

**Gabon: Report on Observance of Standards and Codes—
Fiscal Transparency Module**

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GABON

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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October 12, 2006

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* and the *Guide on Resource Revenue Transparency*. The report is based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Gabon has partially adopted the principles of the *Code of Good Practices on Fiscal Transparency* and the *Guide on Resource Revenue Transparency*. The laws governing fiscal management are complete and clear; enforcement, however, is far from consistent with best practices. An initial report on the Extractive Industries Transparency Initiative (EITI) was prepared in 2005, but it only covers about half of oil revenues. Budget review laws have been prepared regularly since 2001 and the audit court examines them, but its report is not published. Anti-corruption units have been set up, but they have yet to become effective.

The dual budget system causes serious coordination problems and the annual budget, which is not prepared in a multiyear budget framework, provides no analysis of medium-term fiscal sustainability, despite oil providing 60 percent of total revenue. Budget execution procedures are ineffective, formal controls are numerous and inefficient and have not prevented fraud. Treasury payments take an extremely long time and cash management needs to be improved significantly. Information required for proactive fiscal management is unavailable because of incompatible, stand-alone computer systems.

To improve fiscal transparency, the highest priority is to improve the public availability and quality of budgetary information, including the off-budget use of oil revenues. Progress is urgently needed in the following areas:

- Define fiscal policy strategy within a consistent, medium-term framework based on long-term fiscal sustainability, taking into account the exhaustible nature of oil wealth as well as an improved process for prioritizing public investment.
- Enhance the transparency of budget presentation by preparing a medium-term expenditure framework, improving budget classification, reporting tax expenditures and implicit subsidies on petroleum products in the budget, taking into account the liabilities of the social security funds, and comparing budget projections with past outcomes.
- Streamline budget execution by quickly implementing the approved budget, simplifying and focusing control procedures, improving expenditure effectiveness, avoiding special procedures for certain expenditure, and drawing up a cash flow plan to reduce payment delays and avoid arrears.
- Improve the transparency of the management and tracking of oil revenue flows by improving coordination among the units involved, and making the EITI report more comprehensive by including profit oil revenue and mining sector receipts.
- Publish the audit reports of the Audit Court and other oversight agencies.

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ABBREVIATIONS

BEAC	Bank of Central African States	www.beac.org
BGD	Banque gabonaise de développement	www.bgd-gabon.com
BGFI	Banque gabonaise et française internationale	www.bgfi.com
BICIG	Banque internationale pour le commerce et l'industrie gabonaise	
CEMAC	Central African Economic and Monetary Community	www.cemac.net
CFAF	Franc de la Coopération financière en Afrique Centrale	
DGE	Directorate general of economy	
DGH	Directorate general of hydrocarbons	
DGI	Directorate general of inland revenue	www.dgi.gouv.ga
DGP	Directorate general of procurement	
DGT	Directorate general of the treasury	http://www.tresor.ga
DNC	Domestic navigation company	
EFR	Economic and financial report	
EITI	Extractive Industries Transparency Initiative	
GCSR	General civil service regulation	
GDDS	General Data Dissemination System	http://dsbb.imf.org/Applications/web/gdds/gddshome
GPRSP	Growth and poverty reduction strategy paper	
IBL	Initial budget law	
ICAR	Interministerial commission on administrative reform	
IMF	International Monetary Fund	www.imf.org
LBTPG	Construction and public works laboratory of Gabon	
MEFBP	Ministry of economy, finance, budget, and privatization	http://www.finances.org.ga
MEGA	Short-term forecasting model for the Gabonese economy	
MoP	Ministry of planning	
MTEF	Medium-term expenditure framework	
NCAUE	National commission against unlawful enrichment	
NHF	National housing fund	
NSGF	National social guarantee fund	
NSSF	National social security fund	
NTCG	National timber corporation of Gabon	
OHADA	Organization for the harmonization in Africa of business law	www.ohada.org
OPRAG	Office of ports and harbors of Gabon	
PIP	Public investment program	
PIPA	Private investment promotion agency	
RMF	Road maintenance fund	
ROSC	Report on the Observance of Standards and Codes	
SBL	Supplementary budget law	
SDDS	Special Data Dissemination Standard	
TOFE	Government consolidated fiscal operations table	
VAT	Value-added tax	

I. DETAILED DESCRIPTION OF PRACTICE¹

A. Clarity of Roles and Responsibilities

1. **The general government sector, as defined by the directorate general of statistics and economic studies, is largely consistent with the definition contained in the IMF *Government Finance Statistics Manual 2001*.** 1.1.1

General government, as defined for the purposes of national accounting entities in accordance with the *1993 System of National Accounts*, includes all operations of the central government, other governments, autonomous units, and nonmarket public corporations (Box 1). The budget consolidation excludes a number of entities, particularly the social security funds and certain autonomous units. The budget laws and supplementary budgets approved by parliament cover current and capital transactions of national institutions, the central offices of ministries, and a special fund.² The annual budget does not track all the operations of decentralized and autonomous units, but only the operating subsidies granted to those entities. The coverage of supplementary budgets is the same as the initial budget law (IBL).

2. **The relationships between government, on the one hand, and public financial institutions and nonfinancial enterprises, on the other, are transparent and clearly defined.** 1.1.4

General government units do not engage in commercial activities. Relationships between the government and other public sector entities are clearly defined by law or by presidential decree. Government representation within public enterprises is clearly defined by the law and regulations and supervision is exercised by government-appointed members of the board of directors and by financial controllers.³

¹ Meetings were held in Libreville from March 27 to April 14, 2006. The IMF mission, comprising Mr. Tazi (mission chief), Mr. Bouley, Mr. Leigh (all from Fiscal Affairs Department), and Mr. Ben Brik and Ms. Ramos (members of the FAD panel of experts), met with the deputy budget minister, the vice presidents of the senate, the members of the senate and national assembly finance committee, the minister of state for forestry, the audit court division presidents, the members of the economic and social council, the anti-corruption committee, the secretaries general of the ministry of state control, the ministry of forestry, the ministry of urban development and the environment, the planning commissioner, the president of the administrative reform commission, the national director of the BEAC, the directors general of the treasury, taxes, customs, procurement, and departmental inspection of the ministry of finance, the director general of oil and natural gas, the director of local governments, the secretary general of the municipal corporation of Owendo, the director of government equity holdings, and the directors of the national social security fund (NSSF) and the national social guarantee fund (NSGF).

² The road maintenance fund (RMF) is included in an annex to the annual budget law. The fund's legal form is that of a treasury special account, in fact an escrow account established for the deposit of road usage fees, the government subsidy, tolls, the assistance fund paid by local governments, external financing granted for the purpose, payment for services rendered to third parties, and gifts and bequests.

³ Law 8/83 setting forth the Code of Equity Holdings and Presidential Decree 01302 of 11/15/79 establishing the responsibilities and organization of the ministry of equity holdings and Decree 680 of 5/28/1984 setting out the procedures for the implementation of Law 8/83.

Box 1. General Government in the Republic of Gabon

A- Central government units covered by the budget

Institutions

Office of the President of the Republic

Senate

National assembly

Constitutional court

Council of state

Audit court

Court of appeals

Economic and social council

National communications council

National council for democracy

National commission against unlawful enrichment

38 ministries and similar units at the central level and at the decentralized provincial level (health centers, hospitals, universities)

1 treasury special account: the road maintenance fund (RMF)

B- Extrabudgetary government units

National social security fund (NSSF)

National social guarantee fund (NSGF)

Schweitzer and Bongolo hospitals

Public institutions such as the Office of Ports and Harbors of Gabon (OPRAG), the chamber of commerce, the assistance and guarantee fund (AGF), the private investment promotion agency (PIPA), the national rural development office, the national anti-pollution center, the national center for prevention and protection from radiation, the national information technology office (ONI), the agency for the safety of aerial navigation in Africa and Madagascar, the national agency for vocational training and development (ANFPP), and the national theater.

Other treasury special accounts

The National housing fund

The National water fund

The National electricity fund

Decentralized government units

50 communes

47 departments

3. Government equity holdings in commercial companies are relatively large and include enterprises wholly owned by the government.

1.1.5, 2.1.4

The management of these equity holdings is clearly defined⁴ and the directorate of equity holdings of the ministry of economy, budget, and privatization (MEFBP) is the only government agency responsible for overseeing the management of their assets. These

⁴ The applicable texts are: Article 5 of Decree 1207 of 11/17/1977, Article 12 of the decree of 11/15/1979, Law 8/83 setting forth the Code of Equity Holdings, Order 15/87 of 7/25/1987, and Decree 1044 of 7/27/1987, and the 2004 Budget Law.

holdings are in eight corporations⁵ in the financial sector and 56 in the nonfinancial sector, and total CFAF 22.20 billion (0.5 percent of GDP) and CFAF 35.95 billion (0.8 percent of GDP), respectively. Four corporations in the transportation sector and one in the industrial sector are wholly owned by the government.⁶ However, government equity holdings are less than 10 percent in 41 of these corporations.⁷ Most revenue from these holdings (98 percent) was generated by the oil and natural gas sector in 2004.

Government relations with nonfinancial public corporations and the private sector

4. **Public corporations and enterprises engaged in market activities carry out a very small number of quasi-fiscal activities.**

1.1.4

One exception is Gabon Poste, which provides unremunerated services for the government.⁸

5. **Arrangements regulating profit transfers from state enterprises to the budget are clear.**

1.1.4

The amount of dividends related to government equity holdings in corporations is determined by annual negotiation within the boards of directors of the corporations in question. The estimated dividend payments are clearly identified in the annual budget and the amounts received are shown in the treasury's accounts.

6. **The legal framework for privatization is clear, as is the recording of privatization receipts in the budgetary accounts.**

1.1.5

The legal framework for privatization is defined by Law 1–96 establishing rules for the transfer of public sector enterprises to the private sector. The privatization process is managed by the MEFBP and the privatization program⁹ is carried out by an interministerial privatization commission, assisted in technical matters by a privatization committee.¹⁰

⁵ Namely, Banque gabonaise et française internationale (BGFI), Banque internationale pour le commerce et l'industrie (BICIG), Union gabonaise de banques, and Banque gabonaise de développement (BGD), with 8 percent, 26.35 percent, 43.75 percent, and 69.01 percent of the capital held by the government, the insurance corporations AXA Gabon, Gras Savoye, and Ogare, and a financial agency Gabonese Automotive Credit and Financial Leasing Corporation (SOGACA)/(SOGABAIL), respectively.

⁶ Namely, the agency for the safety of aerial navigation in Africa and Madagascar (ASECNA), the office of ports and harbors of Gabon (OPRAG), the domestic navigation company (DNC), and PSM in the transportation sector and the construction and public works laboratory of Gabon (LBTPG) in the industries and services sector.

⁷ Consequence of Law 8/83 regarding government participation without charge in the capital of corporations, which had stipulated that all corporations organized under Gabonese law were required to offer the government a free-of-charge 10 percent interest in their authorized capital at the time of their establishment.

⁸ These free services provided for the government were examined by a parliamentary investigative commission as part of a study of the financial problems of Gabon Poste.

⁹ The annual privatization program is adopted by decree of the council of ministers and is attached to the annual budget documents.

¹⁰ PR Decrees 000289/PR and 000287/PR of March 1997 defining responsibilities and operations.

Standard procedures are applied and the use of international competitive bidding is the basic principle. Appraisal of the enterprise and determination of the transfer price of shares and assets are the responsibility of the privatization committee. The transfer documents are published. Major privatization operations have been carried out since 1997 (Box 2). The proceeds from privatization are paid into the treasury or reinvested in the new company.

7. Laws and processes governing government regulation of the nonfinancial private sector are clear and open. 1.1.5

The institutional and regulatory environment for business is relatively stable. It is based primarily on the rules established by the Organization for the Harmonization in Africa of

Box 2. Privatization Operations Between 1997 and 2005

Year	Companies	Method	Amount
1997	Société d'énergie et d'eau du Gabon (SEEG)	Awarded as a concession, 20 years	CFAF 15 billion: reinvestment
1999 & 2005	Railroad (OCTRA)	Awarded as a concession, 30 years	CFAF 50 billion: reinvestment over three years
2000	Ciments du Gabon	Transfer	CFAF 8 billion – Treasury
2000	SOSUHO (SUCAF GABON)	Transfer	CFAF 4 billion – Treasury
2000	Office des Postes et Télécommunications (OPT)	Split	
2001	EAULECO	Transfer	CFAF 1.5 billion– Treasury
2001	SFG (bois)	Transfer	CFAF 3 billion – Treasury
2002	SIAEB (agriculture et élevage)	Transfer	CFAF 10 million – Treasury
2004	AGROGABON et HEVEGAB et SOGADEL	Transfer	CFAF 3.4 billion – Treasury
2004	Office des Ports (OPRAG)	Partial concession, 25 years	CFAF 2.5 billion: reinvestment for rehabilitation of the port
2006	Air Gabon	Transfer	CFAF 7 billion: reinvestment of Air Gabon International
		In progress	
2006	Gabon Telecom Gabon Poste Compagnie de Navigation Intérieure Chemin de Fer	Concession	

Source: Privatization Committee/MEFBP.

Business Law (OHADA). In addition, various legal and regulatory provisions¹¹ govern relations between the government and private sector enterprises, particularly with regard to business start-ups, investment,¹² procurement, tax laws,¹³ social protection,¹⁴ and labor relations. Specific codes supplement the investment charter for sectors involved in the working and processing of natural resources (mining code, forestry code). The private investment promotion agency (PIPA), instituted by Order of February 12, 2000,¹⁵ houses a one-stop window for business start-ups. The OHADA framework is the general framework for business start-ups.

8. The Bank of Central African States (BEAC) is operationally independent. *1.1.4*

The BEAC is responsible for the conduct of monetary policy. In fiscal matters, its primary role is to serve as the government's banker. It can grant loans to the government in the form of statutory advances, up to a limit of 20 percent of the preceding year's tax revenue. The interest rate on statutory advances is 5.75 percent per year up to the statutory ceiling. At end-January 2006, statutory advances totaled CFAF 171 billion, well below the ceiling of 20 percent of the previous year's total revenue. Above that ceiling, the interest rate on statutory advances is 10 percent per year. Government deposits with the BEAC are remunerated at the marginal facility rate (currently 1.6 percent per year) only if the government does not take statutory advances.

9. Public financial corporations carry out limited quasi-fiscal activities. *1.1.4*

Public financial institutions carry out limited quasi-fiscal activities. Although the public financial sector has diminished in size in recent years, it remains active. It essentially comprises the Banque gabonaise de développement (BGD), financial institutions, the Gabon Housing Refinance Account¹⁶ (HRA), and the national real property corporation (NRPC).¹⁷ The latter two financial institutions offer loans at subsidized rates backed by the national

¹¹ The legal provisions include Law 015/98 of July 23, 1998, the investment charter, Decree 001140/PR/MEFBP of 2002 on public procurement; and Law 3/94 of November 21, 1994 setting forth the labor code.

¹² The investment charter establishes the general principle of equal treatment for domestic and foreign enterprises, equitable and transparent application of the business law adopted under the OHADA treaty, and equitable and transparent application of the labor code and social security legislation in accordance with the treaty of the Inter-African Conference on Social Security (CIPRES).

¹³ General code of direct and indirect taxes, code on the recording of real property income, general customs code, code of commerce.

¹⁴ Private sector wage earners are covered by a social security plan administered by the NSSF, which is based on contributions. The contribution rates are fixed by decree.

¹⁵ Order 006/PR of 2000 and Law 003/2000 of 2000.

¹⁶ HRA refinancing activities totaled CFAF 96 million in 2004.

¹⁷ The latter two corporations are not included in the government's equity portfolio.

housing fund.¹⁸ The BGD carries out a quasi-fiscal activity by offering subsidized loans for which it receives no compensation.

Fiscal management relations among the branches of government

10. **The fiscal roles of the executive, legislative, and judicial branches are clearly defined in the constitution and in law.** 1.1.2

The constitution states that parliament shall pass laws, approve taxes, and monitor the activities of the executive branch, and sets out the rules for adopting and reviewing the budget, with audit court assistance.¹⁹ The laws related to the budget and establishing general government accounting regulations clearly define the roles of the various participants in the budget process. The executive drafts the budget law and executes it, the legislature (parliament) adopts the budget and monitors its execution, assisted by the judicial branch, represented by the audit court. The constitutional council, the responsibilities of which are set out in an organic law, may verify the conformity of budget laws to the constitution.

11. **The responsibilities of different levels of government are clearly defined in law,²⁰ but the autonomy of local governments remains limited.** 1.1.2

There are decentralized government units in provinces and departments, and local government units within the departments (i.e., districts (*arrondissements*), and communes). The decentralized units have administrative and financial autonomy. They are managed by an elected departmental, municipal, or district council, and are headed by a president in departments and by a mayor in communes and districts. These units are supervised by the central government.²¹ No implementing decrees were issued for the 1996 law on decentralization and the scope of local government activities remains quite limited, as legislation concerning powers and competence has not been promulgated. Moreover, the financial resources allocated to these units²² make it very difficult for them to function and to

¹⁸ This fund collects an off-budget tax, which in 2004 totaled CFAF 2.3 billion.

¹⁹ Moreover, the constitution states that the government may, in urgent cases and for purposes of implementing its program, petition parliament for authorization to issue an order during the parliamentary recess to carry out measures that are normally the province of the law and, more specifically, supplementary budgets, as provided for by Article 29 of Law 4/85.

²⁰ Law 15/96 on decentralization established principles governing responsibilities at the decentralized level, which include: regional development, health, education, urban planning, property registration, housing and accommodation, environment and sanitation, village water resources, facilities, roads, urban, interurban, and interdepartmental transportation, water, agriculture, fisheries, livestock, and quarries.

²¹ Local governments are subject to two types of supervision: administrative supervision by the ministry of the interior and financial supervision by the MEFBP (i.e., the directorate general of the treasury).

²² Local government revenue includes proceeds from the provision of services and from leasing, sales of goods and services, the transfer of assets, miscellaneous proceeds, local fees and taxes, financial earnings, operating subsidies from the government for vehicle maintenance, removal of household waste and specific material, tax rebates, taxes on fuel, property registration and stamp taxes, and fines and pecuniary judgments. For fiscal year 2004, local government resources totaled CFAF 25.65 billion for 97 government units. The communes of Libreville and Port-Gentil account for 75 percent of that amount.

make necessary investments.²³ Local governments may borrow up to the equivalent of 30 percent of their revenues; beyond that, decisions to borrow are subject to prior authorization from the central government, which guarantees such borrowing.

The legal and administrative framework for budget management

12. **The management of public funds is defined by a clear legal framework, with strict separation between the payment authorizing officer and the accountant.** 1.2.1

The constitution and various laws,²⁴ including the annual budget law,²⁵ establish general rules on adopting the budget and monitoring its execution. The regulatory framework regarding budget matters is defined in accordance with the constitution and includes presidential decrees, for which implementing orders are issued. The budget framework law establishes the annual basis of the budget, its comprehensiveness, and its unity, as well as specifying the content and presentation procedure of the budget. The law establishing general government accounting regulations defines the procedures for budget execution, the accounting system for the recording of operations, and the controls to be applied. It identifies the individuals responsible for budget execution and makes a clear distinction between administrative personnel²⁶ and public accountants.²⁷

13. **Mechanisms for the coordination and management of budgetary and extrabudgetary activities are not totally transparent.** 1.1.3

Earmarking of revenues is not presented in the annual budget, with the exception of the RMF. Other earmarked revenues are not shown clearly in the government accounts—they are simply included under the heading “treasury special accounts” and recorded in deposit accounts at the treasury. However, the 1985 budget framework law specifically mentions the RMF, the national housing fund (NHF), the national water fund, and the national electricity fund. The national housing fund is sustained by a “national housing fund” tax. The RMF and the NHF are granted management autonomy and are managed by public accountants.

²³ Law 15/96 states that the operating portion cannot exceed 60 percent of the budget, although this limit does not seem to be observed.

²⁴ Laws 4/85, 5/85, 5/94, 6/2002, 11/2005, Decrees 481/2002, 484/2002.

²⁵ The legal framework includes Budget Framework Law 4/85 establishing the general budget framework, Law 5/85 on general government accounting regulations, which defines the procedures for budget execution, Laws 6/2002 and 11/2005 amending certain provisions of Law 4/85, the annual budget laws, the supplementary budgets, and the budget review laws. These laws are currently being revised.

²⁶ Namely, the sole principal payment authorizing officer, the minister of finance, budget appropriations managers who are members of government, and the presidents of official entities.

²⁷ Government accountants are officials authorized to carry out revenue, expenditure, and cash transactions for the government and to keep accounting records.

14. Expenditures are made from treasury deposit accounts in a nontransparent manner. 1.1.3

Some budgetized activities are managed outside normal treasury accounting procedures, using deposit accounts classified in the chart of accounts as treasury correspondents. The process is as follows: either a subsidy or regular operating appropriations are recorded in the budget; they are then transferred to a treasury correspondent account and operations are paid for from that treasury account. This creates management irregularities and makes data nontransparent, as the following two examples demonstrate:

- The audit court indicated that security and sovereignty funds had been used to contribute to the construction of a Central African Banking Commission building.
- Capital expenditure on regional independence day celebrations (*fêtes tournantes*) is channeled through a correspondent account, the “August 17 Fund,” as indicated in the 2003 budget review law, and although the budget appropriation was used in its entirety, a credit balance of CFAF 17 billion remained in the correspondent account at end-2003.

The legal and administrative framework for tax policy and administration

15. The legislative basis for taxation is clear; the tax legislation is modern but complex and subject to frequent amendments. 1.2.2

The tax and customs reform carried out in the 1990s modernized the tax system (Box 3). However, the progress achieved through legislative reforms could not be sustained, primarily because of the proliferation of exemptions. Measures adopted in connection with the value-added tax (VAT), particularly concerning the scope and rate structure, sectoral exemptions, and special arrangements established under various agreements, affected the consistency, simplification, and stability of the VAT withholding system. The result was less transparency. The tax measures introduced in the 2001–06 budget laws have not yet been codified, although a draft code aimed at unifying, harmonizing, and updating the legislation is being finalized. The tax system is based largely on voluntary compliance, which is the predominant method of payment.²⁸ Withholding is also used for income tax payments, to improve enforcement and timely collection. From a legal perspective, the administration’s discretionary power is limited. It is exercised within the framework of presumptive assessment of the earnings of taxpayers whose incomes are below a certain threshold.

16. Tax exemptions are extensive and tax expenditures are not reported. 1.1.2

Tax exemptions and reductions are provided for in the tax code, but other tax benefits not included in the code can be approved by government authorities, including in agreements not subject to legislative approval.²⁹ Tax expenditures are not calculated, and only the cost of

²⁸ Eighty-two percent of the DGI’s non-oil revenue is collected through voluntary compliance and withholding, and 18 percent through the issuance of tax assessments.

²⁹ These are conventions granting exemption from corporate tax and the minimum presumptive tax for the Office of Ports and Harbors of Gabon (OPRAG), the Oil Tanker Port of Owendo (PMO), the NRPC, the Refuse Recovery Corporation of Gabon (SOVOG), and hotel corporations.

Box 3. The Tax System¹

- **Personal income tax** is levied on the total net income² of the tax household and includes wage, property, occupational, agricultural, and capital income. The assessment is based on split system, limited to six shared parts, and the graduated schedule includes 11 brackets ranging from 0 percent to 50 percent.
- **Corporate tax** is levied on corporations and other legal entities. The regular rate is 35 percent. However, a rate of 20 percent is applied to public corporations and licensed real estate enterprises, and a rate of 18 percent is applied to the BGD. A minimum presumptive tax is levied on all corporations subject to corporate tax when their tax liability is below the minimum collectible amount.
- **VAT** is applied to imports and to the economic activities of production, delivery, and provision of services when turnover is CFAF 80 million or more for all operations, CFAF 60 million for services provided, and CFAF 40 million for enterprises. VAT includes a regular rate of 18 percent, a reduced rate of 10 percent applicable to major consumer goods, and a zero rate applicable to exports. The many exemptions and numerous rates make the system unstable and compromise the neutrality and simplicity of the tax.
- **Excises** are levied on imports and on domestic sales of alcoholic and nonalcoholic beverages, as well as tobacco and fuels. A reduction of 30 percent is granted for locally manufactured products subject to the tax.
- **Customs duties.**³ The tax reform of the 1990s led to adoption of the common external tariff of the Central African Economic and Monetary Community (CEMAC). At present, Gabon applies four customs duty rates to imports: 5 percent for staples, 10 percent for capital goods, 20 percent for intermediate goods, and 30 percent for basic consumer goods. Exemptions and suspended duties are granted under conventions or by government decision, or in connection with investment incentives. Sugar imports are effectively prohibited. Exports of natural-state timber are subject to a duty of 17 percent and manganese to a duty of 3.05 percent.

¹ The tax system is governed by the general code of direct and indirect taxes and by the code of registration, tax on securities income, and stamp tax.

² In accordance with the principle of territoriality, the tax is levied on the total income of residents from both Gabonese and foreign sources; for nonresidents, only income from Gabonese sources is taxed.

³ Customs duties are governed by the customs code and the CEMAC customs tariff, the customs regulation of the Central African Customs and Economic Union, domestic regulations, and conventions.

new measures is estimated when tax projections are evaluated in the context of preparing draft budgets.

17. **Tax administration units and procedures are well defined but their modernization, still at an early stage, should be accelerated.**

1.2.2

The procedures of the directorate general of inland revenue (DGI) are clearly defined in the legal and regulatory framework. The DGI was reorganized in 2002³⁰ in an effort to merge the tax services. Its organization reflects the distribution of the functions of management,

³⁰ The organization of the DGI is defined by Decree 01139/PR/MEFBP of 12/18/2002 amended by Decree 000720, and the external services are governed by MEEF Order 0011 of December 6, 2005.

control, and collection of direct and indirect taxes. However, the new organization is not yet fully operational and its tax collection powers are only partially exercised. The DGI currently collects VAT, registration and stamp taxes, and tax on securities income, property, mining, and forestry receipts. The collection of corporate and individual income tax, currently the responsibility of the general treasury, is being transferred to the DGI. Tax management continues to be based on major types of taxes, but the DGI is moving toward the creation of a single taxpayers' file. The launch of the large taxpayer unit, created in September 2004, has been delayed. The effective implementation of administrative reforms is slow and not well managed. There is a wide disparity between the measures adopted and their actual implementation. Additional efforts are needed to put the new units in place and make modern tax management a reality. At present there is a single tax identification number, which is used by the DGI, customs, the general treasury, budget, financial control, and payroll. To make the tax identification number more reliable, the registration procedure needs to be reexamined so that the location of taxpayers can be more readily determined.

18. **The transparency of oil revenue management can be improved.** The authorities are committed to improving the transparency of oil revenues. However, there are a number of inadequacies in this area. First, despite the importance of oil in Gabon—more than 80 percent of export revenue, 50 percent of GDP, and 60 percent of total government revenue³¹—public access to information about the size of oil reserves and the use of resources generated by this wealth remains limited. Second, contracts between the government and the oil companies are not published. Third, relations between the oil companies and various government institutions lack coordination and clarity. Responsibility for the management of oil taxation (Box 4) is divided among the directorate general of hydrocarbons (DGH), the DGI, the ministry of mines, energy, and petroleum, the general treasury, and the directorate general of customs. To create the prior conditions necessary for greater transparency in the management of oil revenue flows, coordination among these units needs to be improved and institutionalized to ensure better monitoring, more effective supervision, and greater control over oil revenue. Such coordination would be particularly useful in implementing the Extractive Industries Transparency Initiative (EITI) (Box 5).

19. **The management of oil revenue through the future generations fund (FGF) is contrary to the law that established the FGF.** The FGF is a reserve fund of the state opened at the BEAC in 1998 to facilitate the management of oil revenue. Pursuant to Law 9/98 and up to the minimum capital of CFAF 500 billion, 10 percent of the oil revenue projected in the budget must be allocated to this fund, plus 50 percent of all oil revenue collected in excess to that projected in the annual budget. Also, once the minimum capital is attained, 25 percent of the financial earnings generated by the fund must be allocated to the FGF. In practice, these provisions are not respected and the level of allocations to the fund

³¹ Calculations based on data for 2005.

Box 4. Oil Taxation

Traditionally oil operations were managed under concession arrangements. However, since Law 14/82 of January 22, 1982 was adopted, oil operations have been carried out under production-sharing contracts. Concession arrangements existing on that date remain valid until they expire. The **concession tax regime** includes liability for:

- The proportional mining royalty paid to the government in monthly installments, calculated on the basis of the official transfer price. These installment payments are adjusted to take account of changes in production, prices, and the exchange rate.
- The annual surface area royalty.
- Corporate income tax at the rate of 73 percent applicable to net taxable profits after deduction of depletion allowances.¹ Corporate tax is paid in monthly installments, adjusted as needed during the fiscal year and settled on the basis of actual earnings no later than April 28 of the following year.
- The VAT law applies to oil operations. As an export-oriented activity, it is taxed at the zero rate, which entitles it to a VAT refund on inputs, whether capital goods or the provision of services. VAT is suspended for operations between oil operators who are members of the Gabonese Petroleum Operators Union (UPEGA) and for services provided by oil subcontractors.

Under **the production-sharing contract system**, oil companies are liable for the proportional mining royalty, the surface area royalty, and VAT, but are exempt from corporate income tax, the government being compensated with a share of the production. Under this system, production is subdivided into two parts, *cost oil* used to recover exploration and development expenses, and *profit oil*, which is divided between the government and the contractor according to the relevant provisions of the production-sharing contract. The government's share is marketed for its own account either through partner oil companies or by third-party intermediaries.

A simplified tax system applies to oil subcontractors, which is optional and subject to tax administration approval, with an effective rate of 5.25 percent of turnover for corporate income tax and an effective rate of 3.08 percent of turnover for payroll tax.²

¹ Depletion allowances are calculated subject to a dual ceiling of 27.5 percent of total hydrocarbon sales and 50 percent of the related taxable net profits.

² There is currently some uncertainty as to whether these provisions apply only to nonresident' salaries or also extend to local salary earners.

Box 5. Implementation of the EITI

The EITI aims at enhancing transparency of the reporting of income from extractive activities and contributing to improved management of revenue generated by natural resources.¹ Under the EITI, the total payments that enterprises report having paid to the government are compared with the amount that the government reports having been received from enterprises, any discrepancies are detected, and all the relevant data are published.

Gabon endorsed the EITI in May 2004. In 2005, it created a working group to assist the government with this undertaking and established an interest group, responsible for EITI implementation, chaired by a representative of the office of the president and including representatives from the prime minister's office, ministerial departments, civil society, the oil sector, and the mining sector.

The EITI, as implemented, is subject to some major limitations, notably the following:

- The extent of oil revenue taken into consideration totally excludes the two components of profit oil: *Etat puissance publique* (government as public authority) and *Etat associé* (government as partner). The reason for this is that flows of profit oil are not broken down by type and by oil company; the lack of these disaggregated data prevents compilation in accordance with the International Standard on Related Services (ISRS) standards, the benchmark used by the independent expert.² In these conditions, the 2004 EITI report barely covers 60 percent of oil revenue.
- The scope of the EITI report for 2004 includes only the oil sector and does not cover mining activities, such as manganese, which is an important resource in Gabon.
- Not all the oil companies were included in the EITI.
- Precise information is not provided on the various authorized provisions (provisions for diversified investments and provisions in hydrocarbons) held by the oil companies and the rules governing their use.
- The oil companies finance social and environmental expenditure, but there are no accurate and comprehensive data concerning such expenditure.
- Revenue flows related to deliveries to the Gabonese Refining Corporation (SOGARA) are not included in the transparency assessment.

The authorities are aware of the deficiencies of the first EITI report, particularly as it was impossible to include all the oil companies involved and the relative share of profit oil. They have been engaged since early 2006 in a process of enhanced coordination among the units responsible for managing oil revenue, with the aim of better identifying the payments made by the oil companies. They also plan to expand the EITI to include the mining sector. Lack of coordination among the DGH, the DGI, and the general treasury has created confusion, and the practice of paying by check has led to substantial "pending amounts"⁴ that cause excessive delays in the collection of oil revenue as well as identification problems.

¹The IMF *Guide on Resource Revenue Transparency*, June 2005, discusses issues specific to the public management of these resources and provides an overview of good practices.

²EITI Report of the Republic of Gabon, 2004 Revenue. Statement of the independent expert, p. 24.

⁴Differences between gross revenue and revenue received by check.

has fallen well short of the amount specified by law.³² Moreover, although the law prohibits the use of the fund's minimum capital to pay government expenses, including exceptional expenditure, withdrawals were nevertheless made in 2003.³³ The FGF law states that the fund's resources are to be invested in international financial instruments, but this is not actually done because the BEAC's charter does not allow it to invest assets in currencies of States outside the monetary union. Consequently, the fund's deposits are remunerated at only 1.6 percent per year.

20. Taxpayers' legal rights are well defined. 1.2.2

Taxpayers' rights are defined in clear laws or regulations. Assessment errors can be corrected automatically. In the event of a dispute concerning the basis of assessment, taxpayers have the right to file a preliminary appeal and the administration must issue a decision within six months. If there is no response within the specified time limit or the response is unsatisfactory, taxpayers can lodge an appeal with the administrative court. The required guarantees must be furnished in conjunction with petitions to suspend tax payments. Appeal to the same administrative authority concerning duties, fines, and penalties is governed by tax legislation. In practice, taxpayer appeals are first submitted to the assessment offices, then to the director general of taxes, and finally to the minister of finance.

Public servants' code of behavior and anti-corruption activity

21. Public servants are subject to the general civil service regulation (GCSR) and to the code of behavior. 1.2.2

The status of civil servant is governed by Law 001/2005³⁴ setting forth the GCSR, which defines the rights and obligations of government employees. It is supplemented by specific regulations for each civil service component and for each category of employee. The GCSR establishes the obligation of civil servants to exercise discretion and professional integrity, prohibits activities likely to compromise their independence, and obliges them to report their assets.³⁵ The rules governing incompatibility between a civil service position and private activities are clearly defined and any violation of these rules may result in sanctions. A civil service code of behavior has been in force since August 2005³⁶ and sets out all the rules of professional conduct for the civil service. The code restates and supplements the rights,

³² For example, for fiscal year 2005, although the deduction specified by law would have been more than CFAF 150 billion, the stock of deposits in this account at the end of the fiscal year was less than CFAF 100 billion.

³³ The stock of deposits in the FGF totaled CFAF 70.4 billion at the end of fiscal year 2002, but in 2003 it fell to CFAF 40.4 billion and stood at only CFAF 30 billion in December 2003.

³⁴ The law has been promulgated. Specific regulations for each category of employee, have been drafted and submitted for comment to the institutions responsible for administrative reform.

³⁵ The declaration of assets also includes those of the filer's spouse(s) when the latter is (are) engaged in a private, for-profit activity.

³⁶ Law 14/2005 of August 8, 2005.

obligations, and penalties defined in the GCSR. Civil servants who fail to fulfill their obligations and duties are liable for disciplinary sanctions.

22. **Since 2002, anti-corruption efforts are governed by a system of prevention and suppression of unlawful enrichment.**³⁷ A national commission against unlawful enrichment (NCAUE)³⁸ is charged with collecting declarations of assets from civil servants, investigating unlawful enrichment, and taking precautionary measures to prevent, detect, and suppress unlawful enrichment practices. To date, the NCAUE has received 1,702 asset declarations from a target population of 3,000.³⁹ It is currently conducting an outreach campaign to remind the individuals concerned of their obligation.

B. Open Budget Preparation, Execution, and Reporting

The budget preparation process: clarity and consistency of process and presentation

23. **The annual preparation budget process is open. The presentation, however, is only partially consistent with international standards.** 3.2.1

The fiscal year is the calendar year. The budget preparation procedures are clear and well established (Box 6), and include four phases. The first is the administrative preparation phase, with the predominant role of the MEFBP and the MDP, which determine the reference data; the second phase consists of examination by the Economic and Social Council and the Council of State; the third phase is budget adoption by parliament;⁴⁰ and the fourth phase is promulgation of the budget law by the President of the Republic. Overall, however, the process is not homogeneous, as there is a dichotomy between the operating budget and the capital budget, and budget operations are not generalized by ministry.

24. **Presentation of the budget law.** The explanatory annexes of the budget law present the operating budget, the capital budget, and the RMF. The budget law makes no mention of treasury special accounts and the social security and national social guarantee funds (NSSF and NSGF). The budget law annexes describing the operating and capital budgets include only expenditure. Revenue is summarized in the budget law document, but is not broken down.⁴¹ The operating budget shows expenditure by ministry (section) and for each ministry, by management unit (chapter); the amount of unallocated expenditure is quite low. Each chapter contains a description of the resources made available (articles and paragraphs).

³⁷ Law 010/2002, applicable to any depositary of the government authority defined as a political and administrative authority, public servants, statutory or casual employees of the government, employees of local governments, employees of public, or parapublic corporations.

³⁸ Law 011/2002; the NCAUE is an independent administrative authority.

³⁹ If no declaration of assets is submitted, the penalties incurred are those provided for in Article 125 of the Criminal Code.

⁴⁰ The senate's role in the adoption of the budget is not clear in the law.

⁴¹ For example, the document does not indicate revenue from the central bank.

Box 6. The Budget Preparation Process			
Phase	Activities	Legal basis	Timetable
General guidelines regarding the fiscal outlook	Primary assessment of revenue and expenditure based on the macroeconomic assumptions for year n-1 and year n	Administrative rule	January-February
	Preparation of an internal budgetary outline of sectoral policy and macroeconomic projections		1st two weeks of April
	Compilation of fiscal outlook data for government seminar		
Formulation and negotiation of the budget	Organization of government seminar: analysis of the draft budget, drafting of the budget guidelines letter, determination of ceiling letters, proposal of budget n+1		Mid-May to mid-June
	Consideration by administrations. Meeting with administrations		Mid-June to mid-July
	Budget conferences: examination of the line ministries' draft budgets		July
	Internal negotiations Drafting of budget law for year n+1 and budget review law for year n-1 Drafting of the economic and financial report		August
	Final negotiations between the prime minister and the President of the Republic		End-August
Examination by the economic and social council	Forwarding of the draft budget to the economic and social council	Constitution	
	Examination of the draft budget law by the economic and social council		1st two weeks of September
Council of ministers	Forwarding of the draft to the interministerial council	Administrative rule	
	Forwarding of the draft to the council of state and examination of the draft	Law	
	Examination and adoption of the draft law by the council of ministers	Administrative rule	1st week of October
Adoption by the national assembly	Submission of the draft to the national assembly	Constitution and law	By October 15
	Adoption on first reading		By end-November
Adoption by the senate	Submission of the draft to the senate	Constitution and law	
	Adoption by the senate		By December 20
Promulgation by the President of the Republic	Promulgation of the approved budget	Constitution	By December 31

25. However, the budget presentation does not provide a summary for each ministry and for all ministries. The same is true of the capital budget, which has an additional problem: development and capital operations are included in a single chapter.

26. **Budget classifications are partially consistent with international standards.** There are two budget classifications to identify budget line items: by administrative unit and by economic type. These classifications have been introduced with the 2004 budget. The classification by economic type is partially consistent with international standards for current

expenditure, but for capital expenditure, it is not homogeneous as it is an amalgam of a classification by type and a sectoral classification, which is contrary to the principle of unity of purpose of budget classification codes. There is no functional classification.

The macroeconomic framework and policy basis for the budget

27. The main indicator of the fiscal position is the non-oil primary balance of the central government.⁴² 3.1.3

The non-oil primary balance is not included in the budget law, but is shown in the fiscal operations table (TOFE).⁴³ Other balances, such as the overall primary balance and the cash basis balance are also prepared.

28. The annual macroeconomic framework associated with the budget is clearly presented in the economic and financial report (EFR) attached to the budget. However, the macroeconomic forecasting process needs to be improved. 3.1.3

To prepare its budget assumptions for the year ahead, the directorate general of economy (DGE) at the MEFBP uses an annual model, the model of the Gabonese economy (MEGA), which takes account of the relationships among the various sectors of the economy, in consultation with the DGH (for oil production forecasts). The EFR includes the assumptions for the international environment and national economic variables, broken down by economic sector. The outlook for the following fiscal year is prepared by the DGE and published in the *Tableau de Bord de l'Economie*, but it is not attached to the budget laws. However, there are a number of weaknesses in the macroeconomic forecasting process. First, although the DGI uses the DGE's macroeconomic assumptions to estimate annual revenue, the DGE does not check the consistency of the latter with its own economic assumptions. There is a risk, therefore, that the DGI's revenue forecasts will not always be reconcilable with the DGE's macroeconomic forecasts. Second, although the short-term forecasting model for the Gabonese economy can be used for annual projections, it takes no account of seasonal fluctuations in economic activity and thus cannot be used for quarterly or monthly forecasts.⁴⁴ Regular projections of monthly oil and non-oil revenue are therefore not possible.

⁴² The non-oil primary deficit is equal to non-oil revenue (including grants) minus primary expenditure (excluding social restructuring costs, privatization receipts, and subsidies on the prices of petroleum products).

⁴³ For example, in June 2005 (during the fourth review of the IMF program), the authorities set the fiscal policy target for 2005 at a non-oil primary deficit of 6.7 percent of non-oil GDP. In October 2005, the government adjusted this target to 8.4 percent, and the December 2005 TOFE indicates that the primary non-oil deficit reached 12.1 percent of non-oil GDP for fiscal 2005.

⁴⁴ Because the basis of oil taxation is monthly, the annual model cannot be used for making accurate projections or determining whether oil revenue owed the government has been received in full. Moreover, the oil revenue model cannot be used to monitor all the taxes transferred to the government in the form of crude oil at the terminal, which must be sold before arriving at the treasury. The authorities are in the process of strengthening their capacity to monitor and predict the trend of oil revenue by increasing the resources allocated to the DGI to manage all oil-related revenue flows.

Medium-term planning and analysis of fiscal risks

29. **The authorities completed a Growth and Poverty Reduction Strategy Paper (GPRSP) in March 2006, which sets out a multiyear strategy for accelerating growth and reducing poverty.** The GPRSP provides a detailed analysis of the poverty situation with a view to facilitating analysis of the effectiveness of future budgets in stimulating the growth of the non-oil sector and reducing poverty. At present, the GPRSP takes no account of the DGE's macroeconomic forecasts and accords too little attention to the likely decline in oil revenues in the future and the attendant constraints on fiscal policy. Moreover, while the GPRSP projects very high growth rates for public investment, it shows only a very slight increase in operating expenses. This suggests undervaluation of the recurrent expenditure linked to such investments. In addition, the sharp increase in capital expenditure projected in the GPRSP is not based on an analysis of actual capacities for implementing such a surge in capital expenditure.

30. **No medium-term expenditure framework (MTEF) is used in the preparation of the annual budget.** However, the authorities plan to develop an MTEF with a rolling timeframe and there was a general discussion of the MTEF concept in the economic and financial report accompanying the 2005 budget. The MTEF would incorporate both operating and capital expenditure.

31. **There are no budgetary rules for determining the non-oil balance and the amount of debt.** 3.1.2

Although the budget framework law indicates that the draft budget must show financial balance, which is a reflection of the equilibrium of budgetary and financial operations, the concept of financial balance is not clearly defined.⁴⁵ While the government undertook in 2005 to limit the non-oil primary deficit to 6.7 percent of GDP, by end-2005 this commitment had not been fulfilled.

32. **Estimates of new initiatives are not clearly distinguished in the budget documents.** 3.1.4

The economic and financial report provides only an overview of new expenditure, with no breakdown. No explanation is given in the budget for differences between the budget appropriations of the current year and projected appropriations for the new fiscal year.

33. **The sensitivity of budget estimates to changes in economic variables is not assessed and the major fiscal risks are not discussed in the budget.** 3.1.5

The budget documents do not contain an analysis of the sensitivity of budget aggregates to economic variables and do not identify the major financial risks that could result, for example, from a weakening of the financial position of public enterprises or the social funds (NSSF and NSGF).

⁴⁵ The budget framework law states that financing operations reflect the balance of budgetary operations, which represents either the government's financing requirement or its net lending.

34. **The future sustainability of the social security system is not analyzed in the budget documents.**⁴⁶ Management of the social security system instituted by Law 6/75 of 1975 and Decree 599/Office of the President of the Republic is entrusted to the NSSF,⁴⁷ a private agency responsible for managing a public service, which enjoys legal personality and financial autonomy and is subject to government supervision. The financial position of the NSSF is tenuous because of the deficit involved in running a network of hospitals and the accumulation of contribution arrears. The condition of guaranteed financing for the administrative and technical reorganization of hospitals has not been met and the NSSF is still responsible for managing health units, which makes its financial viability even more precarious.

35. **The national social guarantee fund's (NSGF) current situation poses a substantial potential financial risk for the government.**⁴⁸ Management of the social guarantee system⁴⁹ instituted by Law 10/82 of 1983 and Decree 1026 of 1983 is entrusted to the NSGF, a national public corporation of a social nature which has legal personality and financial autonomy, but is subject to government supervision. Its resources include the government contribution for contractual employees, contributions from self-employed workers, and operating subsidies from the government. The NSGF provides social benefits for: (i) indigents (persons not earning a wage or whose income is less than the minimum wage (these are most of the fund's customers—85 percent), (ii) government contractual employees—12 percent, and (iii) self-employed workers—3 percent. The government has accumulated contribution arrears for contractual employees and major payment arrears for indigent benefits. The NSGF estimates that the debt in terms of social benefits from 1990 to 2003 amounted to CFAF 8.4 billion, excluding benefits not paid to indigents from 1983 to 2005, which amounted to CFAF 30.9 billion.

36. **The procedures for implementation and amendment of the budget do not promote optimal fiscal management.** Although the timetable for adoption of the budget law is observed and the budget review law is submitted within a reasonable amount of time, the budget itself is implemented after a long lag,⁵⁰ owing to the delay in promulgation. This does not promote optimal fiscal management because the budget is executed over a maximum period of eight months (particularly with regard to investment). The lack of a multiyear

⁴⁶ However, the NSSF, in cooperation with the International Labor Office, prepares an actuarial assessment that is used to examine the long-term solvency of the NSSF system.

⁴⁷ The fund covers workers in public enterprises, local government workers, private sector workers, and temporary government labor.

⁴⁸ A budget allocation of CFAF 4.2 billion (CFAF 1.5 billion for indigent benefits, CFAF 1.6 billion for contractors' pensions, and CFAF 1.2 billion in operating subsidies) was recorded in the 2005 and 2006 budget laws.

⁴⁹ The system comprises four branches: family and maternity services; old-age, disability, and survivors' pensions; work-related risks; and health care.

⁵⁰ As of April 1, 2006, implementation of the 2006 budget had not yet begun.

sectoral estimates law (*loi-programme*) and of the possibility of carrying forward capital expenditure appropriations do not contribute to the rational management of these operations. Moreover, supplementary budgets, often adopted at the end of the fiscal year, undermine transparency, as budget line item appropriations are modified unilaterally before legislators become involved.

Clarity of control of budget execution

37. **Basic accounting and internal control procedures are in place but they are not wholly effective.** 3.3.1

The government accounting system is not integrated. Administrative operations carried out in executing the budget are processed by a DAXE computer system, which, for users, is unstable and unreliable. Data generated by this system must be reprocessed manually before the final budget execution reports are prepared, resulting in delays. The data on outstanding payment orders are forwarded to the treasury, which has a different system for recording payments. The treasury, after a delay of more than three months, prepares accounting statements, which include the amount of arrears recorded by the treasury. Data on payment arrears is incomplete,⁵¹ as the report does not include upstream government operations that are not reported to the Treasury.

38. **Internal controls are numerous but redundant.** Four types of internal controls are used in the expenditure process: financial control, control by the payment authorizing officer, control by public accountants, and control by the inspectorate general of services (IGS). Financial control⁵² in the commitment stage examines the legality of the expenditure. For public procurement expenditure in excess of CFAF 30 million, control is exercised by the directorate general of procurement (DGP) prior to the start of the expenditure process. This results in the issuance of a certificate of non-objection ensuring that the procurement procedure was duly followed. At the time of payment authorization another financial control is performed, this time by the central accounting office. When the item is forwarded from the payment authorizing officer to the accountant for payment, the accountant checks the legality of the expenditure and makes the payment. The control performed by the IGS focuses on the operation of the units and the procedures followed. With its redundant compliance controls, the system is burdensome. Moreover, the control of services provided,⁵³ which is essential in the expenditure process, is rarely carried out. The higher control agencies' overall assessment of internal control is that it is ineffective and its value added is uncertain.

⁵¹ The time limit of 120 days set by the treasury to pay government creditors complicated the assessment of payment arrears. The amount of treasury arrears during 2000–04 was estimated at end-November 2005 at CFAF 29.4 billion.

⁵² Financial control is the responsibility of a directorate general of the MEFBP, which examines the legality of expenditure and determines whether services were actually provided.

⁵³ Numerous units should perform this control: financial control, DGP, inspectorate general of services, general government control, audit court, and parliamentary investigative commissions.

39. **Financial management practices are not well coordinated.** 3.3.1, 2.14

Cash management, which is the responsibility of the directorate general of the treasury (DGT), is not carried out in conjunction with actual commitment planning and in consultation with budget managers. The practice of executing payment orders with a lag of four months, as well as the use of correspondent accounts for budget execution, even in the absence of financing constraints, shows that cash management is unsatisfactory. The same is true of the management of inflows. There is no consolidated cash management because, in addition to the treasury current account at the BEAC, there are other bank accounts, both at the BEAC and in commercial banks.

40. **Internal audits are carried out by several audit agencies but need to be made more effective.** 3.3.3

Ex post administrative control is carried out by the state control office which oversees the inspectorates of ministries and other internal inspectorates. The state control office is also responsible for verifying operations of the central government budget, the budgets of local governments, as well as public enterprises and corporations. Governed by Decree 501 of August 1, 2002, the state control office comprises six controllers assisted by approximately 40 employees. Its reports, which are not published, are sent to the President of the Republic, the supervisory ministers concerned, and the audit court. However, its small staff and lack of professional training explain its current ineffectiveness. The ministries' internal inspectorates are responsible for controlling the administrative services of their departments. They were recently created and the resources available to them are as yet insufficient. For example, the services inspectorate of the ministry of economy and finance includes an inspector general, two assistants, and two research specialists. These inspectorates are in the process of putting in place their organization and their procedures. Some networked directorates such as the DGI, the directorate general of customs, and the general treasury have internal inspectorates that are responsible for conducting internal audits in terms of conformity, procedures, and effectiveness of services. The DGP is an oversight agency that is part of the system of internal controls, as its involvement at the outset determines the granting of approvals by financial control. It also exercises ex post control to ensure the effectiveness of public expenditure.

41. **Procurement rules are clear and well-known, but they are not strictly observed.** 3.3.2

A procurement code was instituted by decree in 2002⁵⁴ and a procedures manual is being prepared. The objectives of the code are to enhance transparency, promote ethical management of government contracts, and enshrine the principle of free access and competition in procurement. Created within the MEFBP⁵⁵ in October 2003, the DGP is responsible for controlling government contracts above CFAF 30 million and below

⁵⁴ Decree 001140/PR/MEFBP of December 18, 2002 setting forth the procurement code.

⁵⁵ Decree 1102/PR/MEFBP of October 4, 2003 creating the DGP.

CFAF 500 million; a national procurement commission (CNMP)⁵⁶ is responsible for controlling contracts of CFAF 500 million or more. Ex ante control is exercised by the directorate general of financial control and by the DGP, whose issuance of a “certificate of non-objection” is a prior condition for approval by the controller.⁵⁷ Physical control of the performance of certain contracts began only in 2006 and significant deficiencies have been observed. In practice, procedures are not properly followed, contracts are split (to avoid the procurement controls), and single-source contracting and contract revisions during execution are common (Box 7). The code contains a procedure for lodging appeals and settling disputes. A procurement database is being established. The implementation of this mechanism will require strengthening the human and material capacities of the DGP. Similarly, the sectoral ministries have no specialized technical units to draw up specifications and monitor the performance of government contracts.

Box 7. Procurement Contracts Processed by the DGP

	2004				2005			
	Number	%	Billions of CFAF	%	Number	%	Billions of CFAF	%
Total contracts processed	182	100	74	100	403	100	148	100
<i>Of which:</i>					23	6		
Rejection notices	61	34						
Contracts awarded on a single-source basis	160	88	51	68	192	48	88	60
Contracts awarded by competitive bidding	22	12	23	32	187	46	52	35
Renewal of existing contracts	0	0	0	0	24	6	8	5

Sources: DGP and MEFBP.

42. Civil service employment procedures are clear but still need to be disseminated and publicized.

3.3.2

The law of 2005 setting forth the GCSR establishes the general principles applicable to the careers of civil servants (recruitment, compensation, promotion, mobility, leave, disciplinary sanctions, and termination). In addition to these principles, the GCSR makes reference to specific civil service regulations containing precise rules applicable to each category of employee. The law establishes five components in the Gabonese civil service: (government service, parliamentary service, health service, education service, local government service and ten categories of employees). The rules governing the civil service uphold the principle of equal access to government jobs. The law specifies public competition as the sole method

⁵⁶ Decree 10/44/PR/MEFBP of September 1, 2003. The CNMP reports to the prime minister. It is composed of the Secretary General of the Government, the Minister of Government Control, the minister responsible for finance, the minister responsible for the specific contract, the minister responsible for land development, the minister responsible for planning, and the director general of the DGP (rapporteur).

⁵⁷ The procurement control functions include the issuance of a prior, formal notice by the DGP before contracts can be concluded, examination of the technical preselection and bidding documents before the invitation to bid is issued, the analysis of bids, and selection of the winning bid. For contracts submitted to the CNMP, an analytical report and a detailed report from the DGP are required.

of recruitment, the purpose of which is to fill vacant positions. The advancement of civil servants is based on seniority and limited to available positions. Employees are promoted solely through competitions, subject to training and available positions.⁵⁸

Clarity of internal control and independence of tax administration

43. **Tax administration has internal monitoring and control mechanisms.** 3.3.3

The tax and customs administrations have inspection, control, and monitoring units. The activity of these control units contributes to improved fiscal management and tax administration. However, their lack of resources and small staff limit their effectiveness.

Accounting and reporting on budget execution

44. **The accounting system is not capable of producing comprehensive in-year reports on central government budget execution.** 3.3.1

The government accounting system is based on single-entry administrative accounting, which records events in the early phases of budget execution (appropriations, spending commitments, payment order issuance) and on double-entry general government accounting, which records financial execution of the budget in the payment phases, as well as other cash transactions carried out by government accountants. The DAXE computer system used for administrative accounting seems unable to produce regular budget execution reports. For example, in April 2006, records of commitments and payment orders issued for the 2005 budget were still unavailable. The treasury's accounting statements are also only available after long delays⁵⁹ and once prepared, they do not provide comprehensive information on the execution of the current year's budget, as a large number of revenue and expenditure operations are recorded in memorandum accounts and not regularized until the end of the fiscal year.⁶⁰ In addition, some outstanding balances in the accounts are not cleared regularly, which makes the data unreliable. Finally, the treasury's general accounting provides data on all local government operations, but there are discrepancies between the centralized data and the data compiled locally.⁶¹

45. **Fiscal reporting covers only part of general government.** 3.3.1, 2.1.1

The fiscal data available at end-year cover institutions, ministries, the RMF, and externally financed expenditure. The data on local governments are consolidated by the general treasurer. For other general government entities, such as hospitals subsidized from the

⁵⁸ With the implementation of these rules, it will be possible to capitalize on experience, reward merit, and recruit individuals with technical skills needed by the administration.

⁵⁹ In early April 2006, only the end-November 2005 accounting statements were available.

⁶⁰ However, at end-2004, the balance of the expenditure pending classification and regularization account was CFAF 61.6 billion.

⁶¹ For example, the accounting data of the municipality of Owendo do not match the data on that municipality in the treasury accounts.

government budget, the data are incomplete as they only include transfers from the government. These entities may have their own resources, which correspondingly increase their spending, but these transaction are not consolidated. The available data do not cover the NSSF. In contrast, the NSGF's operating subsidies and other transfers from the government budget, to provide social benefits for indigents, as well as to pay the pensions of government contractual personnel, are included in fiscal data.

46. The legislature does not receive in-year reports on the fiscal position. 3.4.1

The legislation does not require that parliament, the Senate, and the national assembly, receive in-year reports on budget execution. Nevertheless, if a supplementary budget is presented, parliament receives information in the report submitted with the supplementary budget, explaining the reasons for amending the approved budget. However, according to the constitution, parliament may request any information on budget execution from the minister of finance.

47. The budget review law is adopted within 24 months of the end of the fiscal year. 3.4.2

The budget review law is the law that formally closes the fiscal year. It authorizes changes in budget appropriations and certifies execution of the annual budget. Preparation of the budget review law is a new event, as only the budget review laws for fiscal years 2001, 2002, and 2003 have been submitted and voted on by parliament. The draft law is examined by the audit court, which prepares a report on the proper execution of the budget and issues a certificate of conformity between the budget execution account, prepared by the principal payment authorizing officer, and the end-year treasury account, prepared by general treasurer. The timetable set out in the constitution was slightly exceeded in fiscal 2003, as the 2003 budget review law was adopted in the second parliamentary session of 2005⁶² and promulgated by the President of the Republic on December 30, 2005.

Results-oriented budgeting and reporting

48. The objectives and expected results from government activities are defined in the economic and financial report (EFR) attached to the budget and in the GPRSP.

3.2.2, 3.4.2

The government's general objectives are presented to parliament in the EFR attached to the budget law. The reduction of poverty is a major objective described in the EFR, with priorities in the areas of employment, education, national solidarity, the family, and public health. The GPRSP finalized by the authorities in February 2006 includes a public investment program (PIP) aimed at diversifying the economy and promoting poverty-reducing growth. The document sets clear priorities, including attainment of the millennium development goals. There are, however, a number of weaknesses in the programming process. The PIP for 2006–08 does not rank priorities. If fewer resources were available under the PIP, it is unclear which programs would be retained and which would be

⁶² The constitution states that the budget review law must be submitted to parliament by the start of the first regular session (which begins on the first business day of March) of the second year following the fiscal year in question. The second session begins on the first business day of September.

eliminated. The projects included in the GPRSP programs are not defined in terms of measurable indicators of expected results. Moreover, there is no detailed estimates of their overall cost in terms of investments and recurrent expenditure.

C. Public Availability of Information

49. **Fiscal information is not comprehensive and not readily available to the public, and there is no clear commitment to provide fiscal data to the public.** The monthly budget execution statements and the government's accounting statements are considered confidential. However, for certain budget execution operations, the government's creditors can view the status of their claims on the website of the DGT, payment authorizations in progress at the directorate of expenditure, payments pending and payments executed in the last three months.

The coverage and quality of budget documents

50. **The budget documents cover central government fiscal activities with limitations and provide limited data on general government.** 2.1.1

The budget documents cover the fiscal activities of national institutions, ministries, and the RMF. These documents include the budget law, the economic and financial report, and the annexes to the budget law: the itemized operating budget, the itemized capital budget, the RMF, operating subsidies to local governments, and other operating subsidies. Public corporations and treasury special accounts are not covered. The same is true for local governments.

51. **Defense expenditures are comprehensively reported in the budget.** 2.1.1

The operating and investment appropriations of the ministry of defense are presented with the same detail as the other ministries.⁶³ However, some specific grants come from the security fund, the composition and content of which remain confidential.

Past and forecast fiscal data in the budget

52. **The budget document discloses the main fiscal aggregates for the preceding year.** 2.1.2

The economic and financial report presents data on the current year's budget, compared with the revenue and expenditure forecasts for the next fiscal year, with the exception of oil revenue data, which are presented as projections covering two years, and the preceding year's budget law. No account is taken of the changes effected by the current year's supplementary budgets, which introduces a serious bias into the analysis. No information is presented on outturns, with the exception of a table showing results for the first six months of the current year. No projection for future years is mentioned in the budget document.

⁶³ The budget of the national defense ministry contains more than 200 chapters.

Budget treatment of offbudget fiscal activity

53. Statements on contingent liabilities are not included in the budget and accounting documents. 2.1.3

Contingent liabilities excluded from the purview of the public include: (i) the liabilities of public enterprises vis-à-vis the NSSF that were assumed by the government until end-2004; (ii) government contributions to civil service pensions; and (iii) the contingent liabilities associated with the social security system.

54. Statements on tax expenditures are not included in the budget documents. 2.1.3

Tax expenditures are significant. There are numerous tax exemptions, reductions (in full or in part), and preferential rates, which are currently not assessed for foregone revenues and are therefore not reported in the budget documents.

55. Implicit subsidies on petroleum products are extensive and their estimated cost is not included in the budget documents. 2.1.3

These subsidies result from the administrative setting of below-market prices of petroleum products and they weigh increasingly on government finances, but are not reflected in the budget. The freezing of ex-refinery prices since 2002, together with the sharp increase in oil prices on the international markets, has led to ever-larger implicit subsidies. The subsidy is calculated monthly by the SOGARA refinery by multiplying the difference between the import parity price and the current ex-refinery price of comparable petroleum products by the quantity consumed on the domestic market.⁶⁴ In 2005, the government supplied the SOGARA refinery with crude oil valued at approximately CFAF 72 billion (more than 1.6 percent of GDP) to offset the losses it would have otherwise sustained (Table 1). The

Table 1. Gabon: Cost of Implicit Petroleum Product Subsidies, 2005

	2005
Total cost (in billions of CFAF)	71.9
(as a percentage of GDP)	1.6
(as a percentage of non-oil GDP)	3.2
Memorandum:	<u>SBL</u>
Total national education expenditure (in billions of CFAF) 1/	70.0
Total health expenditure (in billions of CFAF) 1/	50.3

Sources: Gabonese authorities; and IMF staff.

1/ Payroll, goods and services, transfers, and domestically-financed investment.

⁶⁴ The import parity price is determined by adding to the price on the international market (in Genoa) all the maritime freight and import costs (from Genoa to Port-Gentil), financing costs, port taxes and customs duties, storage fees, and a competitiveness differential for the refinery. The formula is specified in Order 00018/MMEP/MFEBP-CP, "Application of the petroleum product price indexing mechanism."

largest subsidies are associated with diesel, jet A1 kerosene, and super. At the request of the authorities, some oil companies make expenditures which are charged to provisions for diversified investments or provisions for investment in hydrocarbons.⁶⁵ This is the equivalent of an implicit tax on oil companies, which is used to finance off-budget government social spending.

Publication of data on debt and financial assets

56. **Data on gross public debt are available upon request to the authorities and parliament but are not published.** 2.1.4

The directorate general of government accounting is responsible for debt management and has been using the debt management financial and analysis system (DMFAS) provided by UNCTAD since 2001 for its database. The data are comprehensive but are not regularly published.

Commitment to timely publication of fiscal data

57. **Formal commitments for regular publication of fiscal data have not been made.** 2.2.1, 2.2.2

The publication of fiscal data is not required by law. When the draft budget is adopted, the data are available to the public. Otherwise, the budget data remains confidential and no information concerning budget execution is disseminated. However, in its annual publication, *Tableau de bord de l'Économie*, the DGE provides summary information on the government budget, including both projected and actual data, as well as information on public debt.⁶⁶ Also, Gabon participates in the General Data Dissemination System (GDDS) and the Dissemination Standards Bulletin Board is available on the IMF website.⁶⁷

D. Assurances of Integrity

Integrity of data processes

58. **Budget data revised in the context of supplementary budgets are generally close to actual outturn but often exceed authorized appropriations.** 4.1.1

The variance between the corrected projections and actual outturns of the main fiscal aggregates is reported to parliament and disclosed to the public in the audit court report. Average revenue outturn in fiscal 2003–05 amounted to 98 percent for both oil revenue⁶⁸ and

⁶⁵ No information on the nature of this type of investment is available, apart from the financing of the hospital in Franceville.

⁶⁶ The outlook for 2005-06 was disseminated in February 2006; past data related to 2004.

⁶⁷ <http://dsbb.imf.org/Applications/web/gdds/gddshome>.

⁶⁸ While the rates of oil revenue collection averaged 98 percent vis-à-vis the supplementary budget(SBL), they averaged 130 percent vis-à-vis the estimates in the initial budgets (IBLs).

non-oil revenue. The average level of current and capital expenditure execution was 105 percent and 85 percent, respectively (Table 2). The execution rates of domestically-financed investment is very high (91 percent) whereas for external financing the rate is only 54 percent on average and varies widely from one year to the next. These spreads are analyzed and explained in the audit court report attached to the budget review law, which reveals anomalies in execution. For example, for fiscal year 2003, only 29 percent of projected external financing was used.

Table 2. Gabon: Budget Laws and Budget Execution, 2003–05

(CFAF Billions)

	2003				2004				2005				Average
	IBL	SBL	Actual 1/	Actual/SBL	IBL	SBL	Actual 1/	Actual/SBL	IBL	SBL	Actual 1/	Actual/SBL	Actual/SBL
			(%)	(%)			(%)	(%)			(%)	(%)	(%)
Oil revenue	448	616	570	(93)	473	640	600	(94)	609	778	835	(107)	(98)
Non-oil revenue and grants	336	489	480	(98)	540	508	514	(101)	540	556	527	(95)	(98)
Primary current expenditure 2/	457	470	472	(100)	464	473	477	(101)	493	517	588	(114)	(105)
Wages and salaries	215	227	229	(101)	219	226	226	(100)	224	224	228	(102)	(101)
Goods and services	126	127	125	(98)	122	125	125	(100)	130	138	153	(111)	(103)
Transfers and subsidies	116	117	118	(101)	122	122	126	(103)	139	154	207	(134)	(113)
Interest on debt	145	134	142	(105)	150	143	151	(105)	137	132	129	(98)	(103)
Capital expenditure	165	154	131	(85)	168	163	160	(98)	168	215	155	(72)	(85)
Domestic financing	123	124	122	(98)	143	143	142	(100)	133	195	146	(75)	(91)
External financing	43	30	9	(29)	25	20	18	(89)	35	20	9	(45)	(54)
Non-oil primary balance 3/	-286	-135	-168		-91	-127	-163		-144	-200	-275		

Sources: Directorate of the Budget and Statistical Committee, and IMF staff estimates.

1/ Execution in December, payment order basis.

2/ Current expenditure excluding interest payments.

3/ Non-oil revenue (including grants) less total expenditure excluding interest payments.

59. **Statements on accounting policy are not included in the budget and final accounts documents.** The general government accounts are based on the chart of accounts established for the member states of the Central African Customs and Economic Union. This chart of accounts dates back to 1974 and should be replaced with the OHADA accounting system, the rules of which are consistent with international standards. The chart of accounts currently records operations on a modified cash basis, that is, expenditure is recorded when the accountant initials the payment order and revenue is recorded when received.⁶⁹ Implementation of the new budget classifications (January 2006) revealed a significant problem, namely, the correspondence between these classifications and the chart of accounts nomenclature.

⁶⁹ The accounting system could record revenue and expenditure on an accrual basis; however, the accrual concept is of little use when the collection rate is low.

60. **The process of accounts reconciliation and fiscal reporting is not satisfactory.**

4.1.3

By comparing the government's general budget execution account and the final balance of the treasury accounts for the fiscal 2003 budget review law, major differences were noted on the expenditure side. Apparently, the budget data and the treasury data were not properly reconciled during the fiscal year. Such a reconciliation is possible only if stable data are available at the directorate general of the budget and the DGT, which is not the case, because the computerized data management system currently in use at the directorate general of the budget is unreliable, as mentioned above.

61. **The general government accounts prepared by public accountants are the subject of an audit court opinion.**

This opinion, which follows a comprehensive audit of the accounts, is a new task for the audit court, which previously audited only the initial stages of budget execution.⁷⁰ The audit procedure is quite long, for in order to have a good overview of the accountant's performance, an examination is carried out covering several fiscal years.

Independent oversight

62. **External audit is independent of the executive branch and its mandate covers all public sector activities, but it focuses on compliance audit.**

4.2.1

Established by the constitution, the audit court is currently governed by Organic Law 11/94, which defines its powers, its composition, its organization, its operation, and its procedures. As a high-level budget oversight agency, the audit court audits the accounts of public accountants, monitors budget execution, and audits the accounts and management of public enterprises and the social security agencies.⁷¹ It also assists parliament and the government. The audit court, which is headed by a judge appointed by the President of the Republic is made up of 59 judges and 15 audit assistants. Audit court proceedings are written and judgments are rendered after the parties have been duly heard, a procedure guaranteed by the rule of *double arrêt*.⁷² The audit court produces an annual report on the budget execution law, which includes a statement of consistency between the accounts of public accountants and budget execution managers. The most recent report is for 2003. The audit court also produces a report on the observations of its various audits, which is forwarded to the President of the Republic and made public, as required by the Law 11/94. The most recent report of this kind dates back to 1989. The audit court has detected several cases in which work was either not done or was done improperly, even though the relevant public expenditure was subjected to all internal controls and service delivery was certified. The recommendations resulting from these audits are not effectively followed up and many notes

⁷⁰ At present the accounts of the principal government accountants have been granted a *quibus* for 1965–78, as they cannot be audited. For 1979–2000, the accounts were audited on a provisional basis, and the 2001 and 2002 accounts have been examined.

⁷¹ The audit court is currently auditing the NSSF and the NSGF.

⁷² The audit court rules by provisional order, which only becomes final if the third party produces the evidence necessary to support its allegations.

from the president and urgent applications have been ignored. On the other hand, comments made in the context of monitoring execution of the budget law are followed up.

63. The legislature discusses external audit reports and systematically follows up on audit findings. 4.2.1

The national assembly and the senate question the government both in writing and orally. They also form parliamentary investigative commissions to address specific aspects of the management of public expenditure or of government bodies. Parliamentary investigations sometimes require a level of expertise that the investigative commissions lack. The reports of the investigative commissions are not published.

64. Macroeconomic assumptions and projections are discussed primarily with the IMF, but not with other outside organizations. 4.2.2

Internal and external control of the quality of the DGE's economic forecasts is limited. Macroeconomic forecasts are not regularly subjected to parliamentary examination with the support of independent experts. In particular, oil revenue forecasts, which are based on a highly complex tax system, are not subject to any internal examination apart from the DGI and the DGH. The only external control of forecasts of macroeconomic fiscal revenue activity is provided by IMF staff during consultation and negotiation missions.

65. There is no independent national statistics agency. 4.2.3

Statistical work is performed by the directorate general of statistics, within the ministry of planning and development programming, and an interministerial statistics committee may check the data. However, there are no legal provisions guaranteeing the independence of the directorate general of statistics.

II. IMF STAFF COMMENTARY

66. Gabon partially complies with the principles of the *Code of Good Practices on Fiscal Transparency* and the *Guide on Resource Revenue Transparency*.

- **Regarding the clarity of roles and responsibilities** (Section I of the Code), the legal framework governing fiscal management is comprehensive. Although some texts are outdated, they nonetheless clearly define the roles and responsibilities of the various levels of government and the budgetary roles of the executive, legislature, and the judiciary. However, they are not always properly applied and practices quite often diverge from the content of the laws and regulations. The tax legislation is modern but complex and subject to frequent amendments that are detrimental to its consistency and transparency. The taxation of oil and natural gas is especially complicated and the management of oil revenue flows suffers from lack of coordination among the departments concerned, which seem not to have a sufficient understanding of all the technical details to ensure greater transparency in the management of oil revenue flows. Gabon participates in the EITI for natural resources, but the first report, published in December 2005 on oil revenue in 2004, covers only 60 percent of such revenue, and it excludes profit oil and revenue from mining products.

- **Concerning the public availability of information** (Section II of the Code), fiscal data are far from complete and are not readily available to the public. There is no inclination to share information and the scant information that is available is often regarded as confidential. The information systems used for fiscal management are not stable and cannot be used for information sharing, which does not facilitate modern fiscal management and decision-making. The accounting system cannot be used to prepare comprehensive in-year reports on budget execution and monthly treasury accounts are only available after long delays.
- **Regarding the openness of budget preparation, execution, and reporting**, (Section III of the Code), the annual budget process is broadly transparent. However, it deviates from international standards in several ways. The budget is strictly annual, and the current and capital budgets, drafted separately, are not prepared within a medium-term framework that is closely linked with the poverty reduction strategy. The budget does not contain an analysis of the sensitivity of projections to changes in economic variables and to the risks associated with changes in the prices of oil products, nor does it take into account potential risks such as those linked to social security and pensions. Similarly, it does not include the implicit subsidies on petroleum products or an assessment of tax expenditures. The budget documents lack clarity and transparency owing to the lack of summary statements by ministry or government function.
- **Concerning assurances of integrity** (Section IV of the Code), the control system is extensive, being supported by a legal and regulatory framework of good quality including for internal, external, ex ante, and ex post controls. However, the controls are primarily formal, redundant, and generally ineffective, as they have not allowed public expenditure to be rationalized, nor prevented misappropriations. The procurement regulations are well defined, but they are not strictly observed and penalties are not applied. There are doubts concerning the credibility of these agencies. The audit court exercises independent external control of the executive branch, and its mandate covers all government units and public sector agencies. However, its controls focus largely on conformity and the audit court does not address the effectiveness or performance of government actions. Its annual reports are submitted to parliament but they are not published. The recommendations and orders issued by the audit court following audits and investigations are not followed up. Parliament examines the audit court's reports and questions members of government, both orally and in writing. Investigative committees are sometimes formed to deal with specific aspects of fiscal management but the reports on their investigations are not published. Finally, there is no legal provision ensuring the independence of the directorate of statistics of the ministry of planning.

67. Much remains to be done to ensure that government finances are managed transparently, in conformity with international best practices.

- Given the importance of the oil and natural gas sector in the economy and its significant contribution to government finances, greater transparency is needed in this area to ensure that national institutions and the public are duly informed. Information

should be published on the size of the country's reserves; the content of contracts with oil companies; the quantities of oil and natural gas produced; how much transits via the government; the prices applied; financial flows; actual taxes, profit oil, and in-kind payments by oil companies; implicit subsidies; and any quasi-fiscal operations carried out by oil companies on the government's behalf. All this information should be published promptly and regularly, and it should be accurate. Coordination between the units and departments responsible for these various aspects should be strengthened. The second EITI report should be more complete, covering both profit oil and mining revenue, so as to comply with international standards.

- Budget preparation and presentation need to be improved to allow for a more realistic and accurate assessment of revenues and financing for the year ahead, in line with the medium-term strategy. A rolling, medium-term budget framework should be prepared, in coordination with the planning, finance, and the sectoral ministries. The framework should be revised annually when the budget is drafted, and budget appropriations should be compared with past outcomes. The duality of the operating and capital budgets prevents assessing the current year's budgetary options against past outcomes and multi-year fiscal constraints. Integration of the two budgets, as well as the ranking of priority investment programs, would provide a better sense of short- and medium-term fiscal sustainability.
- The risks associated with fiscal management and linked to debt sustainability, oil and natural gas prices, civil service reform, and the contingent liabilities of the social security and pension system sectors should be assessed and taken into consideration in the budget.
- The budget is not implemented on a timely basis owing to delays in the promulgation of the budget law, and budget operations are in fact carried out within the space of eight months. The transparency of budget execution is limited, as spending commitments are not tracked and investment projects are not monitored physically and financially. The accounting system should provide comprehensive and reliable in-year information on budget execution at its various phases.
- Parliament is insufficiently informed on budget execution, owing to the time limits specified by law for the submission of budget review laws and the lack of in-year and end-year information. The lack of summary revenue and expenditure statements clouds the clarity of the budget documents, the presentation of which needs significant improvement.

68. **To enhance fiscal transparency, substantial progress is needed in the following areas, discussed in descending order of priority.**

A. Public Availability of Information and Assurances of Integrity

Knowledge and dissemination of reliable and accurate fiscal information are essential for enhanced transparency. The following actions are recommended: 2.2.1,2.1.2,4.1.3

- Publish a quarterly summary statement on budget execution within 30 days of the end of each quarter, and provide a semiannual detailed statement on budget execution for parliament to review. A legal commitment concerning the availability of these documents to the public should be included in the budget law.
- Shorten the deadlines for the production of monthly budget execution reports. Produce an official monthly statement for the minister of finance reconciling the budget execution reports of the payment authorizing officers with financial records of the central bank, to ensure the accuracy of the data.
- Ensure that the legal and regulatory framework allows for the improvement of transparency, by making amendments where necessary.

B. Open Budget Preparation, Execution, and Reporting

Budget preparation

3.2.1

In order for budgetary policies to be effective and well understood, the budget must be prepared in such a way that the best short- and medium-term choices can be made in achieving the government's key objectives: development and poverty reduction. The following actions are recommended:

For the macroeconomic framework and policy basis of the budget

3.1.3

- Prepare monthly oil revenue projections in a framework that allows the tracking in full of the payment of oil revenues owed to the government, including in-kind payments.

For medium-term planning and analysis of fiscal risks

2.1.3, 3.1.1, 3.1.5

- Prepare a medium-term expenditure framework with a rolling timeframe covering the period 2007–09 for the 2007 budget, in conformity with the GPRSP. Rank the priorities of the diversified investment program and ensure that the GPRSP is consistent with the framework of sustainable economic policies.
- Include in the budget documents analyses of fiscal sustainability and of the contingent liabilities of the government, and more specifically, the status of the two funds (NSSF and NSGF). Adopt action plans to ensure their long-term sustainability, as well as the financial implications of civil service reforms, before they are actually implemented.
- Transparently reflect in the budget both forgone oil revenue and implicit subsidies on the prices of petroleum products.

For presentation of the budget

3.2.1, 2.1.2

- Include in the budget documentation the budget outturns for the last three fiscal years, by major category, and forecasts for the next two fiscal years. Show revenue more transparently by specifying the types of revenue.

- Clearly indicate in the *Economic and Financial Report* the new measures presented in the budget for at least each ministry, and by major expenditure category. Improve the clarity of the budget presentation by including revenue and expenditure summaries. In the 2007 budget, introduce a functional classification as an integral part of the classification of budget line items.

The tax system

1.2.2

The tax system is frequently modified, which compromises its stability. Further modernization of the tax system should be accelerated and strengthened. To improve its efficiency and management, the following actions are recommended:

- Restore its consistency, neutrality, and transparency, which are currently compromised by the large number of exemptions and exceptional arrangements. Assess tax expenditure and disseminate the relevant information.
- Accelerate the implementation of measures to modernize tax and customs management and bring practices into line with measures already adopted.
- Ensure greater transparency in the management and monitoring of oil revenue flows by enhancing coordination among the departments concerned.
- Complete the EITI report by including profit oil revenue, as well as mining sector revenue.

Budget execution

3.3.1, 3.3.2, 2.1.3

Execution of the budget should be consistent with budget estimates and supplementary budgets. It should be done in such a way as to minimize costs and promote the economic development of the country. This requires:

- Enforcing the conditions for procurement and competitive bidding.
- Expediting implementation of the budget: appropriations should be in place no later than January 15 of the new fiscal year.
- Shortening the period for treasury execution operations to a maximum of one month initially, based on the realistic programming of commitments in coordination with appropriations managers, as well as a cash flow plan.
- Merging all BEAC accounts into a subaccount of the main treasury account, in order to gain a clearer view of the government's financial assets and limit the use of statutory advances.
- Budgeting the operations carried out by oil companies on government orders, by charging certain expenditures to provisions for diversified investments.

C. Clarity of Roles and Responsibilities

A clear definition of the scope, roles, and responsibilities of general government and of the rest of the public sector is a key element of transparency. The following actions are recommended:

For general government activities

1.1.1

- In an initial stage, expand the scope of the budget by including wholly subsidized government entities. Include local government operations in the *Economic and Financial Report*.

For the civil service

1.2.2

- Disseminate the new law setting forth the GCSR and make it available to all interested parties.
- Develop initiatives related to the observance of ethical standards for public sector employees and the fight against corruption, particularly in respect of declarations of assets.

Internal and external controls

4.2.1, 3.3.3

The internal control and audit units and the external audit authorities play a vital role in the quest for fiscal transparency. Some of their roles should be expanded. To that end, the following actions should be taken:

- Establish coordination and complementarity among the various control authorities and shift the focus of control to the effectiveness of expenditure by simplifying formal ex ante controls.
- Ensure that the recommendations of control entities are followed up and that audit court reports, reports on parliamentary investigations, and audits of investment operations (especially *fêtes tournantes*) are widely disseminated.
- Eventually supplement the controls of legitimacy and conformity with evaluations and performance audits.