



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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SETTLEMENT OF ARREARS BY THE GABONESE REPUBLIC

Introduction

1. The present document contains a recommendation by the President of IFAD for consideration by the September 1999 Executive Board of the implementation of a plan for the settlement of arrears by the Gabonese Republic. This recommendation is based on the outcome of a visit by the IFAD Country Portfolio Manager and the agreement of the Gabonese Republic with the arrears settlement plan proposed by the follow-up letter from the Vice-President of IFAD to the Gabonese Government.

Background

2. To date IFAD has approved two loans for Gabon: (i) the Smallholder Support Project, in the amount of USD 9 million (loan 246-GN); and (ii) the Support to Rural Women Project, in the amount of USD 12.9 million (loan 415-GA). The first loan is 65% disbursed. Effectiveness of the loan was delayed until October 1993 because of the Government's lack of experience in dealing with external financial assistance to rural development. Major delays were experienced in setting up the project unit, assigning ministerial responsibilities, recruiting qualified staff and obtaining legal opinion. The second loan has not been ratified by the Government, three years after Board approval. Total IFAD assistance to Gabon amounts to SDR 15.9 million (equivalent to USD 21.9 million).

3. Gabon's extensive natural resources (petroleum, mineral, timber) provide its population of 1.1 million with an annual per capita gross national product of USD 4 450. Despite fluctuations in the price of oil and timber, GDP in real terms grew at 4.1% in 1997, against 3.2% in 1996. In view of its favourable resource position, the Government has been complacent about fundamental reforms to the economy. The budget in 1998 and 1999 was developed on the hypothesis that oil prices would stabilize at USD 16.5 per barrel. However, the trend has been falling prices, currently close to USD 10.5 per barrel, which have resulted in a huge budget deficit. Fiscal discipline and reorientation of its development strategy is now needed to overcome major budget constraints. In the meantime, the Government is defaulting on debt repayments and the implementation of development projects/programmes is not proceeding normally. Bilateral debt is particularly high, accounting for 75% of total debt. With the assistance of the International Monetary Fund, internal and external balances are being restored which should eventually allow a return to sustainable growth and the long-term diversification of the economy.



Smallholder Support Project

4. This IFAD-funded project supports activities in applied research, extension, marketing, processing, and in the establishment of beneficiary groups for income-generation and marketing activities. Research results have confirmed the better performance of local varieties, and tests are ongoing for rice and groundnuts. For extension purposes, 54 extension plots have been established and marketing has been promoted by the establishment of collection points managed by the villagers. The project is also experimenting with improved methods for sugar cane processing. There is strong demand by women producers for improved sugar cane presses promoted by the project. Under the project, a system of village-level savings/credit groups has been developed.

5. Project effectiveness was delayed until October 1993 because of the Government's lack of experience in dealing with external financial assistance to rural development with regard to setting up the project unit, assigning ministerial responsibilities, recruiting qualified staff and obtaining legal opinion. Implementation results of the Smallholder Support Project (APG) are modest but encouraging. However, as at 15 May 1999, USD 1.1 million was overdue. Therefore, loan 246-GN has been under suspension since 1 September 1998. Moreover, the government counterpart funding for the project has often been delayed and generally provided at a less than adequate level. The provision of counterpart funds for 1997 and 1998 is in arrears and an amount of CFAF 400 million is now overdue. Moreover, implementation has suffered because of the weak performance of local staff, who have difficulty in working at the grass-roots level with smallholders and their emerging organizations. There is also an urgent need to improve the management and financial control of the project, if it is to achieve some of its development objectives. Taking into account the late project start-up (following Board approval in 1989 and effectiveness only in 1993), project closing has been extended by 18 months up to 30 June 1999. Due to the suspension, IFAD has not been able to undertake any of the recommendations *vis-à-vis* an amendment to the loan agreement, a reallocation of loan funds and a streamlining of project activities as recommended by the mid-term review of May 1997, the portfolio review of August 1998 and the interim evaluation of October 1998.

Support to Rural Women Project

6. Three years after IFAD Board approval, the Government has not ratified the project. With no decisive progress made in this respect, arrangements for cancellation of this loan as per IFAD rules have already been initiated.

Arrears

7. Notwithstanding IFAD follow-ups, it appeared that the Gabonese Government was not in a position to settle the full arrears. Consequently, an IFAD mission visited Libreville in May 1999 to find a suitable solution to the delinquency problem and to avoid further disruption in project implementation. The mission held discussions on the arrears question with the Minister of the Economy, Finance, Budget and Privatization, the Minister of Agriculture, Livestock and Rural Development, and other officials of these ministries, as well as the APG project coordinator and staff. During discussions, it was confirmed that the Government wished to resolve the arrears issue so that IFAD could resume its lending activities in the country. The Government recognized the importance of new and prompt IFAD lending to agriculture and rural development, as a priority sector, when suspension is lifted. Despite implementation problems, the Government has emphasized that while its institutional capacity is insufficient to expand assistance, ongoing activities need to be actively pursued to support the long-term development of the agricultural and rural sectors.

8. The IFAD mission proposed that in order to maximize results from the APG, IFAD would be prepared - in accordance with its new policy on arrears - to consider a flexible arrangement whereby



the arrears could be settled over a reasonable period of time. IFAD's tentative proposals on conditions for the lifting of suspension were based on an initial down payment of the arrears and the balance payable in subsequent instalments. The Gabonese Government agreed to the proposal's approach and a scenario of repayments of arrears was officially communicated to be studied further by the Government.

9. Once the lifting of suspension can be reached with the Government, a mission will be fielded to the country and a workshop will be organized to review the outcome of previous missions and discuss the scope and direction of future interventions in the country. The Country Portfolio Manager is maintaining contact with the Ministry of Agriculture Livestock and Rural Development in order to ensure a prompt start-up of activities as soon as the arrears issue is settled.

Recommendation

10. In consideration of the above, and in accordance with IFAD procedures and consistent with the IFAD policy framework approved by the Twenty-First Session of the Governing Council of 11-12 February 1998, it is recommended that: (i) the Executive Board approve a settlement plan for a total arrears of FRF 5 968 805.07 (approximately USD 977 454.09); and (ii) given the principle of zero net present value (NPV) loss, the Government settlement plan include the NPV loss to IFAD.

11. The settlement plan includes the following:

- (a) total arrears as at 15 May 1999 was FRF 5 968 805.07;
- (b) the NPV of the arrears under the plan is FRF 6 570 236.26;
- (c) the NPV value of the total arrears, FRF 6 570 236.26 (approximately USD 1 095 039.00) will be paid as follows:
 - (i) one down payment of FRF 2 093 632.88 to be paid to IFAD by 31 July 1999;
 - (ii) the remaining amount will be paid in three installments as follows:
 - first due on 15 January 2000: FRF 1 492 201.13
 - second due on 15 July 2000: FRF 1 492 201.13
 - third due on 15 January 2001: FRF 1 492 201.13
- (d) the Gabonese Government's assurance that billing for all loans will be honored when due in accordance with the conditions of the relevant loan agreements, beginning 31 July 1999;
- (e) regarding Executive Board approval of the plan and payment mentioned in point (c)(i), IFAD will lift suspension on the APG project and will proceed with payment of all pending applications; in addition, an IFAD mission will be fielded immediately to re-examine project implementation issues and to identify areas for new operations;
- (f) in the event of the country's economic improvement, the Government could accelerate the repayment of the arrears; and
- (g) suspension will be applied in case the borrower does not honor its obligations within 45 days of due date as regards the agreed rescheduled payments as well as the regular billings for all loans.