Gabon: Mr Serge-Maurice Pambou

The present global economic situation appears in many ways to be relatively contrasted. Whereas advanced countries are facing a very serious economic and financial crisis, African countries have registered an average growth rate of over 5%[1]. Although their economic performance remains inferior to that of emerging countries, whose growth rates vary between 8 and 10%, it nevertheless demonstrates the solidity of the efforts made on the African continent over the last few years.

However, these economies have to face many challenges, such as the demographic explosion in the urban areas, unemployment among the youth, the increased cost of food products or the poor quality of basic social services. As is the case elsewhere, the economic growth of African countries is mainly due to the stability of the raw materials prices. The recession experienced by advanced countries could have a long term effect on these economies. Moreover, they do not seem to be prepared for the enduring shift that will be coming in the business cycle trends.

In such a case, how can African countries get ready to face the coming economic shocks?

Africa has a number of choices: asking for a considerable increase in public development aid; increasing public debt; reducing public expenditure and increasing tax revenues.

Because of the economic situation in the main donor countries[2], it is unlikely that public development aid will be significantly increased over the coming months[3]. Increasing the burden of debt, on the other hand is not a viable solution and borrowing can turn out to be counterproductive for African countries. As public expenditure is not flexible because of to its' strong social dimension, taxation is the only remaining option that will allow African countries to meet the needs of their economies. In many Sub-Saharan countries, tax revenues represent on average less than 15 % of the GDP as opposed to 35 % in the OECD countries and 23 % in Latin America.

Increasing tax revenues is thus a realistic goal for these young States if they if they wish to reach the development targets they have set themselves over the last two decades.

We have chosen to examine how Sub-Saharan African countries like Gabon, can prepare themselves for the coming challenges. Consequently, we shall examine the main mechanisms that generate fiscal space. The objective is to identify possible economies on the one hand; to increase tax revenues in order to increase social welfare expenditure and to finance communication infrastructures, on the other hand.

Mechanisms that generate fiscal space

Fiscal leverage/fiscal maneuverability refers to a *'margin in the State budget that enables it to provide financial resources for a desired purpose without compromising the durability of its financial position or the stability of the economy'*. HELLER [2005].

In this regard, five main mechanisms have been identified in the specialised literature of developing countries; HANDLEY [2008]. These are: raising revenues, the reallocation of expenses, debt reduction, borrowing and concessional aid

[1] International Monetary Fund [2011], World Economic Outlook, Washington, September
[2] United-States, Countries of the European Union, Japan, in particular.
[3] The G20 countries proposed that certain countries should adopt a tax on financial transactions that could bring in about 500 billion dollars.

Raising revenues

This increase is mostly accomplished by means of two mechanisms: firstly, increased economic activity (real GDP growth) within a given fiscal system; secondly, an increased profitability ratio (average tax burden as a proportion of the GDP). The first solution is more likely to generate the highest additional income.

In spite of its lower GDP growth rate in 2009, Gabon undertook firstly, to promote the productivity and growth of its oil sector and secondly, to diversify its economy.

According to the IMF, the real GDP growth was established at 5,7 % in 2010 and should drop to approximately 5,6 % in 2011 ; and this, after a drop of 1,4 % in 2009. Moreover, thanks to the EITI initiative and its fiscal reform, Gabon plans to increase its tax revenues. All these factors enabled the country to compensate somewhat for the declining oil revenues in 2009.

Nonetheless, enhanced mobilisation of taxes is required to increase tax revenues. In this matter, it is important to know that taxation is based on three types of activities: management activities, auditing and tax collection.

In the case of Gabon in particular, audits are conducted in a traditional manner without optimal territorial networks. Moreover, tax audits only seem to target large companies. Furthermore, tax collectors are not efficient. These facts in themselves point to a number of ways that tax revenues could be substantially increased. Thus, better coordination of all the tax administration systems is required as is the case also for the customs administrations.

However, the mechanism for increasing revenues still depends mostly on the productive capacity of the country. What with the ageing of the oil fields and a forestry sector undergoing structural changes, the only opportunities open to Gabon are the fluctuations generated by the export price per barrel of oil and the dollar exchange rates.

1. **Reallocation of expenditure**

The reallocation of expenditure should be done in such a way as to advantage the highest priority expenses. These could also include gains through increased efficiency. Such as, for example, gains derived from a more efficient public finance administration.

As well as increasing fiscal manoeuvrability, the reallocation of expenses should enhance the efficiency of resource allocation; i.e. the strategic prioritisation of expenditure through policies, programs and projects in alignment with government priorities.

In this regard, stronger political commitment to social investment would contribute to the procurement of funds that have been made available thanks to improved Public Financial Management (PFM). For this purpose, resources allocated to the sectors that contribute the least to poverty reduction, should be reduced.

In any case, the promotion and effective planning of priority sectors, increases the likelihood of a country being able to mobilise resources from other sectors. Furthermore, the PFM reforms lead us to expect enhanced efficiency in the different sectors. This should allow for a rational allocation of resources to the sectors that have the best results in reaching the goal of poverty reduction.

Debt reduction

Debt reduction aims to service all or part of the country's debt stock in order to create fiscal space, rather than using the funds to honor future obligations to service the government debt.

This is a potential source of fiscal space for social welfare expenditure in Gabon. The government has in fact, committed itself to reduce its burden of debt; including the recent repayment of the greater part of its external debt. This has resulted in debt service reduction. Some of the resources that are no longer used to pay interest on the debt will be allocated to social sectors that have long been neglected because of having to service the debt. [4].

2. **Borrowing**

By making use of internal or external sources, the increase in borrowing will in turn limit the possibility of having fiscal space, as it implies future commitments as regards debt servicing and may also lead to the eviction of the private sector and thus slow down economic growth. This is what happened in the past, when debt was incurred mainly in order to finance investments, but also to cover significant extra budgetary expenditure

It is true that the government of Gabon has committed itself to debt control. But, due to insufficient resources needed for many projects, the government has chosen to go quite heavily into debt. Thus for the 2009-2010 financial year, Gabon has borrowed five hundred (500) billion Francs from local and regional banks as well as from international donors.

Almost eighty (80) billion CFAF have been borrowed in order to finance the Department of Higher Education and the Department of Technical and Vocational Education. Fifty-five billion CFAF have been borrowed for sanitation in the city of Port-Gentil. And these are just a few of the many other similar projects.

3. Increased recourse to concessional aid

The fiscal space created by aid depends on the level, duration and foreseeability of the donor's expenditure.

Although, Gabon had access to bilateral creditors, it was not able to benefit from a lot of development aid in the shape of subsidies or concessional loans. Its status as a middle-income country does not allow for that. This is the reason Gabon has always borrowed at the market rate.

However, according to the National Poverty Reduction Strategy Papers (PRSPs), the Government of Gabon is counting on the support of the international development partners in order to finance its anti-poverty strategy; particularly as regards the development of basic infrastructures and the delivery of basic social services. The international development partners played a strategic role in the middle-income countries, such as Latin America, by allowing governments to finance innovative policies and programmes for the purposes of poverty reduction (This is the case, for example, in regard to cash transfers), whilst maintaining a funding level that is not a heavy burden for the borrowers. Thus, by using the co-financing of investments strategy, rather than relying exclusively on

[4] In order to accelerate the public works policy initiated over a year ago, the government has chosen to make further heavy debts.

donor funds, it is easier to ensure that government funds are allocated for the entire duration of co-funded projects.

This analysis sheds an interesting light on potential sectors where fiscal spaces for social sector -related expenditure could be created. However, two or three elements of background data are absolutely necessary.

First of all, although the creation of fiscal space is easier in the short term, the real issue concerns longer term fiscal manoeuvrability. This is a crucial issue for investment in the social sector because human development is a process. As to expenditure related to children, for example, their needs change constantly during their whole lifespan. So for children's' rights to be upheld, they must be accompanied by various investments related to the constantly evolving social sector and to poverty reduction.

Secondly, the fiscal manœuvrability that is obtained does not ensure that funds obtained in this fashion will automatically be allocated to priority social sectors. Although the linkage of some of these priorities to the NPRSP and consequently to the Medium term development framework (MTDF), is a step in the right direction, there are still considerable difficulties in regard to the effectiveness of the allocation, because budgetary decisions continue to be basically political in nature. Therefore, the resources that are freed-up are allocated to different sectors, whether they contribute to poverty reduction or not.

Consequently, in order to mobilise resources dedicated to social sectors, the Departments in question have to improve their planning so that their personalised action plan (PAP) reflects the policies and practical programmatic actions in the sectors where disparities still exist. The said Departments must then engage more proactively with the Minister for the budget and other interested decision-makers in order to negotiate more convincingly and thus benefit from the budgetary allocations that correspond to their personalised action plan (PAP).

As well as a more proactive commitment to the budgetary processes on the part of Departments responsible for the social sector, other stakeholders, like the international partners for the development of civil society, also help to advocate for the mobilisation of resources for the purposes of poverty reduction in these sectors.