Gabon

key figures

• Land area, thousands of km²	268
• Population, thousands (2006)	1 406
• GDP per capita, $ PPP valuation (2006)	7 668
• Life expectancy (2006)	53.6
• Illiteracy rate (2006)	...

Gabon

YAOUNDÉ
CAMEROON
EQUATORIAL GUINEA
Bitam
Oyem
Cocobeach
LIBREVILLE
Makokou
Ivindo
Port Gentil
Ogooué
Lambaréné
Onangue Lake
Lastoursville
Koulamoutou
Ngounié
Moanda
Lékoni
Franceville
Mouila
ATLANTIC OCEAN
Ndendé
Gamba
Tchibanga
DOLISIE
CONGO
Mayumba
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port
0
100 km

Gabon

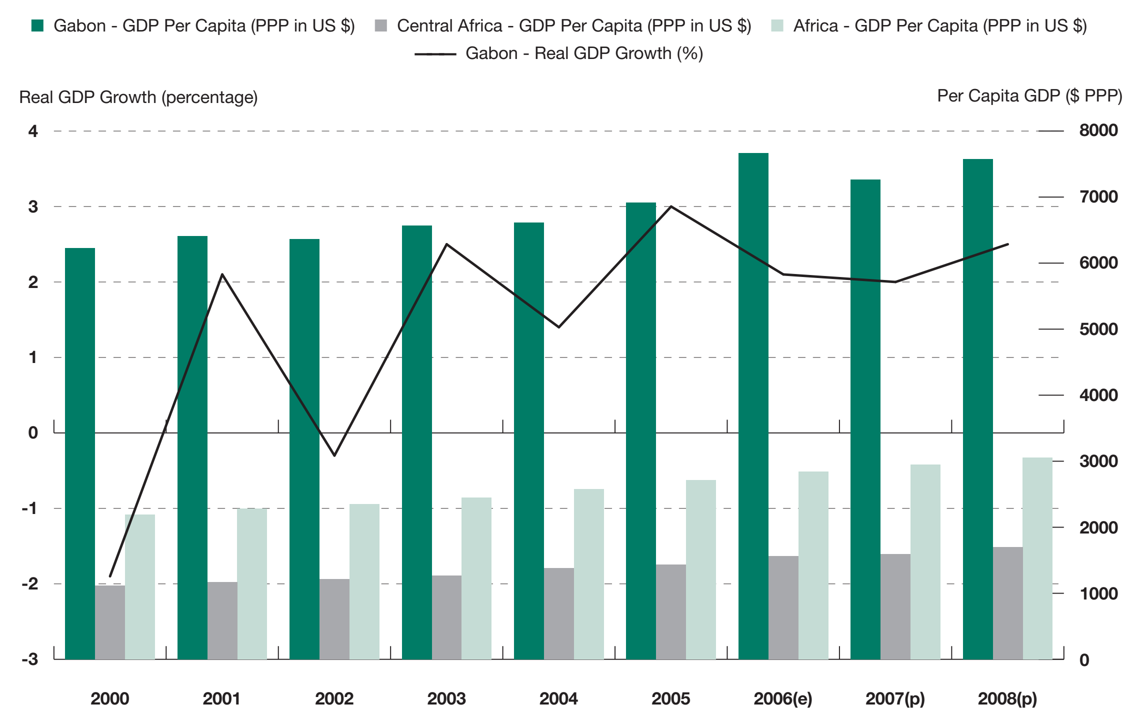
THE 2005 PRESIDENTIAL ELECTION WAS a contest between opposition parties and a "presidential majority" coalition of about 40 other parties and groups backing President Omar Bongo Ondimba for another seven-year term. Bongo was declared by the constitutional court to have won re-election with about 80 per cent of the votes cast.

Despite shrinking oil reserves and declining production, oil was still Gabon's main natural resource in 2005, providing more than half its GDP, 80 per cent of export earnings and 63 per cent of tax revenue. Without new discoveries, however, the country will have to prepare for the post-oil era by creating better economic and institutional conditions to enable diversification of the economy and generation of new sources of income. Moreover, despite the government's promises that budgetary indiscipline linked to the 2005 presidential election would not be repeated, parliamentary elections in late 2006 are also expected to have been accompanied by excessive spending. Inflation, which fell back in 2005, rose in 2006 to 1.9 per cent, mainly owing to a higher wage bill for government workers.

Gabon should diversify its economy and prepare for the after-oil era pursuing institutional reforms to improve the investment climate, governance, and eradicate poverty.

Many institutional reforms were introduced in 2005 affecting business conditions, the civil service and the judiciary, as well as restructuring and reorganising the state sector and improving governance – the fourth pillar of the full poverty

Figure 1 - **Real GDP Growth and Per Capita GDP**
($ PPP at current prices)



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

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reduction and growth strategy paper (PRGSP), implementation of which began in 2006. A national commission to combat illegal enrichment was set up, and top officials and government members have been asked to declare their personal assets. Like the other Central African Economic and Monetary Community (CEMAC) countries, Gabon has joined the Extractive Industries Transparency Initiative (EITI), requiring it to use its oil revenue (especially windfall profits due to higher world prices) to reform public finances and balance its budget. To this end, some 170 billion CFA francs in 2005 windfall profits went to investment in selected sectors, to poverty-reduction programmes, clearing domestic debt arrears and consolidating the treasury's position in relation to the central bank. The government also began drafting a national good governance programme in 2004, with support from the African Development Bank (AfDB) and the United Nations Development Programme (UNDP), and this is expected to be ready by late 2006.

Recent Economic Developments

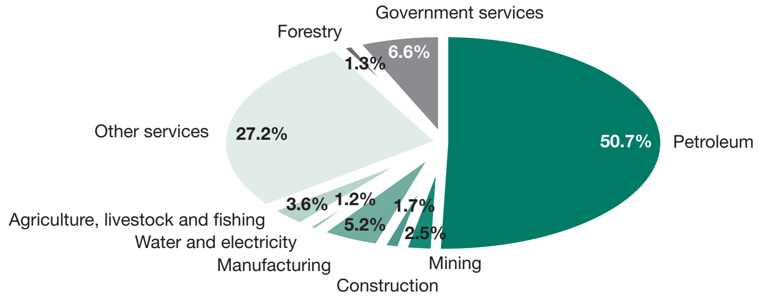
The economy recorded relatively strong growth in 2005 and inflation fell by 0.2 per cent. Despite a 1.3 per cent shrinkage of the oil sector, real GDP increased 3 per cent, well above forecasts and the 2004 figure of 1.4 per cent, owing to the strong expansion of the non-oil sector (4.3 per cent of GDP), especially mining, wood and services. In 2006, however, GDP is expected to increase only 2.1 per cent, with inflation rising to 1.9 per cent. Higher world oil prices boosted the balance-of-payments surplus to 16.7 per cent of GDP in 2005, allowing a further reduction (4.4 per cent) in external debt that brought the stock of such debt down to 39 per cent of GDP. The overall commitment-basis budget surplus amounted to 9.4 per cent of GDP, and the 2006 budget calls for reduction of the non-oil fiscal deficit to 7.8 per cent (from 12 per cent in 2005).

The country's economy depends heavily on extractive industries. The oil sector alone accounted for 50.7 per cent of GDP in 2005. Recoverable proven reserves of some 2 billion barrels and daily output of around 270 000 barrels made Gabon the third-largest sub-Saharan oil producer after Nigeria and Angola. Mining provided 2.5 per cent of GDP (up from 1.9 per cent in 2004). The country is also Africa's second-largest wood exporter after Cameroon, though the wood and forestry products sector accounted for only 2.5 per cent of GDP in 2005.

Oil continues to dominate the country's growth structure despite falling crude production and reserves, but investment in exploration that could stem this decline barely increased in 2005 (388.3 billion CFA francs, compared with 387.1 billion in 2004) and was expected to drop to 360 billion in 2006. Exploration and production-sharing contracts since 1997 have included royalties of 10-20 per cent of the oil sold. The producer gets about half of the remainder, with the rest going to the government. After rising slightly in 2003 (6.9 per cent) and 2004 (0.3 per cent), production resumed the decline it began in 2001 and 2002, falling 1.3 per cent in 2005 and 3.1 per cent in 2006 due to ageing wells and antiquated equipment. The decline is likely to continue unless more effort is devoted to exploration and new discoveries made. The average price of Gabonese crude has risen in the last few years, from \$27.8 per barrel (2003) to \$35.75 (2004) to \$50.49 (2005) and an expected \$60 in 2006. The steady increase, due to higher world prices, certainly boosts government revenue but does not get the country out of danger. A combination of structural shocks (falling national production) and a drop in world oil prices would seriously harm the economy, which is too dependent on oil for tax and customs revenue. After deduction of the 750 000 tonnes delivered to the national oil refinery (Société gabonaise de raffinage – Sogara), exports are falling in step with production (down 1.9 per cent in 2005 and 2.7 per cent in 2006).

The government joined EITI to make its handling of extractive revenue, mainly from oil, more transparent, to assess the fiscal and economic impact of the windfall profits of the previous three years and to try to give more credibility to the process by which oil revenue is collected and transferred to the national budget. The first EITI report, covering 2004, done by independent consultants and published in 2005, was considered incomplete by stakeholders because it did not include profit oil in

Figure 2 - **GDP by Sector in 2005** (percentage)



Source: Authors' estimates based on local authorities' data.

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the 2004 revenues. Profit oil is the crude oil the government gets under production-sharing agreements, and it accounts for at least half of all state revenue from the oil sector. The government promised that profit oil would be included in the 2006 revenue report. Despite the budgetary indiscipline in 2005 due to the presidential election, the government managed to save about half its 2005 windfall profits, since higher world oil prices boosted oil revenue about 40 per cent in 2005 even though production stagnated.

Expansion of mining could be an alternative to oil, especially as non-oil extractive industries showed the best growth performance (11.9 per cent) in 2005, though their GDP contribution is still only 2.5 per cent. The Moanda manganese deposits (in Haut-Ogooué province), mined since the 1960s by the Compagnie minière de l'Ogooué (Comilog), a subsidiary of the French metallurgical group Eramet, could be a motor of such growth. Moanda produces a steady stream of good-quality ore, expected to top 3 million tonnes in 2006 (up from 2 million in 2005). In March 2004, the Brazilian firm Vale de Rio Doce (CVRD) began prospecting two other Haut-Ogooué deposits, at Franceville and Okondja, estimated at 175 million tonnes. Mining these deposits will require improved infrastructure, however, especially railways. The Chinese firm Sinostel has been authorised to prospect near Mbigou, in the south. Two other Chinese firms have formed the Compagnie industrielle et commerciale des mines du Gabon to prospect for and extract manganese at Njole. Gabon, which should produce around 7 million tonnes of the ore by 2007/08, hopes to become the world's top supplier of manganese. The country also has niobium, a very high value-added mineral used in making special steels and heavy-duty alloys used in aeronautics. Once investments are complete in manganese, niobium, phosphates and the huge Belinga iron deposits, the mining licence for which was granted in 2005 to two Chinese firms that plan to invest some $3 billion, the mining industry should generate $300-400 million a year.

With 20 million hectares of mostly-untapped forests containing about 60 marketable species, the forestry and wood industries can also contribute to the economy, as shown by their 2005 growth performance of 5.6 per cent. Their share of GDP is still small (2.5 per cent in 2005), but forestry and wood employ more than a fifth of the working population, and the sector could boost its output if its regulation were changed to make it more efficient and reduce management costs. The forestry law needs to be revised to encourage local and foreign operators to invest more in infrastructure items such as log carrier ships and other facilities. A technical, analytical and financial audit of the state timber company Société nationale du bois du Gabon (which has a monopoly on the marketing of logs from Ozigo and Okoumé) and conversion of the company into the sector's chamber of commerce could boost sector growth. As lumber is the country's second-largest export after oil, the government has streamlined the sector's taxation and imposed a moratorium on new felling permits so as to encourage investment.

Agriculture, livestock and fisheries came second from bottom on the list of major sector growth rates in 2005, at 4 per cent. Though this was double the 2004 figure (2 per cent), the sector still contributed only 3.6 per cent of GDP in 2005, far below the 16 per cent it provided in 1964. Gabon has no strong agricultural or stock breeding tradition and must import more than half the food it needs. The coffee and cocoa sector is also neglected compared with that in nearby countries. Agricultural growth in 2005 was fairly satisfactory as a result of modernisation and privatisation of state rubber and palm-oil firms.

The secondary sector grew strongly in 2005 (4.6 per cent compared with 0.9 in 2004), mainly thanks to "other industries" (up 6.7 per cent), agro-food (+6 per cent), wood processing (+10 per cent) and oil refining (+5.6 per cent). Water and electricity (+2.5 per cent), construction (+2 per cent) and oil services (+2.5 per cent) also did well, and the sector contributed 8.1 per cent of GDP.

"Other industries" performed well partly because of investment linked to "rotating festivals" (independence celebrations held in a different region each year), and agro-food advanced due to stronger demand for its products during the 2005 presidential election campaign and higher per capita GDP. Wood industries did well because, at government insistence, more logs were processed before export; the proportion of processed logs reached about 40 per cent of production. Oil refining maintained growth begun in 2004 thanks to the generally buoyant economy and higher domestic demand for its products. Household consumption of water and electricity rose due to expansion of coverage by the utilities firm SEEG (Société d'énergie et d'eau du Gabon), but the sector under-performed after the loss of several major customers such as Sogara. Growth in the construction sector halved to 2 per cent (from 4.2 per cent in 2004) as building and civil engineering activity slackened.

The tertiary sector (27 per cent of GDP) turned in one of the year's best performances, growing by 5 per cent thanks to services (+5.8 per cent), trade (+5.6 per cent) and telecommunications (+4.5 per cent). Growth in services was driven by increased services to business and households, as well as real-estate services. Trade benefited from the general economic upturn and from improvement in the formal trading sub-sector due to higher demand for industrial vehicles, pharmaceuticals and oil products. Transport and telecommunications did very well in 2005 due to the healthy state of the economy. Passenger and goods transport by sea and rail was up, but air transport continued to suffer from the problems of airlines, mainly Air Gabon. The impending inauguration of 13 recently-created national parks is expected to boost tourism, especially eco-tourism.

Growth in 2005 was driven more by final domestic demand, which rose 4.1 per cent in volume and contributed 3.8 points to overall growth, largely due

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

	1998	2005	2006(e)	2007(p)	2008(p)
	Percentage of GDP (current prices)		Percentage changes, volume		
Gross capital formation	**36.5**	**23.2**	**10.2**	**5.0**	**3.8**
Public	11.2	5.8	12.5	2.0	2.0
Private	25.2	17.4	9.5	6.0	4.4
Consumption	**64.1**	**42.9**	**-1.5**	**2.1**	**1.2**
Public	20.4	11.5	-1.4	7.1	2.6
Private	43.7	31.4	-1.5	0.5	0.7
External sector	**-0.6**	**33.9**			
Exports	46.1	66.2	2.0	-2.7	1.3
Imports	-46.7	-32.3	3.2	1.2	0.8

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

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to a 5.5 per cent increase in final spending by households and government, while total investment stagnated. Household consumption rose because of higher wages, and public consumption because of the government's efforts to stimulate the economy. The very small rise in total investment was due to slack public investment (down 1.8 per cent), while gross fixed capital formation in the non-oil sector grew under the stimulus of rising demand for consumer goods. Exports of non-factor goods and services were down 9.3 per cent in volume, while goods exports, especially manganese and wood, did not make up for declining oil exports. Imports, spurred by increased spending on the presidential election, grew 4.7 per cent in volume terms.

Macroeconomic Policies

Fiscal Policy

Reforming budget policy will be the cornerstone of Gabon's future economic policy, and tough decisions will have to be taken. To ensure the viability of its policy under conditions of falling oil production and reserves, the country is in a position to make deliberate, gradual adjustments to its public finances, thanks to the substantial resources it still enjoys as a result of higher oil revenue. If this is not done and oil prices drop, the country may be forced to undertake these imperative reforms in more difficult conditions, especially for the less well-off, and to the detriment of poverty-reduction efforts in general.

Infrastructure investment and attending to the social needs of the population place constant pressure on public resources. Although the improvement in the balance of payments and the national budget makes it possible to meet these needs, the government must keep a sharp eye on public spending and the economy's absorption capacity and must redirect budget policy towards the non-oil sector. This sector is still a better indicator of the country's ability to meet growing needs, despite its falling share of total GDP (from 56.3 per cent in 2004 to 49.3 per cent in 2005). After the budgetary indiscipline in 2005, greater rigour is required in 2006, especially as the December parliamentary elections may also eat into government funds. The authorities predict a non-oil primary deficit of 7.8 per cent of non-oil GDP (down from 12.1 per cent in 2005) and aim to reduce it to 6.4 per cent in 2008 and 5 per cent thereafter. The 2006 scenario includes continuing subsidy of Air Gabon until it is reorganised into Air Gabon International, which will have to survive alone in the open market, and also includes promises of public investment in major infrastructure.

The 2006 budget was drawn up without taking account of additional spending caused by completion of the PRGSP, so a supplementary budget (Loi de finances complémentaire) based on a new budgetary framework including this extra spending was approved by parliament in June 2006. After receiving a recently-completed International Monetary Fund (IMF) report on the observance of standards and codes in public finances for 2006, the government is determined to draft a new action plan to improve management of public funds and make some capital expenditures more effective. Implicit subsidies for oil products will be reduced and more money redirected to the poor. Taxation laws were thoroughly updated in 2006, and a department to deal with the biggest taxpayers – i.e. major public and private firms – was set up during the year.

The final 2005 budget was increased 14.3 per cent over the first draft to include the increase in oil revenue due to rising world prices of crude. The adjusted budget (Loi de finances rectificative) set total resources and appropriations at 1 354.1 billion CFA francs. Locally-generated revenue (oil and non-oil) increased 16.1 per cent, while loans, including those for investment, were reduced 42.9 per cent, from 35 billion CFA francs to 20 billion. Non-oil revenue was boosted 2.9 per cent, from 540.3 billion CFA francs to 555.8 billion, mainly due to better tax collection (VAT receipts rose 8 billion CFA francs) and higher direct taxes. Customs receipts fell 10.7 billion CFA francs.

On the expenditure side of the adjusted budget, the item that saw the biggest increase was investment spending (28 per cent over the initial budget), followed by debt service (+14.8 per cent). With respect to 2004, recurrent expenditure rose 24 per cent due to transfers and subsidies, while capital spending fell more than 3 per cent. Public debt was reduced by 6.3 per cent in 2005 but was still a fairly high 35.8 per cent of nominal GDP, though well below the 70 per cent CEMAC limit.

This budget policy gave the country a primary surplus up 27.5 per cent on 2004, mainly because of its increased oil revenue. The commitment-basis overall balance rose 50.6 per cent to 431.5 billion CFA francs, while the cash-basis overall balance was 341.8 billion due to repayment of 89.7 billion CFA francs of treasury debts and interest arrears. Gabon's budget policy, which still needs to be tighter, is worrying in the non-oil sector, which had a high 2005 deficit of 12.1 per cent of non-oil GDP, much larger than the expected 8.5 per cent. The government aims to bring the non-oil deficit down to 7.8 per cent in 2006, but it will still be higher than the 5 per cent considered viable by the IMF.

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Total revenue and grants[a]	**34.5**	**29.8**	**29.4**	**31.4**	**30.8**	**29.9**	**29.6**
Tax revenue	15.0	12.3	12.0	10.3	9.6	10.2	10.1
Oil revenue	18.8	16.2	15.8	19.8	19.8	18.4	18.1
Total expenditure and net lending[a]	**48.4**	**22.4**	**21.8**	**21.9**	**20.9**	**23.2**	**23.2**
Current expenditure	34.7	18.7	17.6	18.5	16.8	18.8	18.7
Excluding interest	*27.1*	*14.7*	*13.6*	*15.7*	*14.7*	*16.4*	*16.6*
Wages and salaries	7.7	6.5	6.0	5.0	4.6	5.1	5.1
Interest	7.6	4.0	4.0	2.8	2.1	2.4	2.0
Capital expenditure	13.7	3.7	4.2	3.4	4.0	4.5	4.5
Primary balance	**-6.4**	**11.4**	**11.5**	**12.3**	**12.0**	**9.1**	**8.4**
Overall balance	**-14.0**	**7.4**	**7.6**	**9.4**	**9.9**	**6.7**	**6.4**

a. Only major items are reported.
Source: IMF data; estimates (e) and projections (p) based on authors' calculations.

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Monetary Policy

Gabon's monetary policy is in the hands of the Bank of Central African States (BEAC), which ensures price stability and the CFA franc exchange rate in CEMAC. Gabon, like the other member states of CEMAC, is required to comply with convergence criteria and multilateral monitoring, just as West African Economic and Monetary Union (WAEMU) members do, though the WAEMU process is more advanced. Inflation remained close to zero in 2005 and was expected to be 1.9 per cent in 2006 (below CEMAC's 3 per cent limit). The money supply (M2) grew 26.7 per cent in 2005, while non-monetary assets increased only 8.6 per cent.

The money supply was backed by net external assets that almost doubled, from 286 billion CFA francs in 2004 to more than 536 billion in 2005, and government debt to banks eased due to greater revenue, mainly from oil. Credits to the economy grew more slowly (only 9.9 per cent in 2005 – 464.7 billion CFA francs, against 422.7 billion in 2004), and 60 per cent were still short-term loans, reflecting the fact that demand for capital is mainly driven by the cash needs of firms. This trend, if confirmed, would be worrying since the economy needs to diversify into non-oil sectors.

External Position

The overall balance of payments almost doubled in 2005, to 764.5 billion CFA francs (from 386.8 billion in 2004), largely due to a 43 per cent increase in the trade surplus. The robust growth of goods and services exports (up 32.3 per cent on 2004) was based on a 40.9 per cent rise in the price of Gabonese crude and healthy exports of manganese and wood. In contrast, the services balance deteriorated and showed a 2005

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

	1998	2003	2004	2005	2006(e)	2007(p)	2008(p)
Trade balance	16.6	35.3	39.8	47.2	51.1	44.7	43.6
Exports of goods (f.o.b.)	42.5	52.5	56.7	63.1	66.2	60.9	59.7
Imports of goods (f.o.b.)	25.9	17.2	16.9	15.8	15.1	16.2	16.1
Services	-17.2	-10.5	-13.6	-14.3	-12.4	-13.6	-13.6
Factor income	-11.5	-9.7	-13.3	-14.1	-12.3	-13.5	-12.3
Current transfers	-1.2	-3.0	-2.7	-2.2	-1.9	-2.1	-1.0
Current account balance	**-13.3**	**12.0**	**10.2**	**16.7**	**24.5**	**15.5**	**16.7**

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

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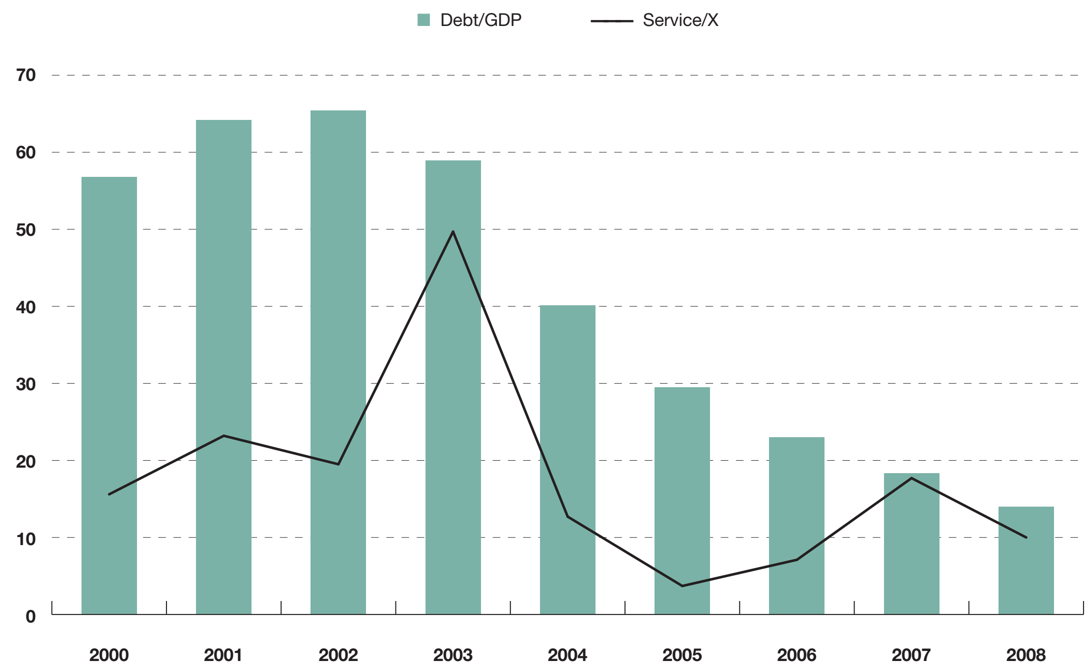
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)



Source: IMF.

http://dx.doi.org/10.1787/777580601364

deficit of 26.7 per cent caused by weak performance in freight and insurance, travel and tourism, and transport. The capital balance fell substantially, due to a 27 per cent increase in the factor income deficit and a big drop in net foreign direct investment, which shrank from 115.7 billion CFA francs in 2004 to minus 145.8 billion in 2005.

Analysis of the viability of Gabon's debt suggests that if world oil prices stay high and fiscal discipline is maintained, the external debt can be brought down from 44 per cent of GDP in 2004 to 33.5 per cent in 2006, reducing the country's great vulnerability to external shocks and accumulating budget reserves that would provide future protection through more remunerative long-term financial assets. Gabon's national oil fund earns average nominal interest of barely 1.6 per cent, according to the IMF, compared with Norway's which has a real average yield of 4.3 per cent excluding management costs. As part of efforts to clear much of its domestic debt, the government has taken fewer loans from the BEAC, which carry a high rate of interest (5.75 per cent). Talks with CEMAC are going on to replace these loans with negotiable treasury bonds that will raise money more cheaply and boost the country's financial market. If the government reduced its external debt (which is more than 90 per cent of the total debt) by early repayments and the domestic debt by eliminating treasury bonds on which it has to pay 7.5 per cent interest, it could substantially cut the cost of debt service (which stood at nearly 44 per cent of the national budget in 2005), better withstand shocks and increase its budget capacity to make scheduled PRGSP investments.

Structural Issues

Recent Developments

The presidential election not only led to financial excesses in 2005 that damaged public finances and budgetary discipline but also was one of the factors holding back the introduction of the government's promised structural reforms. Owing to pressure from development partners and government support for these reforms, however, a serious plan has been drawn up to implement them as part of the PRGSP, which started to come into effect in 2006.

Gabon's regulatory and judicial framework hampers business activity at a time when falling oil production requires the country to diversify the economy and boost the private sector so that it can take over investment activity from the government. The level of state investment in Gabon is among the highest in Africa but is still too focused on the oil sector. To expand the non-oil sector, total factor productivity has to be increased through serious efforts to reform capital markets, business laws and governance to improve the business climate and restore the confidence of local and foreign private investors. The government set up a private investment promotion agency (Agence de promotion des investissements privés – APIP) in 2004 and joined the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID), but thorough reform is needed of the still cumbersome, costly and drawn-out procedures for setting up businesses. The World Bank report *Doing Business 2006* said the situation did not improve at all in 2006 and even worsened in some respects. Gabon dropped nine places in the 2006 annual ranking for tax-paying procedure (to 94th from 85th), eight for foreign trade procedure (to 112th) and eight for rules about closing down firms (to 130th). The government set up a public procurement office in 2005 to improve management of public funds by examining all contracts exceeding 30 billion CFA francs.

Infrastructure development in 2005 included road improvement works in Libreville and Owendo, whose first phase (3.5 billion CFA francs) involved the expressway and some access roads to the SNI housing development of Owendo. The biggest infrastructure investments in 2005 related to preparations for the franchising of railways and engineering structures. The mining firm Comilog was awarded a 30-year contract in 2006 to run the Transgabon Railway and spend 50 billion CFA francs modernising the 650-kilometre line from the Libreville suburb of Owendo through the equatorial forest to Franceville. Another major project, completed in 2005 in northern Gabon, was the 180-metre tri-border bridge across the river Ntem at Eboro linking Gabon and Cameroon, with an 18-kilometre slip-road to Equatorial Guinea. Chinese franchise-holders plan to build a hydroelectric dam to serve the Belinga iron mines and a 560-kilometre railway to carry ore to the future deepwater port at Santa Clara, near Libreville.

Gabon's private sector enjoys a degree of freedom rarely found in Africa but confines itself to services and small industry activity. Under the 01-96 privatisation law, the government has progressively handed over state firms to local and foreign private operators and focused its efforts on regulation and supplying social services to reduce poverty. The legality and transparency of privatisation operations are ensured under the international bidding system. About 30 state firms have already been divested, notably Gabon Telecom, with 51 per cent of its capital privatised. The state post office, which has swallowed up substantial government funding since 2003, is being reorganised. The liquidation of Air Gabon and creation of a new company, Air Gabon International, with Royal Air Maroc as the majority shareholder, is another major government project, but negotiations seem to have bogged down. The reorganisation of Société nationale des Bois du Gabon and the ending of its monopoly have not affected its viability, as the company showed record profits in 2005. The state monopoly may turn into a private one, however, with prices and services to the public suffering if the government does not regulate it properly.

Since it was reviewed in 2002, the financial sector seems to have become more stable, though it still has clear structural weaknesses. It is quite small compared with those of other countries in the region, and its banks are reluctant to provide more loans despite the great excess liquidity resulting from higher world oil prices and repayment of the government's domestic debt. Loans to the private sector fell from a high of 13.2 per cent of GDP in 2002 to less than 9 per cent in 2005 (from 22.6 to 19 per cent of non-oil GDP), probably because of fixed interest rate bands and banks' inability to monitor loan portfolios effectively. The banks say there are few viable projects around and that their loans are often non-performing. They deal with only a few local or mixed-capital firms and are more used to doing business with foreign firms, notably oil companies, which often use external funding. They also tend to play safe, setting minimum deposit and personal income levels for customers. Lack of financial instruments other than loans means that small and medium-sized firms often have no access to banks. Microfinance is rare, but the government plans to allow the business promotion fund Fodex (Fonds d'expansion et de développement de la petite et moyenne entreprise) to extend its activities to include microfinance. These shortcomings slow the growth of the private sector, which the country needs to diversify the economy. Enlarging the financial sector requires structural reform to reduce or abolish the minimum-deposit rule and eliminate obstacles that prevent banks from making reliable credit risk assessments of local customers. Other needed steps include strengthening the legal framework, registering mortgaged or secured assets offered as guarantees for loans, increasing the legal rights of creditors and improving business accountancy practices.

Gabon has no tradition of agriculture and imports most basic food items it needs. Tropical fruit growing is still in the hands of small farmers, while coffee and cocoa are neglected compared with the sector in neighbouring countries having similar resources. The agriculture project PADAP (Projet d'appui au développement de l'agriculture périurbaine), set up in October 2004 by the national development institute IGAD (Institut gabonais d'appui au développement) to encourage horticulture, food-crop production and pig-rearing by small farmers and agriculture-related businesses on the outskirts of urban areas, is still a long way from performing adequately. The government's diversification programme has included handing over the rubber company Hevegab and the palm-oil firm Agrogabon to the Belgian tropical agriculture company SIAT, which hopes eventually to meet Gabon's needs in edible oils and soap, which are currently imported. The government also plans to build the sector's capacity by reopening the rural development school (Ecole nationale de développement rural) and redefining the job of the rural development office (Office national de développement rural).

The new forestry law obliges timber firms to present a plan of operation including an environmental survey, a felling rotation schedule and provision for reforestation. Creation of 13 national parks covering about 11 per cent of the country will enable better supervision of the country's plant and animal life to preserve its biodiversity and resources.

Access to Drinking Water and Sanitation

Gabon is one of the 10 best-endowed countries in the world where water is concerned, with 90 per cent of the country supplied by water courses (rivers, lakes, lagoons and streams) and 72 per cent of its land area irrigated by the Ogooué river and its tributaries. The 2005 national poverty survey (Enquête gabonaise pour l'évaluation et le suivi de la pauvreté – EGEP) showed that although access to drinking water had significantly improved in the previous five years, the country had far to go as regards sanitation.

The country's water resources are managed and developed by the Ministry of Mines, Energy, Oil and Water Resources and the Gabonese energy and water company SEEG (a subsidiary of the French group Véolia Water). SEEG obtained a 20-year nationwide franchise in 1997 to supply drinking water and electricity, but serves only major urban areas. The government continues to supply remote areas, either with surface water that needs treatment before delivery, or water from wells that requires simpler treatment.

Water is sold at the same price wherever the customer lives, which is theoretically fair, except that in reality many households (equal to more than a quarter of the 46 per cent of directly-connected households) get their water from a connected neighbour, who re-sells it to them at a profit. Although a subsidised official supply, including credits, costs only 81 524 CFA francs a month, which would seem affordable for most, except the poorest households (the average monthly income of the bottom 10 per cent is 172 000 CFA francs), this does not reflect the true situation. The gap between the "fair" official price and the price actually paid favours wealthier and often better-supplied households, so the official price is not an effective "subsidy" because the poor do not fully benefit from it.

More than 40 per cent of households have running water, and more than a quarter get water from a neighbour's tap. Surface water, which may not be clean, is only used by 17 per cent of households, practically none of them in Libreville, Port Gentil and most other urban areas. It is the main source of supply in the countryside (for about 60 per cent of households) but with great disparities by income category. In the richest quintile of the population, more than half of households have running water and fewer than one in 10 uses surface water, whereas in the poorest quintile, only one in six has running water and one in three uses surface water.

The use of tap water is a good indicator of access to drinking water, and it shows that rural areas still lag far behind. Water targets in the Millennium Development Goals (MDGs) define drinking water as water found less than 30 minutes from a household and coming from an individual tap, or from another tap (either public or belonging to a neighbour or seller) or from a well. According to this definition, more than eight out of 10 households in Gabon have drinking water – ranging from two out of three in the poorest quintile to nine out of 10 in the richest. Access varies by geographical region, with the north and south (the poorest parts of the country) having the least access. The countryside, where fewer than two households out of five have access, is much worse off than urban areas.

Access to drinking water has improved a little over the past five years. Comparison with Gabon's last population and health survey (Enquête démographique et de santé du Gabon – EDSG) in 2000 showed that surface water was used for drinking by only 17 per cent of the population in 2005, down from 23 per cent in 2000. This overall figure breaks down as 5 per cent of urban households in 2005 (7 per cent in 2000) and 59 per cent of rural households (down from 66 per cent). Although the two surveys did not define access to drinking water in the same way, this fall in the use of surface water (the main source of unsafe water) can improve such access. These good results were obtained because 80 per cent of the population lives in urban areas, which are easier to serve, and because some rural areas have village water systems.

Sanitation offers a much less hopeful picture. Fewer than two out of five households use hygienic facilities (flush toilets and improved latrines), and this is not dependent on social class. Even in the richest quintile, 47 per cent of households use non-hygienic toilets (simple latrines, septic tanks), and about half do so in Libreville. Non-hygienic facilities can cause infectious diseases, especially if they are not deep enough or far enough away from the house. The situation is especially worrying for those in the poorest two quintiles nationally, in rural areas and in the north and south of the country, where non-hygienic toilets are virtually the norm.

Under a programme launched as part of the 7th European Development Fund (EDF) covering communities of more than 150 people in the north and west, 165 successful wells have been drilled in five provinces since 2000, but requirements in rural areas are still great. Village water projects could reach more people if older physical structures were better maintained, making it unnecessary to devote a large share of available funds to repairing them. Experts say that to avoid repairs, a minimum maintenance budget should be set and local people must be involved. In the long term, the government is planning national drinking water distribution using solar-powered pumps in the countryside for all villages of between 100 and 250 people, especially in river and lake areas. A water database (surface and groundwater) is also being compiled.

With support from the Global Water Partnership Central Africa, a number of projects and programmes have been launched in countries of the sub-region, including Gabon, which share the Congo river basin and its tributaries. The first joint project is for reports on each country's water development situation, to be followed by national action plans for water. A feasibility study on channelling water from the Congo river basin to Lake Chad is also planned as an integrative project under the New Partnership for Africa's Development (NEPAD).

Gabon's aim is for 70 per cent of the population to have drinking water by 2015. The government wants to build small water systems in larger villages if it can get the funding. In villages that already have water and electricity, it is planned to introduce improved water systems by linking village water systems together and having them run by the local communities. Rural water supply will be treated according to World Health Organisation (WHO) standards, and proceeds from its sale will go to maintain the hydraulic infrastructure and pay maintenance workers.

Political Context and Human Resources Development

Parliamentary elections were held on 17 December 2006, with all registered political parties allowed to take part. The open and lively two-week campaign featured sharp clashes between supporters of the majority Gabonese Democratic Party (Parti démocratique du Gabon – PDG) and a multitude of smaller parties, and was marked by accusations and protests over the electoral roll, especially in rural areas. At the end of the first week, the 13-party opposition coalition (Partis politiques de l'opposition – PPO) demanded in vain that the election be postponed by a month because the legal deadline for posting the electoral lists had not been met. The PPO claimed the interior ministry had given the lists to the independent permanent elections board (Commission électorale autonome et permanente – Cénap) only 20 days before the vote instead of the legally-required 45 days.

The 2006 PRGSP identified governance as one of four keys to the country's growth and poverty-reduction strategy. To improve management of the proceeds of its mining (mainly oil) activity, Gabon has joined the EITI, set up a national commission to fight illegal enrichment (Commission nationale de lutte contre l'enrichissement illicite) and introduced a new law on public procurement to satisfy requirements of transparency, good governance and the use of resources for social development and reducing poverty. However, public investment is still of very poor quality, ineffective and far from the priorities set out in the PRGSP. The public investment programme (Programme d'investissements publics – PIP) will have to be thoroughly reviewed, since the present system of public resource allocation prevents the country from achieving its goals of poverty reduction and growth promotion.

Despite a high literacy rate (85.4 per cent in 2005) and net primary school enrolment (92.4 per cent), the country's education system is weak, with high repetition rates at all ages and a high attrition rate. Over the 2000-03 period, the repetition rate was 37 per cent at the primary level and 30 per cent in secondary school, and on average only 36 per cent went on to higher education. This is mostly due to overcrowded classes in urban areas, especially Libreville, the poor quality of teaching staff and of the instruction provided, and the shortage of teachers in rural areas.

The health situation is one of the country's notable contradictions. Gabon is classified as poor even though its per capita GDP is that of a middle-income country. Life expectancy is 2005 was only 55.2 years for women and 53.7 for men, according to the UNDP's 2005 World Human Development Report (HDR). The mortality rate for children under five years of age was 87 per thousand inhabitants, according the 2000 EDSG, and 95 according to UN estimates for 2000-05, while infant mortality (below the age of one) was 58 per thousand for the same period – troubling figures for a country with such high income. Maternal mortality remains high at 519 per 100 000 live births. Gabon had only 29 doctors for every 100 000 inhabitants in 2004, and less than 6 per cent of its health budget went to primary healthcare.

High rates of infant and maternal mortality are mainly due to diarrhoea, malnutrition, anaemia and especially malaria. Access to healthcare varies greatly and is skewed towards wealthier families, who account for a quarter of all visits to health centres, compared with only 14 per cent for the poor. The disparity is partly due to the cost of treatment and the shortage of medicine. HIV/AIDS affected 8.2 per cent of the population in 2004, according to sentinel sites, and recent UNAIDS data showed that 4.2 per cent of people between 14 and 49 were infected. To address these glaring deficiencies, the government is finalising a national health development plan (Plan national de développement sanitaire – PNDS) for 2006-10 to improve the health system, develop human resources, improve the financing of the system, adapt the supply and quality of care, and tackle the main health problems. The PNDS will be backed up by national anti-malaria and anti-TB programmes. The national strategic anti-HIV/AIDS programme covered the period from 2000 to 2005.

Poverty in Gabon has been described by the EGEP, using the unified development indicators questionnaire (QUID) drafted in 2005 with the help of the World Bank. The EGEP showed that the poverty line – 429 336 CFA francs ($818) a year – stood at 14 per cent of average income and that 33 per cent of the population was poor. The survey revealed that poverty was mainly urban, with routinely vertical inequalities. Urban areas (80 per cent of the population) had a poverty rate of only 30 per cent but were home to 75 per cent of the poor. In the countryside (20 per cent of the population), the poverty rate was over 45 per cent, representing 25 per cent of the poor.

Social inequality is very clear, with about 90 per cent of national income held by the wealthiest households and the richest quintile alone accounting for half of national income. Even the government's social spending benefits the rich, with 33.5 per cent of these transfers going to the richest quintile and only 9 per cent to the poorest. Such inequality cancels out much of the effect of economic growth on poverty reduction and threatens the MDG poverty targets, according to the 2005 HDR. Using income, health and housing criteria, more than 81 per cent of Gabonese feel they are poor. Gabon was classed high among the middle-income countries in 2004, with a per capita GDP of $5 226 (80th in the world), but the UNDP Human Development Index puts it only in 123rd place, in the medium human development category. This situation is often explained by an excessive debt-service burden which prevents more spending on social services and by the ineffectiveness of public investment. Gabon's desire to combat poverty seriously was shown by the drafting of its first poverty reduction strategy paper (PRSP) in 2003, followed by a PRGSP in 2006, though the country is subject neither to the conditionalities of the Heavily Indebted Poor Countries (HIPC) Initiative nor to those of the poverty reduction and growth facility (PRGF).

Unemployment was estimated in 2005 at about 25 per cent of the working population, despite a slight (2.1 per cent) increase in overall employment due mainly to a 4.2 per cent rise in public sector employment, which already accounted for 51 per cent of the workforce. The number of civil servants alone grew 5.2 per cent year-on-year. Private sector employment was sluggish, rising only 0.1 per cent on 2004; most of this increase came in the oil sector (+0.9 per cent), while jobs in the agro-food industry shrank by 5.1 per cent. The modern sector wage bill (all employers) increased 7 per cent in 2005 because of a 13 per cent rise in wages in the "other industries" and "banks and insurance" sub-sectors, as against an increase of less than 2 per cent in parapublic firms