FOR AGENDA

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July 11, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Gabon—Selected Issues**

This paper provides background information to the staff report on the 2008 Article IV consultation discussions with Gabon (SM/08/229, 7/8/08), which is tentatively scheduled for discussion on **Monday, July 28, 2008.** At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Gabon indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Briançon (ext. 38392) and Mr. Iossifov (ext. 36061) in AFR; Mr. Arezki, FAD (ext. 38324) and Ms. Martin, PDR (ext. 38516).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, July 21, 2008; and to the African Development Bank, the European Commission, the European Investment Bank, the Food and Agriculture Organization, the Islamic Development Bank, the Organisation for Economic Cooperation and Development, and the United Nations Development Programme, following its consideration by the Executive Board.

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GABON

Selected Issues

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Approved by the African Department

July 10, 2008

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ABBREVIATIONS AND ACRONYMS[1]

Abbreviation	Name in French	Name in English
APEMFG	Association Professionnelle des Établissements de Microfinance du Gabon	Association of Microfinance Institutions in Gabon
BAD	Banque Africaine de Développement	African Development Bank
BEAC	Banque des États de l'Afrique Centrale	Central Bank of Central African States
BHG	Banque de l'Habitat du Gabon	Gabon Housing Bank, wholly owned subsidiary of BGD
BGD	Banque Gabonaise de Développement	Gabonese Development Bank
BVMAC	Bourse des Valeurs Mobilières de l'Afrique Centrale	Central Africa Securities Exchange
CIMA	Conférence Interafricaine des Marchés d'Assurances	Inter-African Conference on Insurance Markets
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale	Economic and Monetary Community of Central Africa
CNM	Comité National de la Microfinance	National Microfinance Committee
CNPM	Cellule Nationale de Promotion de la Microfinance	Microfinance division, Ministry of the Economy, Finance, Budget, and Privatization
CNSS	Caisse Nationale de la Sécurité Sociale	National Social Security Fund
COBAC	Commission Bancaire de l'Afrique Centrale	Central African Banking Commission
COSUMAF	Commission de Surveillance du Marché Financier de l'Afrique Centrale	Central Africa Securities and Exchange Commission
CRCA	Commission Régionale de Contrôle des Assurances	Regional insurance commission
CRH	Compte de Refinancement de l'Habitat au Gabon	State Fund for Housing Refinancing
FAGA	Fonds d'Aide et de Garantie du Ministère chargé de la Petite et Moyenne Entreprise	Assistance and guarantee fund, Ministry in charge of small and medium-size enterprises
FODEX	Fonds de Développement et d'Expansion des PME-PMI du Gabon	State Fund for Financing of Small and Medium-Size Enterprises
FNH	Fonds National de l'Habitat	National Housing Fund
MOF	Ministère de l'Economie, des Finances, du Budget et de la Privatisation	Ministry of the Economy, Finance, Budget, and Privatization
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires	Organization for Harmonization of Business Laws in Africa
SEEG	Société d'Energie et d'Eau du Gabon	Energy and Water Company of Gabon

[1] In the text, institutions are referred to using their English names and French abbreviations.

I. External Competitiveness and Diversification in Gabon

A. Introduction

1. The critical challenge for Gabon is to maintain long-term economic stability while managing the transition from an oil-dependent to a diversified economy. With output of about 246,000 barrels per day, Gabon is the fourth largest oil producer in Africa. Oil production on a large scale started after independence, peaked in 1997, and is expected to be exhausted in about 30 years. However, oil exports still represent more than 80 percent of total exports and about 40 percent of total GDP in real terms. As oil production falls, average non-oil GDP growth would have to more than double to prevent declines in real per capita GDP.

2. As an oil exporter, Gabon's non commodity exports suffer from a lack of competitiveness problems.. While oil revenue channeled through government spending is the main driver of real non-oil GDP growth, it also works to reduce the competitiveness of the non-oil tradable sector and its share in the economy. To reverse that trend it is crucial for Gabon to attract private investment to raise the productivity and competitiveness of the non-oil tradable sector and thereby increase job opportunities and incomes.

3. The paper assesses the competitiveness of Gabon, particularly that of the non-oil sector. It looks at the real effective exchange rate (REER), taking into account the fact that Gabon is a member of the Central African Economic and Monetary Union (CEMAC)using a range of structural competitiveness indicators from the business climate to productivity indicators. The paper also compares Gabon's experience with that of oil-producing countries that have successfully diversified their economies, such as Indonesia, Mexico, Trinidad and Tobago, and the United Arab Emirates (UAE). Finally the paper identifies areas for reform and formulates policy recommendations.

B. Competitiveness

4. Competitiveness is assessed using three approaches. In the fundamentals approach, the equilibrium real exchange rate (EREER) is estimated using a reduced form equation, with the REER being a function of a set of fundamentals; the macroeconomic balance approach and the permanent income hypothesis (PIH) assess whether the exchange rate is consistent with a sustainable current account (CA) position. Given the uncertainty surrounding economic estimates and the inability to incorporate all relevant country-specific factors in regressions and estimates, the results should be considered simply rough guidance rather than precise estimates of the EREER. Data issues in developing countries (short time series, structural breaks, poor quality) hamper the analysis. Moreover, estimating the competitiveness of oil-producing countries is inherently difficult because oil prices are highly volatile.

Fundamentals equilibrium exchange rate

5. The EREER is estimated using the fundamentals equilibrium exchange rate (FEER) approach based on the Edwards (1989) and Johansen (1995) cointegration methodology. After using a reduced form equation to estimate the equilibrium relationship between the real exchange rate and a set of determinants (the fundamentals) the coefficients and the medium-term values of the determinants are used to compute the equilibrium exchange rate which is then compared to the actual exchange rate.

6. Recent studies of the CEMAC have found the REER to be in line with its fundamentals. Tsangarides (2005) and Abdih and Tsangarides (2006) conclude that although the CEMAC REER was slightly above its estimated long-run equilibrium level in 2004 and 2005, the overvaluation was not statistically significant. The 2007 CEMAC Staff Report (SM/07/211) also concluded that the REER for the region was in line with fundamentals. Moreover, high international reserves and fiscal and CA surpluses indicated that the exchange rate at its current level was sustainable.[1]

7. For Gabon the EREER is estimated using the coefficients of the 2007 CEMAC Staff Report. The equation to be estimated is the following:

$$\ln(\mathit{REER}) = 3.3 + \underset{[3.48]}{0.35}\times\ln(\mathit{TOT}) + \underset{[2.18]}{0.33}\times\ln(\mathit{CGR}) + \underset{[0.56]}{0.07}\times\ln(\mathit{INV}) - \underset{[-2.48]}{0.30}\times\ln(\mathit{OPEN}) + \underset{[8.13]}{0.32}\times\ln(\mathit{PROD})$$

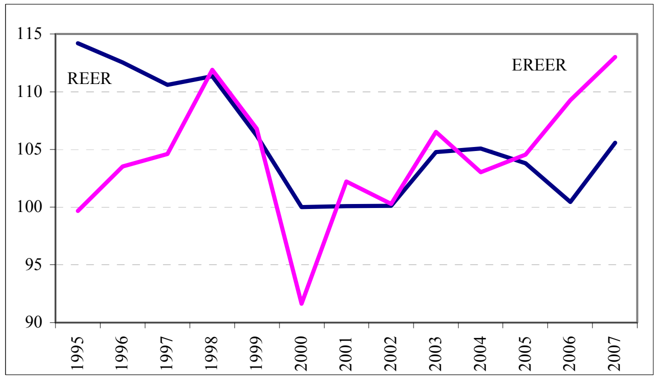
with *TOT* the terms of trade, *CGR* the ratio of government consumption to GDP, *INV* the ratio of investment to GDP, *OPEN* trade openness, and *PROD* productivity relative to trade partners. The constant is calculated for Gabon for the actual and fitted series to have the same mean for the period 1994–2007.

8. For the CEMAC all the coefficients had the expected signs (positive for TOT, CGER, and PROD, negative for OPEN and INV) and all variables other than investment were highly significant in 2006. The estimated elasticities show that terms of trade, productivity, and government consumption have the highest marginal impact.

9. For Gabon the simulation shows that the REER was undervalued by about 6.8 percent at the end of 2007 (Figures I.1 and I.2), suggesting that the REER is still in line with fundamentals. Indeed, the REER has been undervalued in Gabon since 2001, because rising oil prices and lower inflation in Gabon than in partner countries have caused the EREER to rise more than the REER.

[1] Chudik and Mongardini (2007) estimated the determinants of the FEER for a panel of African oil exporters. However, the panel is small, comprising only seven countries, and the results are not robust.

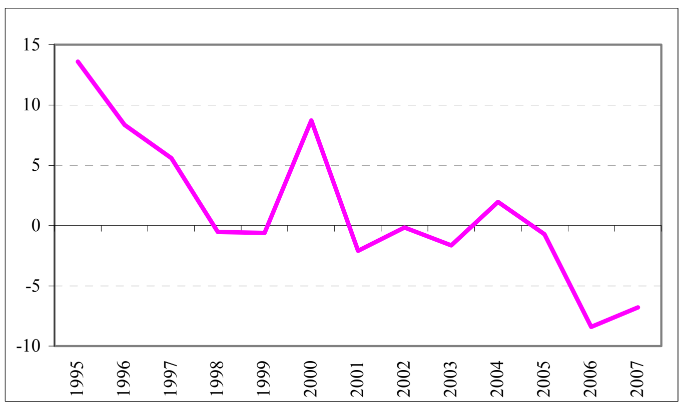
Figure I.1. Actual and Equilibrium Real Effective Exchange Rates, 1993–2007



Source: INS, WEO and Staff Calculations.

Figure I.2. Gabon: Deviations from Equilibrium REER, 1993–2007

(Percent of equilibrium level)



Source: INS, WEO and Staff Calculations.

The macro-balance approach

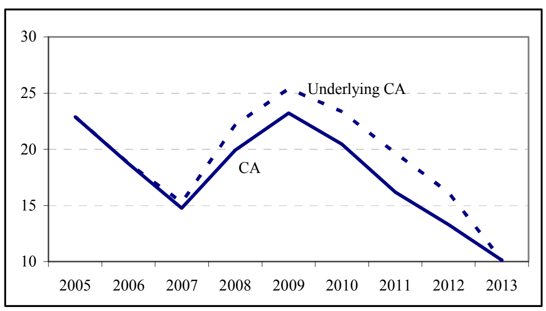
10. The macro-balance approach defines competitiveness as a CA balance that is consistent with economic fundamentals. The approach has three steps: First, it estimates the equilibrium relationship between the CA balance and specified macroeconomic fundamentals; then the coefficients and the medium-term values of the fundamentals are used to compute the CA norm; and finally it estimates the adjustment in the real exchange rate that is needed to close the gap between the estimated and the underlying CA balance. This adjustment is computed using the elasticity of the CA (export elasticity)x(export to GDP ratio)-(import elasticity-1)x(import to GDP ratio). This is the CA balance that would emerge if the output gap were zero both domestically and in partner countries.

11. Defining the CA norm is difficult, especially considering the expected exhaustion of oil reserves in Gabon. As an oil exporter Gabon should run a significant CA surplus when oil prices are high, but as a middle-income country it should import foreign savings to finance its development needs. Even though Gabon is not part of the CGER exercise, CGER estimated coefficients can be used to derive an indicative CA norm for Gabon because its economy is small and it is similar to the oil-producing middle-income countries included in the CGER (Algeria, Russia, and Venezuela).

12. Estimations of trade elasticities are taken from Marquez (1990), who reports elasticities for OPEC, of which Gabon was a member from 1975 through the mid-1990s. The paper report estimates based on two different estimation techniques, OLS and band spectrum; Table I.1. report the two sets of results for the REER adjustment. To compute the CA norms, the coefficient estimates should be applied to the medium-term (2013) values of the regressors. The CA norms are also computed for the medium term.[2]

Figure I.3: External and Underlying Current Account Balance, 1993–2007

(Percent of GDP)



Source: Gabonese Authorities and Staff Calculations.

13. Medium-term CA norms for Gabon range from 6.9 to 10.6 percent of GDP, around the projected value of 10.1 for Gabon in 2013. Table I.1 reports the results for four distinct CA norms: the medium-term norm derived from CGER coefficients; the CGER medium-term norm for oil producers; the norm derived from the PIH approach (see below) for the medium-term (2013); and the average of the long term CA norm derived from the PIH approach. REER deviation from equilibrium estimates vary from 3.1 to –2.6 percent. Estimates based on the CGER norm for oil producers point to a larger undervaluation, of 12.2 to 21.8 percent) but should be treated with caution. This unusually high undervaluation is due to the fact that oil prices tripled since the norm was computed in 2004. Overall, the macro-balance approach shows that the REER is consistent with competitiveness.

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[2] Large investments in the oil and mining sectors requiring significant imports of goods and services imports are expected in 2008–2012. These have been removed to compute the underlying CA.

Table I.1. Estimated Current Account Norms and REER Deviation from Equilibrium

Current Account Norm (percent of GDP)		REER Misalignement (percent) [1]	[2]
From CGER coeffs.	10.6	3.1	1.7
PIH Norm 2013	10.1	-0.1	-0.1
Average of PIH Norm 2008-30	9.7	-2.6	-1.4

[1] *Estimate with Marquez (1990) OLS Trade Elasticities*

[2] *Estimate with Marquez (1990) Band Spectrum Trade Elasticities*

Permanent income framework

14. The external sustainability of the CA is assessed by linking the norm to the saving-consumption decision and the PIH model. This approach, based on Loko (2008), models the path of oil production and its implications for external competitiveness.

15. The accounting identity links a country's CA balance to the excess of domestic saving (S) over domestic investment (I):

$$CA = (S_g\text{-}I_g) + (S_p\text{-}I_p) \qquad (1)$$

where *g* denotes the government and *p* denotes the non-government sector.

16. (S_g-I_g) is the fiscal balance (FB), which can also be defined as the sum of the oil revenue (OR) and the non-oil fiscal balance (NOFB)—the difference between non-oil revenue and total expenditure. So equation (1) can be rewritten as:

$$CA = OR + NOFB + (S_p\text{-}I_p) \qquad (2)$$

17. The CA norm should be consistent with fiscal sustainability. The sustainable fiscal balance is calculated by using the PIH,[3] which assumes optimizing the income of both current and future generations. In the case of Gabon, oil revenue is split between the part that should be saved in the form of financial assets, S_{PIH}, and the part that finances the non-oil fiscal deficit, R_{PIH}.

$$OR = R_{PIH} + S_{PIH} \qquad (3)$$

$$R_{PIH} + NOFB = 0 \qquad (4)$$

[3] See Leigh and Olters (2006).

18. Combining equations 2, 3, and 4, the CA norm (CA_n) consistent with the PIH sustainable fiscal balance is the sum of the implied saving under the PIH and the saving investment balance of the nongovernment sector.

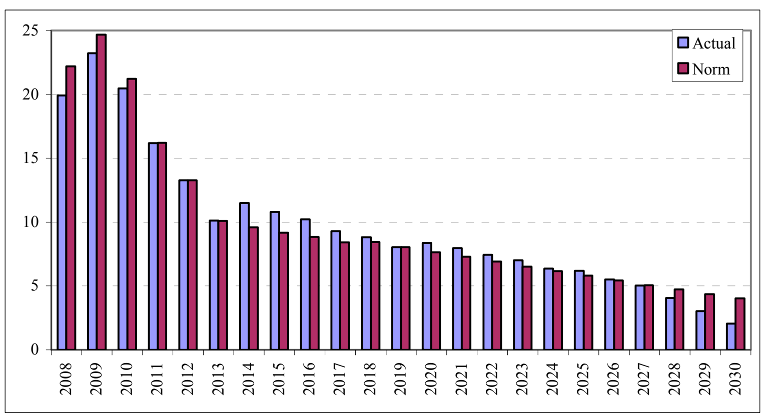
$$CA_n = S_{PIH} + (S_p - I_p) \qquad (5)$$

19. Then, CA_n can be calculated keeping total real government wealth constant. For simplification, we also assume that in the medium term nongovernment saving is equal to nongovernment investment (Sp-$Ip=0$).

20. The PIH suggests that the CA norm declines gradually until 2030 with the expected depletion of oil reserves (Figure I.4). The estimated norm for 2013 is about 10.1 percent of GDP, in line with medium-term projections. This suggests that Gabon's REER is in line with its equilibrium value for both the medium and long term, when the projected CA is on average 0.1 percent of GDP above the norm.

Figure I.4. Actual Current Account and PIH-Consistent Norm, 2008–30

(percent of GDP)



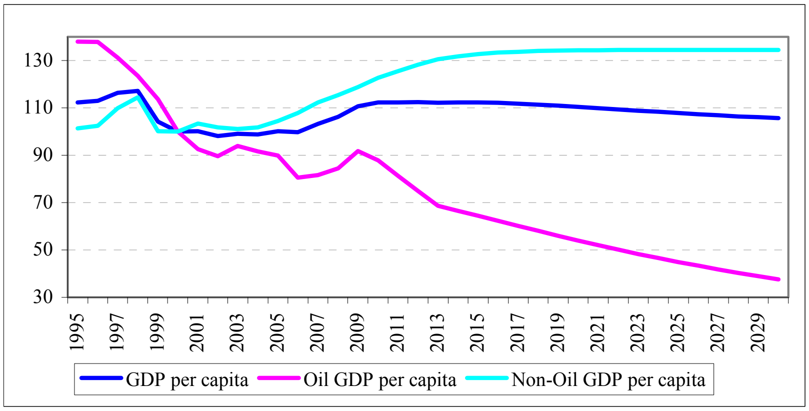
Source: Staff Calculations.

C. Competitiveness and Diversification

21. Long-term external stability in Gabon rests on successful development of the non-oil sector. Besides the measures used above, other approaches based on CA flows, market shares, and indices measuring the quality of the business climate are essential to assess the country's capacity to maintain high and sustainable growth. Diversifying its economy and boosting non-oil growth through productivity increases is essential if Gabon is to maintain current standards of living once oil reserves are depleted (Figure I.5). This is consistent with the findings of the 2007 CEMAC Staff Report, which found that the current exchange rate level and regime were appropriate for the CEMAC, but that the competitiveness of the non-oil sector was nonetheless a concern.

Figure I.5. Real GDP per Capita, 1995–2030

(Index, 2000=100)



Sources: Authorities'data, WDI and Staff calculations.

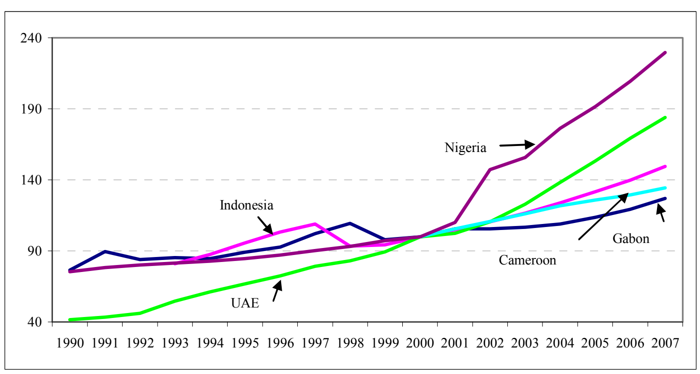
22. Oil exporters have dual economies and suffer from Dutch disease. Dutch disease implies that high oil revenues boost the consumption of non-tradable goods, triggering an increase in their prices and an appreciation of the REER, and undermining the competitiveness of the non-oil tradable sector. Thus, the recent REER appreciation in Gabon is consistent with oil sector developments but undermines the competitiveness of non-oil exports. The analysis will provide comparisons with countries which have successfully diversified their economies (Indonesia, Mexico, Trinidad and Tobago and the UAE).

Evidence of lack of diversification[4]

23. Non-oil growth has been low in Gabon, despite an acceleration from an annual average of 2.2 percent for 1990–2000 to 3.3 percent for 2000–07 (Figure I.6).

Figure I.6. Real Non-Oil GDP, Selected Countries, 1990–2007

(Index, 2000=100)



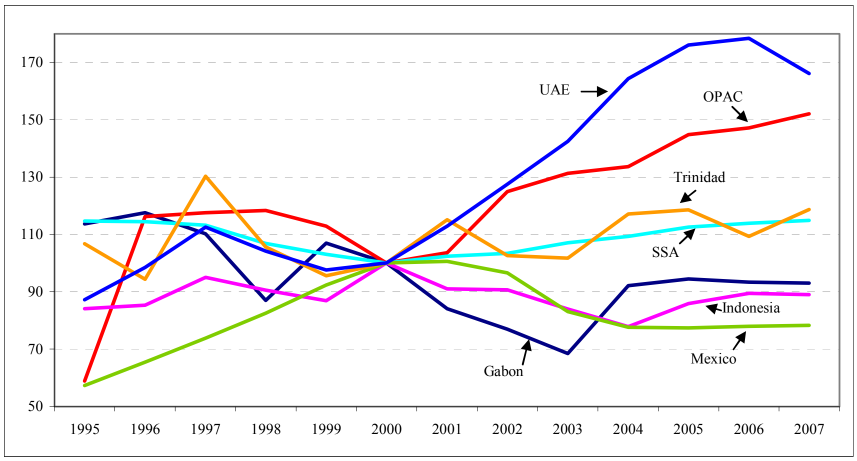
Source: WEO and Staff's calculations.

[4] This section draws heavily on Qureshi (2008).

24. The growth of non-oil exports has been negative since 1997 in Gabon, as in the CEMAC, in contrast to countries that have successfully diversified their economies (Figure I.7 and I.8). As a result, Gabon's market share in world goods exports dropped from 0.03 percent in 1970–89 to 0.01 percent in 2000–06 (see Qureshi (2008)).

Figure I.7. Non-Oil Exports Market Share, 1995–2007

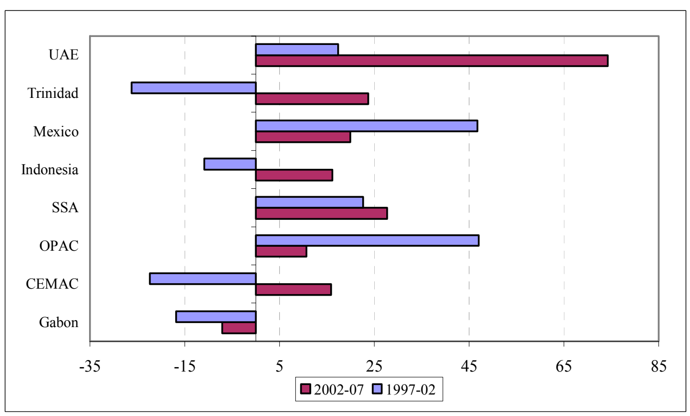
(Index: 2000=100)



Source: WEO.

Figure I.8. Growth Rate of Non-Oil Export Volume, 1997–2007

(Percent)



Source: WEO.

25. Gabon has not diversified its export base. The composition of Gabonese exports has remained unchanged for the past 40 years, with primary commodities accounting for over 95 percent of the total.[5] Oil-producing African countries and CEMAC countries have seen similar developments. In contrast, over the last two decades, the composition of exports of the majority of developing economies has shifted toward manufactures. In particular, the export structure of most non-African oil producers seems to have changed (Table I.2).

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[5] Qureshi (2008) confirms this finding by computing more elaborate indicators of export diversification, such as Pearson's correlation coefficient, the Bray-Curtis measure, and the Export Concentration Index.

Table I.2. Export Structure by Product Category, 1970–2005[1]

(Percent)

	Primary Commodities			Nonfuel Primary Commodities			Manufactures		
	1970–89	1990–99	2000–05	1970–89	1990–99	2000–05	1970–89	1990–99	2000–05
Angola	94	94	94	25	01	01	05	06	06
Cameroon	92	91	92	65	52	47	03	04	04
Congo	87	75	95	28	12	11	10	24	03
Côte d'Ivoire	95	89	92	91	82	79	05	11	08
Equatorial Guinea	95	94	96	95	63	05	04	05	04
Gabon	94	97	96	28	23	20	05	03	03
Nigeria	99	98	98	07	04	03	01	02	01
Indonesia	91	52	44	29	22	21	07	47	53
Mexico	53	22	17	26	10	06	40	73	79
Trinidad and Tobago	87	60	66	06	13	05	12	39	33
United Arab Emirates	93	82	72	02	04	05	4	15	25
Venezuela	94	81	84	05	06	04	03	14	13

[1] Primary commodities are defined as SITC sections 0 to 4; non-fuel primary commodities are defined as SITC sections 0, 1, 2 and 4; manufactures are defined as SITC sections 5, 6 (less 68), 7, and 8.
Source: UN-COMTRADE database.

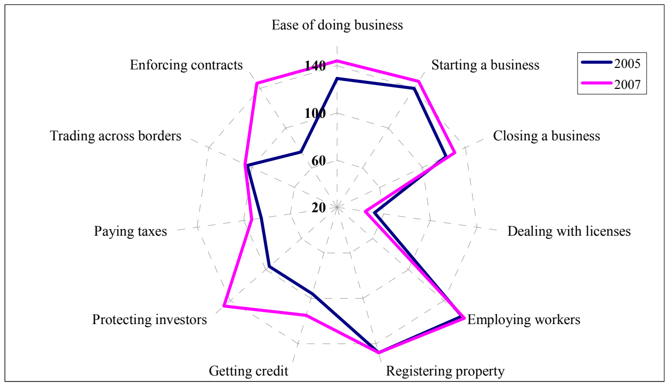
The business climate, diversification and productivity

26. Concerned about the lack of economic diversification, the authorities have requested studies and held a seminar on the issue. The Foreign Investment Advisory Service (FIAS) (2004) and the African Development Bank (2007) make a similar diagnosis and recommend a two-pronged approach for successful diversification: first, improve the general business climate to facilitate development of the non-oil activity and encourage Gabonese and foreign firms to invest in Gabon; and second, identify economic sectors that have promising growth prospects, which could be realized by creating road maps. While improving the business climate is essential to promote private investment, past experience in Gabon and elsewhere suggests that picking winners among sectors has rarely been successful.

27. Gabon ranks low in indicators generally used to measure the business climate (Figure I.9). The World Bank's Doing Business Indicator ranked Gabon 144 out of 178 countries for 2007 (Table I.3). It ranks higher than other oil producers in Africa, but lower than oil-producers that have diversified their economy.[6] Its scores on the Worldwide Governance Indicators and the Index of Corruption Perceptions have also not improved (Figure I.10).

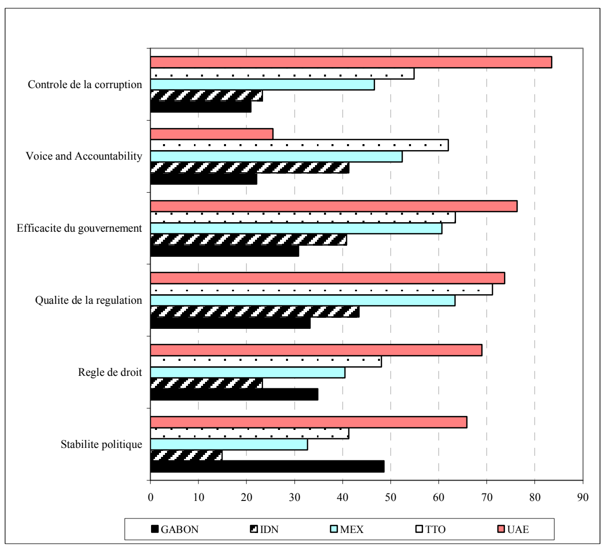
[6] See Qureshi (2008).

Figure I.9. Gabon: Doing Business Indicators, 2005–07



Source: Doing Business.

Figure I.10. Gabon—Worldwide Governance Indicators, 2006



Source: Worldwide Governance Indicators.

28. Improving the business climate should thus be a priority for Gabon's diversification strategy. To this end, FIAS (2004) recommended improving the following areas: (i) governance and judicial security, (ii) taxation of private firms, (iii) entrepreneurship, (iv) trade liberalization and regional integration, (v) infrastructure, (vi) administrative procedures, and (vii) investment promotion. Specific targeted administrative measures could be very effective, among them reducing the number of administrative procedures, ensuring execution of contracts, facilitating property transfers, and making the one-stop shop it created in 2000 for investors (APIP) fully functional. The transposition of OHADA legal principles into Gabonese business law in 2007 is a step forward. Also crucial is rapidly developing basic infrastructure, particularly roads, energy distribution, and telecommunications.

29. Removing barriers to competition would also enhance the efficiency of the private non-oil sector. Privatization of public enterprises since the mid-1990s has failed to increase competition, production, and investment, partly because the government granted many advantages to the new enterprises, including monopoly power, tax exemptions, and import protections. This has led to high prices for consumers and sometimes even supply disruptions. The privatization agenda should nonetheless be completed, particularly in the agricultural, forestry, transport, hotels, and fishing sectors, but for them to be successful, the powers of the regulatory agencies must be strengthened. Finally, business conditions would also be improved by liberalizing trade, including cutting the rates of the common external tariff and removing nontariff barriers within CEMAC to bring it in line with Gabon's WTO accession.

D. Conclusion

30. The external environment is expected to remain stable for Gabon in the medium term, and the REER is in line with its equilibrium value. The FEER analysis and the longer-term approaches based on sustainable current account analyses indicates that the exchange rate is slightly undervalued relative to the EREER, which has appreciated because of the recent and large improvement in Gabon's terms of trade. While Gabon's non-oil economy suffers from competitiveness problems, the productivity of the economy could be greatly enhanced by measures to improve the business climate and remove impediments to private sector investment. Such measures are crucial to boost non-oil sector growth and maintain per capita income in the face of dwindling oil revenue.

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II. Achieving fiscal sustainability and Improving Social Service Delivery[1]

A. Introduction

1. With oil reserves being rapidly depleted, Gabon faces the challenges of reducing the fiscal deficit to a sustainable level, raising non-oil sector growth, and reducing widespread poverty. In spite of a per capita income above $6,000 in 2006, one third of the population still lives below the poverty line.

2. To address those issues, improving the efficiency of public expenditure would seem an important element. It would help Gabon diversify its economy away from oil and reduce poverty. [2] Improving efficiency consists in achieving a given outcome while spending less, or, equivalently, achieving better outcomes for a given level of spending. Hence improving expenditure efficiency implies freeing resources to achieve other policy goals.[3] Efficiency depends on sector-specific factors, such as expenditure composition within a sector, as well as broader factors, such as control of corruption and the quality of the public procurement system.

3. This paper reports on a study of the relative efficiency and determinants of Gabon's social expenditure. It applies data envelopment analysis (DEA) technique to assess the relative efficiency scores of expenditures for health and education in Gabon compared to groups of other countries; and then presents correlations between those scores and broad policy-related indicators, such as governance indicators. The results are three–fold:

- Gabon has room to improve its public expenditures compared to all relevant peer groups.
- Better-quality governance and transparency are associated with more efficient spending.
- Efficient spending is associated with economic growth.

4. In what follows, Section A looks briefly at how social indicators in Gabon compare with groups of comparator countries. Section B briefly describes the methodology used to

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[1] Prepared by Rabah Arezki.

[2] Studies by Guellec and van Pottelsberghe (1999), Diamond (1999) and Heitger (2001), Aschauer (1989) and Deravajan, Swaroop and Zou (1996), have found that well targeted spending on human capital and infrastructure has a positive impact on productivity and growth. Also, Acemoglu, Aghion, and Zibolitti (2003) present a framework where a country's growth performance is affected by the efficiency of domestic policies.

[3] Education, health care and some infrastructures services can also be provided in part through private financing. Efficiency in public service delivery is also important to complement private spending in the sectors. Studying the impact of the nature of financing of public service delivery on efficiency is beyond the scope of the paper.

assess the relative efficiency of expenditures in the social sector in Gabon and presents the results for health and education. Section C presents correlations between efficiency scores and fiscal policy indicators. Section D concludes.

B. Social Expenditures and Outcomes Indicators in Gabon and its Peers

Gabon has achieved outcomes in health and education that are slightly above the average for sub-Saharan countries, but much lower than the average for upper-middle-income countries (see Table II.1). Moreover, there has been little improvement in recent years.

Table II.1 Gabon and Comparator Countries Social Indicators

		Latest single year			Same region/income group	
		Gabon			Sub-Saharan Africa	Upper-middle-income
		1980-85	1990-95	1999-2005	1999-2005	1999-2005
Health						
	Mortality rate, under-5 (per 1,000)	102	91.0	91.0	163.0	27.0
	Public health expenditure, total (% of GDP)	..	..	3.1	2.6	3.8
Education						
	Net primary school enrollment rate (% of age group)	..	85	77.0	66.0	94.0
	Primary completion rate, total (% of age group)	..	64.2	66.2	56.3	94.6
	Public spending on education, total (% of GDP)	..	..	3.9	3.9	4.6

Source: World Development Indicators (2007)

5. Gabon spends much more on health than the average for sub-Saharan African countries but much less than the average for upper-middle-income countries.[4] Public health expenditure amounted to 3.1 percent of GDP in 2005 compared with an average of 2.6 percent for sub-Saharan countries and 3.8 percent for upper-middle-income countries. Education expenditure in Gabon as a share of GDP is equal to the average of spending in sub-Saharan countries but significantly lower than the average in middle-income countries. However, the results need to be interpreted cautiously because data on social indicators is of low quality and public expenditure is not classified by function.

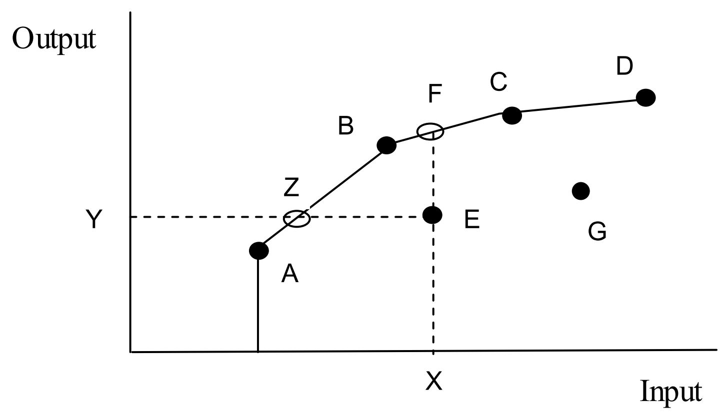
[4] The difference in social expenditures in Gabon compared to other sub-Saharan African countries is larger when health expenditure in considered in per capita terms (PPP-adjusted) rather than as a share of GDP.

C. The Relative Efficiency of Social Expenditures in Gabon

The methodology for assessing relative efficiency

6. The relative efficiency of spending inputs and outcomes in each country is assessed using the DEA technique developed by Farrell (1959) and popularized by Charnes, Cooper and Rhodes (1978), and by Zhu (2003). Based on the assumption of a convex production possibilities set, a piecewise linear "relative efficiency frontier" is constructed as a linear combination of relatively efficient input and output combinations in the cross-country sample. Figure II.1 illustrates the one input-one output special case of the general mathematical programming problem. The relative efficiency frontier connects points A to D because these countries dominate other input-outcome pairs, such as countries E and G in the interior.

Figure II.1 Relative Efficiency Frontier



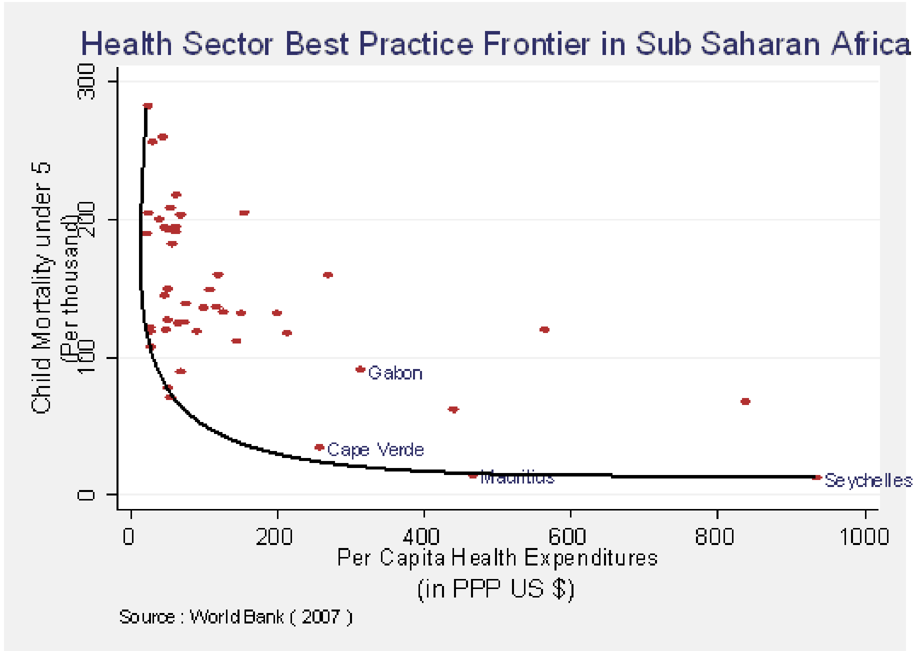
7. The convexity assumption of DEA allows relatively inefficient input-output pairs (point E) to be assessed relative to a hypothetical position on the relative efficiency frontier (point Z) by taking a linear combination of relatively efficient country pairs (points A and B). Accordingly, a relative technical efficiency score that is input-based can be calculated as the ratio of YZ to YE. The score corresponds to the proportional reduction in spending that is consistent with relatively efficient production of a given output. Similarly, a technical relative efficiency score that is output-based can be calculated as the ratio of FX to EX, consistent with the proportional increase in the output indicator given current spending if production is relatively efficient. Accordingly, countries on the efficiency frontier will have an efficiency score of 1. Countries within the frontier will have a relative efficiency score of less than one when relative technical efficiency scores are input-based, and greater than one when the scores are output-based, as in the following application.

Results

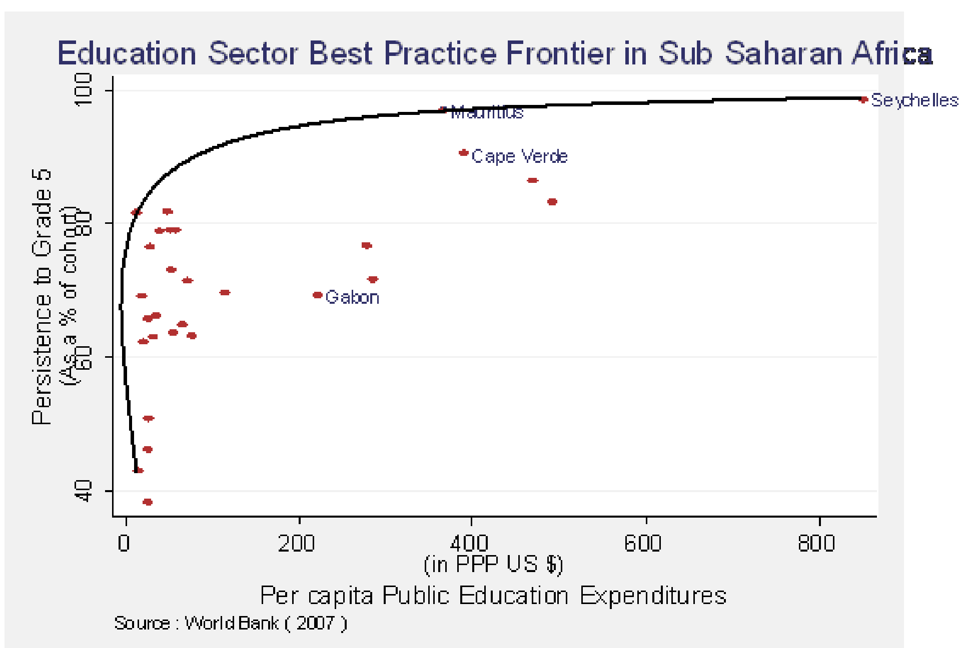
8. Public expenditure efficiency in social sectors in Gabon is assessed relative to efficiency in groups of comparator countries, such as other sub-Saharan African countries, upper-middle-income countries, and other oil exporters. Results are consistent whichever group or combination of comparators is used (Appendix A). We thus present in more detail the assessment of relative efficiency of Gabon and in other Sub-Saharan African countries. Indeed, the use of this group allow us to control for unobservable sociocultural characteristics likely to be similar across sub- Saharan Africa but not necessarily in other groups. In a second stage, the analysis identifies determinants of social spending efficiency, controlling for observable characteristics likely to affect the assessment, such as HIV/AIDS and malaria prevalence and prevention.

9. As a proxy for health outcome, we choose child mortality in 2005.[5] As a proxy for health sector inputs, we use the 2002–04 annual average of per capita public health expenditure, adjusted for purchasing power parity. We use expenditures that occurred earlier than the observed outcome to capture the lagged effect of expenditures on outcomes. Figure 2 shows a scatter plot of outcomes on the Y-axis and input on the X-axis. The main message that arise from Figure 2 is that Gabon is a relatively high spender but suffers from relatively low outcomes at a given level of expenditures. By contrast, Cape Verde and Mauritius spend slightly more on but have significantly better outcomes measured in terms of child mortality—they are thus closer to the efficiency frontier. Table II.2 presents test scores using DEA. The higher the test score, the further away a given country is from the frontier and thus the more inefficient a given expenditure. Gabon scores high in the health sector, confirming the observation in Figure II.2. As indicated in Table II.2, Gabon belongs to the 20th percentile of the efficiency score ranking, which offers some evidence that Gabon can improve the efficiency of its expenditures significantly.

[5] The data for both outcomes and public expenditures are all from the World Bank (2007) to insure consistency in coverage for expenditures and measurement for outcomes.



10. As a proxy for education outcome, we choose persistence to grade five, which is a better proxy than primary enrollment, which is usually used as an indicator of service delivery. As a proxy for education input, we use per capita expenditure. However, given the limited availability of data, we used for input the average expenditure for 1999–2002 and for outcome average persistence in grade five for 2003–06. Figure II.3 shows that though Gabon spent more on education than other sub-Saharan countries, it is far from the efficiency frontier.



11. Mauritius and Cape Verde spent just slightly more on education than Gabon but achieved considerably more. As Table II.2 shows, Gabon's efficiency score in the education sector is in the 30th percentile, which provides evidence that Gabon is one of the worst performers in sub-Saharan African in terms of the efficiency of spending on education.

Table II.2 Scores by Country

		Health			Education		
	Country	Input	Outcome	Score	Input	Outcome	Score
1	Angola	42.7	260.0	3.1	..	..	..
2	Benin	50.5	150.0	2.0	29.8	63.1	1.3
3	Botswana	564.5	120.0	8.3	..	..	..
4	Burkina Faso	61.9	191.0	2.9	..	..	..
5	Burundi	21.9	190.0	1.0	24.0	65.8	1.3
6	Cameroon	108.2	149.0	3.1	53.8	63.7	1.3
7	Cape Verde	256.1	35.0	1.4	390.2	90.6	1.1
8	Central African Republic	49.0	193.0	2.5	..	..	..
9	Chad	55.4	208.3	3.0	13.4	43.1	1.9
10	Comoros	54.5	71.0	1.0	69.2	71.5	1.2
11	Congo, Dem. Rep.	23.6	205.0	1.4	..	..	..
12	Congo, Rep.	28.3	108.0	1.0	34.7	66.3	1.2
13	Cote d'Ivoire	60.2	195.0	2.9	..	..	..
14	Djibouti	126.1	133.0	3.1	..	..	..
	Equatorial Guinea	155.0	205.0	5.5			
15	Eritrea	50.6	78.0	1.0	47.4	81.9	1.0
16	Ethiopia	49.7	127.0	1.7	..	..	..
17	Gabon	313.4	91.0	4.3	221.4	69.3	1.3
18	Gambia, The	115.7	137.0	3.0	..	..	..
19	Ghana	144.3	112.0	2.9	76.2	63.3	1.3
20	Guinea	117.9	160.0	3.6	37.7	79.0	1.0
21	Guinea-Bissau	38.2	200.0	2.2	..	..	..
22	Kenya	48.6	120.0	1.6	57.5	79.1	1.1
23	Lesotho	199.5	131.8	4.3	284.9	71.6	1.3
24	Madagascar	28.8	119.0	1.1	24.1	50.9	1.6
25	Malawi	72.2	125.3	2.0	25.2	38.3	2.2
26	Mali	60.4	218.0	3.2	26.6	76.6	1.1
27	Mauritania	62.6	125.0	1.9	64.0	65.0	1.3
28	Mauritius	465.8	15.0	1.0	365.7	97.0	1.0
29	Mozambique	45.3	145.0	1.8	18.5	62.4	1.3
30	Namibia	438.6	62.0	3.9	468.4	86.5	1.1
31	Niger	29.8	256.0	2.4	16.8	69.2	1.2
32	Nigeria	46.3	194.0	2.4	..	..	..
33	Rwanda	67.5	203.0	3.2	25.6	46.2	1.8
34	Sao Tome and Principe	212.7	118.0	4.0	..	..	..
35	Senegal	89.0	118.7	2.2	50.7	79.1	1.1
36	Seychelles	933.7	13.0	1.0	851.8	98.7	1.0
37	Sierra Leone	24.4	282.0	2.1	..	..	..
38	South Africa	837.5	68.0	5.1	492.1	83.3	1.2
39	Sudan	67.6	90.0	1.4	..	..	..
40	Swaziland	269.0	160.0	6.6	277.8	76.8	1.2
41	Tanzania	25.1	122.0	1.0	10.8	81.8	1.0
42	Togo	75.4	139.0	2.3	51.3	73.1	1.1
43	Uganda	98.8	136.0	2.7	..	..	..
44	Zambia	57.0	182.0	2.6	..	..	..
45	Zimbabwe	149.4	132.0	3.5	114.2	69.7	1.2

Source Fund Staff Calculation

12. Use of alternative measures of outcomes, such as maternal mortality for health and youth literacy for education, confirms the inefficiency of Gabon's social sector spending.

D. Explaining Inefficiencies

13. Thus we analyze determinants and correlates of expenditure efficiency using the aggregated sample of the three groups of comparator countries in order to formulate policy recommendations for Gabon. We look at broad factors that affect the quality of public expenditure, such as control of corruption and the quality of public procurement. We do not look at sector-specific institutional arrangements, such as the composition of intrasectoral expenditure (e.g., amount of health resources spent on preventive care) that are not the focus of the paper but which we control for in the econometric analysis.

14. To determine factors affecting expenditure efficiency, we reassess the results obtained in the previous analysis controlling for factors that may affect relative efficiency, such as quality of fiscal institutions.

15. The efficiency scores are regressed on a set of potential correlates as described in the following equation:

$$y_i = f(z_i) + \varepsilon_i$$

where y stands for the DEA score, i is a country index, z is a set of correlates, and ε is a continuous random variable not correlated with z. Most previous studies have used Tobit on the basis that scores have a probability mass at 1. However, Simar and Wilson (2007) argue that this property is an artifact in finite samples and that it is more appropriate to estimate truncated regressions with maximum likelihood assuming normal distribution of errors.

16. Efficiency scores for the health sector correlate with governance indicators such as rule of law once controlled for GDP per capita, HIV AIDS prevalence, literacy of female adults and other non-discretionary factors (such as prevalence of malaria) through the introduction of a dummy variable for sub-Saharan African countries in the regression (see Table II.3). Education score also correlates with governance indicators once GDP per capita and the sub-Sahara Africa factor are controlled for. We also find that more efficient expenditure, especially on education, improves economic growth. Indeed, the absolute value of the coefficient of correlation between the efficiency score of education expenditure and economic growth is 0.33.

Table II.3 Regression Results

Dependent variables	health score (1)	education score (2)
GDP per capita	0.00	0.00
	(2.82)**	(0.16)
Rule of law	-0.66	0.22
	(2.6)**	(3.14)**
Sub Saharan Africa dummy	-0.79	-0.06
	(0.64)	(2.2)*
HIV prevalence	0.39	.
	(3.49)**	
Literacy of female adults	-0.04	.
	(2.57)**	
R-squared	0.68	0.39
Number of observations	42	37

A constant is included in the various specifications but estimates are not shown.
Observations with excessively high leverage have been dropped from the sample.
Robust t statistics in parentheses (in absolute values).
* significant at 5%; ** significant at 1%.

17. These results would imply that improving governance and promoting public sector accountability could reduce inefficiencies in social expenditure in Gabon. Making public spending more efficient could in turn promote economic growth.

E. Conclusion

The paper shows that Gabon has room to improve social service delivery in spite of the need to tighten fiscal policy because of a decline in oil production. It finds that spending for health and education is less efficient in Gabon than in comparator countries and that the issue can be addressed by improving governance and transparency. The study also finds that higher efficiency of spending would help Gabon achieve higher growth.

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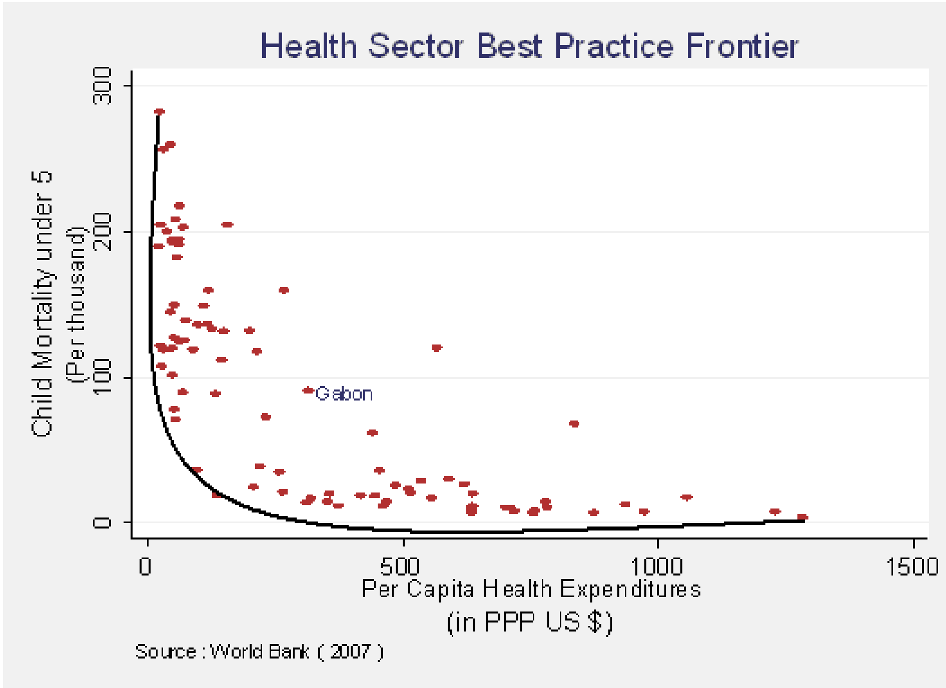
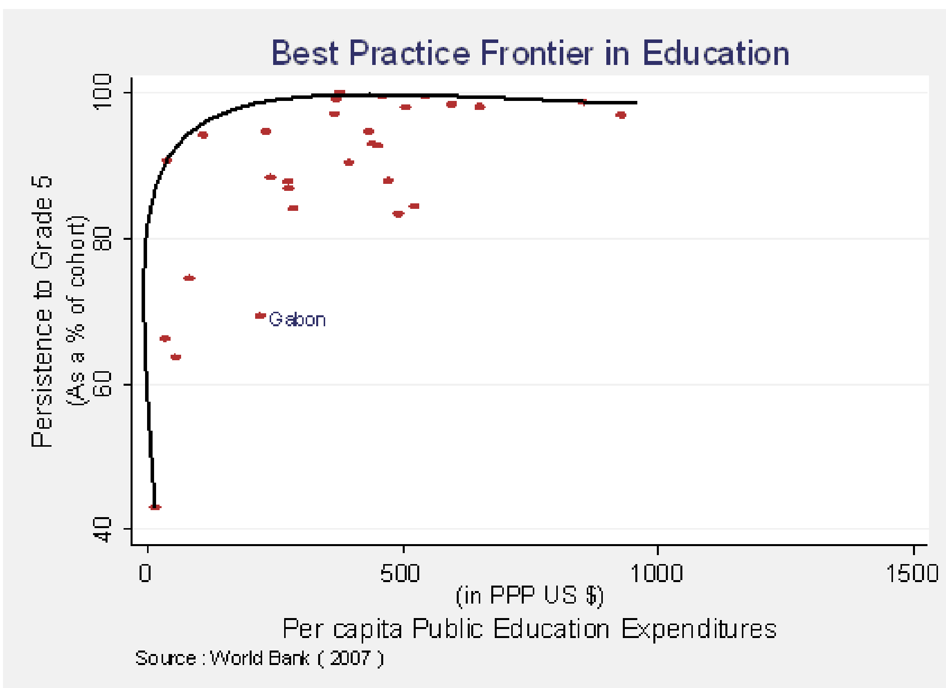
Appendix II A: Best Practice Frontiers in Using the Aggregated Sample





III. Financial Sector Developments in Gabon[1]

A. Overview

1. **Faced with a long-run decline in oil output, the future of the Gabonese economy depends on its ability to diversify—a process in which the financial sector needs to play an important role.** The key to unlocking Gabon's growth potential is creating an environment conducive to private sector activity. The first study in this report discussed the need for improvement in the business climate and lowering the barriers to domestic and foreign competition. Another essential ingredient is a financial sector that efficiently mobilizes savings and channels them to high-return investments. Olters (2006) presents the theoretical underpinnings of the link between financial depth and economic development in the context of Gabon and discusses the reasons for banks' ineffectiveness in intermediation. This chapter summarizes and updates recent work done by the IMF on financial sector issues in Gabon with emphasis on recommendations for improving the performance of the sector.[2]

2. **The banking sector remains sound though its capitalization has declined in the last three years.** Stress tests performed as part of the 2002 and 2006 FSAP modules demonstrate the resilience of the sector as a whole to a number of exceptional but plausible shocks, while highlighting the vulnerability of some banks to a deterioration of asset quality and to exchange rate fluctuations. Over the last two years, the system-wide share of nonperforming loans has declined, with stepped-up lending to the private sector not translating into a deterioration of loan quality thus far. The system-wide ratio of capital to risk-weighted assets is above the 8 percent norm, though it has been declining with the growth of assets that have higher risk weights.

3. **Access to finance is very low in Gabon.** Banks, which control 85 percent of all financial assets, target their services to large enterprises, public employees, and expatriates by imposing high minimum deposit or income requirements. Most insurance is purchased by commercial enterprises. Microfinance institutions, which in other African economies extend financial services to the informal sector, have yet to make an impact in Gabon. The main impediments to improving access to financial services and increasing financial intermediation are (Claveranne, 2005; Christensen and Fischer, 2005; IMF, 2002 and 2006):

- legal and judicial weaknesses in enforceability of claims and property rights, which make provision of financial services to a broader segment of the population too costly;

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[1] Prepared by Plamen Iossifov.

[2] The chapter draws upon the findings of the 2002 national module for Gabon of the joint IMF/World Bank Financial Sector Assessment Program (FSAP) and the 2006 regional FSAP module for the Economic and Monetary Community of Central Africa (CEMAC).

- deficiencies in corporate accounting and financial data;
- weak payment systems;
- the high percentage of the population engaged in informal activities that cannot meet the documentation requirements of financial institutions;[1] and
- low income and population density outside urban centers that make it costly to operate branches.

Difficulties unique to each sector exacerbate these problems:

- *Banking sector*: The oligopolistic structure of the banking sector and BEAC enforcement of maximum lending rates keep the cost of lending high and demand low. On the other hand, BEAC-mandated minimum deposit rates increase the cost of mobilizing deposits, deterring banks from expanding their depositor base. Furthermore, state involvement in the banking sector—as shareholder, depositor, and borrower—crowds out the private sector and raises moral hazard concerns.

- *Insurance*: High operating expenses and dearth of investment outlets prevent insurers from offering attractive products to their clients; nonpreferential tax treatment is also an issue.

- *Microfinance:* Slow implementation of the 2006 national microfinance strategy, including further lowering the tax burden, has hindered development, as has the slow start of the activities of the national association of microfinance institutions in improving the quality of services, professionalism and national outreach.

- *Capital markets:* Government access to credit from the BEAC has stymied the development of government bond market.

B. Financial System Structure

4. **Gabon's financial system is well developed by the standards of the Economic and Monetary Community of Central Africa (CEMAC) but not in comparison to other middle-income countries.** The banking sector dominates the financial system, accounting for 85 percent of total assets (Table III.1), and the largest leasing and securities companies are wholly owned by banks. The ratio of bank credit

Bank Credit to the Private Sector

	2002	2004	2006	2007
	(in percent of GDP)			
Gabon	13	10	10	11
CEMAC	8	7	7	8
Cameroon	10	10	10	10
Sub-Saharan Africa[1,2]	27	30	35	38
Oil-exporting countries in SSA[1]	11	11	11	16
SSA excluding South Africa and Nigeria[1,2]	11	12	14	15
	(in percent of non-oil GDP)			
Gabon	23	18	21	22
Oil-exporting countries in SSA [1]	16	17	19	26

Source: IMF's *SSA Regional Economic Outlook*, March 2008.
[1] Weighted average. [2] Excluding Zimbabwe.

[1] The employees in the formal sector are around 100,000—half of which is the public sector—out of a total population of 1.3 million.

to the private sector-to-GDP in Gabon is higher than the CEMAC average and similar to that in other oil-exporting Sub-Saharan African (SSA) countries. The ratio of private sector credit to non-oil GDP—a better measure of financial intermediation in oil- exporting SSA countries[2]—was 22 percent in Gabon in 2007, which compares favorably with the average for financial intermediation in SSA countries other than South Africa. Gabon's insurance sector is the second largest in the CEMAC region after Cameroon's but plays only a marginal role in the economy; insurance premiums amount to just over 1 percent of GDP. Microfinance in Gabon lags substantially behind its development in other CEMAC and SSA countries. The capital market in the CEMAC region is nascent, with trading yet to commence on the Central Africa Securities Exchange (BVMAC) in Libreville. Housing finance is also embryonic.

Table III.1. Gabon: Financial System Structure, 2006

	Number		Financial system assets		
	Institutions	Branches	CFAF billion	Percent of total assets	Percent of GDP [1]
Banks	7	33	1150	85	23
Commercial banks	5	27	1093	80	22
Development banks	2	6	57	4	1
Insurance companies [2]	7	…	90	7	2
Non-life	4	…	64	5	1
Life	3	…	25	2	1
Pension fund [3]	1	…	…	…	…
Financial services companies	4	9	65	5	1
Leasing companies	2	4	20	1	0.4
Consumer credit companies	2	5	45	3	1
Microfinance institutions	4	4	3	0.2	0.1
Securities dealers	3	3	3	0.2	0.1
Public specialized institutions not supervised by COBAC [4]	4	52	50	4	1
Total financial system	29	101	1360	100	27

Sources: Gabonese authorities, BEAC, CIMA, WTO, and Fund staff estimates.

[1] The 2006 nominal GDP was 4992 billion CFA francs.

[2] As of 2003.

[3] Caisse Nationale de la Sécurité Sociale (CNSS).

[4] State fund for financing of small and medium-size enterprizes (FODEX), Fund for housing refinancing of Gabon (CRI Postal savings bank (CEP), and Centre des Cheques Postaux (CCP).

C. Banking Sector

Structure

5. **The banking sector in Gabon is highly concentrated.** The top three banks control 85 percent of sector assets. By some measures the banking sector in the CEMAC as a whole is among the least competitive in Africa, which is reflected in persistently high gross margins[3] (Saab and Vacher, 2007).

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[2] Oil production, which accounts for half of Gabon's GDP, is financed not domestically but by foreign companies.

[3] 11.4 percent in 2004. The gross margin is the difference between the average return on loans and the average cost of funding.

6. **Except for the largest bank, all commercial banks are majority foreign-owned.** Foreign ownership has strengthened the management and operational efficiency of the sector, but risk management guidelines imposed by parent banks limit banks to a relatively narrow segment of the market.

7. **The government plays an important role in the banking sector.** It holds minority shares of close to 25 percent in the top three banks and is the majority owner of the Gabonese Development Bank (BGD).[1] The government also holds large deposits in, and borrows from banks, partly due to weak cash management by the Treasury (Table III.2 and III.3).

Performance

8. **The banking sector in Gabon has grown at a double-digit rate for the last four years**. The growth has been especially rapid for bank reserves and foreign assets since 2004 (Table III.2). At the end of 2007 the share of foreign assets was 19 percent despite regional prudential regulations. The increase in deposits at the BEAC reflects primarily excess liquidity in the banking system in the absence of sufficient low-risk lending opportunities, and to a lesser extent higher reserve requirements.[2] The absence of a well-functioning interbank market is also a factor encouraging bank to keep a high level of reserves with the central bank. [3] Having faced major problems with their loans to the forestry sector early in the decade, banks have become much more cautious with their lending to the private sector. Only since 2006 has bank credit to the private sector started to recover, driven by lending to the oil, electricity, and transportation sectors (Table III.3 and Appendix Table III.A1.1). Overall, bank lending to the primary, secondary and tertiary sectors of the economy is consistent with their shares in non-oil GDP, with more than two-thirds of bank loans channeled to the tertiary sector. The recent increase in lending to the oil sector, however, is unusual since oil companies have generally relied on financing arranged by their foreign head offices.

[1] The BGD provides medium- and long-term financing for development projects; invests in banks, insurance companies, and nonfinancial companies; issues guarantees; and manages the loans of special public funds. It is further funded by loans from the French Development Agency and the European Investment Bank and deposits of public and quasi-public sectors. Its subsidiary, the Gabon Housing Bank (BHG), makes housing loans including to low-income households. The financial situation of BGD is weakened by asset quality and revenue generation problems, and high operating expenses.

[2] Required reserve ratios were raised in March 2007—from 7.75 percent to 10.25 percent for demand deposits, and from 5.75 percent to 8.25 percent for time and savings deposits.

[3] The main factor stifling the development of the regional interbank market is the prevalence of weak banks in the region and the lack of financial instruments (IMF, 2006).

Table III.2. Gabon: Structure of Banking System Assets, 2002–07

(Percent, end of period)

	2002	2003	2004	2005	2006	2007
Reserves	7	12	14	14	19	18
Cash	3	3	2	2	2	2
Claims on the central bank	4	9	12	12	16	16
Claims on banks	1	1	4	3	4	3
Loans net of loss provisions	66	61	49	43	47	48
of which, government advances	14	14	11	9	8	9
Investments	5	4	3	2	3	3
Foreign assets	9	11	21	25	20	19
Fixed assets	4	3	3	3	2	2
Other assets	9	8	5	9	6	6
Total assets	100	100	100	100	100	100

Source: BEAC, COBAC, and IMF staff estimates.

Table III.3. Gabon: Sectoral Breakdown of Credit to the Private Sector, 2002-07

(Ratios in percent)

	2002	2003	2004	2005	2006	2007
Primary sector	**17.1**	**15.1**	**9.8**	**10.0**	**23.0**	**16.2**
Agriculture, livestock, hunting and fishing	0.5	0.9	1.0	1.1	0.8	0.8
Forestry exploitation	11.9	11.5	6.6	4.2	4.2	4.3
Oil and gas extraction	1.9	0.3	0.3	1.8	17.2	10.7
Mining	2.8	2.4	1.9	3.0	0.9	0.3
Secondary sector	**13.6**	**10.5**	**12.1**	**15.7**	**14.8**	**13.6**
Agro-industry	1.4	1.1	0.8	0.7	0.8	0.6
Textile industry	0.1	0.0	0.0	0.0	0.0	0.0
Wood processing	2.6	0.8	5.9	6.9	4.0	2.0
Publishing	0.4	0.4	0.1	0.0	0.1	0.1
Chemical industry	0.5	0.4	0.5	0.5	1.5	1.3
Construction materials and glass making	0.5	0.4	0.4	0.5	0.2	0.1
Transformation of metal	0.6	0.7	0.8	1.1	0.2	0.1
Other industries	0.3	0.2	0.0	0.0	0.0	0.0
Public utilities	0.2	0.1	0.2	0.5	3.2	5.3
Construction and public works	7.1	6.2	3.6	5.4	4.7	4.2
Tertiary sector	**69.3**	**74.4**	**78.1**	**74.3**	**62.1**	**70.3**
Trade	19.5	21.4	20.6	23.8	23.5	23.1
Transport	5.7	5.9	9.0	8.2	10.4	16.8
Telecommunications	0.0	0.0	0.0	0.0	0.0	2.9
Service provided to enterprises	8.2	9.1	13.1	14.1	8.2	8.4
Financial institutions	1.6	1.4	0.4	0.3	0.1	0.6
Real estate	4.2	4.3	3.6	3.4	2.8	2.1
Other merchant services	30.1	32.3	31.3	24.5	17.2	16.4
Total private sector credit	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: BEAC and Fund staff estimates.

[1] The risk department of BEAC only classifies loans exceeding CFAF 5 million.

9. **The banking sector funded its growth mostly with deposits from individuals and the government.** Between 2003 and 2007 the shares of deposits from individuals and the government in total liabilities each rose by 5 percentage points (Table III.4 and Appendix Table III.A1.2). During the same period the share of capital fell from 13 to 9 percent. A transfer of government deposits from banks to the BEAC, as recommended below, would reduce banks' excess reserves, but should not affect their lending capacity.

Table III.4. Gabon: Structure of Banking System Liabilities, 2002–07

(Percent, end of period)

	2002	2003	2004	2005	2006	2007
Total deposits	66	68	70	72	74	70
Government	5	6	8	10	9	11
Banks	2	2	2	2	1	1
Insurance companies	3	4	3	3	3	2
Nonbank financial institutions	1	1	1	1	0	2
Enterprises	25	25	22	24	24	21
Individuals	17	17	18	20	23	22
Other	13	13	14	13	14	11
Other liabilities (total)	22	19	17	17	16	20
Other liabilities (domestic currency)	11	10	9	11	11	11
Other liabilities (foreign currency)	11	9	8	6	5	10
Capital and reserves	12	13	13	11	10	9
Total liabilities	100	100	100	100	100	100

Source: BEAC, COBAC, and IMF staff estimates.

10. **Bank profitability has recovered since 2003.** A deterioration of asset quality and the resulting increase in loan provisions led to a drop in bank profitability in 2003 (Appendix Table III.A1.3). Since then bank profitability has improved, with return on equity averaging 20 percent in 2004-06; return on assets has also been much stronger, albeit declining from 2.8 percent in 2004 to 2.5 percent in 2006 (Table III.7). Notable has been the increase in revenues from fees and from short-term funds reflecting the increased share of short-term foreign assets and deposits at the central bank in bank portfolios (Table III.5). Concerning expenditure, interest expenses have declined largely because the BEAC cut the minimum deposit rate from 5 percent to 4.25 percent. Noninterest expenses have declined mainly because of reduced new loan loss provisions (Table III.6) and a containment of staff costs, which account for about a quarter of noninterest expenses.

Table III.5. Gabon: Structure of Banking System Intermediation Income, 2002–06

(Percent, end of period)

	2002	2003	2004	2005	2006
Intermediation income	100	100	100	100	100
Income from short-term funds	3	4	5	5	7
Income from financial operations	2	6	6	7	7
Income from operations with clients	62	60	59	54	51
Other income	33	30	30	34	36

Source: BEAC, COBAC, and IMF staff estimates.

Table III.6. Gabon: Structure of Banking System Noninterest Expenses, 2002–06

(Percent, end of period)

	2002	2003	2004	2005	2006
Noninterest expenses	100	100	100	100	100
Staff costs	35	32	48	50	45
Depreciation	12	11	14	14	11
Net provisions	23	27	0	-10	2
Other	30	30	39	47	43

Source: BEAC, COBAC, and IMF staff estimates.

Soundness

11. **The banking sector as a whole remains sound though its capitalization has declined in the last three years.** The ratio of capital to risk-weighted assets is above the 8 percent norm,[4] though it has been declining with the growth of assets that have higher risk weights (Table III.7).[5] The share of nonperforming loans has trended down with stepped-up lending to the private sector in the last two years not translating into a deterioration of the quality of bank portfolios. Low provisioning for NPLs since 2003 also reflects liberal rules imposed by the Central African Banking Commission (COBAC). With NPLs (net of provisioning) amounting to 16.7 percent of regulatory capital at the end of 2007, their full provisioning in case of further asset quality deterioration would absorb up to one-sixth of bank regulatory capital.

12. **The main risks for Gabonese banks are a deterioration in asset quality and unfavorable exchange rate fluctuations; interest rate and liquidity risks appear muted.** Stress tests performed as part of the 2002 Gabon FSAP highlighted the vulnerability of some banks to a deterioration of asset quality and to exchange rate fluctuations. Credit risk is elevated by the concentration of bank portfolios in a few sectors and large borrowers, which, to a large extent, reflects deficiencies in corporate accounting and financial data and the lack of diversification of the economy. The exposure to exchange rate fluctuations stems from the large open foreign exchange positions of some banks. On the other hand, the short-run exposure of Gabonese banks to interest rate and liquidity risks is limited because most assets and liabilities have short maturities and there is excess liquidity in the system.

[4] However, capitalization of Gabonese banks should be benchmarked against a higher standard given the 2006 CEMAC FSAP recommendation for an increase in the minimum bank capital adequacy ratio.

[5] The definition of risk-weighted assets used in the calculation of the presented indicators of capital adequacy, differs from the one used by the regional bank supervisor (COBAC) in that it is better aligned with the Basel 1 recommendations (see notes to Table III.7). The 2006 CEMAC FSAP found that some aspects of the COBAC definition of risk-weighted assets are less demanding of banks to put up their own funds than Basel 1 recommended (World Bank, 2006).

Table III.7 Gabon: Financial Soundness Indicators for the Banking Sector, 2002–07
(Ratios in percent)

	2002	2003	2004	2005	2006	2007
Capital [1]						
Regulatory capital to risk-weighted assets[2, 3]	17.2	19.9	22.3	19.8	17.8	14.3
Tier 1 capital to risk-weighted assets[3]	16.5	19.0	21.1	19.0	17.2	13.9
Capital to total assets[4]	12.4	13.1	13.2	11.1	10.2	7.0
Asset quality						
Nonperforming loans (gross) to total loans[5] (gross)	11.7	13.9	16.0	14.1	10.7	7.6
Nonperforming loans (gross) to total loans excluding loans to government (gross)	14.6	17.6	20.1	17.4	12.9	9.3
Nonperforming loans (net of provisioning) to regulatory capital	38.3	32.2	30.3	26.3	22.4	16.7
Loan loss provisions to nonperforming loans	41.7	53.9	53.6	55.5	57.4	59.8
Earnings and profitability						
Return on assets[6]	1.9	0.7	2.8	2.6	2.5	…
Return on equity[7]	15.1	5.7	21.3	21.1	23.5	…
Liquidity						
Ratio of net loans to total deposits[8]	100.5	89.9	70.9	59.8	63.0	46.9

Source: BEAC, COBAC, and IMF staff estimates using definitions from IMF's "Compilation Guide on Financial Soundness Indicators".
[1] The proceeds from the US$1 billion Eurobond, issued at end-2007 to repay Paris Club debt in January 2008, temporary increased government deposits and foreign assets of the banking system resulting in a temporary decline in end-2007 capitalization ratios of 1.6 percentage points for the risk-weighted measures and 2.3 percentage points for the unweighted one.
[2] Specific loan loss provisions are excluded from the definition of capital. General loan loss provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital and the minimum of Tier 1 and Tier 2 capital.
[3] Risk-weighted assets are estimated using the following risk weights: 0% – cash reserves in domestic and foreign currency and claims on the central bank and the government; 20% – claims on correspondent banks in foreign currency; 100% – all other assets.
[4] Loan loss provisions are excluded from the definition of capital.
[5] Total loans are the sum of claims on the economy net of claims on financial institutions, credits to nonresidents, and claims on government net of treasury bonds and related instruments *(bons d'équipement)*.
[6] The ratio of after-tax profits to the average of beginning- and end-period total assets.
[7] The ratio of after-tax profits to the average of beginning- and end-period capital net of specific loan loss provisions.
[8] Including government deposits.

13. **The government role in the banking sector is a source of risk.** Its minority ownership in the biggest banks creates moral hazard as it could be perceived as an implicit state guarantee; it also raises the possibility of state influence on commercial decisions. Government deposits contribute to excess liquidity in the banking system, creating incentives for higher and possibly riskier lending. At the same time, the requirement since 1963 that banks invest 10 percent of their deposits in government bonds (*bons d'équipement*) at an interest rate of 7.5 percent (as of early 2007) gives banks a secure income reducing the need to compete for private sector business.[6] Finally, the new Central Deposit Holding Agency (ACCD) at the Treasury (Box III.1) competes with commercial banks, since all public entities and employees will be required to have an account at the agency. This may have adverse effects on development of the financial sector, and entails serious governance and operational risks in the absence of effective supervision.

[6] These relatively high yielding, risk-free assets may have led banks to charge lower fees to their private sector clients. There is also little evidence that investment in government bonds reduced lending to the private sector.

Box III.1. Gabon: Central Deposit Holding Agency

The Central Deposit Holding Agency (ACCD) was established in 2007 with a mandate to

- manage funds allocated to enterprises and public entities;
- maintain *correspondents du tresor* accounts;
- manage local counterpart funds for public projects;
- receive administrative and judiciary deposits and deposits related to consignments and guarantees;
- manage receipts and advances from the central government and public entities;
- offer savings accounts in regions not serviced by banks; and
- manage the electronic payments system of the Treasury.

Once the ACCD becomes fully operational, most government accounts at commercial banks will be closed and their balances consolidated in a centralized account at the BEAC, which will also take in funds managed by the ACCD. Payments by the ACCD will be made by check (to corporate entities and government agencies) and debit card (to individuals). The salaries, pensions, and stipends of about 50,000 government employees, pensioners, and students will be deposited electronically in ACCD debit card accounts. ACCD ATM machines will be installed in every county by the end of 2008. The ACCD will not provide loans and pay interest on deposits and there will be no charge for debit card use.

Source: Gabonese authorities.

Supervision

14. **The banking sector in Gabon is supervised by the Central African Banking Commission (COBAC)**. The COBAC is charged with establishing and enforcing the regulatory framework. The Ministry of the Economy, Finance, Budget, and Privatization (MOF) establishes minimum capital for banks operating in Gabon—currently CFAF 1 billion—and issues and revokes bank licenses, with COBAC consent.

15. **The effectiveness of COBAC is hampered by limited independence, some divergence of prudential norms from international standards, poor enforcement of regulations, and inadequate resources**.[7] COBAC regulatory guidelines on risk-weighting of assets, exposure limits, and loan loss provisioning are less strict than the Basel 1 recommendations. Staffing of COBAC is also inadequate, particularly in light of its new mandate to supervise microfinance institutions (MFIs). This has eroded both the depth of off-site monitoring and the frequency of on-site inspections, so that the regulations are poorly enforced. COBAC independence is hampered by finance ministries' significant role in the issuance or withdrawal of bank licenses, and the fact that most of the commissioners have official positions in national ministries.

16. **Banking sector development and soundness can be enhanced by limiting state involvement in the sector and following through on the 2006 CEMAC FSAP**

[7] These are among the main findings of the detailed assessment of banking supervision in the CEMAC region with respect to the Basel Committee's Core Principles for Effective Banking Supervision, conducted as part of the 2006 CEMAC FSAP (World Bank, 2006; IMF, 2006).

recommendations. State involvement can be curtailed by reducing the government stakes in banks, transferring government deposits in commercial banks to the BEAC, and eliminating the requirement for banks to invest 10 percent of deposits in equipment bonds. The 2006 CEMAC FSAP made a number of recommendations for improving banking supervision—most at the level of CEMAC. Principal recommendations were to raise the minimum bank capital adequacy ratio, better align the prudential framework with international standards, bring limits on deposit and lending interest rates in line with market fundamentals in the short run, remove all interest rate controls over the medium term, and reduce the powers of national authorities in the issuance and withdrawal of bank licenses.

D. Insurance Sector

17. **The insurance sector in Gabon is highly concentrated.** Four companies operate on the non-life and life insurance markets; the largest underwrites 40 percent of nonlife and half of life insurance policies.[8] Two of the companies are subsidiaries of large foreign groups. There is no state-owned insurance company.

18. **Two reinsurance companies have been created under regional accords to which Gabon is a signatory.** *Société Africaine de Réassurance* (Africa Re) was established by the members of the African Development Bank (ADB) and is headquartered in Lagos, and the *Compagnie Commune de Réassurance des Etats Membres de la CICA* (CICA-Re) was set up by the members of the Inter-African Conference on Insurance Markets (CIMA), which include Gabon. Both were created with the objective of keeping insurance premiums invested in Africa. Insurance regulations provide for mandatory transfer of part of the premiums of Gabonese insurers to Africa Re and CICA-Re, but up to 75 percent of their business can be reinsured outside the region. In 2004, 13 percent of life premiums and 35 percent of nonlife premiums underwritten by Gabonese insurers were ceded to reinsurance companies.

19. **The insurance sector is stagnant.** Total insurance premiums have not increased since 2003 and amount to slightly more than 1 percent of GDP. The nonlife market, which cover transport, fire, motor vehicle, and sundry risks, accounts for 90 percent of total insurance business (Table III.1). This is in part due to legal requirements that mandate insurance for motor vehicles and wholesale merchandise imports. The demand for life insurance products is inhibited by the dearth of long-term, higher-yield investment products, which prevents the industry from offering attractive terms to clients. Most of the insurance is purchased by industrial or commercial enterprises. Underwriting performance is characterized by low loss ratios and high expense ratios. Expenses absorb about a third of life and non-life insurance premiums, a high proportion by international standards.

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[8] There is a legal requirement for life and nonlife insurance to be licensed and operated as separate businesses.

20. **The composition of the assets of insurers in Gabon reflects the embryonic state of capital markets in the CEMAC region.** Bank deposits account for the largest share of the total assets (Table III.8), and investment instruments make up only a small part of their portfolios. Nonlife insurers hold large shares of their assets in premium arrears and accounts receivable from agents and brokers, as well as real estate holdings.

Table III.8. Gabon: Structure of Insurance Sector Assets, 2003
(CFAF million)

	Nonlife	Life
Investments	6,711	6,092
Government obligations	563	163
Claims on financial institutions	0	830
Listed shares	100	50
Shares in insurance companies	934	207
Corporate debt and equity	1,145	1,208
Shares in investment companies	35	35
Other	3934	3599
Real estate	7601	1365
Bank deposits	22,174	15.160
Premium arrears and accounts receivable from agents and brokers	15,180	1,169
Other assets	12,722	1,548
Total assets	64,388	25,334

Source: CIMA reports and IMF staff estimates.

21. **Taxation of insurance companies and products is not standardized across CIMA countries[9] and is relatively high in Gabon.** In addition to the general corporate income tax, all countries in the CEMAC levy a special tax on life insurance policies, with rates varying from 3 percent in Congo to 8 percent in Gabon and to 16 percent in the Central African Republic (Sehia, 2007). Insurance companies in Gabon also pay a turnover tax of 1.75 percent to finance the supervisory system.[10] Finally, life insurance premiums and pay-outs are only partially deductible from the base of the income tax.

22. **The insurance sector in Gabon is supervised by the Regional Insurance Commission (CRCA),** which operates under CIMA auspices. The CRCA is charged with establishing and enforcing the regulatory framework. The National Directorate of Insurance at the Ministry of Finance (MOF) issues licenses following approval by the CRCA; it may participate in on-and off-site inspections of locally licensed insurance companies; and it monitors the activities of insurance companies in liquidation. In April 2007 the minimum capital requirement was doubled for incorporated insurers to CFAF 1.0 billion and increased for mutual companies from CFAF 0.3 billion to CFAF 0.8 billion. Established insurance companies have three years to comply.

[9] Gabon, together with other CEMAC and WAEMU countries, is a member of the Inter-African Conference on Insurance Markets (CIMA).

[10] In CIMA countries supervision of insurance is financed by a turnover tax levied on insurance companies.

23. **While recognizing the superiority of regional supervision over the country regimes it replaced in 1995, the 2006 CEMAC FSAP noted that its effectiveness had recently deteriorated.** Weaknesses stem from inadequate resources provided to the supervisor, political pressures on its staff (most of them are on secondment from their national authorities), a lack of clear delimitation of responsibilities between the regional supervisor and the national insurance authorities, and loopholes in the regulatory framework that excludes key areas such as the supervision of reinsurance and brokerage activities (IMF, 2006).

24. **Insurance sector development and soundness can be enhanced by following through on the 2006 CEMAC FSAP recommendations.** In addition to the recommendation of increasing minimum capital requirements, which has been implemented, other priorities are to reinforce supervisors' control of reinsurance practices; require external audit of company financial statements and ensure that all revenues from the supervisory tax paid by insurance companies are used for CIMA and the national directorates.

E. Microfinance Institutions

25. **Despite a rapid development in recent years, the microfinance sector in Gabon lags substantially behind its counterparts in the rest of the CEMAC and SSA.** Microfinance institutions (MFIs) licensed by the COBAC and the State Fund for Financing of Small and Medium-Size Enterprises (FODEX)[11] had 10,348 customers and a combined loan portfolio of CFAF 572 million in 2006. At present, three MFIs are licensed to take deposits from, and make loans to, the public, and one cooperative MFI is only licensed to collect deposits from, and grants loans to, members. FODEX, which is not licensed or supervised by the COBAC, is also engaged in microlending, including refinancing of MFIs, using CFAF 800 million from *Fondation Espace Afrique*, an international NGO, and CFAF 1.2 billion from its own funds. FODEX dominates the market for micro credit with about 80 percent of outstanding loans and 60 percent of clients. The state-owned BGD manages some FODEX microfinancing and channels UNDP funds to microfinance activity. According to information collected at the time of the 2006 CEMAC FSAP, close to 100 informal MFIs, including cooperatives, associations, and rotating savings and credit associations, may also operate in the country.

Microfinance Sector in the CEMAC Region, 2004

	Cameroon	Gabon[1]	Chad	Congo	CAR
Number of MFIs	714	4	214	86	22
Total members/clients	475644	10348	98378	155835	45000
Total loans outstanding (bln. CFAF)	61.0	0.6	3.7	6.6	1.0

Source: 2006 CEMAC FSAP and WTO (2007). [1] 2006 data from WTO (2007).

[11] FODEX was created in 1993 as a public finance institution with a microfinance component. Its original mission was to refinance bank loans to SMEs and lend directly to them drawing on credit lines from the African Development bank (ADB). Due to mismanagement and high NPLs, the AfDB line of credit was closed in 1997, but Gabonese government support has allowed FODEX to continue operating. Recently FODEX has shifted its focus to mutual guarantee activities and refinancing for MFIs.

26. **According to the 2006 CEMAC FSAP, the costs per borrower and per saver for MFIs in the CEMAC region are higher than regional averages for Africa.** Whereas MFIs are not subject to COBAC-mandated ceilings on lending rates, the national units overseeing microfinance in Gabon have capped lending rates for MFIs offering public loans at 10 percent a month. Actual lending rates across all types of MFIs are 3–10 percent a month. The size of the loans given by cooperative MFIs ranges from CFAF 10,000 to CFAF 500,000; it can reach CFAF 4 million for MFIs licensed to intermediate deposits and loans from the public (Comité National de la Microfinance, 2006).

27. **COBAC supervises MFIs in Gabon.** It sets and enforces the rules under which they operate. The MOF microfinance division (CNPM) issues MFI licenses with COBAC approval, may participate in inspections and off-site supervision of locally licensed MFIs, and closes down those that are out of compliance. The National Microfinance Committee (CNM) meets twice a year to monitor the development of microfinance in Gabon and coordinate government policies. All licensed MFIs must become members of the Association of Microfinance Institutions in Gabon (APEMFG), which represents the industry and coordinates efforts to improve the quality of services and professionalism in the sector and conduct national outreach. However, it has been slow to develop concrete action plan.

28. **The national microfinance strategy was adopted in 2003 and updated in 2006.** It centers on the needs for fiscal incentives for MFIs, improvement in their management and the quality of their services, and enhanced capacity in the national units overseeing microfinance. Proposed fiscal incentives include temporary exemption from corporate income tax and personal income tax on dividends paid to shareholders of MFIs (10 years for cooperatives and 5 years for MFIs that collect deposits from and grant loans to the wider public) and exemption from the VAT of all banking services provided by MFIs and received by them from commercial banks. The proposals have not yet been adopted.

29. **Regional regulation of microfinance activities is relatively recent and is evolving.** The CEMAC adopted the Regulation Relative to the Conditions of Exercising and the Supervision of the Activity of Microfinance in 2002, along with 21 other regulations defining prudential ratios for MFIs. They were mandated to comply with the main regulation by April 2005 and to fully conform with prudential ratios by April 2007. The COBAC created a Microfinance Department in late 2003 that became operational in early 2004. Since then its main focus has been on clearing the backlog of applications for MFI licenses. Some MFIs, particularly small ones seeking to be licensed as cooperatives, express concerns about the burden of full compliance with the reporting and prudential requirements.

30. **As with banks and insurance companies, microfinance development and soundness can be enhanced by following through on the 2006 CEMAC FSAP recommendations.** The main recommendations, mostly at the level of CEMAC, were concerned with (1) adequate staffing and financing of the COBAC Microfinance Department; (2) coordinated effort between the COBAC, national MFI oversight units, and

national associations of MFIs to clarify and reinforce prudential data provision requirements; (3) prioritization of supervisory activities to ensure comprehensive coverage of the largest MFIs; and (4) promotion of transparency and competition by requirements for public disclosure of effective interest rates on loans and the total cost of other services.

F. Capital Markets

31. **The Central Africa Securities Exchange (BVMAC) began operations in 2007.** It was created in 2003 with a capital of CFAF 1.8 billion as the regional securities exchange for all CEMAC countries. It is located in the Gabonese capital Libreville and its main shareholders are Gabonese banks. In December 2007 the Gabonese government raised CFAF 81.5 billion in a regional bond issue (a 6-year amortizing bond with a 5.5 percent coupon), effectively launching BVMAC's primary market activities. Secondary market trading is expected to begin late in 2008. The CEMAC decision to discontinue statutory advances as of January 1, 2009, should provide welcome impetus for capital market development.

32. **To promote capital market development, CEMAC in 2007 adopted a preferential tax regime for investment products and listed companies.** Interest income from central and local government bonds and capital gains on traded securities are exempted from personal income tax, and corporate income tax rates for companies listed on the BVMAC are reduced for three years. Although the regulation allows for a two-year transition period, Gabon has opted for immediate implementation of the preferential tax regime.

33. **Capital markets in the CEMAC region are regulated by the Central Africa Securities and Exchange Commission (COSUMAF)**. COSUMAF is vested with responsibility for protecting savings invested in financial products, monitoring investor information, and ensuring efficient operation of financial markets. It has the powers to issue regulations, license and supervise operations of the stock exchange and market participants, and impose sanctions. It has licensed three securities firms.

G. Other Specialized Institutions

34. **The Gabonese state has established a number of specialized financial institutions, which operate outside the purview of regional supervisory agencies:**

- The National Social Security Fund (CNSS)[12] is a privately-operated pension fund under government supervision for workers in public and private enterprises, local governments, and temporary government labor.[13] It operates on a pay-as-you-go basis

[12] The fund covers workers in public enterprises, local government workers, private sector workers, and temporary government labor.

[13] The pensions of public employees are paid by the Treasury.

that does not promote accumulation of long-term capital and in the long run poses a risk to public finances (IMF,2003). In 2004 the implicit debt [14] of CNSS was equal to 133 percent of GDP, according to a presentation by the private consultancy *Actuaria* posted on the CIMA website.

- The Postal Savings Bank (CEP) offers deposit, savings, and payment services but does no lending. In 2003 the CEP managed 175,000 deposit accounts of individuals through a national network of 52 branches. CEP is not supervised by the regional bank supervisor, but it does adhere to the COBAC floor on interest rates on savings accounts. In 2008 the government is expected to assume, as part of domestic debt and start servicing, its obligations of CFAF 25 billion toward the two postal financial institutions (CEP and *Centre des Chèques Postaux,* CCP).

- The State Fund for Housing Refinancing (CRH) refinances loans made by banks to households with monthly incomes between CFAF 100,000 and CFAF 1 million. CRH is financed by the National Housing Fund (FNH), which in turn is funded by government subsidies and mandatory contributions from private and public employers. CRH refinances up to 82 percent of a housing loan, charging banks interest of 6 percent and limiting the interest charged to credit beneficiaries to 10–11 percent. Interest payments on CRH-refinanced housing loans are exempt from VAT.

[14] This is the difference between the discounted value of promised future payments to current and future pensioners and the sum of current assets and discounted future revenues of CNSS.

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APPENDIX III A GABON BANKING SYSTEM FINANCIAL STATEMENT DATA

Appendix Table III.A1.1. Gabon: Banking System's Assets, 2002–07

(CFAF billion, end of period)

	2002	2003	2004	2005	2006	2007 [1]
Reserves	54	89	120	149	216	246
Cash	25	23	21	23	27	28
Claims on central bank	29	66	99	126	189	218
Claims on banks	5	5	32	34	42	46
Loans net of loss provisions	511	463	418	445	540	660
of which, government advances	105	105	93	92	96	127
Investments	36	33	26	23	30	48
Foreign assets	70	81	176	262	235	258
Fixed assets	28	26	27	26	26	25
Other assets	68	64	46	89	66	83
Total assets	772	760	845	1028	1156	1365

Source: BEAC, COBAC, and IMF staff estimates.

[1] Excludes proceeds from the US$1 billion Eurobond issued at end-2007 to repay Paris Club debt in January 2008. The money temporary increased the government deposits and foreign assets of the banking system.

Appendix Table III.A1.2. Gabon: Banking System's Liabilities, 2002–07

(CFAF billion, end of period)

	2002	2003	2004	2005	2006	2007 [1]
Total deposits	508	515	589	743	857	961
Government	41	47	70	105	100	149
Banks	16	14	17	16	16	12
Insurance companies	24	30	28	28	31	29
Nonbank financial institutions	4	4	12	5	5	29
Enterprises	194	189	188	247	282	292
Individuals	131	129	153	206	263	297
Other	98	101	121	136	160	152
Other liabilities (total)	168	146	144	170	181	278
Other liabilities (domestic currency)	85	74	76	112	122	145
Other liabilities (foreign currency)	82	72	67	57	59	133
Capital and reserves	96	100	112	115	117	126
Total liabilities	772	760	845	1028	1156	1365

Source: BEAC, COBAC, and IMF staff estimates.

[1] Excludes proceeds from the US$1 billion Eurobond issued at end-2007 to repay Paris Club debt in January 2008. The money temporary increased the government deposits and foreign assets of the banking system.

Appendix Table III.A1.3. Gabon: Banking System's Aggregate Income Statement, 2002–06

(CFAF billion, end of period)

	2002	2003	2004	2005	2006
Intermediation income	100	99	99	106	114
Income from short-term funds	3	4	5	6	8
Income from financial operations	2	6	6	7	8
Income from operations with clients	61	59	58	57	58
Other income	33	29	29	36	41
Intermediation expenses	23	24	23	24	23
Expenses on short-term funds	2	3	2	3	3
Expenses on financial operations	0	0	0	0	0
Expenses on operations with clients	19	18	19	20	18
Other	2	3	2	1	3
Other operating expenses	58	67	50	49	59
Staff costs	20	21	24	25	26
Depreciation	7	7	7	7	7
Net provisions	13	18	0	-5	1
Other	17	20	20	23	25
Profit before tax	20	11	33	38	39
Taxes	6	5	10	15	12
Profit after tax	14	6	23	24	27

Source: BEAC, COBAC, and IMF staff estimates.