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IMPLEMENTATION COMPLETION REPORT

GABONESE REPUBLIC

**ECONOMIC RECOVERY LOAN
(LOAN 3759-GA)**

June 11, 1996

Country Operations I
Central African and Indian Ocean Department
Africa Region

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CURRENCY EQUIVALENTS

Currency Unit = **CFA franc (CFAF)**

The CFA franc is pegged to the French Franc at the rate of FF1=CFAF100

<u>Fiscal Year</u>	<u>US\$1=CFAF</u>
1994	555.20
1995	506.50

SYSTEM OF WEIGHTS AND MEASURE: METRIC

<u>Metric</u>		<u>U.S. Equivalent</u>
1 meter (m)	=	3.2 feet (ft)
1 kilometer (km)	=	0.62 miles (mi)
1 square kilometer (km ²)	=	0.39 square mile (sq mi)
1 hectare (ha)	=	2.47 acres (a)
1 metric ton (t)	=	2,205 pounds (lb)
1 kilogram (kg)	=	2.2046 pounds (lb)

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

CFAF	:	Franc of the Central African Financial Cooperation
ERL	:	Economic Recovery Loan
FTID	:	Levy for Computerized Processing of Customs
MINECOFIN	:	Ministry of Economy and Finance
GR	:	Gabonese Republic
SEEG	:	National Water and Electricity Company
UDEAC	:	Customs Unions of Central African States
VAT	:	Value Added Tax

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ECONOMIC RECOVERY LOAN
LOAN 3759-GA**

PREFACE

This is the Implementation Completion Report (ICR) for the Economic Recovery Loan (ERL) to the Gabonese Republic, for which Loan 3759-GA in the amount of \$30 million was approved on June 21, 1994 and made effective on September 16, 1994. The credit was released in its entirety upon effectiveness. It was fully disbursed on October 17, 1994.

The ICR was prepared by Mr. Lionel Laurant, Consultant (AF3CO) and reviewed by Mr. Jérôme Chevallier, Country Operations Division Chief and Ms. Nichola Dyer Cissé, Country Economist. The Borrower provided its own assessment of the project which is included as part II of the ICR.

The ICR is based on material in the project file. The Borrower contributed to the ICR by providing its own evaluation of the project's preparation and execution.

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EVALUATION SUMMARY

Background

1. Gabon is a Central African country with a population of just over 1 million growing at an annual rate of 2.5 percent. It is well endowed with natural resources, including timber, manganese, uranium, and oil. The country, however, is confronted with deep-rooted financial and structural imbalances and is still striving to promote sustainable economic and social development, as well as to diversify its export base. The sharp decline in world oil prices during 1976-77 and again in 1986-87 caused major disruptions in economic activity and government spending, and contributed to a steep expansion in external public debt and government payments arrears. Adversely impacted by the growing overvaluation of the CFA Franc, compounded by a significant decline in the terms of trade, Gabon's overall financial situation deteriorated.

2. The Government adopted a Development Policy program in the aftermath of the devaluation of the CFA franc (effective January 12, 1994). The program's objectives were to restore the competitiveness of the economy and lay the basis for growth and poverty alleviation. It was supported by an Economic Recovery Loan of US\$ 30 million, as well as an IMF Stand-by arrangement. The ERL was appraised, negotiated and brought to the Board in three months, following exceptional procedures. To consolidate the early gains from the devaluation, it was made available in one tranche after effectiveness.

Loan Objectives

3. The loan was designed to provide emergency support for the Government's program of economic recovery to complement the parity adjustment of January 12, 1994. The program covered: (i) macroeconomic policies designed to re-establish the conditions for balanced growth; (ii) structural reforms to promote free and efficient markets, redefine the role of government and minimize the impact of the devaluation on the social sectors; and (iii) sectoral policies to reduce government involvement in the economy and strengthen its capacity to provide basic services to the population. In coordination with its partners in the regional economic and customs union (UDEAC), the authorities undertook a far-reaching tax and tariff reform aimed at simplifying the tax system and reducing import tariffs. The Government fulfilled a number of conditions prior to disbursement (see Appendix A).

Implementation Experience and Results

4. Program implementation was satisfactory overall, although weaknesses in administrative capacity resulted in delayed implementation of structural measures and left Gabon's reform agenda unfinished. The economy responded positively to the improvement in competitiveness that followed the devaluation. Fiscal performance improved appreciably under the program, while the increase in the civil service wage bill was contained at 10 percent as targeted. A value added tax was introduced in April 1995 to replace all other domestic indirect taxes on domestically produced goods. The authorities were successful in carrying out ambitious trade and fiscal reforms, and preliminary action was taken to improve public enterprise performance and reduce the burden of these enterprises on public finances.

Sustainability of Results and Future Operations

5. Sustainability of results hinges on the pursuit of appropriate macroeconomic policies and the implementation of a program of supporting reforms that will consolidate the gains in external competitiveness, stimulate private sector growth, and strengthen the capacity of government to deliver basic services to the population. The ERL-supported program has re-established a real exchange rate consistent with economic competitiveness, while substantial tax and tariff reforms were implemented to unleash Gabon's growth potential in the non-oil private sector and create an environment propitious to private investment.

6. Ongoing projects include a Transport/Urban Technical Assistance Project and a Forestry and Environment Project. The Bank is preparing a Public Enterprise Reform Technical Assistance Operation to assist the Government in the disengagement from productive activities, and preparations are under way for a Pilot Agricultural Extension Services project.

Lessons and Conclusions

7. The Economic Recovery Loan aimed to support the Government's program to restore the competitiveness of the Gabonese economy and lay the basis for growth and poverty alleviation. Program results were satisfactory overall. Most of the requirements established under the ERL were met, laying the basis on which deeper reforms could be built. Despite close monitoring by the Bank, however, program implementation was affected by weaknesses in administrative capacity and financial management on the part of the authorities.

8. The ERL implementation record suggests that administrative and social rigidities may significantly hinder the actual fulfillment of agreed measures. Weaknesses in implementation capacity and resistance to reform are best addressed through early investment in: (i) setting up appropriate institutions and mechanisms to monitor progress

and implement measures; and (ii) building consensus on reform and mobilizing the support from socio-economic groups critical to program implementation.

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PART I: PROGRAM IMPLEMENTATION ASSESSMENT

INTRODUCTION

Country Background

1. Gabon is a Central African country with a population of just over 1 million growing at an annual rate of 2.5 percent. After gaining independence in 1960, Gabon opted for a single-party system of government, which prevailed until multiparty presidential elections were held in December 1993. Municipal and legislative elections are scheduled for 1996, followed by Presidential elections in 1998.

2. Gabon is well endowed with natural resources, including timber, manganese, uranium, and oil. The country, however, is confronted with deep-rooted financial and structural imbalances and is still striving to promote sustainable economic and social development, as well as to diversify its export base. The sharp increase in world oil prices in the early 1970s and 1980s boosted government revenue which, along with heavy recourse to foreign borrowing, accommodated an ambitious public investment program, a generous pay policy for civil servants and other public sector employees, and recurring extra-budgetary outlays. At the same time, the "oil syndrome" contributed to the crowding out of other industries in the tradable goods sector. The sharp decline in world oil prices in 1976-77 and again in 1986-87 caused major disruptions in economic activity and government spending, and contributed to a steep expansion in external public debt (from 1 percent of GDP in 1965 to 54 percent by 1993) and government payments arrears. Gabon, however, remains at the top of the per capita income bracket in sub-Saharan Africa (US\$ 3,770 in 1994).

The Devaluation and the Economic Recovery Loan

3. The adjustment of the Gabonese economy to the worsening external environment during 1985-93 was relatively modest, relying mainly on a deflationary policy that led to a stagnation of real GDP, despite a strong increase in oil output. The strategy entailed large cuts in government investment and a reduction in the budget deficit, but failed to achieve significant progress in lowering the high labor costs. Adversely impacted by the growing overvaluation of the CFA Franc, compounded by a 46 percent decline in the terms of trade during the period, Gabon's overall financial situation deteriorated.

4. The Government adopted a Development Policy program in the aftermath of the devaluation of the CFA franc (effective January 12, 1994). The program's objectives were to restore the competitiveness of the economy and lay the basis for growth and

poverty alleviation. It was supported by an Economic Recovery Loan of US\$ 30 million, as well as a twelve-month Stand-by arrangement approved by the IMF on March 30, 1994. Bank assistance was justified by: (i) the necessity to support the Government's post-devaluation reform program; (ii) the need for a rapid intervention to ensure that the price and incentive effects of the exchange rate action would be accompanied by appropriate measures to achieve a lasting improvement in competitiveness and growth; and (iii) the opportunity to break with a period of several years during which Bank involvement in Gabon had been limited by the absence of a sustainable macroeconomic framework and weak commitment to reforms. The ERL was appraised, negotiated and brought to the Board in three months, following exceptional procedures. To consolidate the early gains from the devaluation, it was made available in one tranche after effectiveness.

I. STATEMENT AND EVALUATION OF OBJECTIVES

5. The loan was designed to provide emergency support for the Government's program of economic recovery to complement the parity adjustment of January 12, 1994. The program covered: (i) macroeconomic policies designed to re-establish the conditions for balanced growth; (ii) structural reforms to promote free and efficient markets, redefine the role of government and minimize the impact of the devaluation on the social sectors; and (iii) sectoral policies to reduce government involvement in the economy and strengthen its capacity to provide basic services to the population. The Government fulfilled a number of conditions prior to loan disbursement (see Appendix A). Notably, in coordination with its partners in the regional economic and customs union (UDEAC), the authorities undertook a far-reaching tax and tariff reform aimed at simplifying the tax system and reducing import tariffs.

6. The scope of the ERL's objectives was commensurate with the extent of the economic and financial crisis confronting the country. The deflationary process in recent years, triggered by adverse external conditions (50 percent drop in oil prices in 1986, overvaluation of the CFAF) compounded by poor economic management, had left Gabon with legacies incompatible with sustainable development: an overextended and deficit-ridden public sector; a deteriorating physical and human capital base and declining productivity; and deepening poverty. The ERL was also well in line with the Country Assistance Strategy, and provided a consistent response to the parity change of the CFAF.

7. Swift availability of funds was justified by the need to capitalize on the momentum created by the devaluation. It remains uncertain, however, whether the Gabonese economy, served by oil reserves that turned the country into the richest nation in continental sub-Saharan Africa, was in need for immediate Bank support following the devaluation.

II. ACHIEVEMENT OF OBJECTIVES

8. Gabon's performance under the ERL-supported program was satisfactory. Within a much improved macroeconomic framework, the authorities were successful in carrying out ambitious trade and fiscal reforms. The traditional export sector (oil, timber, mining) responded positively to the improvement in competitiveness that followed the devaluation, while preliminary action was taken in the public enterprise sector to improve performance and reduce the burden of these enterprises on public finances. Implementation of the structural reforms suffered substantial delays, however, and the reform agenda remains unfinished.

1. Macroeconomic Policy

9. Agenda: Macroeconomic objectives under the Government's post-devaluation reform program included: re-establishing the conditions for balanced growth through realization of the potential competitiveness gains of the devaluation; stabilizing the debt ratio by 1995 through primary budget surpluses (4.1 percent of non-oil GDP in 1994 and 14 in 1995); maintaining the new parity of the CFA franc with the French franc without undue compression of credit to the economy; and controlling inflation (expected to reach about 33 percent in 1994).

10. Results: The economy responded positively to the improvement in competitiveness that followed the devaluation (the real effective exchange rate, based on relative consumer prices, declined by 30 percent in 1994). The inflation rate was contained at 36 percent in 1994 (only slightly above the program target), thus limiting the erosion in exchange rate adjustment. Overall, the structure of relative prices and economic incentives improved markedly, as reflected in an unprecedented current account surplus of 7 percent of GDP in 1994 (from a 1.1 percent deficit in 1993).

11. Fiscal performance improved appreciably in 1994. While total government expenditure was kept significantly below program levels, higher-than-expected oil revenue more than offset a shortfall in non-oil revenue. As a result, the primary budget surplus rose from 1.9 percent of non-oil GDP in 1993 to 9.5 percent in 1994 (facilitating repayments to the banking system and of domestic arrears), and the overall deficit as a percentage of GDP was cut by more than two thirds to 1.8 percent in 1994. Strong activity in the non-oil sector and higher oil exports boosted government revenue in the first half of 1995, but significant fiscal slippages during the period (large repayments of domestic arrears and high government expenditure) more than offset the revenue surplus and resulted in an accumulation of external payments arrears.

12. Monetary developments in 1994 were marked by a strong recovery in money demand and a substantial improvement in the net foreign assets position of the banking system. In the face of an improved profit and liquidity position of the private sector and a contraction in industrial output, bank credit to the private sector declined modestly during 1994, but picked up strongly in early 1995. After a strong acceleration in the first months

following the devaluation, inflationary pressures abated, owing mainly to wage restraint and the accompanying measures implemented by the Government. Despite the introduction of an 18 percent value-added tax in April, as well as upward adjustments in public utility rates and retail petroleum product prices, inflation is projected to reach 5.8 percent in 1995 -- a level more consistent with the fixed exchange rate with the French franc.

2. Structural Reforms

13. Agenda: Gabon's post-devaluation reform program entailed measures to grant greater freedom to markets and redefine the role of Government. In pursuit of this objective, reforms to be implemented under the ERL included: fostering competition; liberalizing external trade; establishing more efficient energy pricing; minimizing the impact of the devaluation on the social sectors; establishing a less penalizing tax system and introducing a value added tax; organizing consultations with employers and unions for a possible revision of the Labor Code; limiting the increase in the wage bill to 10 percent in 1994; and simplifying and reducing the cost of approval and other administrative procedures involved in the establishment of small and medium enterprises (SMEs) and industries (SMIs).

14. Results: *Competition* - Measures to strengthen competition on the domestic market were largely implemented. Substantial price and trade liberalization was achieved prior to loan disbursement, and a redrafted Law on Competition is awaiting Parliament approval. However, quantitative restrictions on sugar imports were not lifted by January 1996 as targeted.

15. *Trade policy* - The external trade regime was liberalized significantly. In the wake of the parity change, and in the context of UDEAC reforms, import tariffs were reduced sharply to a range of 5-30 percent (the average tariff dropped from 27.4 percent in 1993 to 19.2 percent in 1994); several tax exemptions were eliminated; the system of import/export licenses was revoked; import quotas were abolished (except for sugar); and export taxes were eliminated (except for wood and mineral products) or simplified (for wood). To complement these reforms, tax and customs duty exemptions granted to certain enterprises under special agreements are being renegotiated with a view to broadening the tax base, and no new exemptions have been granted. Elimination of exemptions will require concerted action at the sub-regional level.

16. Finally, while the levies on imports to finance the CGC (Conseil Gabonais des Chargeurs) and CGCE (Centre Gabonais du Commerce Extérieur) were abolished, a bill is to be passed that re-introduces the provisions of a 1992 ordinance requiring the payment of fees by managers of ore and oil tankers. Further, the authorities failed to reduce the customs data processing fee (FTID) from 2 percent to 0.5 percent of c.i.f. value as targeted. The upholding of the FTID tax on imports is not consistent with the trade liberalization undertaken in Gabon under the program and, despite overall satisfactory implementation, remains an important outstanding issue.

17. *Fiscal reform* - A value added tax system has been in place since April 1, 1995, at a single rate of 18 percent. It replaces all other domestic indirect taxes (with the exception of certain excise taxes) on domestically produced goods and, to that extent, supports local production. The next step is to expand the base of firms participating in the VAT (about 600, the largest in terms of sales, have been included). As conditions of loan disbursement, and to establish more efficient energy pricing, fiscal levies on petroleum products were lowered and prices paid to the refinery were linked to import parity prices. Reflecting the introduction of the value added tax, and as a way to obviate the need for government subsidies, electricity charges were raised by roughly 15 percent and prices of petroleum products by an average of 7 percent.

18. *Labor sector* - The increase in the civil service wage bill was contained at 10 percent in 1994 as targeted, while wage increases in the private sector averaged about 15 percent, contributing to the satisfactory inflation rate recorded in 1994. The Labor Code had been aimed at liberalizing the modalities for hiring and releasing labor by private and public enterprises (while providing for adequate safeguards). However, it was substantially amended by the National Assembly, and the revised version has not removed all constraints to labor mobility and job growth. The Government has committed itself to remedy these deficiencies.

19. Better efficiency of the labor market has been aided by the Office National de l'Emploi and the Fonds d'Insertion et de Réinsertion. These counseling and financing bodies, which began operating in early 1994, aim at: (i) monitoring labor supply and demand and ensuring the widest possible dissemination of information on employment opportunities; and (ii) providing those seeking employment with guidance in line with their skills and market needs. The functioning of the Fonds d'Insertion et de Réinsertion has been seriously hampered, however, by a lack of financing by the Government.

20. *Social sectors* - As condition of loan disbursement, the budget allocations to National Education and Public Health were adjusted to reflect cost increases resulting from the parity change. These sectors, however, remain affected by a low efficiency of public expenditure due to inadequate internal allocation, as reflected in relatively low social indicators.

21. *Facilitation* - No progress was made on simplifying and reducing the cost of approval and other administrative procedures involved in the establishment of enterprises. Even if account is taken of the abolishment of the system of import/export licenses under the program, as well as ongoing preparations for the revision of the business legislation and the establishment of a new Investment Code, the Gabonese authorities have yet to show significant action to improve the institutional and legal framework for private sector development.

3. Sectoral Policies

22. Agenda: The authorities' post-devaluation reform program entailed sectoral policies designed to: (i) develop output in the key sectors of the economy (agricultural and forestry sectors, energy sector, social sectors) and improve performance; (ii) set administered prices at levels that reflect real costs; and (iii) reduce the burden of public enterprises on public finances.

23. Results: The structure of relative prices and economic incentives improved markedly under the program. A decline in real household disposable income following the devaluation gave rise to a sharp contraction in real domestic demand and non-oil output, but a strong pickup in oil production allowed for an increase of 1.7 percent in total GDP in 1994. Benefiting from improved competitiveness and increased foreign demand, forestry exploitation remained buoyant in 1994; production of manganese increased by 11.3 percent while, with a stabilization of output in agriculture, value added in the primary sector grew by an estimated 9.2 percent in real terms. In contrast, reflecting a reduced real household disposable income, real output dropped in the secondary and tertiary sectors by 4 percent and 3 percent respectively.

24. In addition to the liberalization measures discussed above, producer prices were raised by 33 percent for cocoa and 50 percent for coffee for the 1994 season. Further, emergency programs aimed at reducing operating costs and introducing rates adjustments were put in place by the Government to improve the financial performance of the four public enterprises deemed most exposed to the impact of the parity change (Air Gabon, the electricity and water company SEEG, the oil refinery company SOGARA, and the post and telecommunication company OPT-TIG). As a result of these measures, the total losses incurred by these enterprises in 1994 were contained at CFAF 23.2 billion, less than half the devaluation-induced increase in costs (estimated at some CFAF 51 billion) for the year. In addition, with assistance from the Bank, a far-reaching program of public enterprise reform has been adopted by the government, entailing the preparation of a privatization law (approved by the National Assembly in January 1996), the restructuring or divestiture of key public utilities and firms in which the Government has a minority interest, the elimination of government subsidies, and the clearing of cross-debts and arrears.

25. Output growth and improvement of social indicators in Gabon remain predicated on the definition of clear sectoral policies by ministries. Notwithstanding some progress in the preparation of a new Investment Code, aimed at enhancing the transparency of the existing framework for promoting private investment (particularly in the mining and forestry sectors), the lack of a clearly defined line of conduct in this respect remains an impediment to private sector development and efficiency of the economy.

III. MAJOR FACTORS AFFECTING THE PROJECT

Factors under the Control of the Authorities

26. Weaknesses in implementation capacity and financial management, reflecting a failure to sufficiently internalize the program and create an effective mechanism for forceful and timely government action, affected program implementation in four different respects:

- (i) no progress was made toward the introduction of simplified administrative procedures for the establishment of enterprises, and the customs data processing fee (FTID) was not reduced as targeted;
- (ii) although fiscal performance in 1994 was broadly on track, resulting in a significant improvement in the fiscal position, a shortfall in non-oil receipts was recorded in the period, resulting from a slower-than-expected expansion in the tax base (particularly taxable imports) and delays in eliminating customs exemptions granted to certain enterprises under special agreements and adjusting export taxes on wood and manganese. Delays were also recorded in: (a) eliminating the levy on imports to finance the Conseil Gabonais des Chargeurs and Centre Gabonais du Commerce Extérieur contributions; (b) applying the VAT to oil company imports (despite intense efforts by the authorities), as well as to the subcontractors of companies benefiting from tax exemptions; and (c) adapting public enterprises to the post-devaluation environment;
- (iii) the quantitative restriction on sugar imports was not lifted by January 1996 as targeted. In any event, this restriction is to be replaced for a three-year period by a surcharge of 30 percent, so that the degree of liberalization in the sector will remain tenuous for the period (the surcharge, combined with the normally applicable import duties, would actually bring duties to a total 83 percent of the c.i.f. value). Indeed, a recent FAO estimate (December 1995) shows that, even if account is taken of the proposed surcharge, the retail price of imported sugar would be over 25 percent below that of domestically produced sugar. A nationwide controversy, nourished by the fear of bankruptcy of the local producer, jeopardizes the chances of a possible lifting of the quota as targeted - despite potentially substantial cost cuts (from 30 to 40 percent according to the FAO);
- (iv) weaknesses in transparency and effectiveness of use of public financial resources exacerbated concerns about governance during program implementation, contributing to the shortfall in nonproject external assistance in 1994. These are being remedied in the context of the three-year program approved by the IMF in late 1995.

Factors beyond the Control of the Authorities

27. Program implementation was also affected by a devaluation-induced fall in income and the limits imposed by regional economic integration: (i) a decline in real household disposable income following the devaluation resulted in a sharp contraction in domestic demand (8.6 percent). As a result, non-oil output declined by an estimated 3 percent, affecting fiscal performance under the program; (ii) the necessity for concerted action at the sub-regional level affected progress in eliminating tax and customs duty exemptions.

On the other hand, economic performance was helped by favorable world market oil prices, contributing to the higher-than-expected oil revenue under the program.

IV. ASSESSMENT OF OUTCOME AND SUSTAINABILITY

28. The ERL-supported program has re-established a real effective exchange rate consistent with economic competitiveness (with a substantially lower rate of inflation), improving substantially the structure of relative prices and economic incentives. It has resulted in significant fiscal reforms (including the introduction of a value added tax) and progress toward more efficient energy pricing. Most government controls on prices have been lifted, and substantial trade liberalization has been undertaken to unleash Gabon's growth potential in the non-oil private sector and create an environment propitious to private investment. Preliminary action was taken in the public enterprise sector to improve performance and reduce the burden of these enterprises on public finances.

29. Gabon's performance under the program was satisfactory overall, providing a necessary base on which deeper reforms could be built. Sustainability of results remains heavily dependent on the pursuit of appropriate macroeconomic policies and the implementation of a program of supporting reforms that will consolidate the gains in external competitiveness, stimulate private sector growth, and strengthen the capacity of government to deliver basic services to the population.

30. Consolidation of the gains from the ERL-supported program also hinges on the improvement of public financial resources management. The fiscal slippages that occurred in the first half of 1995, and came to light later during the year, illustrate the fragility of the progress toward more transparency and efficiency in government financial management. With technical assistance from the IMF, however, measures to improve budgetary procedures and strengthen the authorities' monitoring capacity are now being implemented.

V. BANK AND BORROWER PERFORMANCE

Bank Performance

31. The Bank's performance in the design and monitoring of the Economic Recovery Loan was satisfactory overall:

(i) Design: the Economic Recovery Loan provided a consistent response to the parity change of the CFA Franc, contributing to the establishment of a solid base on which deeper reforms could be built. It was also well in line with the Country Assistance Strategy. The Bank's performance in the design of the project, however, may have failed to fully appreciate the administration's capacity limitations. Program ownership and administrative coordination would have been served by strengthened high-level committees to focus on the implementation and monitoring of the program.

Swift availability of funds was justified by the need to capitalize on the momentum created by the devaluation. The Loan provided a pragmatic response to the parity change, but could not fully address the deep-rooted rigidities of the Gabonese economy:

- (a) the management of public financial resources remains affected by insufficient transparency and discipline in government financial management, as well as weaknesses in effectively monitoring overall fiscal developments;
- (b) the development of the non-oil private sector remains impeded by rigidities in the institutional and legal framework, strong government involvement in productive activities, and large government domestic payments arrears;
- (c) the social infrastructure and services remain inappropriate, and protection of the most vulnerable groups from the negative impact of the devaluation could have been strengthened by reforming the pharmaceutical distribution system, or implementing labor-intensive public works (as in the ongoing Urban/Transport Technical Assistance project);
- (d) the civil service remains inefficient and overextended.

(ii) Monitoring: close monitoring by the Bank was instrumental in focusing assistance on key activities for the success of the program. In addition to three supervision missions, program implementation was monitored in the context of a joint Bank/IMF Public Expenditure Review and the preparatory work for technical assistance to privatization.

Borrower Performance

32. Government performance under the program was satisfactory overall. Despite early progress in meeting up-front conditionalities (notably, Gabon took the leadership within UDEAC in reducing tariff protection immediately after the devaluation), weaknesses in administrative capacity and financial management, compounded by a legacy of heavy-handed public intervention in the economy, affected program implementation. The exceptional procedures under which the ERL was appraised, negotiated and brought to the Board may have prejudiced consensus building and program internalization. Reflecting these conditions, the authorities' failure to create an effective mechanism for forceful and timely government action and overcome resistance to reform resulted in delayed implementation of the agreed measures and left Gabon's structural reforms agenda unfinished.

VI. OTHER OPERATIONS

33. The ERL-supported program set the stage for deeper reforms that will consolidate the gains in competitiveness, improve economic incentives and promote efficient markets. As identified in the Bank's Country Assistance Strategy, Gabon's unfinished agenda includes: poverty alleviation, promotion of private sector growth, reduction of the country's vulnerability to oil-related shocks, capacity building and human resource development, and adoption of a sound forestry policy to ensure the conservation and sustainable use of existing forests.

34. Ongoing projects include a Transport/Urban Technical Assistance Project (PAPSUT), aimed at defining the strategies and investment programs in those sectors, as well as a Forestry and Environment Project. The Bank is preparing a Public Enterprise Reform Technical Assistance Operation to assist the Government in the disengagement from productive activities, and preparations are under way for a Pilot Agricultural Extension Services project. Based on the conclusions of the PAPSUT project, Bank operations are envisaged in the Urban Infrastructure and Transport sectors.

VII. MAJOR LESSONS AND CONCLUSIONS

35. The Economic Recovery Loan aimed to support the Government's program of economic recovery initiated through the devaluation of the CFA franc on January 12, 1994. The program entailed: (i) macroeconomic policies designed to re-establish the conditions for balanced growth; (ii) structural reforms to promote free and efficient markets, redefine the role of government and minimize the impact of the devaluation on the social sectors; and (iii) sectoral policies to reduce government involvement in the economy and strengthen its capacity to provide basic services to the population.

36. The Economic Recovery Loan provided a consistent response to the parity change of the CFA franc. Program results were satisfactory overall. Most of the requirements established under the ERL were met, laying the basis on which deeper reforms could be built. Despite close program monitoring by the Bank, however, weaknesses in administrative capacity and financial management on the part of the authorities hindered implementation of the agreed measures. The authorities have yet to define a coherent structural reform program based on the transition to a competitive, market-based economy.

37. The ERL provided the opportunity to strengthen the policy dialogue with Gabon, following a period of several years during which Bank involvement in the country had been constrained by the absence of a sustainable macroeconomic framework and weak commitment to reforms. It remains uncertain, however, whether the Gabonese economy, served by oil reserves that turned the country into the richest nation in continental sub-Saharan Africa, was in need for immediate Bank support following the devaluation.

38. The ERL's implementation record suggests that administrative and social rigidities are liable to significantly hinder the actual fulfillment of agreed measures. Weaknesses in implementation capacity and resistance to reform are best addressed through early investment in:

- (i) *building appropriate institutions and mechanisms* to monitor progress and implement reforms, so as to strengthen the authorities' ability to overcome conflicting political interests and forestall weaknesses in administration (lack of appropriate administrative structure and lack of institutional coordination and organization). Program ownership and administrative coordination may be better served by creating high-level committees to focus on program implementation and monitoring; and
- (ii) *building consensus on reform* by involving civil society - fulfillment of program targets is predicated on the mobilization of support from socio-economic groups critical to program implementation (private sector, government officials and civil servants, trade unions, other key representatives of civil society).

PART II: BORROWER CONTRIBUTION TO THE ICR

I. THE DESIGN OF THE PROGRAM

From initial thinking on a medium-term development strategy to a specific operation dictated by multilateral commitments assumed in the aftermath of the devaluation of the CFA franc.

Mired for six years in an economic and financial crisis, Gabon has been seeking since the end of 1992 to formulate a new development strategy based on an overall review, including a long-term approach and reexamination of certain determining sector policies. The World Bank had supported this undertaking and offered its technical support in the form of an Economic Memorandum and identification of sector adjustment programs in agriculture, transport and the restructuring of parapublic enterprises.

On January 12, 1994, the Franc Area countries decided on a 50% devaluation of the CFA franc, and the donors undertook to put in place programs designed to mitigate the impact of this measure, which was something new for the countries concerned. A Stand-By arrangement was accordingly approved by the International Monetary Fund on March 30, 1994, and an Economic Recovery Loan (ERL) was obtained from the World Bank at the end of April of that year.

The ERL was thus an individual operation, but one that was based on an analysis of the Gabonese economy made in the course of 1993 by World Bank and Gabonese Government experts, and lies within the scope of a wider-ranging review including sector adjustment plans¹ with a medium-term horizon.

The review of the evolution of the Gabonese economy presented as an introduction to the "Strategy Letter" resulted from the study made and set forth the strategic thrusts of the policy to be implemented based on:

- divestiture by the State in favor of the private sector, and refocusing of its role on its essential functions,
- combined with a search for a replacement for public expenditure as motor for the economy, thus implying reestablishment of competitiveness.

¹ The project concerning the transport sector was on the point of being negotiated, that for agriculture was under preparation and that for restructuring of the parapublic sector had been the subject of an urgent request, as evidenced by the minutes of the negotiations: "The Gabonese party expressed its intention to request Bank assistance in the form of a quick-disbursing project to support the restructuring of the public enterprises. Said party also reiterated its desire to receive financial and technical support from the Bank for the preparation of the restructuring of the enterprises of the agroindustrial and transport sectors". Minutes of Negotiations, Washington, April 26, 1994.

The ERL is inseparable from the IMF Stand-By arrangement. The Bank had participated in the preparation of the latter, with inclusion in it of a certain number of structural elements to be developed further in the ERL, while the ERL adopted the framework and the macroeconomic objectives of the Stand-By.² Moreover, right from the start it was intended that the Stand-By would be followed by a three-year Extended Fund Facility (EFF) to bring Gabonese economic policy back to a medium-term perspective, after the uncertainties connected with the real consequences of the devaluation had dissipated.

II. THE CONTENT AND EXECUTION OF THE ERL PROGRAM

Aside from the macroeconomic framework resulting from the IMF program, the ERL as defined in the "Letter of Development Strategy" focuses on two main areas:

- structural reforms
- sector policies

II.1 Structural reforms

These result from the diagnosis of the barriers to economic development and the factors behind Gabon's lack of competitiveness. Five primary topics are involved: liberalization of domestic and foreign trade, energy prices, the institutional environment of the private sector, reform of indirect taxation, and mitigation of the negative impacts of the devaluation on the poorer segments of the population.

II.1.1 Liberalization of domestic and foreign trade

The protectionist framework that has made the going easy for enterprises and helped to maintain the high level of costs and prices is directly attacked, in particular by the lowering of quantitative or tariff barriers:

- abolition of the last quantitative restrictions (five products), by means of a temporary and degressive (30%, 3 years) surtax in order to give the enterprises the time needed to implement the restructuring plan,
- lowering of the customs tariff in the context of the Central African Customs and Economic Union (UDEAC), so as to reduce the protection rates. As implemented after the devaluation, however, trade liberalization became more a policy of controlling inflationary pressures,
- elimination of tax and customs exemptions granted in the context of the Investment Code, so as to avoid distortions among industries and enterprises,

² This completion report will not directly consider the macroeconomic aspects.

reduce the adverse impact of protection on productivity, and offset the revenue loss incurred as a result of lower import tariffs;

- liberalization of profit margins after a temporary period (6 months) of strict price control to prevent post-devaluation speculation.

It should be noted that the lowering of the customs tariff and the elimination of the exemptions allowed by the Investment Code have the effect of reducing the gains in competitiveness derived from the devaluation.

By and large these measures were adopted and implemented in accordance with the agreed schedule. However, three points caused or are still causing difficulties:

- the establishment of the legislative and regulatory framework for ensuring free competition, which prompted reformulation of the Law on Competition which accompanied SAP I of 1989. The new law and its implementing decrees have been adopted by the Government.
- the abolition of protection for the sugar industry, whose low competitiveness (50%)³ in an international market characterized by dumping (the major producers' domestic prices "subsidize" their exports, which are generally effected at a loss or at marginal cost) would have entailed disappearance of the enterprise concerned (SOSUHO) without there being time to devise replacement solutions⁴ for converting SOSUHO's considerable land and facilities for other uses. To offset these delays in the designing of the restructuring or conversion plans (delays that also occurred in the rest of the agroindustry sector), the elimination of quantitative protection for sugar originally scheduled for January 1, 1995, had to be twice deferred and was ultimately reprogrammed for the end of 1996, in accordance with the revised EFF schedule.
- the elimination of advantages granted through establishment agreements whose contractual nature excludes any purely regulatory action. Pending UDEAC directives, the renegotiation of the agreements concerned was deferred to the beginning of 1996. The decisions taken then concern the parapublic sector enterprises where the State has authority to act as owner (in accordance with the EFF, March 1996 revision).

³ 50% deficiency (World Bank mission, of March 30, 1994).

⁴ World Bank missions of March 1994 and June 1994, Agriculture and Forestry Sector Review, February 24, 1995.

II.1.2 Energy prices

The price of energy, petroleum products and electricity is a decisive factor in the production costs of enterprises and, directly or indirectly, in household budgets. The general objective of the measures included in the program was to lead the producing enterprises (SOGARA and SEEG) to improve their performance:

Oil products

Demand for oil products is covered by the national refinery (SOGARA), which processes a small proportion of Gabon's crude production (750-800,000 tons/year). The domestic market is currently less than 500,000 tons and the rest is exported. The specific objective for this subsector was to index SOGARA's ex-refinery prices to international prices after incorporation of the impact of the devaluation and without subsidies.

In an initial stage, fuel taxes were adjusted to temporarily stabilize prices at the pump. Then, when VAT was introduced, the structure of prices was modified in accordance with the IMF's recommendations. SOGARA's ex-refinery prices were raised by 12%; the nominal level of taxes remained basically the same -- with a different breakdown (shift from the consumption tax to VAT and the equalization tax) --; and distributors and retailers' margins remained constant in nominal value. As a result of the deductibility of VAT, the industrial diesel oil category (tax-free fuel for fixed industrial installations) was abolished.

It should be noted that indexing on import parities runs into the practical difficulty of establishing a basic reference price. While it is possible to ascertain the prices of products offered on the international market, it is not so easy to define a realistic price for delivery in Gabon, freight rates being extremely dependent on the quantities delivered and these quantities themselves being dependent on available storage capacities (which are currently limited in Gabon). On the other hand, following exceptional bitumen imports connected with road projects, it was found that SOGARA's prices were competitive. The prices of the other products appear to be essentially the same as the cost of possible imports.

Electricity

Electricity prices were not adjusted to incorporate the effects of the devaluation until December 1994, when an average increase of 13% went into effect.

The price reform adopted by the Government in the context of the redefinition of public service concessions introduced two elements in the tariff-setting: installed power and consumption. Billing also reflects generation costs according to region. The reform was introduced gradually, starting with the big medium-voltage consumers, and the initial tariff studies were updated. The low-voltage tariffs were also revised recently.

The Law Establishing the National Water and Electricity Council was adopted by the National Assembly. This Council determines the special charges for water and electricity which are added to the energy price proper and are intended for financing system maintenance and expansions for which local authorities are responsible.

Beyond the tariff reforms, the most significant step forward in regard to water and electricity is the decision to make water and electricity service the subject of a private concession, i.e. to privatize the state company currently holding the concession.

II.1.3 Reform of indirect taxation

VAT was introduced on April 1, 1995, as agreed under the ERL. From the standpoint of its fiscal performance, the results obtained have exceeded expectations.

However, in view of its limited sphere of application, the hesitancy of certain parapublic enterprises which fear its impact on the prices of certain sensitive products, and the difficulties connected with certain establishment agreements, application of VAT creates certain distortions in the economy. These will, however, be resolved by extension of its application to all sectors and products. To this end, the human resources and equipment of the authority responsible for administering VAT will have to be strengthened.

II.1.4 Reforms of the institutional framework

These reforms concern the legislative and regulatory framework in which the enterprises operate, their objectives being to eliminate the obstacles to proper functioning of the labor market, to implement an enabling environment and a review of the Investment Code, to revise the country's business legislation and to ensure equity and transparency in its application.

In these fields, the years 1994 and 1995, i.e. the period covered by the ERL, were devoted to gaining a better understanding of the problems to, consultations between the private sector and the authorities and preparation of proposals to be submitted to the Government. These reforms are not expected to be completed until some time in 1996, according to the new EFF program agreed on with the IMF.⁵

They envisage:

- a revision of the Labor Code which, although adopted in 1994, does not provide the flexibility necessary for development of the employment market, and the introduction of implementing legislation and specialized institutions. At the same time, the National Employment Office (Office National de l'Emploi - ONE) has been made operational with the establishment of an employment-monitoring unit,

⁵ The Extended Fund Facility (EFF) was prepared with the collaboration of the World Bank.

and identification and implementation of training programs for retraining of the unemployed or the young graduates, so as to equip them to work where employment is available. The ONE's actions will have a decisive impact in the further application of the policy on privatization and restructuring of the parapublic sector.

- adoption of a new law on investments based among other things on equal treatment of all operators, security of investments and establishment of a facilitation mechanism, with particular reference to enterprise creation. The law will be rounded out with sector codes in the priority sectors specifying the technical conditions for activity and the particular incentives applicable.
- modernization of business legislation and its harmonization within the Franc Area.

II.1.5 Minimization of the impact of the devaluation on the social sectors

In the short term, the inflation induced by the devaluation and the deterioration of the employment market have greatly reduced consumers' purchasing power.

After having slumped sharply in 1994, private consumption appears to have continued to contract in 1995 notwithstanding the slowing of inflation (measured by the index for 125 articles) to 3.4% in 1995 compared with 47% in the preceding year.

Paid employment outside government declined by 3.5% in 1994 despite the acceleration of the recovery in the forestry sector begun in 1993 and a slight improvement in construction and public works due to public investments. Increasing unemployment will therefore aggravate the fall in the standard of living.

Being aware of the importance of a reduction in real wages for the competitiveness of the economy, the Government has maintained a rigorous wage policy in which it has itself set an example. Public service pay was only raised by 10% in 1994 and was kept at the same level in 1995, and it is estimated that private sector pay increases remained within the 15% limit recommended.

It is clear that these negative developments weigh proportionally heavier on the poorest segments of the population. To mitigate the impact on them several approaches have been adopted:

- maintaining control over price increases. After the temporary controls imposed to deter speculation, an agreed price policy was instituted with the collaboration of the producers as regards staple items. In addition, taxation (customs duties and VAT) was reduced on certain sensitive products such as school books and medications.

- partially offsetting the fall in living standards by an improvement in social services. The funding for the education and health sectors was increased after the Amending Finance Law of 1994 in order to maintain the real level of expenditures as set before the devaluation. While the funding from national resources has been used, there have been considerable delays in disbursements from loan funds. For these two sectors, the capital expenditures executed in 1995 were double those of 1994, and this level has been maintained for 1996 (see annexed table).
- definition of a policy in favor of the disadvantaged groups. To accomplish this, Gabon has undertaken a study on poverty with Bank assistance. The field surveys were conducted in the first half of 1995 and the report is in process of finalization. It will include the definition by the Gabonese party of a strategy to combat poverty and a governmental action plan.

III. SECTOR POLICIES

Beyond general economic policy measures designed to create an environment better suited to development of the private sector, the post-devaluation strategy had to define the directions to be given to the sectors that are motors of or necessary for growth.

These sectors are dominated by the state enterprises (to a lesser extent for the wood sector). This is why the restructuring of the parapublic enterprises is a key element in the sector policies to be redefined. The fact is that the production enterprises will have to face international competition as they progressively lose the protections that have sheltered them to date (quotas, elimination of tax advantages). They have been given a three-year period, by means of a temporary and degressive surtax (30%), to adapt to the new context. To facilitate the changes they will have to make, technical and financial support was sought from the World Bank, to consist of a restructuring component for the agroindustrial enterprises in the context of an agriculture sector project,⁶ a restructuring component for the transport enterprises (operation and infrastructure) in the context of a technical assistance project for the transport sector,⁷ which was itself to prepare a transport sector project, and, more generally, a future project to support restructuring of the public enterprises.

In the event, only the transport sector project (PATRANS, later PAPSUT) materialized when the ERL was set up (negotiations in August 1994). Unfortunately its actual startup was delayed by a certain number of administrative and material difficulties and it did not in fact become truly operational until the last quarter of 1995. The agriculture project is still in gestation with changes being made by the parties involved,

⁶ Cf. para 32 of the Strategy Letter

⁷ Cf. paras. 38 and 39 of the Strategy Letter.

while the parapublic sector project may perhaps see the light of day in 1996, as an accompaniment (post-synchronized) to the measures included in the IMF's EFF program.

In addition to their public enterprises component, these sector projects were intended to help with formulation of strategies and policies in the two basic sectors -- agriculture and transport infrastructure -- with the aim of profiting from the devaluation-induced stimulus for the first-named sector and improving the quality and cost of transport sector.

Despite these ups and downs certain positive developments in the different sectors warrant noting:

III.1 Production sectors

Agriculture

The emphasis in the public programs in favor of advisory and extension services for farmers was reflected in the capital expenditures, especially the IFAD and IGAD projects and the village-scale components of the rubber and cattle-raising programs. Moreover, the upgrading and paving of the north-south highway will progressively improve the conditions for marketing food crops. Unfortunately, the urban structures (markets) have been left in their dilapidated state and it is not unlikely that the additional costs due to losses are a source of discouragement for merchants and local producers.

Following the devaluation there was a distinct shift in trade in foodstuffs toward the countries of the subregion, and even South Africa, and away from Europe. The response of local production is presently hard to quantify, but in light of price movements it would seem that food products are more plentiful in the markets. The studies made by the Bank (Agriculture and Forestry Sector Review, 1995) express a certain optimism taking into consideration the appreciable productivity gains that can be expected in the food sector and the shortfall to be filled between domestic consumption and national production.

Regarding cash crops the situation is one of contrasts. The devaluation and the upward movement of prices are working to the advantage of the rubber sector, which is pursuing its efforts to improve productivity. Coffee production, on the other hand, is still in decline while the slight rise in cocoa production is well below what was hoped in view of the higher incomes for growers resulting from devaluation and the higher international prices. The producer prices for these two products were increased by 50% and 35% respectively at the time of signature of the ERL.

Fishery

Although there is a sustained demand, catches are held down by technical factors: the poor condition of the industrial fishery equipment, and the departure of a large number of the nonindustrial fishermen from western Africa.

Forestry

The forestry sector benefited from an improvement in the world market in 1993. The devaluation enabled significant gains that were shared between the operators, OCTRA and the State. However, in the course of 1994 this very favorable situation and the CFAF profits generated by the devaluation led to an unrestrained and uncontrolled scramble for "green gold" just as the market trends reversed themselves. The outcome was production quotas that sharply reduced the level of utilization of the newly acquired production capacities. Recent events in this sector have underscored two phenomena:

- one negative, regarding the management of permits and production, with detrimental effects on the country's forest resources despite the objectives of the forest/environment program;
- the other positive, with the development of local processing started by the major European groups operating in the sector.

In light of these observations, the Government has undertaken a study in partnership with the operators on management of the wood sector and development of industrial processing. The conclusions of the commission formed for this purpose have been submitted to the Government and in the coming months a new policy should be implemented in the sector aimed at better management and development of the resources and promotion of a preliminary processing industry that accounted for no more than 7% of total production in 1994.

Mining

The mining sector, like all other export sectors, has experienced an upturn in its profitability, but the expansion of its exports is still entirely dependent on international market demand that is unaffected by purely national policies.

III.2 Infrastructure

Despite the marked increase in the cost of imported inputs, the road investment program has been maintained in order to provide the country with the communication infrastructure necessary for development of productive activities, agriculture and forestry in particular.

The PAPSUT project already referred to should enable improved operation of the transport services as a result of: (i) adjustment measures involving the public enterprises in particular; and (ii) the formulation of a coherent investment program aimed, among other things, at better intermodal complementarity. A certain number of studies are under way and the privatization of the railway operation was initiated at the end of 1995.

III.3 The social sectors

The changes in budgetary appropriations confirm the State's withdrawal from the production sectors and the emphasis now placed on infrastructure for transport, production and energy distribution and on meeting social needs, especially in education and health.

Despite a low execution rate in 1994, investments in education are continuing on a sustained basis. In accordance with the program, allocations from national resources have been increased by nearly 30% to maintain the volume of construction programmed before the devaluation. Operating expenditures, in which salaries feature very largely, have been increased by 15%. Actual expenditures in 1995 were more than double those of 1994. The investments made and the recruitment carried out mean that in primary education in Libreville the number of students per classroom was brought down from 104.6 in 1990 to 76 in 1995, and the student-teacher ratio from 72.7 to 48. Although favorable development of these parameters is one of the prerequisites for improvement of the education system, strengthening of management capacities in this sector nevertheless remains essential if its efficiency is to be improved.

In this connection, a public expenditure review covering the main sectors has been started with World Bank assistance. This will make it possible to define budget appropriations and the procedures for executing expenditures better.

Regarding health, besides the increase in investments and operating funds, a reform of the institutional framework has been carried out with a new Framework Law designed to harmonize the supply of the health system, restructure its management methods and ensure the system's financial equilibrium.

In addition to improving access to education and health and the efforts to reduce poverty, the authorities' action has been reoriented to focus on improving living conditions in the urban centers, where over 70% of the population is concentrated. Programs to improve the sewerage systems have been started, together with an experiment in labor-intensive road works in the context of the PAPSUT project which also aims to reformulate urban management concerning infrastructure. A law on decentralization designed to better define the role and strengthen the means of the local authorities is in the process of being adopted.

IV. CONCLUSION

The adjustment and economic recovery measures included in the ERL program have for the most part been implemented, although certain of the reforms are still in the gestation stage. As regards economic growth, the impact of these measures is not yet apparent, as is demonstrated by the modest growth of the nonoil GDP (1.5% in 1995) notwithstanding the 30% increase in the public investment program, while consumption posted a further contraction.

It is undeniable that the export sector enterprises have appreciably improved their position as a result of the devaluation. However, none of the major sectors has gained new market shares. The increase in oil production derives from investments made in the past. Traditional mining and forestry products are responding to the same market movements as before.

At the same time the agriculture sector has not yet seized the opportunities provided by the devaluation and a large part of the industrial sector has been adversely impacted by the application of the regional reform program.

The devaluation of the CFA franc and the measures to liberalize the economy have not so far provided vigorous enough signals for a reordering of economic activity. The institutional reforms, preparation of which was started during the program period, need to be implemented and sector strategies must be developed that will attract private investment in the lead sectors such as agriculture, mining and wood.

Beyond the review of sector policies and actions to promote the private sector with a view to reactivating growth, greater attention will have to be paid to the macroeconomic framework and the management of public finances.

The fact is that the Gabonese economy is driven by the oil sector and utilization of that rent as recycled by the State. In this respect, the devaluation heightens the importance of the external sector and increases the public resources. The increased utilization of these resources must be controlled so as to prevent the oil revenues from fuelling public consumption to the detriment of the investment that should accompany growth. It is in the context of these concerns that the new studies (such as the public expenditure review and the administrative reform) are taking place. They will ultimately permit better dimensioning of the government apparatus on the basis of its redefined purposes and an optimization of public expenditure, the results of which are inconsistent with the volume of resources employed.

On the other hand, in the short and medium term the surpluses expected from the export sector are largely consumed by the impact of the devaluation on the public debt. Only the interest on the debt now exceeds the public investment program. The rescheduling recently obtained from the Paris Club have made it possible to balance the budget, but the projections of future debt service indicate a steadily growing need in terms

of budget funds to cover past commitments. It is therefore vital to put in place a medium and long-term debt policy that will make it possible to sustain the macroeconomic framework and the equilibrium of the public finances.

Annex 1: Action Matrix

TRADE POLICY	Estimated Date	Actual Date	Comments
Application of four customs tariff rates (5%, 10%, 20% and 30%) in line with UDEAC categories	February 1, 1994	Done	Measure implemented in the aftermath of the devaluation, before the ERL
To be confirmed in the revised Budget Law 1994	May/June 1994	Done	Confirmed in the Revised Budget Law No. 05/94 of Section III - Customs arrangements
Elimination of customs exemptions under the Investment Code or by virtue of SME status or other special exemption provisions	February 1994	Done	Measure implemented at the same time as the new customs tariff
To be confirmed in the revised Budget Law 1994	May/June 1994	Done	Confirmed in the Revised Budget Law No. 05/94 of Section III - Customs arrangements
No new exemptions, under conventions or other agreements, to be granted, no renewal of exemptions under existing conventions after their expiration date	Permanent	Done	No new convention was granted as specified by the Revised Budget Law 1994
Renegotiate existing conventions to eliminate any exemptions which depart from common law	1994/95	Done	Measure adopted under the IMF Extended Financing Facility; renegotiation initiated in February 1996; delays were caused by a lack of instructions from UDEAC
Fix a ceiling of 0.5% of cif value on the FTID and on the rate for contributions to the Conseil Gabonais des Chargeurs and the Centre Gabonais du Commerce Extérieur	Revised Budget Law 1994	Completed except FTID	Circular letter from MINECOFIN (Ministry of Economy and Finance) addressed to the relevant bodies
Eliminate the levy on imports to finance the Conseil Gabonais des Chargeurs and the Centre Gabonais du Commerce Extérieur contributions	January 1, 1995	Done	The levy was eliminated under the 1995 Budget Law. The VAT replaces the contributions (Revised Budget Law 94)
Eliminate exit duty on exports except for wood and mineral products	Revised Budget Law 1994	Done	Measure was implemented in the context of the Revised Budget Law No. 05/94, Section III- Customs arrangements (Article 10, p.31)
Simplify the tax and duties structure on wood products for export	Revised Budget Law 1994	Done	Article 11, p.31
Increase the producer prices of coffee and cocoa in the wake of the devaluation (35% for the current season)	May 1994	Done	Decree of 8/19/94 + 35% for cocoa and 50% for coffee

Elimination of quantitative restrictions on imports and of monopolies on vegetable oils, soap, bottled water, and cement	June 1994	Done	Decree 546/PR of 7/5/94 eliminating quantitative restrictions on imports
Elimination of restrictions on sugar imports	January 1995	Postponed	Initially agreed upon in the context of decree 546, modified by Budget Law 95: postponed until 96. Decree of February 96 postpones elimination by 2 years
Revoke the system of import/export licenses (Decree 766 of 6/1/83)	May/June 1994	Done	Abrogated by decree 772/PR of 8/23/94

STRENGTHENING COMPETITION ON THE DOMESTIC MARKET

Decree in application of the 1989 Law on Competition	1994	Postponed until 1996	Technical discussions with the Bank in 1996 led to a revision of the entire competition framework, including the law. Law adopted by Council of Ministers on 2/28/96
Elimination of margin controls (Decree 168 of 1/31/94)	1994	Done	Eliminated by decree 547/PR of July 5, 1994
Liberalization of the price of vegetable oils, soap, bottled water, and cement (Amendment of Decree 541 of 5/24/89)	June 1994	Done	Included in decree 547
Liberalization of sugar prices (Amendment of Decree 541 of 5/24/89)	January 1995	Postponed	Included in decree 547, but postponed by 1995 Budget Law and by decree of February 1996

FISCAL REFORM

Application of the Value Added Tax which will replace all other indirect taxes with the exception of customs and excise duties	March 1995	Done	Implemented on April 1, 1995
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REFORM OF ENERGY PRICES

Set ex-refinery prices with reference to import parity prices	June 1994		
Reduce taxation to keep pump prices constant if this can be done without subsidy (except household kerosene)	June 1994	Done	From January 94 to May 95
Simplification of fuel price structures, indexing to import parity prices and application of VAT to fuels	March 1995	Done	May 95, decree 414 MEBP (Ministry of Economy and Budget)

Application of new electricity tariff reflecting costs	June 1994	Done	December 1995
Full pricing study before any increases indexing tariffs to costs are made		Done	September 1995

LABOR POLICY

Consultations with employers and unions on possible revision of the Labor Code	1995	Postponed until 1996	Joint commission employers/ administration under the aegis of Primature
Start operations of the Office National de l'Emploi and the Fonds d'Insertion et de Réinsertion	1994	Done	

FACILITATION

Simplify approval and other administrative procedures involved in establishment of an enterprise and reduce cost	1994	Postponed until 1996	Postponed until 1996 in the context of the revision of the investment code
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BUDGET ALLOCATIONS TO THE SOCIAL SECTORS

Adjust allocations to National Education and Public Health in light of cost increases resulting from the devaluation	Revised Budget Law 1994	Done	Revised Budget Law 1994
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Annex 2: Social Sectors - Public Expenditures

	1994			1995	
	Initial Budget Allocation	Final Budget Allocation	Actual Expenditures	Final Budget Allocation	Actual Expenditures
Investment					
Education	9518	15637	6543	15811	12901
Health	2909	3908	1764	5827	3981
Compensation for the devaluation		1675	1564		
Total Gabonese Republic (GR) + External Financing	12427	19545	8307	21638	16882
of which domestic financing					
Education	3400	3336	3308	9212	9101
Health	1910	1808	1764	4327	3981
Compensation for the devaluation		1675	1564		
Total GR	5310	6819	6636	13539	13082
Increase (%)		28.42		98.55	
Increase in actual expenditures 95/94 (%)					97.14
Current Expenditures					
Education	36493	40853	40850	45746	45740
Health	20251	24361	24300	27410	27410
Total	56744	65214	65150	73156	73150
Increase (%)		14.93		12.29	
Increase in actual expenditures 95/94 (%)					12.28
Total GR Investment & Current expenditures	62054	72033	71786	86695	86232
Increase (%)		16.08		20.35	
Increase in actual expenditures 95/94 (%)					20.12

PART III: STATISTICAL INFORMATION

Table 1

Summary of Assessments

<u>(A) Achievement of Objectives</u>	<u>Substantial</u>	<u>Partial</u>	<u>Negligible</u>	<u>Not applicable</u>
Macroeconomic Policies	X			
Sector Policies		X		
Financial Objectives				X
Institutional Development			X	
Physical Objectives				X
Poverty Reduction		X		
Gender Issues				X
Other Social Objectives				X
Environmental Objectives				X
Public Sector Management		X		
Private Sector Development			X	
Other (specify)				X
<u>(B) Project Sustainability</u>	<u>Likely</u>	<u>Unlikely</u>	<u>Uncertain</u>	
	X			
<u>(C) Bank Performance</u>	<u>Highly Satisfactory</u>	<u>Satisfactory</u>	<u>Deficient</u>	
Identification		X		
Preparation Assistance		X		
Appraisal		X		
Supervision		X		
<u>(D) Borrower Performance</u>	<u>Highly Satisfactory</u>	<u>Satisfactory</u>	<u>Deficient</u>	
Preparation		X		
Implementation		X		
Covenant Compliance		X		
Operation (if applicable)				
<u>(E) Assessment of Outcome</u>	<u>Highly Satisfactory</u>	<u>Satisfactory</u>	<u>Unsatisfactory</u>	<u>Highly Unsatisfactory</u>
		X		

Table 2

Related Bank Loans

Credit Title	Credit Number	Purpose	Year of Approval	Status
<i>Preceding operations</i>				
1. Technical Assistance Project	3114-GA	Support the Government's adjustment program over a three-year period by strengthening its key ministries in critical areas of economic management. Key components included civil service reform, training and skills transfer to local counterparts, and medium-scale enterprise development.	1989	Closed
2. First Structural Adjustment Loan	2933-GA	(i) initiate a program of public enterprise rehabilitation and rationalization; (ii) strengthen public sector resource management through better control over the investment budget and wage reduction; and (iii) liberalize the policy environment in order to stimulate private sector initiative	1988	Closed

Table 3

Project Timetable

Steps in Project Cycle	Date Planned [∧]	Date actual/ latest estimate
Identification (Initiating Memorandum)		January 10-14, 1994
Preparation		3 months
Appraisal	March 21 - April 8, 1994	March 21 - April 8, 1994
Negotiations	April 25-26, 1994	April 25-26, 1994
Letter of Development Policy	April 26, 1994	April 26, 1994
Board	June 21, 1994	June 21, 1994
Signing		June 23, 1994
Effectiveness	June 30, 1994	September 16, 1994
Project completion		
Credit closing	June 30, 1995	June 30, 1995

[∧] As provided in the President's Report.

Table 4

**Loan Disbursements
Estimated and Actual**

	FY 1995
	(US\$ millions, unless indicated otherwise)
Appraisal estimate	30.0
Actual disbursement	30.0
Actual as % of estimate	100%
Date of final disbursement	October 17, 1994

Table 5: Key Indicators for Project Implementation

	Estimated Date	Actual Date
<u>TRADE POLICY</u>		
Application of four customs tariff rates (5%, 10%, 20% and 30%) in line with UDEAC categories	February 1, 1994	Done
To be confirmed in the revised Budget Law 1994	May/June 1994	Condition
Elimination of customs exemptions under the Investment Code or by virtue of SME status or other special exemption provisions	February 1994	Done
To be confirmed in the revised Budget Law 1994	May/June 1994	Condition
No new exemptions, under conventions or other agreements, to be granted, no renewal of exemptions under existing conventions after their expiration date	Permanent	Done
Renegotiate existing conventions to eliminate any exemptions which depart from common law	1994/95	Under way
Fix a ceiling of 0.5% of cif value on the FTID and on the rate for contributions to the Conseil Gabonais des Chargeurs and the Centre Gabonais du Commerce Extérieur	Revised Budget Law 1994	Not completed
Eliminate the levy on imports to finance the Conseil Gabonais des Chargeurs and the Centre Gabonais du Commerce Extérieur contributions	January 1, 1995	April 1, 1995
Eliminate exit duty on exports except for wood and mineral products	Revised Budget Law 1994	Condition
Simplify the tax and duties structure on wood products for export	Revised Budget Law 1994	Done
Increase the producer prices of coffee and cocoa in the wake of the devaluation (35% for the current season)	May 1994	August 1994 (33% for cocoa and 50% for coffee)
Elimination of quantitative restrictions on imports and of monopolies on vegetable oils, soap, bottled water, and cement	June 1994	Condition
Elimination of restrictions on sugar imports	January 1995	Not completed
Revoke the system of import/export licenses (Decree 766 of 6/1/83)	May/June 1994	Condition

STRENGTHEN COMPETITION ON THE DOMESTIC MARKET

Decree in application of the 1989 Law on Competition	1994	Redrafted Law on Competition is awaiting Parliament approval
Elimination of margin controls (Decree 168 of 1/31/94)	1994	1994
Liberalization of the price of vegetable oils, soap, bottled water, and cement (Amendment of Decree 541 of 5/24/89)	At the time quantitative restrictions on imports are lifted (June 1994)	Condition

Liberalization of sugar prices (Amendment of Decree 541 of 5/24/89)	At the time quantitative restrictions on sugar imports are lifted (January 1994)	Not completed
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FISCAL REFORM

Application of the Value Added Tax which will replace all other indirect taxes with the exception of customs and excise duties	March 1995 at the latest	April 1995
Reform of energy prices: promote competitiveness of the economy by reducing fiscal surcharges and taking account of opportunity costs		
a) <u>Fuel Prices:</u>		
Set ex-refinery prices with reference to import parity prices	May/June 1994	Condition
Reduce taxation to keep pump prices constant if this can be done without subsidy (except household kerosene)	May/June 1994	Condition
Simplification of fuel price structures, indexing to import parity prices and application of VAT to fuels	March 1995 at the latest	May 1995
b) <u>Electricity Prices</u>		
Application of new electricity tariff reflecting costs	May/June 1994	Condition
Full pricing study before any increases indexing tariffs to costs are made	December 1994	Done

LABOR POLICY

Consultations with employers and unions on possible revision of the Labor Code	1995	Government has committed itself to remedy deficiencies of Labor Code
Start operations of the Office National de l'Emploi and the Fonds d'Insertion et de Réinsertion	1994	Done

FACILITATION

Simplify approval and other administrative procedures involved in establishment of an enterprise and reduce cost	1994	Not completed
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BUDGET ALLOCATIONS TO THE SOCIAL SECTORS

Adjust allocations to National Education and Public Health in light of cost increases resulting from the devaluation	Revised Budget Law 1994	Condition
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Table 6**Key Indicators for Project Operation**

Not applicable

Table 7**Project Studies**

Not applicable

Table 8a
Project Costs

Not applicable

Table 8b
Project Financing

Item	Appraisal estimate (US\$ mil)	Actual/Latest estimate (US\$ mil)
1. IDA	30.0	30.0
2. Other	0.0	0.0
TOTAL	30.0	30.0

Table 9: Economic Costs and Benefits

COSTS (\$ million)	BENEFITS
30	Improvement in the economy's competitiveness and correction of macroeconomic imbalances. Substantial price and trade liberalization. Introduction of a value added tax. Progress toward more efficient energy pricing and public enterprise restructuring. Budget allocations to the social sectors maintained in real terms.

Table 10

Status of Legal Covenants in Loan Agreement

Section	Covenant Type	Present Status	Fulfilment Date		Description of Covenant	Comments
			Original	Actual		
3.01	9	C	continuous		Borrower to submit project progress report periodically and exchange views with the Bank on the basis of this report	
3.02	3	C	continuous		Procurement guidelines	
3.03 (a)	1	C	continuous		Maintain records and proper accounts of expenditures under credit	
3.03 (b,c)	1	C	continuous		Have records and accounts audited; furnish audit/other information to IDA	
5.01 (a)	12	C	Prior to effectiveness		Enact the Loi de Finances Rectificative for 1994, containing regulations concerning trade liberalization and budgetary provisions for the social sectors	
5.01 (b)	12	C	Prior to effectiveness		Enact laws or promulgate regulations to eliminate remaining quantitative restrictions, abolish import/export licenses, eliminate price and margin controls, and modify tariffs and taxes on petroleum products	
5.01 (c)	12	C	Prior to effectiveness		Restructure the electricity rates	

Covenants types:

- 1= Accounts/audits
2= Financial performance/revenue generation from beneficiaries
3= Flow and utilization of project funds
4= Counterpart funding
5= Management aspects of the project or executing agency
6= Environmental covenants
7= Involuntary resettlement
8= Indigenous people
9= Monitoring, review and reporting

10= Project implementation not covered by categories 1-9

11= Sector or cross-sector budgetary or other resource allocation

12= Sector or cross-sector policy/regulatory/institutional action

13= Other

Present Status:

- C = Covenant complied with
CD= Complied with after delay
CP= Complied with partially
NC= Not complied with

Table 11
Bank Resources
Staff Inputs

Stage of Project Cycle	Planned		Actual	
	Weeks	US\$ (000s)	Weeks	US\$ (000s)
Preparation to Appraisal			12.2	29.9
Appraisal			9	24.6
Negotiations through Board Approval			11.9	28.3
Supervision	23.8	53.7	14.3	34.6
Completion	5	15	3.4	2.7
Total			50.8	120.1

Table 12

Use of Bank Resources: Missions

Stage of Project Cycle	Month/Year	Number of Persons	Days in Field	Specialized staff skills represented	Performance Rating		Types of Problems
					Implementation status	Development objectives	
Through Appraisal Appraisal through Board Approval Board Approval through Effectiveness Supervision Completion	Mar-Apr, 1994	8	19	EC, FA, LEG, CONS	2	2	
	June-July, 1994	1	7	EC	2	2	
	Mar-Apr, 1995	1	19	EC	2	2	
	May-June, 1995	1	28	EC	2	1	

Key to specialized staff skills

EC = Economist
 IE = Infrastructure Engineer
 FA = Financial Analyst
 CC = Computer Consultant
 UP = Urban Planner
 TRE = Traffic Engineer
 TEC = Transport Economist

LEG = Legal
 CONS = Consultant
 STE = Senior Transport Engineer
 MFA = Municipal Financial Analyst
 UFS = Urban Financial Specialist
 YP = Young Professional

Key to Performance Rating

1 = Problem Free
 2 = Moderate Problems
 3 = Major Problems
 4 = Major Problems -
 Corrective Action to be taken

Key to Problems

AF = Availability of funds
 CLC = Compliance with legal covenants
 FP = Financial Performance
 PMP = Project management performance
 PP = Procurement progress
 SP = Studies progress

APPENDIXES

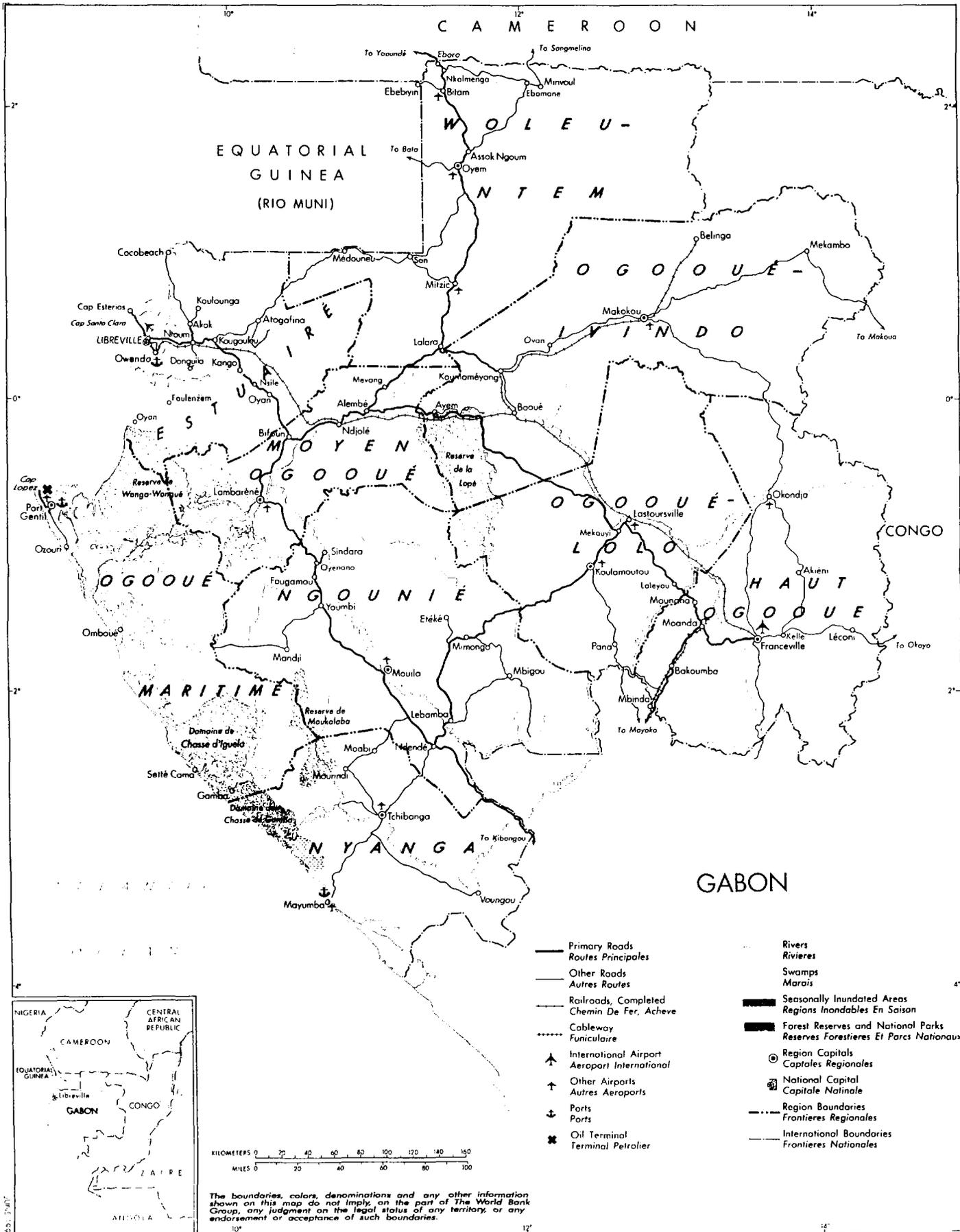
ACTIONS TAKEN BY THE GOVERNMENT AS CONDITIONS OF DISBURSEMENT

(i) agreement on, and implementation of, a major trade reform that includes a four-rate import tariff structure (5, 10, 20 and 30 percent import tariff, according to the classification agreed upon in the context of the UDEAC reform), the elimination of export duties on all exports (except mineral and wood products), and the elimination of fiscal exemptions under special regimes (Investment Code, Single Tax, Medium and Small-Scale Enterprises regime, Forestry Regime);

(ii) price liberalization and the elimination of four of the five remaining quantitative restrictions on imports (the last remaining restriction, on sugar imports, was to be eliminated in early 1995 as part of the program), and of the requirement for import licenses;

(iii) reform of the pricing system for energy products, so as to improve the competitiveness of Gabonese products. For petroleum products, the objective of the reform was a) to reduce the excess cost of petroleum products by lowering the fiscal levies on them; and b) to increase efficiency by linking the prices paid to the refinery to import parity prices. For electricity, the immediate measures aimed to establish differentiated tariffs reflecting the specific cost conditions of the different grids supplying power to different locations; and

(iv) adjustment of the 1994 budgetary allocations to the social sector (health and education) to prevent any reduction of the real resources available to these sectors due to the increased prices of goods and services. The budgetary allocations in the revised Budget Law for 1994 were adjusted to correspond fully to the budgetary allocations of the pre-devaluation allocation in terms of purchasing power.



EQUATORIAL
GUINEA
(RIO MUNI)

C A M E R O O N

WOLEU-
NTEME

OGOOUÉ-
LIVINDO

M O Y E N
O G O O U É

O G O O U É -
L O L O

O G O O U É

N G O U N I E

O G O O U É -
H A U T

M A R I T I M É

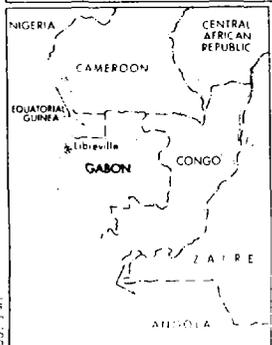
N Y A N G A

GABON

C O N G O

- Primary Roads
Routes Principales
- Other Roads
Autres Routes
- Railroads, Completed
Chemin De Fer, Acheve
- Cableway
Funiculaire
- International Airport
Aerport International
- Other Airports
Autres Aerports
- Ports
- Oil Terminal
Terminal Petrolier
- Rivers
Rivieres
- Swamps
Marais
- Seasonally Inundated Areas
Regions Inondables En Saison
- Forest Reserves and National Parks
Reserves Forestieres Et Parcs Nationaux
- Region Capitals
Captales Regionales
- National Capital
Capitale Nationale
- Region Boundaries
Frontieres Regionales
- International Boundaries
Frontieres Nationales

KILOMETERS 0 20 40 60 80 100 120 140 160
MILES 0 20 40 60 80 100



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IMAGING

Report No: 15695
Type: ICR