency is the fact that budget allocations are skewed towards secondary and tertiary education.** This is inherently inefficient, as it is cheaper to educate a child in primary school than in secondary or tertiary establishments. Recurrent spending per pupil or student (excluding expenditure on

scholarships) in the Ministry of Higher Education is 18 times higher than that of the Ministry of National Education (Table 18).

Table 18: Recurrent Expenditure Per Student (FCFA 000)

	2001	2003	2005
Ministry of National Education			
Number of Students			
Recurrent Expenditure per Student	312960	284879	295096
	27508	29286	32230
Ministry of Higher Education			
Number of Students			
Recurrent Expenditure per Student	9070	10076	11000
	570232	577809	581909

Sources: Ministry of National Education and Ministry of Higher Education.

221. **The second indicator of inefficiency is that GOG expenditure on education is increasingly being channeled towards scholarships for secondary and higher education, and in particular, foreign scholarships.** Allocations associated with the provision of scholarships increased by 82 percent between 2001 and 2005, and the share of expenditure on scholarships in total recurrent spending increased from 23.3 percent in 2001 to 33.1 percent in 2005. Projected spending on scholarships in 2005 was more than twice the total amount allocated to non-wage recurrent expenditures, a category which is critical to improving the quality of education for all. Furthermore, the amount allocated to scholarships at the university level was nearly ten times the amount allocated for scholarships at the secondary level.

222. **Efficiency is being further undermined, as the proportion of scholarships to institutions outside Gabon is increasing.** In 2005, the average cost of a scholarship for a student in Gabon (all expenses included) was of the order of FCFA 3.0 million, compared to FCFA 6.0 million in respect of a student outside Gabon. This is six to ten times the expenditure per student at the Ministry of Higher Education. Whereas the number of beneficiaries attending educational institutions within Gabon increased by only 7 percent between 2001 and 2005, the number of students attending educational institutions outside Gabon increased by 78 percent. Only a third of the beneficiaries of these external scholarships pursue courses in science and technology.

223. **The proportion of public resources devoted to scholarships, especially university level and foreign scholarships, is not only inefficient but is also inequitable.** It represents significant transfer of national resources to an elite group of students, many of whom come from well-off and well-connected families. This resource transfer comes at the expense of the vast majority of students who are unable to reach these levels, due to the inadequacy of current educational facilities and the high private costs of education for the poor.

224. **Within sub-sectors, the costs of educating pupils have not changed significantly, and there is little evidence of deterioration in efficiency, although there is evident need to improve quality.** Over time, changes in per student spending have generally tended to be moderate. For the Ministry of National Education, per student spending rose from FCFA 29,286 in 2003 to FCFA 32,230 in 2005, while for the Ministry of Higher Education it rose from FCFA 577,809 in 2003 to FCFA 581,909 in 2005. The average remuneration level (basic salary) of personnel employed in the Ministry of National Education has actually decreased, by about 5 percent between 2001 and 2005. Whilst efforts are needed to improve the working conditions of teachers, the average cost of training primary and secondary school teachers remains relatively high and there are concerns about the sustainability of this trend in the majority of provinces.

225. **Much public expenditure is channeled to the private sector, and there are few systems in place to ensure its efficiency and effectiveness.** For example, in 2002 the Government financed 70 percent of recurrent expenditures of private denominational primary schools and 88 percent of teachers' salaries in private secondary schools with a public vocation. In addition, the education budget provides for subsidies to the private sector which represents approximately 10 percent of the recurrent budget. This part of the budget is usually disbursed in full.

Reliability of Education Sector Expenditures

226. **The implementation rate for recurrent public expenditure on education is improving, and is relatively reliable,** although execution of the budget lines relating to vocational education and scientific research is less reliable than for national education. **In contrast, the investment budget remains highly unreliable,** with substantial shortfalls against the original budget. The variability in the utilization of allocations to the education sector was due to two factors: first, arbitrary revisions to budget proposals from the Ministry of National Education; and second, management problems between the Ministry of National Education, the Ministry of Finance, and the Ministry of Planning. Both externally funded and locally funded investments have problems in implementation. This unreliability means that it is very difficult to execute investments as planned, and is likely to undermine both efficiency and effectiveness of expenditures.

Table 19: Variation of Actual Education Expenditures from Budget Allocations (%)

	2003			2002		
	Non-Wage Recurrent	Investment	Total	Non-Wage Recurrent	Investment	Total
National Education	1	-51	-28	-22	-79	-59
Vocational Training	-5	101	38	-15	-86	-72
Higher Education	-1	1	-1	-11	52	20
Scientific Research	-21	170	12	-28	-71	-45

Source: Ministry of Finance.

Conclusion

227. **The problems of educational performance in Gabon reflect the fact that education expenditures are biased towards the secondary and tertiary levels.** This is both ineffective, because the Government's objective is to expand access to services, and inefficient, because the unit costs in terms of primary education are typically less than those for the secondary or tertiary levels. Greater priority in budgeting education expenditures should be given to improving complementary facilities in primary schools (not new school construction, although additional classrooms may be needed in some areas), providing adequate furniture, equipment, books and supplies, and recruiting, training, and paying teachers reasonably to provide a quality primary education to all.

228. **Education budgets need to be based on a realistic assessment of needs, and responsibility for their execution should be located in the sector ministry.** This will require the development of capacities within MEN to collect, process, and disseminate data, to prepare investment plans based on real needs, and to monitor and supervise the quality of teaching. Responsibility for managing recurrent budgets should be decentralized to regional or lower levels, with capacity building and financial controls as needed. The sector ministry should have a greater voice in the recruitment and promotion of teachers.

229. **The problem of poor preparation for employment needs to be addressed at different levels** (those leaving primary schools without certificates, extension programs in vocational and technical training institutions, and creation or expansion of higher education programs on a short or long-term basis). This should be done in phases on the basis of an action plan, including a mechanism for monitoring or tracing the employment of graduates from the vocational and technical education system.

230. **The national policy on secondary and university scholarships should be reviewed** with a view to providing incentives for students to acquire skills more relevant to the job market (including technical and vocational training). It would also be useful to introduce appropriate affordability tests or other mechanisms to enhance efficiency and equity in the use of scholarship funds.

Public Expenditure in the Infrastructure Sectors

Infrastructure, Growth and Poverty in Gabon

231. **The GPRS for Gabon highlights the importance of infrastructure for both economic growth and poverty reduction.** Infrastructure improvements (transport, water, energy, and information and communication technology (ICT)) constitute one of the “pillars” of the strategy. Road improvements, in particular, are expected to promote economic activity and regional integration. They are also seen as key to including the rural poor in the benefits of growth, and improving their access to basic services.

232. **Progress has been made in meeting basic needs.** While the poor in Gabon are not entirely satisfied with the current state of infrastructure, they do not experience this as a major problem. Most communities can be reached by roads, though they may not be paved in rural areas. The proportion of households with access to potable water is nearly 85 percent, though it is only 40 percent in rural areas. About 85 percent of all households have access to electricity (93 percent in urban areas, but only 35 percent in rural areas). Housing and sanitation are the main concerns of the poor in urban areas. There is a lack of low-income housing and serviced lots in the cities, so the poor are forced to find their own solutions.

233. **In this section, we examine recent patterns of public expenditure on infrastructure, with a particular focus on the roads subsector.** We also report briefly the findings of a study of planned expenditures on other types of infrastructure serving the needs of the poor. This study was carried out with the aim of identifying public investments that could be implemented by Gabonese small and medium-sized construction enterprises, as part of a strategy to promote development of the domestic private sector in Gabon.

Infrastructure Policy and Strategy

234. **Sound policies and strategies for the transport and urban sectors were developed during the 1990s and adopted by Parliament.** The Transport Sector Strategy stressed the need to give priority to the maintenance of existing roads and to improve roads or build new roads only in accordance with criteria of economic feasibility and sustainability. Under this strategy, a Road Fund was established to manage road maintenance, relying as much as possible on local contractors. Other aspects of the strategy included reducing the role of state enterprises in operating transport facilities and services, while building capacity to monitor and manage the performance of private operators, and developing and implementing a road safety program.

235. **The Urban Sector Strategy focused on improving access to unserved urban neighborhoods and improving living conditions in those areas.** Pilot operations, using labor-based technologies, have shown that these goals can be achieved at relatively low cost through community participation, strengthening local authorities, and building the

capacity of small local contractors. Over time, these operations have been expanded to a full-scale program of urban upgrading in low-income neighborhoods in Gabon.

236. **However, planned public expenditures and donor-funded projects have not always been consistent with these strategies.** In 1993, the Government initiated a Road Network Improvement Program (*Programme d'Aménagement du Réseau Routier – PARR*) aiming to pave nearly 2,000 km of roads in five years, in order to link Libreville and the five provincial capitals. In the intervening ten years, only 539 km of roads have been improved, at costs far exceeding the original forecasts. In addition, the Government has not always respected the original intentions of the Road Fund. More recently, in the context of regional cooperation, the Government has adopted a Master Plan for Inter-modal Transport (PDIT), designed to open up new transportation corridors to facilitate regional trade and communications.

237. **In the context of the GPRS, the Government is crafting a new transport sector strategy.** It is designed to safeguard and extend the life-span of road infrastructure assets by placing emphasis, first, on road maintenance, second, on rehabilitation of damaged sections of the road network, and third, on completion of previously discontinued construction and rehabilitation projects. Beyond these priorities, safeguarding road infrastructure assets by monitoring axle loads, and the establishment of a computerized road data bank are highlighted, as well as continuing the program for paving the road network.

238. The strategy proposed in the GPRS gives the highest priority to completing the unfinished road works in the first phase of the PARR, for an estimated cost of 295 billion FCFA. The second priority is the rehabilitation and periodic maintenance of all the remaining existing roads. The third priority is the construction and/or paving of new international and national highways, improving regional roads to good gravel standards, and improving urban streets in Libreville and other towns in the interior of the country. The strategy also includes creating an agency to regulate public transport, improving data collection and management, and implementing the road safety plan.

239. The strategy also calls for the rehabilitation and extension of the *Transgabonais* railroad to provide connections to Cameroon and the Republic of Congo, in the context of the NEPAD priority program of regional investments and the Central African Common Transport Development Plan. Improvements to coastal ports and inland waterway transportation are also identified, although it is not clear if their costs are included in the GPRS investment program.

Road Sector Institutions, Services, and Performance

240. **The lead ministry in the sector is the Ministry for Public Works, Equipment and Construction.** It is responsible for road transport policy. The Directorate General of Civil Works is responsible for the construction of new roads, whilst the Directorate General of Road Maintenance manages a road maintenance fund (*Fonds d'Entretien Routier - FER*). The FER (special fund supposed to be used in the routine maintenance

of major roads in Gabon) has budgetary allocation currently which the Treasury is expected to remit to the fund. However, starting in 2006, it is expected that there suppose to be earmarked to finance the operations of the fund. In addition, there are plans to implement a second generation road maintenance fund.

241. **Road transport services are largely provided by the private sector.** The Government is involved in the provision of other transport services, through the national railroad network, ports, airports, airline, and an urban bus transport company. Major transport infrastructure facilities are now largely operated through concession agreements. The Government also provides transportation subsidies for students. A Road Safety Program has been proposed but has not yet been implemented

242. **Gabon has a dense and extensive road network.** The national road network consists of 9170 kilometers, of which about 938 kilometers are paved; this does not take into account the urban network. Gabon has the highest density of road infrastructure in Sub Saharan Africa (41 kilometers of roads per 1000 square kilometers)²⁴. However, the proportion of roads that are paved (10 percent) is considerably less than the average for sub-Saharan Africa. From 1980 to 1990, the roads sector and public works absorbed an average of FCFA 100 billion in annual investments, representing half of all public investment during this period. Cumulative investments in the roads sector have permitted Gabon to build transport infrastructure with an asset value approximately equivalent to the country's GDP (FCFA 2,500 billion in 1996).

243. **However, the road network has substantially degraded.** This has been attributed to two main factors. First, geographic and climatic conditions in Gabon constitute a major obstacle in the construction and maintenance of the road network. Heavy rainfall causes significant damage, especially when maintenance is not undertaken on a regular basis. The inadequate funding of the road maintenance fund to provide for quality construction materials complicates the work of contractors. In addition, although traffic volumes are low outside large population areas, the road network degrades rapidly because of the weight transported by heavy trucks (minerals and tropical timber). Axle loads are not monitored. Lack of timely maintenance also contributes a great deal to the poor quality of the road network.

Road Sector Expenditures

244. **The GOG makes substantial allocations for to road construction in the budget.** Approximately a third to half of the investment budget is allocated to road construction. The road maintenance fund, if implemented properly, should ensure that there is adequate budgetary provision for road maintenance. Clearly, the revenues accruing to the Road Fund are more than adequate to meet the projected needs for routine road maintenance (recurrent budget) and could also be used to cover the costs of timely periodic maintenance, rather than allowing roads to deteriorate to the point where full and costly rehabilitation or reconstruction is needed.

²⁴ "Road transport policy in Gabon" by Egide Boundono-Simangoye, Minister of Public Works, Equipment and Construction, statement to the XXII World Road Congress, Durban, South Africa.

Table 20: Approved Budget Allocations and Road Maintenance Funds Receipts, 2001-2005

	2001	2002	2003	2004	2005
Approved Road Investment Budget	30.7	25.1	24.5	37.7	16.5
Approved Recurrent Budget	7.0	7.5	3.4	3.4	5.6
Total Approved Ministry Budget	37.7	32.6	27.9	41.1	46.1
Road Maintenance Fund Revenues	8.0	30.0	28.0	22.5	16.0

Source: 2001, MPPD, 2000-2005 Treasury.

245. **However, these budget allocations have not achieved the desired results.** The construction of 539 kilometers of paved roads since 1992 represents an achievement of only 28 percent of the targeted road construction, at a cost of FCFA 180 billion, representing 66 percent of total planned costs. In other words, roads have cost more than twice as much as originally planned, averaging FCFA 357 million (US \$70M) per kilometer. The Directorate-General of Civil Works (DGGT) is responsible for 16 road construction projects, 11 of which were discontinued after total spending in the amount of FCFA 111 billion, or about FCFA 147 million per kilometer. The five projects still under implementation are expected to cost about FCFA 700 million per kilometer.

246. **The roads sector has incurred huge debts,** amounting to FCFA 28 billion for maintenance and FCFA 45 billion for construction in 2005. These figures do not include the expenditures and debts arising from uncompleted road projects in various regional capitals, including those associated with independence anniversary investments.

247. **There are major problems in the implementation of road maintenance.** For efficiency in the roads sector, it is essential that maintenance be effective, as it is far cheaper to maintain a road than to rehabilitate or reconstruct it. Maintenance operations have suffered because much (up to half in 2002 and 2003) of the resources of the road fund (FER) intended for maintenance have been used to finance large scale construction/rehabilitation projects.

248. According to the Director-General of Road Maintenance (DGER), funds for the 2003 program were spent as planned but the program was not satisfactorily implemented. The execution of civil works was impeded by the lack of funds to purchase materials. Contracts for the supply of materials and labor were not well managed by the MPTEC personnel, who lacked the required skills. As a result, civil works were not carried out according to design specifications. The majority of small and medium enterprises employed were found to be poor performers. Large enterprises discontinued their activities due to non-payment for services rendered. During 2004, Road Fund resources of FCFA 16 billion seem to have been used to repay debt owed to enterprises that has provided services under the FER.

Reliability of Road Sector Expenditures

249. **A key problem underlying the poor implementation of road projects is the unreliability of both investment budget expenditures and Treasury disbursements to the Road Fund.** This has been a major factor behind the indebtedness of the sector. The average implementation rate of investment expenditures under the Ministry of Public Works was 26 percent compared to the original budget. If one also factors in the fact that the cost of construction is nearly double of what was originally planned, this would imply that the resulting investment expenditure was only around 10 percent of what was planned. The situation is even worse if one considers that many construction projects have been cancelled. The unreliability of Treasury disbursements to the road maintenance fund undermines the ability of the Director General of Road Maintenance to carry out routine maintenance activities, and adds to the costs incurred by small domestic contractors.

Table 21: Investment Budget Implementation: The Ministry of Public Works, Equipment and Construction (MTPEC)						
	2001	2002	2003	2004	Average	Ratio
Original Allocations	45.0	48.68	24.6	40.0	39.6	100
Revised Allocations	30.7	25.1	24.5	37.7	29.5	74
Commitments	22.7	1.1	24.4	27.7	19.0	48
Authorizations	17.6	0.9	24.4	27.7	17.7	45
Payments	17.2	0.7	5.3	18.1	10.3	26

Source: 2001, MPPD, 2002-2004 Treasury.

Urban Institutions, Services, and Performance

250. **The Ministry of the Interior, *Direction des Collectivités Locales*, is the central government agency in charge of local governments.** There is also a recently created Ministry of Cities and Urban Development. Municipalities have a certain degree of financial autonomy, as their budgets include revenues from local taxes and fees as well as block grants and earmarked revenues transferred from the central government. However, these revenues are not sufficient for infrastructure investments; in practice, municipal budgets only cover salaries and recurrent expenses. To take full responsibility for urban upgrading, municipal authorities would also need technical support from central ministries such as the Ministry of Zoning and Land Affairs, and the Ministry of Public Works, Equipment and Construction.

251. **The Priority Works and Local Development Program (PIPDEL) has made a substantial contribution in mobilizing low-income neighborhoods to improve their living conditions and in strengthening the capacities of small contractors.** It

successfully modeled a participatory approach to small-scale infrastructure planning with the involvement of local (*chefs de quartier*) and municipal authorities. It has succeeded in generating employment in the urban neighborhoods selected for the program and in stimulating the growth of small contractors. It is one of the few assistance programs in Gabon that have actually succeeded in generating welfare improvements for the poor. However, this program remains at a relatively small scale and does not enjoy full support at higher government levels. The Government should give greater priority in the public investment program to projects that can be implemented by local contractors through facilities such as the Learning and Innovation Loan (LIL), intended for financing small scale infrastructure development projects. The successful implementation of the pilot project has led to proposals to replicate it on a larger scale, to be supported by the newly approved (March, 2006) Local Infrastructure Development Project Loan.

Urban Infrastructure Expenditures

252. **In the context of this program, a review of public expenditure on infrastructure was carried out in 2001**, with the aim of identifying projects in the public investment program that could be carried out by small contractors using labor-based techniques. The study grouped the sectors into four categories as shown in Table 22. Budget allocations, commitments, and payment orders for infrastructure expenditures across the sectors in 2001 are shown in Table 23. The rate of execution of planned infrastructure expenditure is well below average in the sectors of transport and urban development, and only slightly above average in the social sectors, while it is close to 100 percent in the “other” sectors.

Table 22: Categories Used in Infrastructure Expenditure Review

Category	Sectors
1. Construction and Urban Development	Public Works, Equipment and Construction, Cadastre, Housing, Urban Development
2. Productive Sectors	Transport, Civil Aviation, Merchant Marine
3. Construction Consuming Sectors (Social Sectors)	Education, Vocational Training, Youth and Sports, Higher Education and Scientific Research, Health
4. Others	All other sectors

Source: Ministry of Finance.

Table 23: Infrastructure Expenditures in 2001 (million FCFA)

Category	Allocations	Commitments	Payment Orders	Reliability of Expenditure
1	32337	24254	18770	58%
2	7894	3237	1733	22%
3	19781	16303	15250	77%
4	28308	28163	27121	96%
Total	88320	71957	62874	72%

Source: PAPSUT, Annual Review of Public Expenditure on Infrastructure, 2001.

253. **Budget allocations for infrastructure declined sharply, from 1997 to 1999, and improved only slightly from 1999 to 2001.** However, expenditure authorization and payment performance by the Treasury was relatively stable and sustained over this period. An in-depth study of six projects with particularly low rates of execution showed that the main reasons were (i) the incompatibility of budget allocations with expenditures estimated by the sector ministries, and (ii) delays and additional costs incurred during the procurement process. The study also found that failure to allocate and disburse counterpart funds were often at the root of the failure to execute externally financed investment projects. Inquiries conducted among the donors revealed that counterpart funds budgeted for 2002 were less than half the amount expected by them.

254. **The recommendations of this study were similar to those of the present report, as outlined below:**

- Start implementing the budget in January of the budget year.
- Execute the budget as it was enacted.
- Respect the rules governing public procurement.
- Respect the rules governing budget transfers.
- Eliminate unnecessary steps in the expenditure management process.
- Establish joint financial monitoring arrangements between the ministries of Planning and Finance, and each sector ministry.
- Place financial controllers in the sector ministries,
- Accelerate administrative stages of the budget approval process.
- Set a deadline for payment of invoices.
- Provide for smooth execution of multi-year programs.
- Put in place a system to monitor actual results on the ground.

255. **The study also identified ways to develop a more realistic investment budget, with an emphasis on projects destined to benefit the poor.** Additional resources for infrastructure maintenance did not appear to be needed, but a better utilization of the existing allocations would be necessary to maintain the value of the capital stock. The study noted a relatively high amount budgeted for new administrative buildings, as well as several projects that appeared inconsistent with the Government's commitment to withdraw from productive activities and to give priority to poverty reduction.

Conclusion

256. **There are three main problems in budget support for the roads sector in Gabon.** The first problem is *unrealistically high budget allocations* for investment. This problem reflects a failure to properly evaluate and prioritize donor-funded projects and to consider their recurrent cost implications. The second problem, related to the first, is *an imbalance between planned expenditures on road construction and road maintenance*. Road Fund revenues should be forecast based on future traffic, and new investments should be limited to those whose maintenance costs can be fully covered with anticipated resources. Finally, the *unreliability of budgeted investment expenditures and*

disbursements to the Road Fund undermines the implementation of planned programs and the financial viability of local contractors.

257. **Urban infrastructure has been relatively neglected in public expenditure**, especially infrastructure serving the needs of low-income neighborhoods. The PIPDEL has demonstrated how poor communities can be mobilized for self-help activities. However, the scope of such works is limited by local skills and resources. The Government could give greater priority in the public investment program to projects that can be implemented by local contractors, generating employment and stimulating private sector development.

Conclusion and Recommendations

258. **In this chapter, we have ascertained that public spending on priority sectors in Gabon is both inefficient and ineffective.** In the health and education sectors, we have demonstrated that expenditure allocations are not oriented towards the achievement of sector objectives and the emerging priorities relating to basic service delivery. Allocations in the roads sector could, if properly implemented, achieve sector objectives. However, expenditures in all three sectors do not represent value for money. In the health and education sectors, high allocations are made to secondary and tertiary levels of service delivery, where unit costs are far higher. In the roads sector, funds intended for maintenance may be diverted to more costly rehabilitation and construction projects, and road projects are not always selected according to strict cost-benefit criteria. The funding available for urban infrastructure maintenance and improvement is inadequate to meet the needs of poor neighborhoods. The unreliability of expenditure estimates, especially in the investment budget, means that development projects are not always completed, further undermining cost effectiveness. Unit costs in the roads sector are particularly high.

259. **Several issues need to be addressed to improve the efficiency and effectiveness of expenditures in these priority sectors**, in pursuit of I-PRSP objectives:

- Reorientation of budget allocations and expenditures towards primary levels of delivery in health and education will enhance both efficiency and effectiveness of services.
- Giving priority to road maintenance will help to extend the life of capital investments and ensure more reliable road transport.
- Empowering municipalities and rural communities to undertake infrastructure improvement projects with local labor and resources can enhance both the productivity and welfare of the poor.
- There is substantial scope for improving the efficiency of existing expenditures by promoting equitable distribution of resources across the country and improving the quality, focus and targeting of public investments.
- There is an urgent need to focus on improving the reliability of budget execution for spending agencies, particularly the investment budget.

- Improving monitoring and evaluation systems will help ensure that ministries and agencies can track the implementation of their expenditure programs and improve their implementation.

260. **It is striking to note the similarity of problems across sectors in managing the public expenditure process.** All of the sector reports stress the need for more consultation between the sector ministries and the central ministries of Planning and Finance during budget preparation, and for decentralizing and simplifying the management and control of budget execution. Sector ministries should have firm guidance in advance on budget ceilings. They need to have the ability to spend from their budgets throughout the year, as well as to ensure continuing support for multi-year programs. Sector ministries also need to have a greater voice in the recruitment, hiring and promotion of civil servants. If sector ministries are to prepare and manage realistic investment programs, there will be a need to develop planning and management capacities in each sector ministry, not just in the central ministries.

261. **Building on the GPRS process, priority sectors should develop costed strategies and medium term expenditure projections.** This should be coupled with the provision of more realistic and credible resource allocations to those sectors, in the context of an overall Medium Term Expenditure Framework. Improvements in public financial management are needed to ensure that planned programs are efficiently implemented, and that the goals of Gabon's Growth and Poverty Reduction Strategy are effectively achieved.

CHAPTER 5: CONCLUSIONS AND PRIORITY ACTIONS

Overview

262. **In this report we have carried out a review of the outcomes of the public financial management systems in Gabon**, and assessed the strengths and weaknesses of those systems. The three key objectives of a public financial management system are aggregate fiscal discipline, allocative efficiency, and operational efficiency. We have reviewed the Government of Gabon's performance against these objectives.

Aggregate Fiscal Discipline

263. **Over the past four years, the Government of Gabon has taken steps to improve aggregate fiscal discipline**, by reducing primary budget expenditures in relation to GDP, and using oil revenues to reduce the external debt burden. **However, Gabon's aggregate fiscal position remains vulnerable.**

Allocative and Operational Efficiency

264. **Both at the national and the sectoral level, the budget is not oriented towards the strategic priorities of the Government. Furthermore, budget execution does not provide an efficient mechanism for public service delivery.** A large proportion of public expenditure is made up of debt servicing and fixed costs of public administration, which leaves little space for re-orientation of the budget towards GPRS objectives. In the health and education sectors, expenditures are biased towards secondary and tertiary levels, which is both inefficient and ineffective. The roads sector represents particularly poor value for money. The Road Maintenance Fund has not worked as envisaged. In all sectors, the implementation of public investments has been poor. Unit costs in the road sector have been particularly high.

Four Key Issues

265. **There are four main issues in public expenditure management and financial accountability that the Government of Gabon needs to address**, if it is to achieve a sustainable improvement in human development outcomes. First, it will be important to *continue efforts to diversify Gabon's economy* in order to reduce the vulnerability of public financial resources to external shocks. Secondly, it will be crucial to *maintain aggregate fiscal discipline* and continue to use oil revenues to clear external debt, as well as to improve macroeconomic management and the overall predictability of future revenue needed to support the budget. Third, there is a need to *improve the efficiency and effectiveness of public expenditures*, by orienting the budget towards the delivery of basic services, consistent with GOG priorities. Finally, there is a need to *improve the reliability of budget implementation* processes, ensuring that public financial management systems support the implementation of budgets as planned, and

strengthening the capacity and accountability of institutions concerned with public financial management.

266. Whilst the first issue is only indirectly related to public financial management, the need to maintain fiscal discipline and improve: i) efficiency and effectiveness of public expenditures; ii) the reliability of budget implementation; and iii) transparency and accountability, all are directly related to public financial management.

Maintaining Fiscal Discipline

267. **Sound debt management is essential for fiscal sustainability in Gabon.** The level of public debt in Gabon is high (over 60 percent of GDP in 2004). This generates high levels of interest payments (about 7 percent of non-oil GDP and almost 30 percent of non-oil revenues in 2004). Higher than expected oil revenue, resulting from higher oil prices and a slower decline of oil production than projected, provides the Government with a crucial choice: spending or saving the windfall. If Gabon maintains its budgetary discipline, and manages its oil windfall prudently, domestic debt could be eliminated and external debt reduced to sustainable levels. If, however, Gabon relaxes fiscal policy and uses oil revenues to fund current or investment expenditures rather than clear debt, external debt will remain at current levels and the fiscal situation is likely to become unsustainable.

268. **Non-oil revenues should be maintained in parallel to the growth of non-oil GDP.** This does not mean that there is an unchanged tax effort. Indeed, some non-oil revenues are related to oil sector activities (e.g., taxes on wages for employees in oil companies; tax revenues from consumption by expatriates working in oil companies, etc). These revenues will decrease with the decline in oil production, raising pressures on other sources of revenue, so that non-oil revenue will remain constant as a percentage of non-oil GDP. Thus, the Government should maintain and enhance its tax effort.

269. **Another key element for Gabon's fiscal sustainability is to contain the wage bill.** The recently promulgated civil service legislation poses risks for maintaining control of the wage bill. In particular, the creation of five separate civil service structures could reduce discipline in public sector hiring and remuneration decisions. To have its full impact, implementing decrees and a number of complementary laws need to be enacted. These decrees and laws should provide instruments for the Government to contain the wage bill. If the new civil service legislation inflates the wage bill, there would be serious risks for public debt sustainability.

270. **Finally, the Government of Gabon should improve its ability to project revenues** in order to provide reliable resources for financing budgeted expenditures. If this is not done, the implementation of planned expenditures will be difficult, and the likelihood of incurring expenditure payment arrears will be increased.

Improving Development Effectiveness

271. **As the Government of Gabon prepares its poverty reduction strategy, it will become possible to evaluate the effectiveness of expenditure patterns in the context of a clearer set of objectives.** The GPRS provides an opportunity for the restructuring of public services towards these objectives. At a sectoral level, the development of concrete strategies, priorities, and time-bound and costed programs will also help provide the basis for more effective resource allocation.

272. **In the meantime, a number of actions can be taken to improve the development effectiveness of public expenditure.** The share of the budget allocated to priority sectors, especially health, should be increased, while the share of general public administration should be reduced. Within the health and education sectors, budget allocations should give greater priority to primary service delivery, consistent with the defined sector policy goals. Regional disparities in public service delivery should also be reduced. Allocations to the Road Fund should be used only for road maintenance, giving priority to routine maintenance of the entire maintainable road network. Infrastructure investments should be subject to rigorous evaluation based on strict cost-benefit criteria, as well as to an assessment of their potential benefits and costs for the poor. In addition, monitoring and evaluation systems need to be improved at both the central and sectoral levels.

Improving Budget Execution

273. **Improving the effectiveness and efficiency of public expenditures begins with a better budgeting process.** As noted above, revenue projections should be based on the results of previous budget implementation experience, and all Government revenues should be included in the national budget. Reliable budget ceilings should be provided for recurrent and development spending, preferably over the medium-term. Future budgets should disaggregate the wage bill, *charges communes*, and the Independence anniversary budget, allocating them appropriately among the various functions of the Government and sectoral ministries.

274. **There is a clear need to improve coordination and communication** between the Ministry of Planning (CGP), which is responsible for investment budget planning and the Ministry of Finance (DGB), which is responsible for recurrent budget preparation. Sectoral ministries need to be more involved in budget preparation. Presenting the budget according to major functions, using a COFOG compliant classification system, will help to increase transparency and accountability. Greater use could be made of Program Authorizations and Payment Credits, to accommodate activities that take longer than one year to complete. The budget should be presented to Parliament as a single document in which planned investments are linked to recurrent expenditures. Once approved, the budget should not be subject to changes.

275. **Expenditure procedures can be simplified,** by eliminating the DGB commitment voucher, allowing budget managers to establish payment orders, and

shifting payment order approval from the Department of Financial Control to the Treasury. A streamlined procedure for financial control could be introduced for minor expenditures. The role of CGP in approving investment expenditures financed by domestic resources could be eliminated. The time allowed for making expenditure commitments should be extended. However, the use of exceptional and extra-budgetary spending procedures should be strictly limited.

276. Procedures should be implemented that would allow sector ministries greater control over the execution of their budgets. Financial controllers should be assigned to the spending ministries and provided with the necessary facilities to carry out their tasks. Greater financial autonomy and accountability may require capacity building in the sectoral ministries and eventually, in regional and local authorities.

Strengthening Financial Management

277. The legal and regulatory framework for financial management in Gabon is generally acceptable. The organic law on public finance management could be revised to integrate modalities based on performance evaluation. Additional instruments needed to promote the implementation of Gabon's Procurement Code should be drawn up rapidly and distributed widely.

278. However, old practices persist that undermine the efficiency and effectiveness of public expenditure. Collusion between public officials and the private sector results in increased costs to the Government. Sectoral ministries lack the skills to evaluate bids, award contracts, and supervise their execution. Capacity strengthening is needed throughout the system. A code of ethics should be developed, and penalties for fraud and corruption enforced, as provided in the new Procurement Code.

279. The quality of financial control operations needs to be improved. The administrative control of expenditures is still highly centralized. Financial controllers often fail to perform according to professional standards. The role of public accountants is undermined by the use of exceptional payment procedures. The recently created Government Auditing Office lacks a clear definition of its role, in relation to the Audit Court and to Parliament. While the Audit Court is generally effective, Parliamentary oversight remains weak, due in part to lack of information and coordination with other bodies.

280. Controls carried out to ensure legal compliance and conformity of expenditures should be limited. The relevance of systematic control of all expenditures could be questioned, since additional controls have not succeeded in improving the quality of expenditure management.

281. Procedures for national accounting and reporting need to be improved. The DGCF should produce an annual activity report. The quality of the Treasurer General's management accounts could be further improved. In the longer run, and in tandem with the decentralization of resources and responsibility and the development of local

capacities, the Ministry of Finance should also implement a program to produce financial statements for public enterprises and local authorities.

282. **External audit procedures and the role of Parliament in financial control require strengthening.** A manual of procedures for Government audits needs to be prepared and published. In addition, the reports of the Government Audit Office should be published. The performance of the Audit Court is generally excellent. However, the production of its annual report on the execution of the previous year's Finance Act needs to be accelerated, in order to speed up the parliamentary vote on the settlement bill. The practice of parliamentary reviews should be encouraged, and the conclusions of these reviews should be published.

Monitoring Public Expenditure Performance

283. **A good public financial management system is needed for any country to support policy implementation and progress towards development objectives.** In particular, PFM underpins three basic budgetary outcomes:

- Effective control of the fiscal balance and management of fiscal risks,
- Planning and executing the budget in line with Government priorities (effectiveness), and
- Optimizing the use of budget resources for public service delivery (efficiency).

284. In order to assist governments to measure and monitor improvements in the performance of their financial management systems, **an international partnership has developed a Public Financial Management (PFM) Performance Management Framework.**²⁵ The framework consists of a set of high level performance indicators articulated around six core dimensions of PFM performance, together with a regular reporting format. The six core dimensions of PFM performance are:

- Realism and reliability of the budget.
- Comprehensiveness and transparency: this dimension measures the management of fiscal risk, and the accessibility of fiscal and budget information to the public
- Policy-based budgeting.
- Predictability and control in budget execution.
- Accounting, recording and reporting.
- External scrutiny and audit arrangements, including follow-up by the executive authority.

285. **An attempt has been made to apply this framework to the present situation in Gabon (Annex F).** The 28 indicators used to measure progress along these six dimensions are shown in this annex. Each indicator receives a "grade" ranging from A to

²⁵ PEFA Secretariat, "Public Financial Management Performance Measurement Framework," World Bank, Washington, June 2005. This document can be downloaded from the Web at www.pefa.org.

D. Where the needed data are not available, the indicator is graded D. Detailed guidance on how these indicators are scaled and quantified is provided in the reference document.

286. Annex F shows that the most serious challenges in Gabon's public financial management systems are (a) debt management (Indicator 4), (b) outcome-based budgeting (Indicator 7), (c) functional budget classification (Indicator 8), (d) identification of poverty-related expenditure (Indicator 10), and (e) coordination of recurrent and investment expenditures (Indicator 13). Many other indicators are rated "C," indicating a substantial need for improvement. No indicator receives an "A" rating. Ratings of "B," indicating marginally acceptable performance, are given for the accuracy of fiscal deficit forecasts (Indicator 1), revenue forecasts (Indicator 3), comprehensive reporting (Indicator 6), and follow-up on audit reports (Indicator 27).

287. **This PFM Framework establishes a baseline against which future performance changes can be monitored at regular intervals.** The reporting format shows how the indicator data can be combined in an integrated assessment of progress on the six dimensions, and to evaluate the likely impact of PFM changes on the three basic budgetary outcomes. It also allows for recording recent reform measures and assessing institutional factors that may not yet have affected performance, but are likely to do so in the future. Repeated applications of the tool will provide information on the extent to which country PFM performance is improving. However, the framework does not, by itself, provide data on the factors driving performance or on development outcomes. Interpretation and policy analysis will always be needed in the context of specific country situations.

A Phased Approach to PFM Reform

288. In this chapter, we have highlighted a series of priority actions which would improve public financial management and service delivery in pursuit of GPRS objectives. All of these actions are important for improving development effectiveness. However, **the Government of Gabon will probably need to adopt a phased approach** to implementing these reforms, further prioritizing what can be achieved over the short and medium-term. Often, simple steps can change the incentives built into PFM systems and improve outcomes, without requiring wholesale changes. Such steps might include the preparation of more conservative resource projections, the introduction of budget ceilings, changes in the presentation of the budget to Parliament, and publication of budget documentation and reports.

289. **Recommendations that could be implemented in the near- to medium-term include:**

- Improve the accuracy of revenue projections.
- Improve the quality of public investment decisions (apply cost-benefit criteria).
- Improve budget coverage to better reflect donor financing.
- Integrate the investment and recurrent budgets (phase out dual or parallel recurrent and capital budgeting).

- Present the budget according to major functions, using a COFOG compliant classification system
- Streamline the expenditure process (para. 14 above)
- Improve the quality of Treasury account management
- Improve the reliability (predictability) of budget execution
- Improve the presentation of the budget to Parliament
- Improve public dissemination of budget documentation and reports
- Improve budget monitoring and evaluation systems.

290. **Longer term recommendations in the four key areas include:**

To maintain fiscal discipline:

- Continue the policy of using oil revenues to liquidate debt.
- Ensure the growth of non-oil revenues in parallel to the growth of non-oil GDP.
- Ensure that the wage bill remains constant in real terms.
- Implement tax administration recommendations made by the IMF.

To improve development effectiveness:

- Complete the GPRS and prepare a Medium-Term Expenditure Framework.
- Increase the budget share of health and other MDG sectors, by reducing the shares allocated to general public administration and Independence anniversary expenditures..
- Reorient allocations within the health and education sectors towards primary services.
- Reduce regional disparities in health and education expenditures.
- Ensure that allocations to the Road Fund are used only for road maintenance, with priority given to routine maintenance
- Reduce investment budget allocations to the road sector to more realistic levels.
- In future, link budget allocations to medium term expenditure projections based on costed sectoral strategies and programs to be developed under the GPRS.

To improve budget execution:

- Provide reliable budget ceilings for recurrent and development spending, preferably over the medium- term
- Execute Independence anniversary expenditures through normal budget procedures.
- Extend the annual period for budget expenditure commitments.
- Decentralize the management of recurrent expenditures to sectoral ministries.
- Establish a data base on public investment projects.
- Introduce a streamlined procedure of financial control for minor expenditures.
- Limit the role of financial controllers in the expenditure commitment phase.

- Provide decentralized financial control offices with the computer equipment needed to accomplish their tasks.

To strengthen financial management:

- Revise the organic law on public finance management to integrate modalities based on performance evaluation.
- Accelerate the production of the Audit Court's report on the execution of the annual Finance Act.
- Improve facilities at the disposal of the CDC, especially its computer equipment.
- Speed up the enactment of the settlement bill.
- Improve the quality of service provided by the Financial Controller's Office.
- Produce an official price index for supplies ordered for procurement by the Government.
- Control the practice of expedient approval by the Planning Commission.
- Institute annual progress reporting by the Financial Control Department.
- Prepare a manual of procedures for audits carried out by the Government Auditing Office.
- Publish the Government Auditing Office reports.

ANNEX A: DEBT SUSTAINABILITY ANALYSIS

Public Sector Debt Sustainability in Gabon

1. Gabon's macroeconomic performance has been erratic over the past decade. There have been intervals of satisfactory progress followed by periods of sudden surges in government spending, particularly associated with the political cycle, giving rise to large fiscal deficits and accumulation of external and domestic arrears (Figure 1). However, in recent years, steps have been taken to strengthen budgetary management capacity, improve governance, accelerate the privatization process, and foster private sector development.

2. Gabon's heavy reliance on oil production²⁶ and its considerable vulnerability to fluctuations in oil prices have impeded economic policy management in the past and delayed socio-economic development. In previous decades, fiscal balances have largely mirrored the volatility in international oil prices—resulting in successive episodes of large, often wasteful public investments followed by deep economic crises, accompanied by large fiscal imbalances and the accumulation of domestic and external arrears. Moreover, oil production peaked in 1997 and non-oil growth has been anemic. As a result, Gabon's relatively high per capita GDP of about US\$5,500 belies its generally poor social indicators, which tend to be more in line with those of low-income countries in sub-Saharan Africa.²⁷

3. Macroeconomic performance in 2004 and through June 2005 was satisfactory. High oil prices buoyed exports and government revenue, resulting in large external and fiscal surpluses in 2004. But non-oil revenue also rose, and paired with expenditure control – including a reduction of the wage bill in nominal terms – contributed to a reduction in the non-oil primary deficit. Inflation remained low and non-oil growth accelerated, reflecting a broad-based economic recovery and satisfactory competitiveness. As a result, total public debt fell by over 10 percentage points of GDP to reach 62 percent of GDP at end-2004 and is estimated to fall further to about 45 percent of GDP by end-2005. Compared to other oil-producing countries in sub-Saharan Africa, Gabon has a larger non-oil revenue base and a smaller non-oil primary deficit – although it still has higher debt levels than most of them (Figure 2).

4. Despite the recent improvement, Gabon's economy continues to face major challenges, including a secular decline in oil production, a heavy debt burden, and weak social indicators. Gabon's oil sector, which contributes about 55 percent of government revenues, is projected to decline gradually over the medium term and, without significant new discoveries, oil reserves could be depleted over the next 30 years. At the same time, given the high level of public debt (over 60 percent of GDP in 2004), interest payments,

²⁶ In 2004, oil has accounted for about one-half of GDP, 80 percent of exports, and more than one-half of government revenues.

²⁷ Gabon ranks 123rd (122nd) out of 177 countries in the United Nation's 2005 (2004) Human Development Index—in per capita GDP terms the second richest economy among the bottom-55 countries.

at about 7 percent of non-oil GDP and almost 30 percent of non-oil revenues in 2004, are high and pose a heavy burden on government finances.

5. In this context, to ensure a sustainable path for the government debt-to-GDP ratio over the medium term, both mobilizing more non-oil revenue, and containing and prioritizing the current level of expenditure are essential. However, in Gabon non-oil revenue already accounts for a relatively large share of non-oil GDP and the room for a large increase of non-oil revenue to offset the reduction of oil revenue may be limited. Gabon's revenue performance is also well above the sub-Saharan African average and is comparable to those of upper-middle-income countries.²⁸

6. Total expenditures, representing 39.3 percent of non-oil GDP in 2004, also appear to be high. The composition of public expenditures suggests relatively high spending on wages and salaries, and on interest payments. In 2004, wages and salaries represented 10.8 percent of non-oil GDP and interest payments 7 percent of non-oil GDP. Together they represent 60 percent of total recurrent expenditure.

7. Thus, while scope remains for further improvement in non-oil revenues, the main instrument of adjustment in Gabon is probably on the public expenditure side. The aim of this chapter is to outline the main medium-term fiscal challenges that Gabon will face under decreasing oil production, and to consider possible areas of adjustment both on the revenue and the expenditure side.

Main assumptions

8. **Oil revenues:** The baseline scenario maintains oil production broadly at its current level until 2007 (reflecting the views of the major oil companies active in Gabon) followed by a decline thereafter at the same rate as in the baseline. The assumptions for exchange rates and oil prices are those of the WEO (as of August 8, 2005) up to 2010. After 2010, the assumption is that the dollar exchange rate vis-à-vis Euro remains unchanged from the 2010 value. The benchmark price of oil is projected to fall from US\$61.8 per barrel in 2006 to US\$56.5 in 2010. After 2010, the assumption is that international prices converge gradually to US\$48.1 per barrel.

9. **Wage bill:** The wage bill accounts for a large share of public expenditure. In 2004, the wage bill was 10.8 percent of non-oil GDP placing Gabon's civil service among the most expensive in Africa. The wage bill is assumed to remain constant in real terms (that is, the wage bill is assumed to increase at the same rate as the non-oil GDP deflator).

10. **Use of oil windfall:** Under the baseline scenario the Government is able to maintain both its non-oil revenues and its non-wage primary expenditure constant as a proportion of non-oil GDP. Here, it is implicitly assumed that the current oil windfall is

²⁸ See Keen and Simone (2004) for an international comparison of the level and composition of government revenue performances.

used to decrease the public debt and increase the assets of the Fund for Future Generations (FGF).

11. **Non-oil growth:** In the baseline, non-oil growth is assumed to be approximately 3.8 percent, on average, during the period 2005–23. This is higher than the average non-oil growth over 1990–2003 (2.5 percent).

Assessing debt sustainability

12. The baseline scenario incorporates the latest oil production and price forecasts. The baseline external sustainability scenario during the period 2005–2014 shows that the external debt-to-GDP ratio declines steadily and financing gaps disappear. Similarly, the results of the public sector debt baseline analysis indicate that virtually all outstanding domestic public debt, including the float at the Treasury and that with the regional central bank, will be eliminated by 2010. However, the stress tests reveal that Gabon's debt sustainability remains extremely sensitive to shocks to non-oil output growth, to changes in the production and the price of oil, and to the degree of fiscal discipline. These results highlight the importance of prudent fiscal policies and of fostering the development of the non-oil economy by encouraging private sector development and the diversification of Gabon's economic base.

External Public Debt Sustainability

13. The baseline debt sustainability analysis indicates that during 2005–08, the external debt-to-GDP ratio is projected to decrease by 16.5 percentage points to 23.6 percent of GDP. Oil receipts are projected to remain significant, on account of high prices and a slower-than-anticipated decline in production, and continued fiscal discipline is expected to avoid the emergence of financing gaps.²⁹ After 2008, the baseline scenario projects a further decline in the external debt-to-GDP ratio to 0 by 2015, mainly reflecting (i) continued buoyant oil revenues; (ii) steady growth of non-oil output; (iii) debt amortization in excess of new borrowing; and (iv) continued fiscal discipline.

14. Gabon's vulnerability to external shocks remains high as shown by the standard sensitivity tests.³⁰ In each of the tests, which assumes extreme adverse shocks to each key parameter individually and jointly, the debt ratio rises faster and to higher levels than in the baseline.³¹

15. Setting real GDP growth rates and nominal interest rates at their historical averages results in a continuously decreasing debt-to-GDP ratio; the paths observed are similar to that in the baseline, although the ratio decreases in both cases at a slower pace.

²⁹ For the first half of 2005, approximately CFAF 75 billion of debt service with Paris Club creditors were rescheduled in the context of the agreement reached in June 2004.

³⁰ The test that combines the effect of setting all key variables at their historical values is not presented, since the relatively large average non-interest current account surpluses are the dominating effect. Thus, the results obtained would not be realistic given the steady decreases in oil production projected in the baseline scenario.

³¹ These sensibility analyses consider adverse shocks of one standard deviation, lasting two years (i.e., transitory shocks) for each key parameter.

16. Should the U.S. dollar depreciate sharply, proxied by a temporary shock to the U.S. dollar deflator, the debt ratio rises sharply initially, and decreases slowly thereafter.

17. The long-term effects of a shock to the non-interest current account balance are significant in the medium-term, but not so in the longer term.

18. A combined shock leads to unsustainable external debt levels, as the result is dominated by the deflator shock.

19. The analysis includes four additional sensitivity tests, namely a temporary shock to oil production, a long-term shock to non-oil output growth, a long-term shock to Gabon's second export commodity, timber, and a long-term shock to the price of oil. Should oil production be higher than anticipated in 2006 and 2007—which is consistent with the view expressed by the largest oil companies that they would likely maintain production at current levels for the next few years – debt sustainability improves even more sharply; indeed, external debt would be fully repaid by 2010. All other shocks lead to varying degrees of deterioration of the external current account. The negative effect of the lower oil price (25 percent lower than the baseline oil price over the medium term) leads to a steady increase of the debt ratio; similarly, the effect of lower growth in the tradable non-oil sector causes debt ratios to turn unsustainable. Clearly, given the still large size of oil exports, the effect of a lower oil price has a severe impact in the short-term whereas the effect of lower growth in the non-oil tradable sector is felt more in the medium to long-term. The impact of lower timber-related exports is reflected in a debt-to-GDP ratio that decreases at a slower pace than in the baseline. The unsustainable paths for the debt-to-GDP ratio in the cases of a lower oil price and lower non-oil tradable GDP growth underscore (i) the importance for Gabon to adopt macroeconomic policies that promote economic diversification, (ii) the strong dependence of the baseline scenario on the higher (expected) oil prices; and (iii) the need to maintain strong fiscal discipline.

Public Sector Debt Sustainability

20. Under the baseline projection, Gabon's total public sector-to-GDP ratio is projected to decrease from 61.8 percent in 2004 to 23.6 percent in 2008 and be totally eliminated in 2015.³² The key assumptions underlying this result are (i) non-oil GDP growth rises to approximately 4.0 percent, on average, in 2005-2015; and (ii) the Government curbs increases in the wage bill; and (iii) the Government is able to maintain its non-oil revenues constant as a proportion of non-oil GDP.

21. Gabon's public debt sustainability vulnerabilities are underscored when considering the stress test that uses the primary balance as the shock variable. This is the

³² The domestic debt declines due to (i) the government's reimbursement of domestic debt to suppliers and public contractors; (ii) the repayment by the government of public enterprise debt to the social security system, wage bill arrears and to suppliers (assumed by the government in recent years in the context of the restructuring of such enterprises); (iii) the repayment to commercial banks of domestic debt; (iv) the repayment of virtually all unpaid float at the treasury; and (v) the repayment of statutory advances to the central government by the regional central bank. All these debts have relatively short maturities.

result of lower domestic debt being retired. Not surprisingly, the results obtained for the sensitivity tests that consider temporary shocks to other key parameters resemble those described for the external debt.

22. The public debt sustainability analysis includes three additional sensitivity tests, namely (i) a higher wage bill than in the baseline; (ii) a higher level of transfers financed by the oil windfall; and (iii) the combined effect of a higher wage bill and oil revenues. The first shock assumes that the wage bill remains constant as a percentage of non-oil GDP (instead of remaining constant, in real terms, at its 2005 level). Given the high oil prices, such a policy may be sustainable in the short- to medium-term, i.e. through 2014. In the long run, however, the higher wage bill generates unsustainable debt dynamics. The second shock assumes that the oil windfall is spent rather than saved, beginning in 2005.³³ The effect of this shock is immediate, and long-lasting. Moreover, the debt dynamics caused by the higher expenditures make public debt unsustainable. Finally, the third test considers both higher oil revenues (on account of higher oil production) and, at the same time, a wage bill that remains constant as percentage of non-oil GDP. Although the effect of the higher oil revenues dominates through 2014, the public debt-to-GDP ratio increases in the second half of the next decade. The implicit dynamics in this case also suggest that, if this wage bill policy is sustained, public debt would finally become unsustainable. These results underscore that (i) a main factor in Gabon's debt sustainability is the ability to maintain fiscal discipline, even in the presence of higher oil production and prices; and (ii) the need to sustain steady growth in the non-oil sector through diversification and to translate this growth into higher non-oil fiscal revenues.

23. The results

The main results can be summarized as follows:

- **Gabon's economy remains highly vulnerable to oil revenue (oil production and oil prices).** Because the fiscal path is already sustainable under the baseline scenario, an increase in oil production will further improve Gabon's fiscal sustainability. However, a drop of oil prices by 20 percent from projected levels will generate financial gaps and public debt becomes unsustainable.
- **Maintaining control of the wage bill is an important element of fiscal sustainability, and this even with an optimistic path of oil production.** If Government maintains the wage bill constant as a percentage of non-oil GDP (instead of remaining constant, in real terms, at its 2005 level), public debt will be placed on an unsustainable path. Given the high oil prices, the effect of this scenario is more important when oil production and revenues decrease. In the end, the debt dynamics originated in this wage bill policy makes public debt to become unsustainable in the longer term. If oil revenues are high on account of higher oil production and, at the same time, the wage bill remains constant as a percentage

³³ The oil windfall is defined as the difference between fiscal revenues in the baseline scenario and the fiscal revenues that would result if Brent prices were US\$35 per barrel.

of non-oil GDP, still the public debt-to-GDP ratio increases, although the effect of the higher oil revenue dominates through 2014.

- **The use of oil windfall (spending versus saving) is a crucial element of fiscal sustainability.** If Government spends the oil windfall, beginning in 2005, this has an immediate effect on fiscal sustainability: under this scenario, the public debt-to-GDP ratio would be approximately 50 percent by 2007, 44.1 percent by 2010 and the debt dynamics caused by the higher expenditures make public debt to become unsustainable.
- **The ability to sustain a steady growth in the non-oil sector through diversification is a crucial element of debt sustainability.** A lower growth rate in non-oil sector or in its components, depending on the size of the component, will undermine fiscal sustainability. Also, a lower non-oil growth would make public debt less sustainable.

Policy Implications

The main policy implications from these simulations are as follows:

The use of the windfall: the virtuous circle

The level of public debt is high in Gabon (over 60 percent of GDP in 2004); this generates high levels of interest payments (about 7 percent of non-oil GDP and almost 30 percent of non-oil revenues in 2004). Higher oil revenue, resulting from higher oil prices and a slower decline of oil production than projected, provides the Government with a crucial choice: spending or saving the windfall. The scenarios show that if Gabon maintains its budgetary discipline, and manages its oil windfall prudently, foreign debt could be eliminated by 2015. This would generate a virtuous circle in public finances by reducing the heavy burden imposed by public debt. If, on the other hand, Gabon relaxes fiscal policy today, foreign debt would remain at current levels and unsustainable financing gaps would open up. Thus, if the Government saves or spends the oil windfall, it can be a blessing or a curse for Gabon.

- **Wage bill**

A key element for Gabon's fiscal sustainability is to contain the wage bill. The recently promulgated civil service law poses risks for maintaining control of the wage bill. In particular, the creation of five separate civil service structures could reduce discipline in public sector hiring and remuneration decisions. To have its full impact, implementing decrees and a number of complementary laws need to be enacted. These decrees and laws should provide instruments for the Government to contain the wage bill. However, if the new civil service law inflates the wage bill, there would be serious risks for public debt sustainability.

- **Non-oil revenue mobilization**

In the scenarios we assumed that non-oil revenue remains constant as a share of non-oil GDP (that is, it grows at the same rate as the non-oil GDP). This does not mean that there is an unchanged tax effort. Indeed, some non-oil revenues are related to oil sector activities (e.g., taxes on wages for employees in oil companies; tax revenues from consumption by expatriates working in oil companies, etc). These revenues will decrease with the decline of oil production, raising pressures on other non-oil revenue to be constant as a percentage of non-oil GDP. Thus, the Government should maintain and enhance its tax effort. In this regard, a technical assistance report on tax policy and administration by the IMF made a number of key recommendations. Many of them have yet to be implemented:³⁴

- (i) streamlining of tax incentives and eliminating discretionary exemptions granted to specific businesses;
- (ii) simplifying the structure of VAT and limiting exemptions;
- (iii) strengthening the recovery of tax arrears, particularly VAT and forestry taxes; and
- (iv) modernizing tax administration, including transferring all tax collection responsibilities from the Treasury to the *Direction Générale des Impôts* (DGI), increasing the number of tax auditors, and widening the coverage of tax audits.

The report also recommended the creation of a Large Taxpayers Unit (LTU). The decree establishing the LTU (*Direction des Grandes Entreprises*, DGE) in the Tax Directorate was adopted in September 2004. The DGE will begin its operations in 2005 and is expected to be fully operational during 2006. The challenge is now to make the DGE effective in enhancing revenue mobilization.

- **Public expenditure management**

Given the limited scope for increasing non-oil revenue, the core objective of fiscal reform is to contain public expenditures and enhance their efficiency. In this regard, a second technical assistance report³⁵ contains many valuable suggestions that are still to be put into practice, covering budget preparation, budget execution, and sound public accounting practices.

³⁴ Benon, Olivier, Eric Lesprit, Maureen Kidd and Alain Joustien, February 2004, Gabon: “*Amélioration du Système Fiscal et Modernisation de la Direction Générale des Impôts*” (Washington : International Monetary Fund).

³⁵ Héliès, Jean Luc, July 2004, “*Gabon: Proposition pour une Amélioration de la Gestion Budgétaire*,” (Washington: International Monetary Fund).

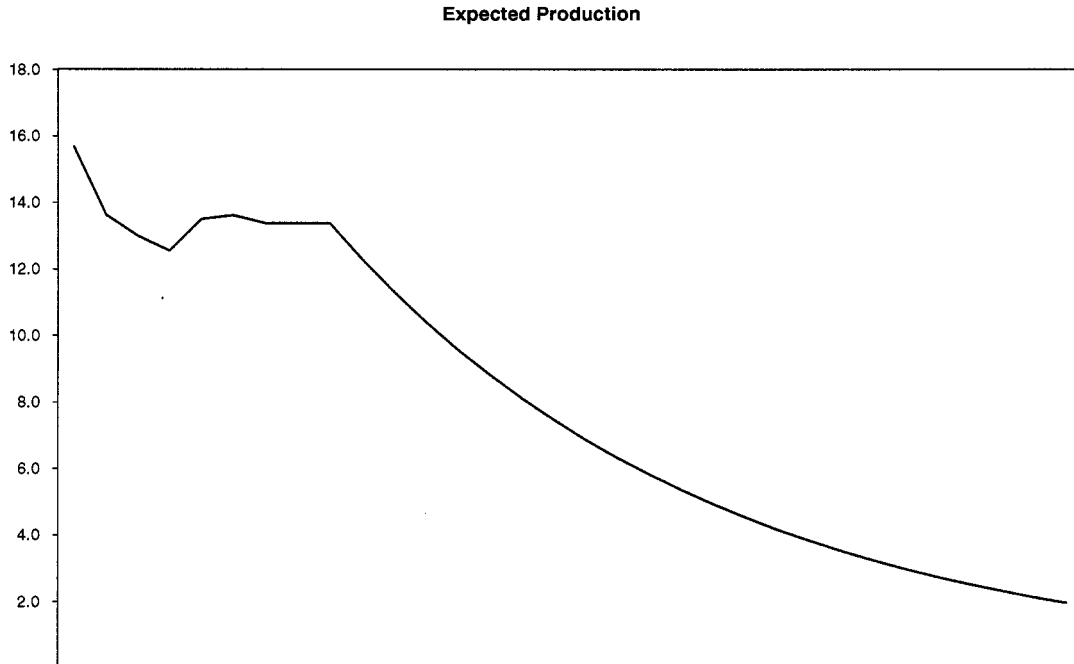
ANNEX B: MANAGING OIL REVENUES

1. The management of oil revenues has been a long standing question in the international policy circles: what to do with a windfall? How much should be saved, how much to spend, and how much to pay in debt? Where should the resources be saved? The underlying objective in all these questions is for a country to be able to smooth the short term shocks due to the fluctuation of oil prices, and to be able to transfer resources across generations.

2. The fastest and easiest answer to the problem at hand is to use financial markets, such as futures and options, to transfer the risk in the revenue stream out of the fiscal accounts and onto other agents in the world that are more willing to bear the risk. However, rarely are financial markets deep and liquid enough to achieve such objectives. So countries end up implementing self stabilizing strategies – self insurance or stabilization funds – to manage their revenue risk.

3. Gabon, an oil producer, differs in many ways from the standard oil producing country. In Gabon, production is declining, it is uncertain, and there is very little chance it is going to last forever. Figure 25 shows the expected production in the future. Clearly, there is a downward trend.

Figure 25: Past and Expected Oil Production in Gabon



4. Second, and more importantly, the production pattern in Gabon has depended and depends on the price of oil. If oil price is higher, then the production of the country increases (in general), but if the oil prices are low, then the production decreases. This means that determining the sources of risk into the fiscal accounts has two different dimensions: the price of oil, and the production of oil.

5. The typical stabilization fund assumes that the country is going to produce a constant amount of resources and the resources are going to be produced forever. This means that issues of intergenerational transfers are irrelevant. In expected terms, the only risk that has to be transferred is the fluctuation of prices, which is in general a short run phenomenon. The case of Gabon, however, requires dealing with the production decline and uncertainty. This imposes additional challenges for the design of stabilization funds. The general idea remains the same, though: the stabilization fund has to smooth shocks to prices and production.

6. To define the optimal rule for stabilization we proceed in three steps: First, we estimate the characteristics of the oil price, and the stochastic properties of Gabon's production processes. Second, we run a Monte Carlo simulation of the joint process (50 years). Third, we compute the consumption rule that maximizes the net present value of utility. We estimate consumption rules of the following class:

$$C_t = c_0 + \alpha Y_{t-1} + \beta O_{t-1} + \gamma S_{t-1}$$

where C is consumption from oil revenues, the first constant is the autonomous consumption, Y is oil revenue (price of oil times production of oil), O is oil production in thousand of daily barrels, and S is the resources saved in the stabilization fund. Standard economic theory predicts that consumption should be a function of wealth; and therefore, we include the savings as part of that wealth. Finally, in our application all variables will be measured in logs and relative to the oil revenue of 2003.

Estimation without upper bound in savings

7. The first step to determine the proper saving rule for Gabon is to estimate the properties of the stochastic process of oil and production. The estimates for oil prices are as follows:

$$p_t = c_{p,0} + c_{p,1} t + \alpha_p p_{t-1} + \varepsilon_{p,t}$$

where p is the log price of oil. We introduce a trend in the estimation and one lag. The results are very similar when the number of lags is changed. The results are presented in Table 24. Notice that there is a tremendous persistence in oil prices. The data used is yearly average prices from 1898 until today. The correlation between the international price and the price of exports of Gabon is very large (as for all countries) and therefore we decided to use the longest data series available.

Table 24: Estimates of the Stochastic Process of Oil Prices (in logs)

	p(t)
p(t-1)	0.80175
	0.04748
	16.9
Trend	0.00125
	0.00047
	2.7
Rsquare	73.8

8. Estimating the process for oil production, we obtain:

$$O_t = c_{o,0} + c_{o,1}t + \alpha_o O_{t-1} + \beta_o p_t + \gamma_o p_{t-1} + \varepsilon_{o,t}$$

Where we allow the production of oil to depend on the average price of oil contemporaneously and with a lag. Again we introduce a trend. The data consists of the oil production of Gabon in the last 15 years, and we use the future path (provided by Gabon's government) to estimate the coefficients.

The results are presented in Table 25.

Table 25: Estimates of the Stochastic Process of Production (in logs)

	O(t)
p(t)	0.08037
	0.06037
	1.3
O(t-1)	0.79913
	0.05319
	15.0
p(t-1)	0.10981
	9. 0
	.05409
	10. 2
	.0
Trend	11. -
	0.01305
	12. 0
	.00347
	-3.8
Rsquare	99.8%

13. Notice that the contemporaneous effect of prices is positive but insignificant, while the lagged price of oil enters significantly. This implies that a 10 percent increase in the price of oil increases production by one percent. The lag should have been

expected because oil production will rarely react within the year to oil prices, even in OPEC countries. Also, observe that lagged production has a tremendously significant effect and that there is a negative trend in the production of Gabon – as should have been expected. Finally, observe the very large explanatory power of our regressions. These results are robust to changes in the specification.

14. After estimating the characteristics of the stochastic processes of prices and production, we generate 500 simulations of 50 years of oil and prices, and therefore, we are able to compute 500 paths of oil revenues. These are supposed to be possible future histories. The purpose is to find a consumption rule that maximizes the expected net present value of the utility generated by consumption where we will compute that expected utility using these possible paths. This implies an optimal smoothing and stabilization.

15. We impose several assumptions on the behavior of the fund: (i) We assume that the resources in the stabilization fund cannot be negative. (ii) We assume that they earn a fixed yearly interest rate equal to 1 percent. (iii) We also assume that there is no upper bound in the stabilization fund and compute the amount of smoothing achieved by the consumption or expenditure rule. Later, we impose an upper bound and provide a rationale for it.

16. Following the optimization described before, the optimal rule – which maximizes the utility of consumers – implies:

$$C_t = 0.211 + 0.156 \cdot Y_{t-1} - 0.008 \cdot O_{t-1} + 0.046 \cdot S_{t-1}$$

where consumption has been measured as a percentage of oil revenue in 2003, and where oil income, oil production and savings have been measured in percentage terms of the year 2003 oil revenue as well. This normalization implies that all estimates can be interpreted as elasticities for changes in the variables of interest. In other words, the first coefficient implies that there is an autonomous consumption that corresponds to 21.1 percent of the oil income of 2003. In principle, if there were no uncertainty, we would have expected that consumption would have been flat, and this smoothness should have been reflected in a larger autonomous consumption.

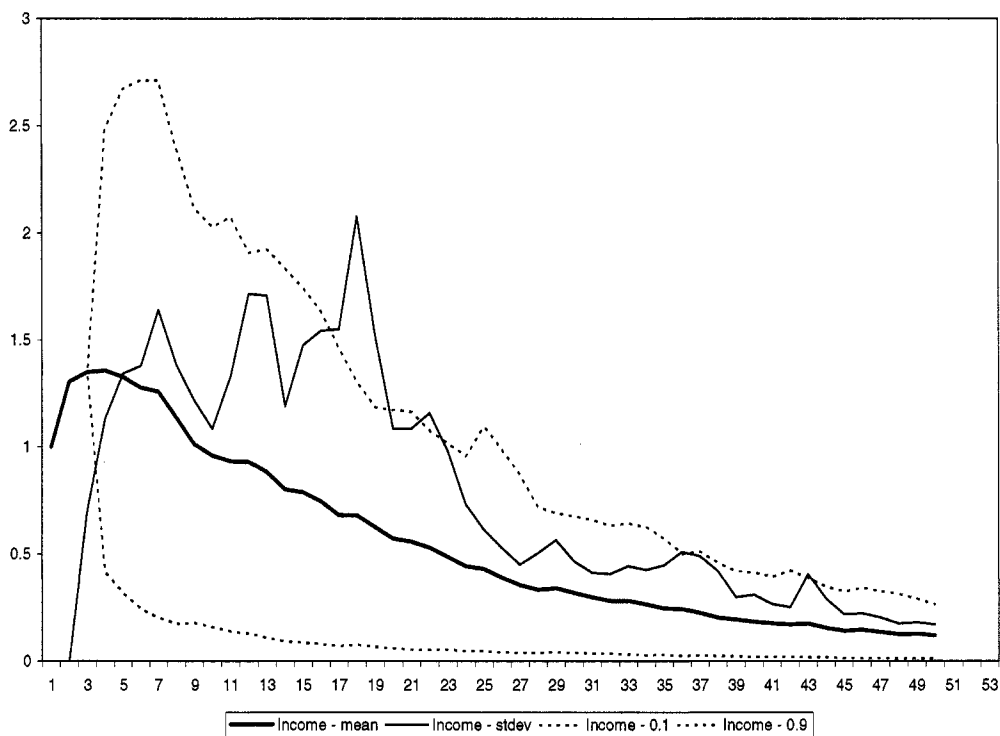
17. The second coefficient implies that we consume 15.6 percent of the year's oil income. In other words, regardless of what moves oil production – either due to a price increase or a production rise – Gabon should consume 15.6 percent of that revenue. This coefficient treats production and price uncertainty in the same manner. The following coefficient indicates that the more we produce, the less we should consume. The main reason for this to be the case is that we know that there is a downward trend in production, and that the production of Gabon is mean reverting. Therefore, a windfall today should be saved for future generations, because we know it is transitory. However, as can be seen by the coefficient, a 100 percent increase in oil production implies a reduction of consumption by 0.8 percent. So, the effect is economically small.

18. Finally, the rule implies that the larger the funds saved in the stabilization fund, the larger the consumption we can enjoy today. Notice that the rule implies that 4.6 percent of the resources are consumed every year. This proportion is larger than the interest rate because the “life” of the oil production is finite, and even though we would like to save resources for future generations, the discount rate (3 percent) implies that we rather consume today a little bit more. Still, the numbers are relatively small.

19. This is the optimal rule. It would be informative to illustrate what the rule implies in terms of the consumption and savings paths. Also, if this is supposed to be a stabilization fund, then an important question is how much stabilization are we purchasing? We devote some time to these questions now.

20. Just to clarify how the oil revenue process looks in **Figure 26**, we depict the average oil revenue (the thick continuous line), the 90 percent and 10 percent bounds (the dashed lines) and the standard deviation of oil revenues (the thin continuous line). We measure all the variables relative to oil revenues in 2003. The main reason to do so is that the program is units free if we do so. This allows us to interpret the coefficients very simply.

Figure 26: Expected Oil Income, with 90 and 10 Percent Bands, and the Conditional Standard Deviation. Initial Observations Correspond to 2002-2004.

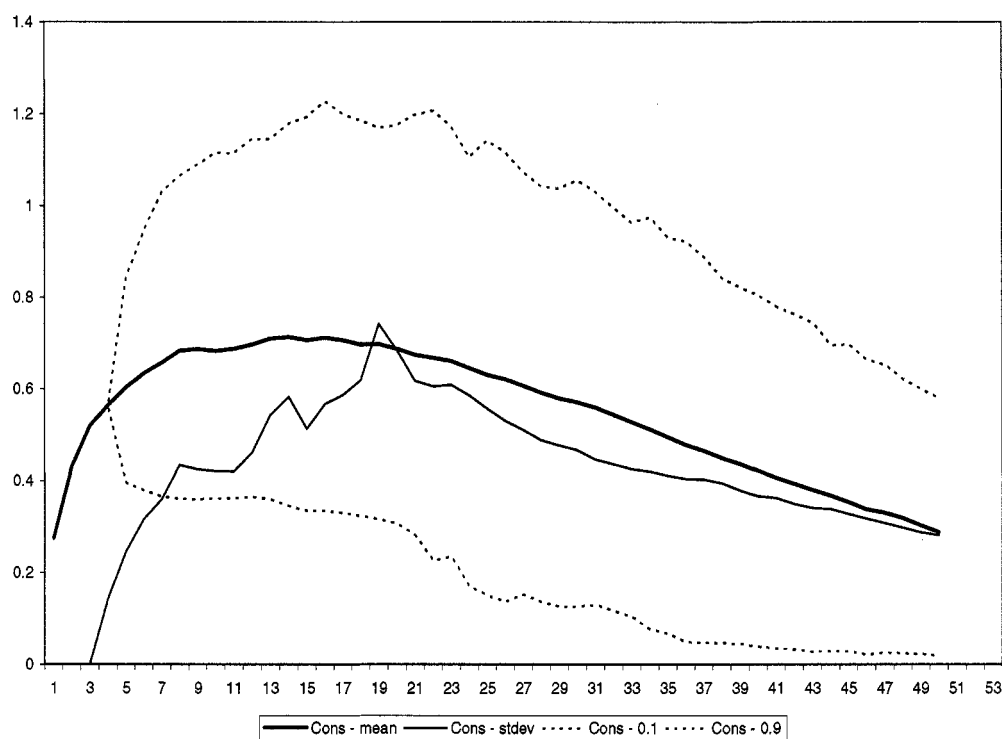


Source: Ministry of Finance.

21. Two important points are worth noticing from **Figure 26**. First, notice the declining trend in oil income. There are two reasons for such decline. The oil production of Gabon is coming down, and the oil prices are expected to return to normal levels several years down the road. However, in the short run there are paths in which the oil revenue is almost 3 times larger than those as of 2003. Second, observe the declining path of oil revenue volatility. The reason behind this decline is that even though prices are extremely volatile, the production is going to zero, and the variance goes down as well.

22. The procedure consists of determining the consumption at each point in time, for each possible path. The properties of that consumption are summarized in **Figure 26**. We follow the same convention used in the previous figure. The average consumption is measured by the dark thick line. The 90 and 10 percent bands are depicted by the dashed lines, and the standard deviation is shown by the continuous thin line. Remember that all variables are measured in terms of 2003 oil production – which means that, if consumption equals one in the figure, it implies consumption identical to the oil revenues of 2003.

Figure 27: Consumption implied by the stabilization rule. Also we show the 90 and 10 percent bands, and the conditional standard deviation.



Source: Ministry of Finance.

23. The first issue worth noticing in **Figure 27** is that the initial consumption is very low, just above 0.3. This implies a very large need for saving by the fund. Because there are no resources already saved, the system values tremendously the saving and it is

willing to forgo a sizeable proportion of consumption to achieve the desired level of savings. Obviously this level of saving is unrealistic to the Gabon economy. We return to this point later in this annex.

24. The second aspect that comes to attention is that consumption never reaches a level similar to the oil revenues in 2003. In other words, the optimal saving rule is indicating that it is always worth saving some proportion of the income for future generations. Remember that the stabilization fund we are designing for Gabon has two components, the one associated with the short run stabilization, and the intergenerational fund that is in charge of transferring resources to future generations when oil production is exhausted. The optimal saving rule implies that the intergenerational motive is extremely important and therefore, there is a constant need for saving.

25. Interestingly, however, the standard deviation of consumption is much lower than the standard deviation of oil revenues. We will come back to this point later in the discussion. But, at least for the moment it is worth highlighting that the reduction in average consumption is welfare detrimental, but the reduction of the variance is welfare improving. Because this is the optimal rule, we can confidently say that the net effect is that the variance reduction more than compensates the average consumption reduction.

26. Finally, notice that consumption is decreasing, but the speed at which it goes down to zero is much slower than oil revenues. Again, this is the outcome of saving today's resources for future generations. For instance, the average annual oil revenue from today until 20 years ahead is about the same as today's oil revenue, while the average consumption in the same period is 64 percent of the revenues. In other words, in the first 20 years of the fund, the rule asks for a saving that is roughly accumulating a third of the resources in the stabilization fund. If we take the horizon further, the average revenue during the first 40 years of the fund is 64 percent of 2003's oil revenue, while consumption is 60 percent. As can be seen, from these results, consumption is far more stable. In fact, average consumption is above average oil revenue in 34 of the first 50 years, and it is larger than oil revenues after year 17.

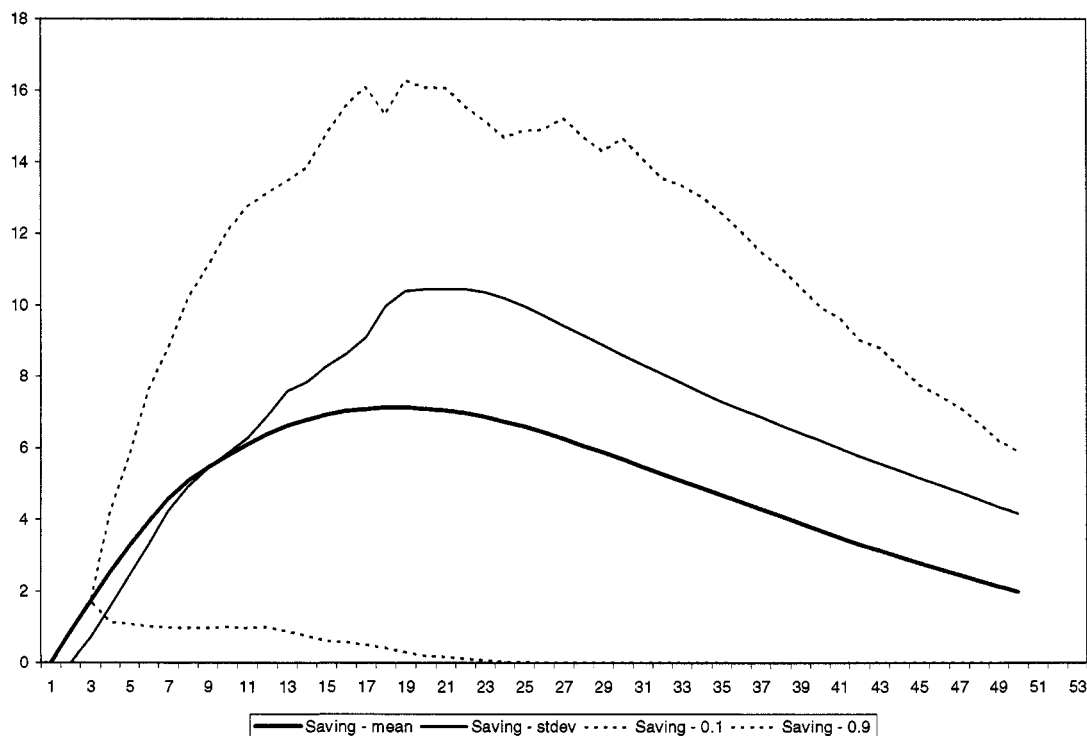
27. The benefits of the intergenerational model should be evident. And in the case of Gabon, they are crucial for the well being of the country in the future.

28. Let us turn our attention now to the path of the resources saved in the stabilization fund. Figure 28 depicts the path of the resources saved in the stabilization fund. We followed the same convention from the previous two figures.

29. The first striking fact from Figure 28 is that the stabilization fund accumulates resources for more than a decade. And that accumulation is very large. It reaches, on average, 7 times the yearly oil revenues. By all measures, this is an extremely large proportion of resources saved in the stabilization fund. It is important to highlight that in practice countries have found very difficult to maintain this level of saving. The reason is that political pressures arise and the resources in the fund end up being appropriated by

violations or changes of the law. In the next section we study what occurs if we set up an upper bound on the accumulation of resources.

Figure 28: Savings Implied by the Stabilization Rule. Also we show the 90 and 10 percent bands, and the conditional standard deviation.



Source: Ministry of Finance.

30. Second, notice that the level of the fund comes down with consumption. This is exactly what we would expect from an intergenerational fund that is transferring current resources to the future.

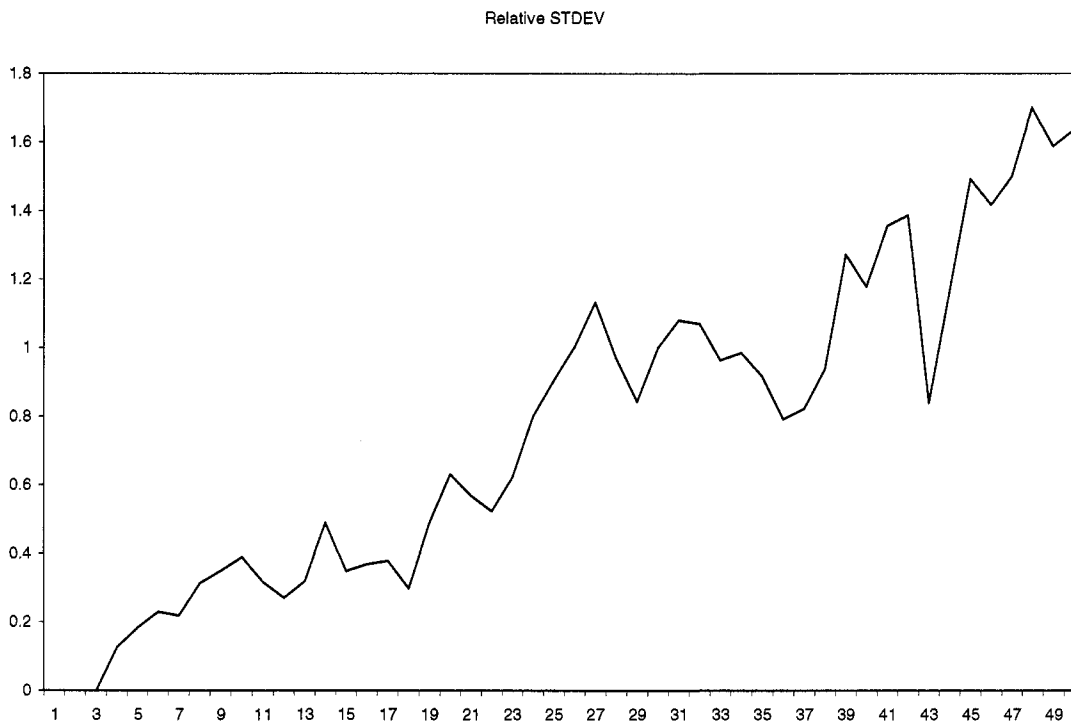
31. Finally, if these simulations were done without including the negative trend in production, which is the standard approach for stabilization funds in countries such as Ecuador, Venezuela, and other oil producing countries, the results would have been different. The reason is that the intergenerational motive in Gabon is very strong, which leads to large savings today in anticipation of the lower income in the future.

32. So far we have discussed the importance of the intergenerational fund. This is reflected in the large sacrifice in current consumption implied by the rule, and by the very large savings accumulated in the fund. Let us now turn our attention to the stabilization aspect of the rule. In Figure 29 we present the ratio of the standard deviation between consumption and output. This is a measure of the stabilization achieved by the fund.

33. In **Figure 28** the standard deviation of consumption grows every year until year 20. After that, the standard deviation starts to fall continuously. Interestingly, during the

first part of the sample the standard deviation of consumption is smaller than the standard deviation of oil revenues. This can be seen in Figure 29 where the ratio is below one in the first part of the sample – before year 27. The ratio of volatilities continues to grow, but the reason why it grows is because oil revenues decrease their volatility very fast, and not because consumption became more volatile.

Figure 29: Relative Standard Deviations: Standard Deviation of Consumption Relative to the Standard Deviation of Oil ncome.



Source: Ministry of Finance.

34. In other words, the stabilization of consumption is achieved in the part of the sample where the variance of oil revenues is very large. For that part of the sample, we achieve sizeable stabilization, and therefore, consumption volatility is less than one fourth the volatility of oil revenues. On the later part of the sample, however, consumption uses the resources of the fund and therefore it is on average more volatile than oil revenues. Nevertheless, we can confidently say that even though consumption is more volatile than income during those years, certainly consumption in this year is less volatile than in the past. These properties of consumption and oil revenues point to the large stabilization achieved by the rule.

Estimation using an upper bound

35. In the previous section we highlighted the fact that resources in the stabilization fund might be too large, and that political pressures might make them unsustainable. In this section we repeat the previous exercise and study the implications of the stabilization

fund when we set an upper bound, or cap, on the resources in the fund. We set the cap to be a little bit less than 2 times the oil revenues in 2003. Later we elaborate why we chose this level.

36. The new optimal rule is the following:

$$C_t = 0.276 + 0.221 \cdot Y_{t-1} - 0.252 \cdot O_{t-1} + 0.006 \cdot S_{t-1}$$

where there is an amendment to the rule: if the resources are larger than the cap, the excess resources are consumed. Of course this rule can be changed so that the excess resources are devoted to pay debt. This is a standard possibility in stabilization funds. However, for the purpose of this section we will consider repayment of debt as part of consumption.

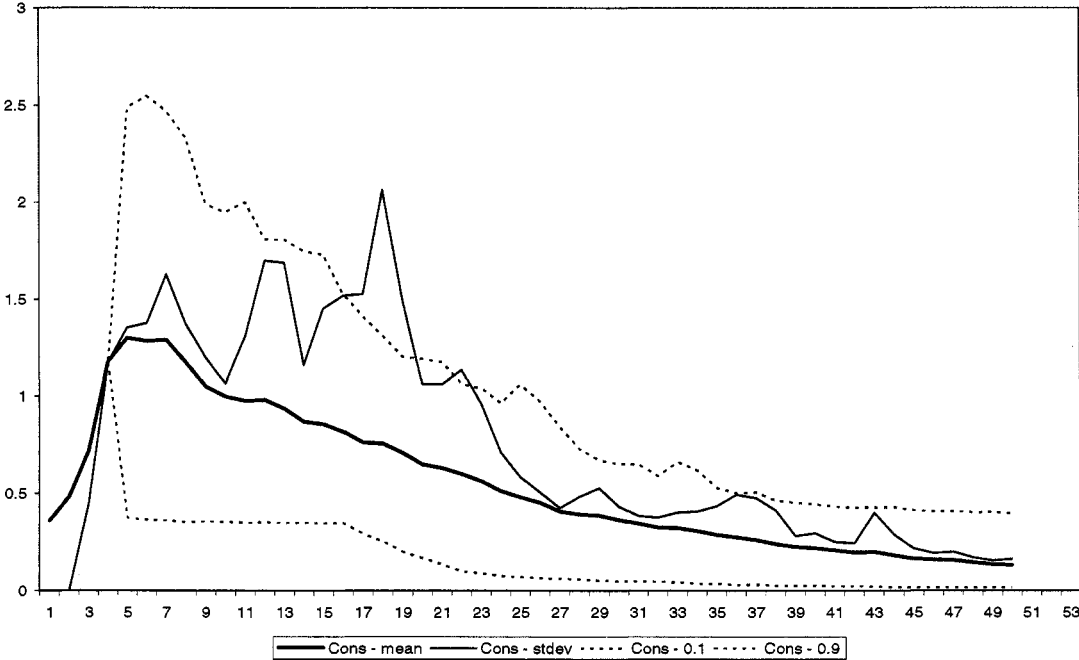
37. The new rule has very interesting similarities and differences to the previous rule. First, the autonomous consumption is very similar – a little bit higher. Second, because in this simulation saving is not as valuable as in the previous case, we consume a larger proportion of today's income, going from 15 percent to 22 percent. The reason why saving is not as valuable as before is because every dollar saved takes the fund closer to the upper bound. Hence, saving to reduce volatility in the future for bad shocks might increase the volatility in the future when good shocks take place. Because of the upper bound, this trade-off implies a lower utility of saving.

38. Third, the coefficient on production is much larger now, and the coefficient on the saved resources is much smaller. The reason is because output shocks are much more damaging when not enough resources can be saved. In other words, when we limit the resources in the stabilization fund we affect the capacity of the fund to stabilize short run fluctuations, and we limit its benefit to transfer funds to the future. Therefore, both the stabilization and the intergenerational objectives are dampened. Because the funds cannot be transferred into the future as well as before, it makes sense to leave the funds we have saved untouched (the coefficient is tiny), and use more of the resources from production.

39. Let us study the implications of this newer rule. In Figure 30 we present the new path of consumption, Figure 7 shows the path of savings, and Figure 32 shows the relative variances between consumption and oil revenue.

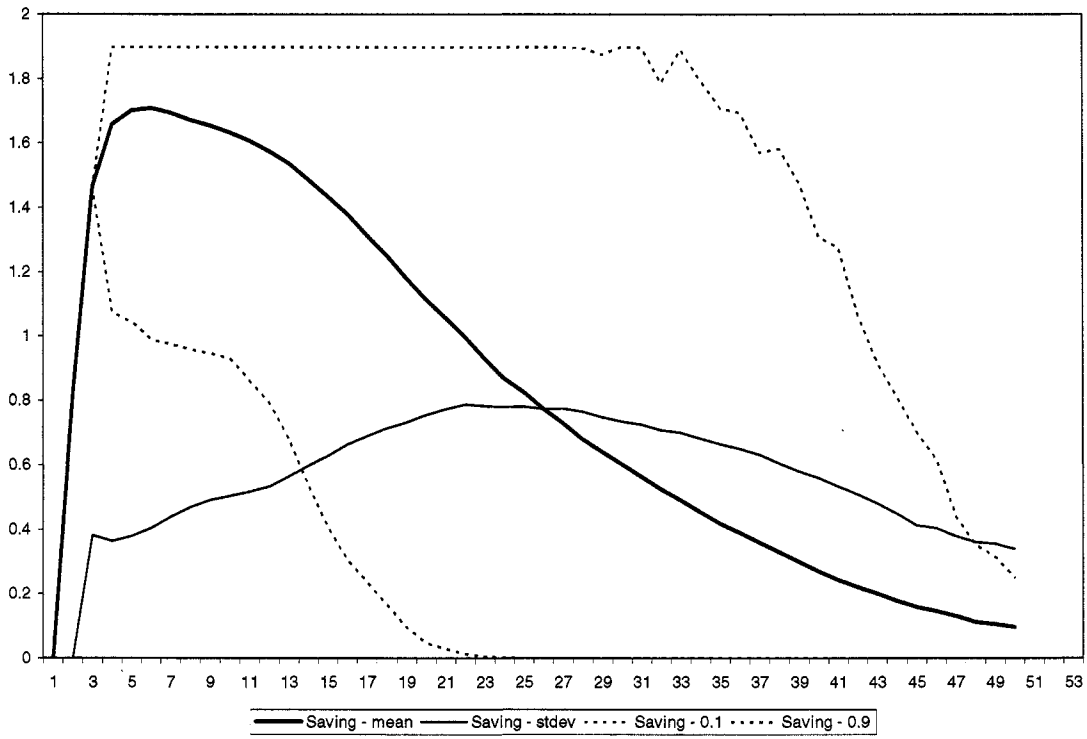
40. We are using exactly the same simulations we used in the previous exercise. Notice that now consumption is larger than in the previous case, and it is more volatile as well. Notice that the fund increases and reaches a maximum for several realizations. And the ratio of the variances between consumption and oil revenue are roughly the same. In other words, this is the minimum cap that achieves no stabilization whatsoever. The variance of consumption and income are almost identical. Therefore, saving less than this amount achieves no stabilization, but saving more will.

Figure 30: Consumption Implied by the Stabilization Rule when an Upper Bound is Imposed. Also we show the 90 and 10 percent bands, and the conditional standard deviation.



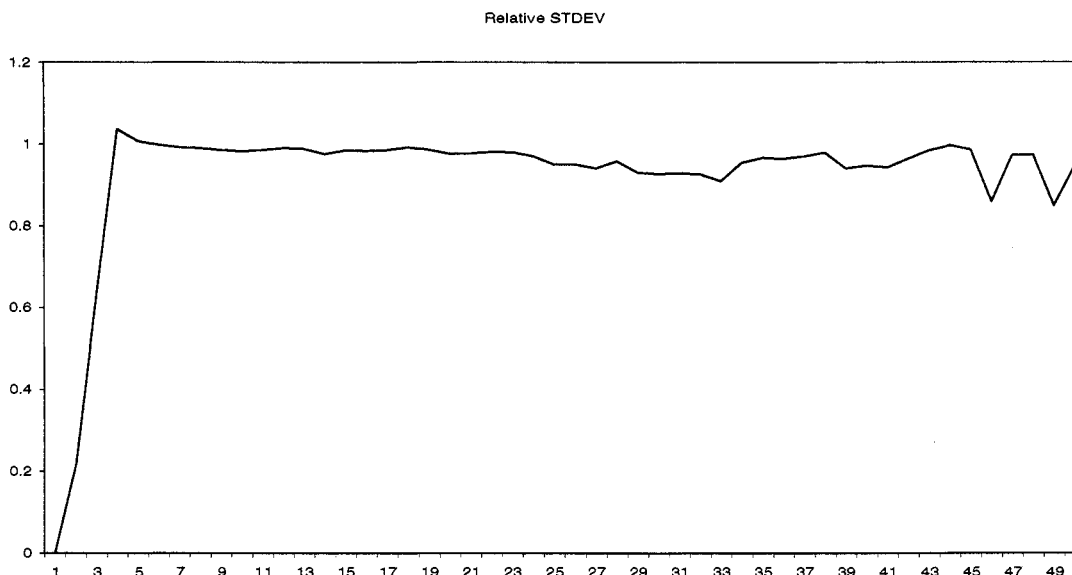
Source: Ministry of Finance.

Figure 31: Savings Implied by the Stabilization Rule when an Upper Bound is Imposed. Also we show the 90 and 10 percent bands, and the conditional standard deviation.



Source: Ministry of Finance.

Figure 32: Relative Standard Deviations when an Upper Bound on the Savings is Imposed. The measure is computed as the standard deviation of consumption in terms of the standard deviation of oil income.



Source: Ministry of Finance.

41. This is how we defined the level of the cap. We search along all the possible caps until we found the level at which the relative standard deviations were close to one along the path. In this particular simulation this level is 1.9: obviously, all caps larger than 1.9 will achieve more stabilization.

Lessons and policy recommendations

42. This section has dealt with the design of an stabilization fund for Gabon, a country that experiences both price uncertainty and production uncertainty. Furthermore, not only is production uncertain but it is declining. This implies that for Gabon, as opposed to the typical country analyzed for the design of stabilization funds, the claims of future generations are very strong.

43. In particular, in the case of Gabon, the stabilization fund has to deal with the short run fluctuation of the revenues (the typical problem of stabilization funds), as well as with the long run problem of transferring, smoothly, part of today's resources to future generations. This second aspect is generally not addressed in stabilization funds, but it cannot be disregarded for the case of Gabon.

44. This analysis leads to the following recommendation: **Design a stabilization rule in which the country defines how much to consume out of oil revenues, as opposed to the typical rule which specifies how much to save.**

45. The sources in the fund will be accumulated in low risk and liquid assets. We assumed a very low real return to take a conservative view. A valid question is if resources could be saved in riskier assets. However, because the intergenerational motive of the fund is very strong, it would be hard to justify placing any resources in risky assets at all, even if they are diversified.

46. It is always advisable for countries to set a cap for the fund. In the case of Gabon this cap could prove to be very costly, socially speaking. Therefore, the rule should be the following: the country decides a consumption rule given the formulas in the text – which are defined relative to the revenue of 2003 for simplicity of exposition. If oil revenues are larger than such consumption, the additional resources are accumulated in the fund. If the oil revenue is smaller, resources are withdrawn from the fund. If the fund runs out of resources – which occurred frequently in the simulations – then the country consumes all the revenues for that year. It is important to remember that in order to stabilize consumption the resources in the fund are going to be extremely volatile.

47. Regarding the specifics of the rule:

- Consumption should have an autonomous component – the constant part of expenditures – of roughly 20 percent of the consumption at the start of the fund.
- Above that amount, total consumption should be no more than approximately 16 percent of the current year's oil revenue.
- It should depend negatively on oil production, although the coefficient is small.
- It should withdraw on average 5 percent of the funds saved.

48. This rule implies a large amount of resources accumulated in the fund. Although it is always advisable to deal with the political pressures of such saving by not allowing the accumulation, this will prove to be costly socially for Gabon. An alternative is to use the resources above the cap to repay external debt. In terms of consumption and stabilization, both actions are equivalent – saving one dollar is equivalent to reducing debt by one dollar. In both cases, net debt falls. From the practical point of view, in the short run, it might be preferable to set a cap on oil revenue spending (of at least 2 times the oil revenues of 2003, or the starting year), and to use the excess revenues to repay foreign debt.

ANNEX C: EVALUATION OF FINANCIAL RISKS

Components	Level of Risk	Remarks and Comments
Budget expenditure estimates	High	There is no rigor in the way investment projects are designed and there is frequent involvement of political figures. That makes the Budget unreliable. The risk caused by these practices remains high.
Budget revenue estimates	Moderate	The main risk lies in the impact of a drop in oil revenue and tax revenue on the overall level of revenue, and in the incomplete nature of the budget. Revenue estimates are also highly unrealistic.
Commitment, liquidation and budget expenditure authorization (administrative phase of the management process)	Moderate	The procedures associated with this process and the controls put in place are complete, though this chain is in practice too long. Globally, as there are control operations, financial risk appears at a moderate level. However, the absence of control on the materiality of expenditures presents the risk that public authorities do not receive what they paid for (value for money).
Execution of budget expenditure payment (accounting phase)	High	The high financial risk of this phase is systemic. The indispensable controls to reduce this risk are not carried out.
Execution of budget expenditure financed with external resources	Moderate	The absence of a reporting system in public accounts, the lack of certainty that these expenditures are carried out in accordance with the Finance Act, and the failure by external controllers and notably the Audit Court, lead to the risks on the execution of expenditures.
Discretionary expenditures and exceptional procedures in budgeted expenditure management.	High	<ol style="list-style-type: none"> 1. The follow-up and control mechanisms for imprests are non-existent. Their absence represent risk in budgeted expenditure management. 2. The practice of independence anniversary investment expenditures presents the high risk of mismanagement or misuse of public funds.
Execution of payroll-related expenditure	Moderate	The procedure for payment of salaries and wages seems to be in compliance with the laws in force. The centralized public payroll data base resulting from the harmonization of the Payroll Department (<i>Direction de la Solde</i>) with the Public Service Department (<i>Direction de la Fonction Publique</i>) is now effective.

Components	Level of Risk	Remarks and Comments
Management of Government Property	Very high	The procedures for managing Government property are particularly uncertain. There is a very high risk that these assets do not provide an adequate return on the expenditures committed by the Government (do not provide an adequate value for money).
Public Accounts	High	The abnormally long delay in the production of monthly accounts (financial statements) introduces a high risk of mismanagement of public funds.
Treasury Management	High	Financial risk is systemic and based on the absence of internal independent control mechanisms within the Treasury.
Management of the National Debt	Low	The difficulty experienced in the follow-up of the national debt is a risk in this area.
Control of Public Spending	High	<ol style="list-style-type: none"> 1.The shortcomings of controls carried out by financial controllers present a high risk of mismanagement of public funds. 2.The absence of standard control methods and a manual of procedures could reduce the quality of audits carried out by the Government Audit. 3.The late production or failure to submit management accounts (financial statements) to the Audit Court by all public accountants creates a high risk of misuse of public funds.. 4.The late enactment of the settlement bill can prevent the Government from using the results of the budget execution of the last but one financial year to draft the Finance Bill. The very few committees of inquiry ever set up encourage mismanagement of public funds, and the fact that since 2002 no committee has been set up, could render this important parliamentary tool obsolete.

Fiduciary Risk Assessment and Public Financial Management (PFM) Indicators
Republic of Gabon

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
<p>Indicator 1. Aggregate expenditure out-turn compared to original approved budget.</p>	<p>B</p>	<p>Budget implementation tends to be inconsistent with the objectives specified in the budget approved by Parliament. This is mainly due to some off-line budget spending and regularization of extraordinary expenditures including personnel recruitment expenses. It should, however, be noted that a large part of off-budget spending has decreased and that measures taken regarding budget advances and transfers taken during 2001 contributed to the reduction of overspending.</p> <p>The Government of Gabon presents a balanced budget, with borrowings filling the identified financing gap. Borrowings are comprised of investment and balancing or gap filling components. This evaluation relates to three financial years: 2001, 2002 and 2003. It is based on the concept of total budget deficit, which represents the difference between total current receipts and borrowings for investment, less recurrent and capital expenditures. The amount of the gap required to balance the budget does not take into account, for purposes of analysis, a balance that represents the real financing need envisaged since these borrowings were not mobilized during a specified financial year.</p> <p>Under these circumstances, it seems that for 2001, the total budget deficit was estimated at FCFA123.8 billion, whereas the actual deficit was FCFA 204.9 billion, representing 6 percent of total budget expenditure. In 2002, the total budget deficit was estimated at FCFA284 billion, whereas the actual expenditure exceeded this estimated amount by FCFA112 billion. Similarly, in 2003, the total budget deficit was estimated at FCFA 276 billion, whereas the actual expenditure exceeded the estimated figure by FCFA 30 billion.</p> <p>Excess spending over the planned budget for 2002 and 2003 was attributable to expenditure on debt servicing in the amount of FCFA 320 billion and FCFA 428 billion, respectively, <i>lower</i> than the amounts indicated in the original budget</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
<p><u>Indicator 2.</u> Composition of expenditure out-turn compared to original approved budget</p>	D	<p>It appears that during the past three years, the total budget deficit was higher than the planned budget only in one year, to the tune of 5 percent of total budget expenditure.</p> <p>Budget implementation is not in line with budget priorities as defined in the annual finance legislation. Variances are particularly significant in the case of investment expenditures, where social sector spending allocations were lower than expected. During the previous years (2001-2002), it was observed that projects (especially in the defense sector) were implemented but did not form an integral part of the public investment budget.</p> <p>This evaluation relates to three years: 2001, 2002 and 2003, and examines variances between actual and planned expenditures, categorized by functional classification. It seems that for financial year 2001, the average variance was 9 percent, for 2002 28 percent, and for 2003 1 percent. The global average appears for these three years at more than 12 percent.</p>
<p><u>Indicator 3.</u> Aggregate revenue outturn compared to original approved budget.</p>	B	<p>Non-oil based revenues were generally in line with budget estimates. However, significant shortfalls were apparent, particularly with regard to forestry-based revenue, where the tax-collection rate remains weak and customs duties collection is still not well managed, particularly in regard to tax assessments for forestry product exports. Oil revenues have fluctuated sharply during the previous years, mainly due to the following reasons: (i) production was higher than projected in the budget; ii) oil prices fluctuated significantly; and iii) in order to curb the rise in fuel prices, the Government donated crude oil to SOGARA.</p> <p>The total revenue collection performance rates were as follows:</p> <p style="margin-left: 40px;">92.6 % in 2002 101.8% in 2003 and 88.8 % in 2004</p> <p>Collection rates lower than revenue estimates for 2001 and 2003 reflected lower oil revenue generation than budgeted. Also, during the past three years, actual public revenues were lower than originally</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
<p>Indicator 4. Stock and monitoring of expenditure payment arrears.</p>	C	<p>budgeted for by 94 percent.</p> <p>While some efforts were made to contain the accumulation of arrears following the audit of the 1999 debt portfolio, it would appear that some arrears were sustained during the year 2000, reflecting some weakness in the expenditure monitoring system.</p> <p>Arrears on domestic debt amounted to FCFA 258.6 billion in 2002. For 2003, these arrears were estimated at FCFA 179.3 billion. Although arrears have trended downwards, they are still significant in absolute amounts; they represent 42.4 percent and 29.5 percent, respectively, of total public recurrent and capital expenditures.</p> <p>Since the stock of arrears is higher than 10 percent of total expenditures, a performance rating of D is proposed.</p>
<p>Indicator 5. Classification of the budget.</p>	C	<p>Work is ongoing in order to adopt a budgetary classification system that conforms to international norms. The functional specification, which should be based on the COFOG classification, has not yet been finalized. The current budget presentation format makes it difficult to link policies to resource allocation patterns. In fact, the budget is classified by major economic categories, and beneficiary administrative units and ministries. However, there is no functional classification, nor any link between recurrent and development budgets. No other approach to the classification of poverty-focused expenditures has been used. Although the Government is in the process of defining its poverty alleviation strategy, no system for monitoring or tracing expenditures earmarked for poverty alleviation programs is in place.</p> <p>According to the Planning Commission, accounting specifications in the investment section are not satisfactory. The administrative classification in 2004 was only used in the recurrent expenditure section. Furthermore, the legislation intended to promulgate the new nomenclature has not yet been assented to by Parliament.</p> <p>Although the budgetary classification has economic and administrative components, it is neither programmatic nor functional.</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
<p><u>Indicator 6.</u> Comprehensiveness of information included in budget documentation.</p>	C	<p>The Finance Bill relating to a particular financial year presents budget estimates for previous years but does not provide information on the actual budget outcomes. Nor does the Finance Bill contain data on public debt.</p> <p>Since the annual budget documents do not contain any information regarding the amount of debt or comparative data on the implementation of the previous year's budget compared to that of the current year, a performance rating of « C » is proposed.</p>
<p><u>Indicator 7.</u> Extent of unreported government operations.</p>	C	<p>In terms of comprehensiveness, it would appear that certain expenditure items are not reflected in public accounts. This applies to the proceeds of penalties collected by the Police Department and customs duties collected by the Department of Water and Forests and the Customs Department.</p> <p>In anticipation of the revenues referred to above, the departments concerned incur expenditures that should also be reflected and accounted for. As regards expenditures financed by borrowings from external resources, the Treasury is usually not well informed whereas the Planning Commission keeps data relating to drawings on loans.</p> <p>Expenditures financed from external resources represented only 1.6 percent of total expenses in 2001, 2.9 percent in 2002 and 2.4 percent in 2003.</p> <p>Off-budget or extra-budgetary expenditures of the Central Government represent less than 10 percent of total expenditure.</p>
<p><u>Indicator 8.</u> Transparency of inter-governmental relations.</p>	C	<p>Few public enterprises and institutions comply with public accounting norms in the preparation of management accounting statements and do not produce accounting reports. For this reason, monitoring of financial performance of these entities remains weak.</p> <p>With regard to local municipalities, only a few of them produce accounting reports on their operations. The lack of supporting documents precludes a satisfactory audit of their accounts. Financial risks associated with these entities are not monitored rigorously on a regular basis.</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
<p><u>Indicator 9.</u> Public access to key fiscal information.</p>	C	<p>Only one of local government entities or municipalities produces management accounting information on a regular basis. A comprehensive audit of accounts is rendered difficult by the lack of supporting documents for accounting transactions.</p> <p>Proceedings of the Plenary Session of the National Assembly are disseminated to the public by radio and television. All matters before the National Assembly are of public interest. However, budget implementation reports and Treasury accounts are not published.</p> <p>With regard to the Office of the Auditor-General, all completed reports are available and are published in the print media.</p> <p>Since only key information on public finance and reports of external auditors are published, a performance rating of « C » is proposed.</p>
<p><u>Indicator 10.</u> Orderliness and participation in the annual budget process.</p>	C	<p>The budget preparation timetable is determined by statute. In recent years, financial legislation could only be passed after 1st January, due to delays encountered. However, in 2005, the budget was approved before 1st January.</p> <p>Since the choice of investments was often driven by political considerations, it cannot be said that the spending ministries participated meaningfully in the budget preparation process and that they directly influenced budgetary and sectoral policy.</p> <p>A key problem in the budgeting process is that the recurrent and investment budgets are prepared separately. The Directorate General of the Budget (DGB) of MINECOFIN is in charge of the recurrent budget, while the Planning Commission of MINIPLAN is responsible for the development budget. This entails the organization of separate budget meetings. Investments are often planned without making provision for the corresponding recurrent costs. Moreover, some expenditure allocations appear in the investment budget but are, in fact, recurrent allocations. The whole budget therefore consists of consolidated recurrent and investment budget documents.</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
		<p>The timetable of the budget preparation process appears to be logical and efficient. However, the Government has had difficulty meeting deadlines set out in the timetable in the past. Its observance is hampered by the late production of budget implementation reports relating to the previous financial year and late submissions by line ministries, and especially by the uncoordinated preparation of the recurrent and investment budgets by the Ministries of Finance and Planning. MINECOFIN has proposed changes to speed up the process, and the timetable is now being strictly observed.</p> <p>Sectoral ministries are not adequately involved in the budget preparation process. In addition, direct intervention by MINIPLAN, political authorities, or members of Parliament often leads to significant changes in the budget estimates submitted by the various ministries.</p>
<p>Indicator 11. Multi-year perspective in fiscal planning, expenditure policy and budgeting.</p>	C	<p>Both Budget Authorization (AP) and Payment of Expenditures (CP) methods are utilized in budget presentation but do not feature in the budget implementation process. This shortcoming in follow-up is obvious although the Planning Commission is well equipped to perform this task. This may necessitate the incorporation of certain budgetary allocations into the subsequent year budget as well as other ongoing transactions that may not have been deferred. Expenditure or budget allocation payments are often defined without taking into account the planning or programming process. This lack of rigor compels newly appointed ministers to cast doubts on some projects and abandon them prematurely. It also happens that Parliament may reduce some approved budgetary allocations.</p> <p>The lack of multi-year budgeting approach has a negative effect on the continuity of Government actions, especially in the area of investments. Although current regulations allow Parliament to authorize program expenditures for the duration of a project, in practice, these funds are approved only for one year. In addition, the Planning Commission's procedures only allow for annual rather than multi-year expenditure budget commitments. When the financial settlement bill for 2003 does not contain any carried-over allocations as was indeed the case in 2003, the risk of abandoning investment projects not yet completed remains high.</p> <p>With regard to multi-year budgeting, it is worth noting that the notion of Priority Investment Program (PIP) was reintroduced only recently (2005). The adoption of a multi-year budgeting process should</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
		<p>therefore be considered to be in its infancy. This reflects the Government commitment to the adoption of a Medium-Term Expenditure Framework (MTEF).</p> <p>Budgetary estimates cover only the current financial year. Nonetheless, thanks to capital expenditure budgeting and the concept of PIP, a link has been established between the annual budget and the national development strategy.</p>
<p><u>Indicator 12.</u> Predictability of the availability of funds for commitment of expenditures.</p>	<p>D</p>	<p>Significant delays are experienced with regard to the investment budget implementation during the period between the adoption of the budget by the National Assembly and its implementation. This delay is attributable to the slowness in the preparation of budget resource utilization plans by the ministries concerned. This delay could be avoided if budgets adopted by the National Assembly included detailed budget resource utilization plans. The delay in budget implementation (sometime in July) can adversely affect the quality of public expenditure management (resulting in non-compliance with public tendering procedures, inadequate audits).</p> <p>Until 2004, allocations were placed at the disposal of budget managers with considerable delay, in June for some years. In 2005, with the approval of the budget before December 31, allocations were made by mid-February.</p> <p>However, it does not appear that local communities are aware of resources made available to local entities.</p>
<p><u>Indicator 13.</u> Recording and management of cash balances, debt and guarantees.</p>	<p>C</p>	<p><i>(i) Treasury management is based on an annual plan, with the objective of defining financing needs for specific periods. A monthly report permits the definition of a strategy, indicating expenditure payment priorities for subsequent months. A treasury committee meets on weekly basis, and is composed of the Paymaster-General and a representative of the Minister of Finance. Payments are made by the Treasurer-General who does not, however, have information on financial flows outside the Treasury. Treasury data represent flows rather than stocks and are therefore not exhaustive.</i></p>

Indicators	Performance rating score	<p style="text-align: center;">Justification/ Assessment Factors Taken Into Account</p>
		<p>With regard to the flow of treasury transactions within the network, accountants utilize BEAC offices, which are based in three provincial locations. Other accountants carry out their transactions on cash basis. The principle of treasury unity is often violated, notably due to bank deposit opened in the name of imprest holders, and the deposit of funds for projects financed with external resources in major banks.</p> <p>Several bank accounts have been opened in the name of the Treasury. Only Treasuries Offices located in towns where there are branches of BEAC have a bank account. Other offices manage their expenditure in cash. The opening of special accounts at the Central Bank for certain operations should be given priority over depositing cash in commercial banks. It helps isolate and “secure” funds, which are earmarked for specific purposes. This would also be consistent with the principle of unity of the treasury.</p> <p>The majority of treasury account balances are estimated regularly although some accounts are excluded from the Treasury statements. The approach used does not permit the consolidation of banking accounts on a daily basis and treasury accounting estimates are updated on a monthly basis.</p> <p>With regard to payment deadlines, the Treasury has introduced some improvements, intended to ensure that payments are effected within 120 days from the date of approval by the Directorate General of the Budget (DGB). Although this deadline is long, it represents a significant improvement compared to the past; as a result, supplier confidence in Government procurement has been restored.</p> <p><i>Payments are effected in a defined order of priorities. Expenditures on public debt and civil service payroll are on the top of the order of priority payments by the Treasury. The current liquidity situation in Gabon’s Treasury should make it possible to pay accumulated arrears and defray additional public expenditures within a more reasonable period, such as 60 days. In return for accelerated payment, suppliers could be solicited to offer discounts.</i></p> <p><i>(ii) Debt service is managed by a special department in the DGCP using the SIGAV software (UNCTAD), introduced in the year 2000. The annual due dates making debt service payments are based on a special procedure of payment without prior order and are regularized subsequently by</i></p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
		<p><i>payment order.</i></p> <p>The debt figures shown in Treasury accounts do not correspond to those of the DGCP. In practice, there is no adequate monitoring of drawings on loans. This inadequate financial and accounting information results from the fact that operations financed with external funds are not incorporated into the budget. It is imperative that the actual amount of Gabonese debt be known, especially since the relevant departments have computers. Furthermore, the regularization of debt service payments within the financial year is not systematic; this tends to give a misleading picture of the status of budget implementation.</p> <p>Although monitored by a computerized system, debt data remain scanty or inadequate.</p>
Indicator 14. Effectiveness of payroll controls	C	Procedures relative to personnel expenditure allocations are in conformity with statutory regulations currently in force. A centralized database on Civil Service employees, resulting from coordination efforts of the Department concerned has been established.
Indicator 15. Competition, value for money and controls in procurement.	C	<p>The regulation of public procurement is a recent occurrence, having been introduced only in 2002. Its implementation is still at an early stage. Procurement by public tendering remains a rare phenomenon. It seems that budget managers continue to depend on the system of competitive bidding.</p> <p>The error rate in the tendering process is not yet the subject of systematic monitoring. Specific reviews of public procurement were only recently introduced</p> <p>The Government, with the assistance of the World Bank, has initiated a public procurement assessment. This assistance, to be provided within a period of one year, is intended to accompany this assessment exercise, with the active participation of the private sector and the civil society.</p>
Indicator 16. Effectiveness of internal		Financial controllers' interventions are unsatisfactory. Several anomalies identified by the NAO point to some weaknesses. These include (i) expenses in excess of budget allocations; (ii) one expenditure item

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
controls for non-salary expenditure and assets management.	C	<p>may be paid more than once, (iii) incorrect assignment of expenditures to budget line items, and in particular, settling several cases of arrears under a single budget item earmarked for debt (iv) the lack of a price index, making it difficult to assess whether invoice prices proposed under Government procurement are reasonable; and (v) the fact that control officers intervene only for expenditures up to a limited amount, with transactions involving amounts exceeding FCFA 30 million being referred to the Director General. Furthermore, the relevance of controls is weakened by the fact that suppliers are often paid before services are rendered.</p> <p>These weaknesses can be partly attribute to the fact that the new computer system installed at the DGCF two years ago does not permit them to monitor the use of budget allocations, although the previous system allowed for this. The DGCF also suffers from manpower shortages. Moreover, it has very little recurrent budget resources of its own.</p> <p>Controls exercised by accountants at the payment stage are also weakened by the multiplicity of extraordinary procedures. Most of these transactions do not require a prior payment order, which prevent public accountants from fulfilling their role and compel them to proceed directly in defraying authorized expenditures.</p>
Indicator 18. Effectiveness of internal audit.	C	<p>An Inspectorate of Finance does not exist. The oversight function of the inspectorate services of various ministries is the responsibility of the Government Controller General. However, these inspectorates are a recent creation. Consequently, they have not yet become operational since their responsibilities have not been clearly defined. They are therefore not well equipped to undertake the oversight control function.</p> <p>There is no entity in charge of evaluating the performance of the Financial Controller. It is worth mentioning, however, that even if such entity was in existence, it would be difficult to make a quantitative assessment of the effectiveness of a Financial Controller, who does not prepare activity reports.</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
<u>Indicator 19.</u> Timeliness and regularity of accounts reconciliation	D	Many third party accounts are opened, the methods used in auditing them seem to be inadequate, and account balances appear high. Such irregular operations portray a misleading picture of the status of budget implementation. An audit plan for auditing third party, accounts should be introduced. Deposit accounts at the Treasury are opened by ministries or administrative departments, suggesting that accounting operations may be executed in violation of existing rules.
<u>Indicator 20.</u> Quality and timeliness, quality of in-year budget reports.	C	<p>Although yearly accounts are produced within the prescribed deadlines, which could be reduced further with increased discipline, the monthly accounting statements are produced relatively late (45 days). Moreover, accounting statements should distinguish between budgeted and other operations. Also, a summary report should be produced, showing only the most meaningful data, while the detailed information should be used mainly for monitoring, control and verification.</p> <p>Budget implementation reports have some limitations, mainly due to the lack of data on commitments. This does not permit an assessment of implementation of budgetary allocations. It should also be stated that these reports do not contain data on expenditures incurred during the year of implementation in line with the procedure relating to budget advances. Hence, these reports are not comprehensive.</p>
<u>Indicator 21.</u> Quality and timeliness of annual financial statements.	C	<p>Members of the Finance Commission of the National Assembly are of the opinion that statements originating from the Ministry of Finance presented by the Office of the Auditor General in support of the budget settlement legislation are not sufficiently detailed. The Office of the Auditor General issues a certificate of compliance for transactions involving the DGB and the TPG (Treasury-Paymaster General). It should be stated that in 2001 the Office of the Auditor General refused to issue a compliance certificate. The statements produced are of quality and constitute the basis for consideration by Parliament of budget settlement legislation. The documents are submitted within the prescribed deadlines-at the commencement of the first budget session of the following second year.</p> <p>Parliament has been examining and voting on annual budget settlement legislation regularly for several years now, but with considerable delays. This tends to make parliamentarians lose interest. In addition, the consolidated nature of the document makes it difficult to compare budget estimates against actual</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
		<p>expenditures. However, the 2001 Finance Bill was not voted, due to a refusal by the National Audit Office to issue a certificate of compliance for the administrative and management accounts of that fiscal year.</p>
<p>Indicator 22. Scope, nature and follow-up of external audit.</p>	<p>B</p>	<p>The Office of the Auditor General prepares an annual report on the implementation of Finance legislation. This report contains useful recommendations and is used by parliamentarians to amend legislative texts as deemed necessary.</p> <p>Besides its jurisdictional role, the Office of the Auditor General (evaluating accounts prepared by public accountants) carries out audits of public enterprises and institutions. It seems that its recommendations are seriously taken into account.</p> <p>The Office of the Auditor General also conducts an external audit. Its audit reports on public enterprises and institutions contain recommendations whose implementation is pursued on a regular basis. The impact of the Office of the Auditor-General is significant. Its documents are generally of good quality and foster the development of new legislation. This is particularly the case with the report on implementation of the Finance Act, which is used by parliamentarians during deliberations of the Finance Bill and which provides the basis for some reforms.</p> <p>With regard to the statutory role of the Office of the Auditor-General, it should be noted that debit notes (reimbursement requests) were issued against some public accountants who had been identified. Penalties were also imposed on public accountants responsible for committing financial management errors. The Ministry of Economy and Finance is responsible for ensuring the settlement of debit notes issued to public accountants identified.</p> <p>Regarding the Office of the Auditor General, the oversight function performed covers, in theory, all items of expenditure and revenue of the Central Government. However, its statutory surveillance role is largely constrained by the fact that management accounting control of treasury transactions is often inadequate. In addition, only a small number of public institutions and local municipalities produce their accounting</p>

Indicators	Performance rating score	Justification/ Assessment Factors Taken Into Account
<p>Indicator 23. Legislative scrutiny of the annual budget law.</p>	C	<p>statements on a regular basis.</p> <p>The Government's Controller-General also exercises an external control function. It enjoys a broad mandate but its audit tasks cover only a small component of public expenditures. Its average annual output of activity consists of at least twenty audit reports. Monitoring and follow up operations remain weak.</p> <p>Parliament has at its disposal the OAG's report on implementation of the Finance legislation as well as "Compliance Report #2. Supporting documents for the Finance legislation are adequate, and since year 2003, Parliament receives detailed investment budget proposals.</p> <p>Parliament receives, in addition to the Finance Bill, two separate documents on recurrent and development budgets. The Ministers in charge of the Economy and Planning present the general framework of their draft budgets before the Finance Committee. Then, each of the sectoral ministers makes budget presentations in turn. The Finance Committee of Parliament is composed of all 120 parliamentarians. The Chair of this Committee considers that the members of his committee have the necessary skills to examine the Finance Bill and that the time set aside for the examination of the budget estimates is sufficient.</p> <p>But Parliamentarians are not satisfied with the way budget proposals are presented to them. They view them as not detailed enough and therefore lack of transparency. They also consider the draft budget to be inadequately quantified, which makes it more difficult for them to assess the relevance of budget proposals. There is insufficient cooperation between parliamentarians and technical advisors. It is considered useful to involve parliamentarians at an earlier stage in the budget preparation process. For these reasons, a review of the annual Finance Bill cannot be efficiently undertaken.</p>
<p>Indicator 24. Legislative scrutiny of external audit reports.</p>	C	<p>There is no relationship existing between entities responsible for external audit and Parliament, which has no access to external audit reports prepared by these entities.</p>

Indicators	Performance rating score	<p style="text-align: center;">Justification/ Assessment Factors Taken Into Account</p>
		<p>1. In terms of its oversight role, Parliament may exercise its subpoena or interrogatory powers to pose written or oral questions. However, the scope of its activities is limited by the fact that the Government is backed by a ruling party that commands a strong parliamentary majority. Hence during the two preceding legislatures, the National Assembly was able to administer only two subpoenas or interrogations while the Senate did not undertake any of these. Written and oral questions, which in theory are conducted in one session per week, are also very few. It should also be noted that parliamentarians do not often have adequate skills in public finance to enable them react more effectively to presentations made by the Government.</p> <p>2. Parliament also intervenes through commissions of enquiry. But these instances are quite rare. Since 1991, the National Assembly has constituted 12 commissions of enquiry, while the Senate formed only 6. In addition, when they take place, these commissions of enquiry do not have access to information at the disposal of budget managers, thereby preventing them from playing an effective oversight role. On the whole, reports prepared by Parliament on the deliberations of these commissions of enquiry are not published. Although these reports are few, actions resulting from legislative surveillance contribute to the promotion of transparency in public financial management.</p>

