PN-AAU-179
ISN 43076

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INVESTMENT CLIMATE ASSESSMENT

GABON

Prepared under
AFR-0438-C-00-5007-00
for the
United States Agency for International Development
Africa Bureau, Office of Private Enterprise

November 1985

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Management • Economics • Research • Education & Training
New York • Washington, D.C.

INVESTMENT CLIMATE ASSESSMENT

GABON

Submitted to:

AFRICA BUREAU/OFFICE OF PRIVATE ENTERPRISE

AGENCY FOR INTERNATIONAL DEVELOPMENT

Prepared with the assistance of
Roman Semkow
Mark S. Weber

PREFACE

This report is one of a series of assessments of the investment climates in several sub-Saharan countries funded by the Private Enterprise Office, Africa Bureau, USAID Washington through the Africa Private Enterprise Fund. The assessment was undertaken at the request of the U.S. Embassy Libreville and the Government of Gabon (GOG).

A two-person team of consultants was sent to Gabon in June 1985 for a period of three weeks to interview business and government leaders in the country so as to obtain their candid views of the environment for private enterprise development.

The objective of the investment climate assessments is to provide AID with background information necessary to formulate programs which will help African countries improve the business climate and promote local and foreign private investment, thereby more effectively utilizing the private sector in achieving national development goals.

The report is divided into three chapters:

1. A critical examination of GOG policies, regulations and procedures that may promote or constrain private sector development;

2. A short review of basic economic market and resource factors that also influence investment decisions, and

3. Conclusions and recommendations.

ACKNOWLEDGEMENTS

This report is based on the findings of a two-person DIMPEX ASSOCIATES, INC. consulting team financed by the Africa Bureau, U.S. Agency for International Development, Private Enterprise Office through the Africa Private Enterprise Fund.

The team members were:

Mark S. Weber, independent consultant with 25 years of international business consulting experience, including five years living in Gabon and Ivory Coast with project work in the Central African Republic, Cameroon, Congo, Benin, Togo, Upper Volta (now Burkina Faso) and Niger. Prior to undertaking a career as an independent consultant, Mr. Weber was an executive involved in planning and implementing worldwide non-petroleum investments with Texaco, and was also with Ford and Thompson-Ramo Woolridge.

Roman Semkow, also an independent consultant in business development, project management, economics of operations, and venture capital operations. During the early 1980's he was industrial development advisor to the Mauritius Government. Prior to that he was advising international corporations and governments on investment promotions, relocations of industries, and efficiency studies. For example he was advisor to the Board of Directors, Lambropoulos Brothers, Greece and Senior Engineer, Science Management Corporation, where he was responsible for consulting operations in Europe and North Africa.

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Executive Summary

Gabon is a politically stable, economically prosperous oil producing republic with a population of 1.2 million and a per capita income of close to $3,000, the highest in sub-Sahara Africa. The country's strong balance of payment position and conservative financial practices have made Gabon one of the most creditworthy countries in Africa. The Government has consistently favored private enterprise and encouraged foreign investment.

The country is highly dependent on its petroleum resources. Oil makes up 84 percent of the value of exports, accounts for about one-half of the Gross Domestic Product, and provides 60 percent of government revenue. Other important sources of wealth are minerals (manganese and uranium) and timber which account for most of the remaining export revenue.

In recognition of its high dependence on oil, and aware that in future years oil prices may continue to fall and production ease, the Government is hoping to diversify the country's economic base with emphasis on agriculture, forestry industry, and new mineral exploitation. The Government is counting on private enterprise to achieve the diversification goals. The government role is to improve the infrastructure, especially transportation systems. In 1984, nearly 40 percent of the government's $656 million development budget will go toward completion of the Transgabon Railroad, and another 14 percent will be used for roads, principally feeder roads to connect with the railroad.

Despite the advantages of political stability, favorable foreign exchange and trade regulations, and conservative government fiscal policies, the business climate in Gabon has not been sufficiently attractive to encourage the development of a strong private enterprise sector. The non-petroleum private sector income totals only about $450 million compared to a Gross Domestic Product of $3.3 billion.

Growth has been impeded by such economic and market factors as the small size of the internal market, the inability to penetrate both interior and neighboring markets due to inadequate distribution infrastructure, a shortage of Gabonese workers at all levels from management through unskilled labor, the extremely high cost of workers (as much as ten times higher than in other West African countries), and an almost complete lack of local medium and long term financing.

While these factors are important deterrents to broad based industrial and agricultural development, business leaders believe that governmental policies and practices also severely handicap the private sector and discourage investment. Principal governmental factors constraining business development relate to the country's labor laws, the highly complex and bureaucratic procedures involved in establishing a new business, interference with the free market through price and profit controls, and finance regulations. Specific complaints are as follows:

o The present bureaucratic structure of the Investment Approval Commission requires too many inputs from various Ministries, often with conflicting policies, and exposes the proprietary information of the investor to too many foreign advisors -- mostly French counselors. The approval process often takes in excess of 18 months prior to the first stage of financial discussions and approvals. Many potential investors have decided to abandon their proposed projects under such conditions.

o The provisions of the Investment Code dealing with duty free importation of capital equipment, raw materials and semifinished materials as well as deferring taxes on profits, license fees and interest in Gabon are usually limited to five years -- although renewal may be granted. This does not reflect the competitive situation vis-a-vis other countries seeking foreign investment, nor does it take sufficiently into account the need for more capital-intensive investment because of high labor costs.

o The recent Ministry of Planning's insistance that investors provide their own infrastructural needs for projects, especially agriculture, in the interior of the country has discouraged many potential foreign investors.

o The GOG is pressing private businesses to Gabonize more rapidly than qualified Gabonese can be trained resulting in double employment or a qualification vacuum.

o The availability of local capital, in the form of equity and loans, is severely limited largely because of GOG regulations on interest rates and length-of-term on loans and savings. Gabon, while being a net capital generator from petroleum exploration and exploitation, dissipates this advantage on foreign transfers and services.

o Government price and profit controls seriously distort the free market and generally discourage investment.

o Improper definition and promotion of investment opportunities. Based on its discussions in Gabon with business and government leaders, the U.S. AID assessment team recommends a six-point program focused on improving the investment climate so as to encourage both indigenous and foreign investors to form joint ventures in industry and agriculture. These recommendations include:

(1) Revision of the laws and codes regulating business formation;

(2) Establishment of programs to educate and train entrepreneurial, managerial and technical personnel;

(3) Clarify the "Gabonization" program to assure private business that they will be permitted to use expatriate workers until qualified Gabonese personnel are available;

(4) Continued budgetary allocations to infrastructural development, especially distribution systems to and within the interior of the country;

(5) Development of local capital markets;

(6) Privatization of state enterprises; and

(7) Sectoral studies and follow-up promotional activities aimed at defining and implementing profitable joint venture projects.

I GABON GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES

Political Stability and Risk

Gabon has been politically stable since independence in 1960. The Republic has a presidential form of government with a single political party and strong concentration of powers in the executive branch. The current president and head of state, El Hadj Omar Bongo, has been in office since 1967 when, as vice president, he assumed the office of president by automatic succession after President Leon M'Ba died in office of natural causes. Subsequently, Bongo has been reelected for two additional seven-year terms and should succeed himself for a third in 1986.

Under Bongo, the country has enjoyed a period of strong economic growth based largely on its petroleum exports. Although real growth has been stagnant in recent years, per capita income is close to $3,000, the highest in sub-Sahara Africa. The Bongo government has consistently favored free enterprise and foreign investment, a policy of strict financial discipline with respect to government expenditures, and a moderate foreign policy, and close commercial and social ties to France.

Political stability and continuity of economic policies, according to business and government leaders interviewed, have been major factors in encouraging the development of the private sector in Gabon, particularly in the petroleum and mining sectors. Most of those interviewed believe that the political stability will continue under Bongo's leadership, and that basic governmental policies with respect to free enterprise will remain in force.

National Development Priorities

The economic development policies of the GOG are embodied in the current National Development Plan for 1984 through 1988. The plan emphasizes the need to develop the non-oil production sectors, especially agriculture, mining, forestry and industry, through private sector initiatives. The GOG does not intend to make significant direct investments in these sectors. Rather, the largest segment of government expenditures will be on infrastructure, with the highest priority on transportation. The plan provides over U.S. $1.4 billion for this purpose, about 50 percent of all planned investments. Most of this amount is ear- marked for the ongoing construction of the Transgabon Railroad, slated for completion within the plan period.

Despite these liberal policies toward free enterprise, private investment in non-petroleum sectors has been extremely limited. Agriculture and industry have been particularly slow to develop. This is due to circumstantial factors such as the small size of the domestic market, inadequate transportation, the lack of manual labor, and high labor costs. However, business leaders believe that a number of governmental policies and practices also discourage investment which could be corrected relatively easily. Adjustments of these policies and practices is necessary to put meaning behind the Gabonese public policy of welcoming investment. While such changes would not guarantee a greater level of foreign investment, they would make the Gabonese investment climate significantly more competitive as a prospective investment site.

Although business leaders support the private enterprise policies stated in the plan, they feel that these announced policies are of only minor importance in attracting new and more diversified investments. They claim that the government's stated policy is hampered by the government's insistance on free equity participation in new ventures, a complex investment code, and excessive government regulation in business operations.

Business Formation and Investment Incentives

Gabon advertises that it has an open economy that actively encourages both local and foreign private investment. However, in practice it is difficult and time consuming to establish a business, especially if investment incentives are desired.

The law requires that any entity establishing a business in Gabon, including sub-contractors on projects of over two years duration, branch offices of a foreign firm, and sales representatives, be subject to the prior approval of the Ministry of Commerce and Industry before it is permitted to operate. If the Ministry agrees that a new company can be formed, ten percent of the initial equity must be transferred to the government without charge. Also, the government must be given the option to purchase up to fifty percent of the equity at a fair market price. There have been no cases of the government exercising this option. However, it does own up to 25 percent of some oil companies and about 38 percent of COMILOG, Gabon's manganese mine.

Firms established in Gabon with significant foreign equity operate on an equal basis with Gabonese owned firms, and there are no restrictions as to their areas of activities. New industrial, farming, forestry and mineral operations have the benefit of income tax exemptions for the first two years of operation, and a fifty percent reduction the third year.

The laws dealing with corporations and partnerships in Gabon tend to follow the general outline of the French laws on this subject. Joint ventures between a Gabonese citizen and a resident of either France or one of the other france zone countries are often exempted from the normal requirements necessary to establish a new company in Gabon. In fact, Gabonese officials claim that for investments having significant development impact, they are willing to negotiate any reasonable terms to get the operation established. However, facts do not appear to bear this out.

For example, to attract American investment in the petroleum field, Gabon negotiated special agreements with several major petroleum operators and companies in the petroleum service field which allows them to operate within Gabon without either a French based or Gabonese domiciled company structure. American private petroleum service companies are presently operating in Gabon as branches of their parent organizations or as non-domiciled contractors.

Investment Incentive Code

Gabon has an Investment Incentive Code which was enacted in 1961 and revised.in 1967. The code provides tax incentives and reductions in import duties on raw materials and capital equipment. In order to qualify for these incentives, the applicant must give proof to the government that the project would not be economically feasible without the incentives (or "subsidies," as they are referred to by the government). Even if the need for subsidies is proven, the applicant must also show that the GOG will recover its "investment in subsidies" over the life of the project, including interest at existing market rates.

This requires a detailed feasilility study projecting cash flows over the life of the project. It is not at all unusual for project proposals to await review for over 18 months and then be returned because of some" perceived" error in the study. Currently, the team was told, about 80 percent of the feasibility studies are being returned because of "inadequate preparation or structure."

After staff review, the investment proposal must be approved by the Investment Commission, composed of three Ministers, four Representatives of the National Assembly, two representatives of professional organizations, the Planning Commissioner and the Directors of Economic Affairs, Taxes and Customs. All must agree to the investment package.

The formal meetings of the Commission, from whence the proposed project will go forward to the Council of Ministers and the President, while being scheduled on a quarterly basis, appear to be held less frequently. Even upon the approval of the Commission, and that of the Council of Ministers, all concerned government agencies must be consulted before final approval can be given.

For instance, the employment structure and the company's use of expatriate professionals must be separately negotiated with the Ministry of Labor. The projections of future income generation, and the resultant taxes must be checked against the Government's losses in revenue from duty-free privileges and income taxes -- both with regard to the project itself, and in comparison to the duties and taxes presently being collected under the existing situation where the product is imported.

A separate track of approvals is required for financial transactions -- loans, license fees, repatriation of earnings, expatriate salaries, etc. These must be made with the Ministry of Economy and Finance, together with a local banking organization which will agree to monitor the transactions. Although in theory, the financing of a project could be negotiated at the same time as the approval for the investment, in practice it is more practical to wait the 18 months or so required for the investment approval before starting on another 18 months or so for all the financial approvals required.

"Clearly, with such complex and time consuming procedures," one Gabonese businessman noted, "all but the most persistent entrepreneurs decide to abandon their projects under such an intense public scrutiny. Only those who have an exceptional amount to gain remain persistent." Most business leaders and several government officials acknowledged that the approval process for starting a business and obtaining incentives is a major deterent to broadly based private sector development in Gabon. There has been talk of introducing a new Code - one more favorable to potential investors and less complex and time consuming - but, to date, no such Code has been drafted.

International Trade Relationships and Agreements

Gabon's foreign policy and international trade and investment relationships are strongly influenced by its close ties with France. The local laws and institutions are French in form and essence, the local currency is pegged to the French franc, and French is the offical language of the Republic. France remains the country's main investor and trading partner. These ties are maintained by a continuous presence of about 1,000 French government advisors as well as by French senior executives in most large private corporations.

Gabon is a member of the Central Africa French franc zone along with the Central African Republic, Chad, the Congo and Cameroon. These countries share a common currency (the CFA franc). issued by a common central bank (BEAC), which is pegged to the French franc at the rate of 50 CFA to the French franc. Convertability is guaranteed by the French treasurer.

Membership in the Franc zone is a major positive factor to Gabonese businesses involved in international operations. All international remittances denominated in French francs or CFA are practically free of foreign exchange controls including remittances of profits and fees, and both import and export transactions.

Gabon is also a member of the Central African Customs and Economic Union (UDEAC). It is an Associate Member of the EEC through the Lome Convention, and is a member of the General Agreement on Tariffs and Trade (GATT). Patent and trademark protection is granted through Gabon's membership in the Paris Union International Industrial Property Convention.

The Overseas Private Investment Corporation (OPIC) provides inconvertability, expropriation and war risk insurance to U.S. investors for projects approved by OPIC.

In summary, Gabon has maintained good external trade and business relationships. These relationships, especially its membership in the French franc community, could be a significant positive factor in attracting investors if policies and practices relating to business formation were improved.

International Remittances

As discussed above, Gabon maintains an exchange system that is free of restrictions on payments and transfers for international transactions as long as they are denominated in French francs or CFA. All other currency transaction require prior approval by the Ministry of Finance, and in some cases, by the French Central Monetary Authority. Normally, such approvals are granted promptly.

Transfer of income accruing to non-resident foreigners are relatively free when the basic transaction has had prior approval of the Gabonese Government. This is one of the advantages of an approval for one of the preferential Investment Incentive Codes.

Loans and capital repatriation, provided the entire transaction does not exceed 50 million CFA (about US $100,000), can be made without full approval of the government; only that of the ministry of Finance is necessary. However, export earnings and proceeds from any transaction outside the Franc Zone must be surrendered to the Government. No internal bookkeeping transfers between local and foreign affiliated companies are permitted outside the banking system.

Business executives in Gabon generally consider the international remittance policies of the GOG to be quite liberal relative to most other African countries, and highly favorable to business operations.

International Trade Policy

Those interviewed for this report have noted that Gabon has a very open trading policy which allows unrestricted trade with both western and communist bloc countries.

Imports of consumer goods are primarily from France. This is the result of a natural preference of the French foreign community -- one of the biggest consumer populations -- for products that are familiar. It is also reinforced by several important commercial relationships with France. For example, many companies being branches or subsidiaries of the French parent company can be assured that container and air freight deliveries are made on regular schedules from France.

French influence in commercial and economic relations continues to remain very strong. According to the International Monetary Fund, between 1981 and 1984, the share of total Gabonese exports that went to France increased from 19.8 to 25.1 percent and the share of total imports that came from France increased from 42.5 to 54.5 percent. This is primarily the result of the devaluation of the franc vis-a-vis other hard currencies during this period.

Imports from countries outside the Franc Zone may be subject to foreign exchange deposits with the Finance Ministry or, at the very least, prior approval of the transaction. It should be noted that American manufacturers who have successfully penetrated the Franc Zone market have usually done so through French-owned sales companies. Even the Japanese, who attempted to sell direct to Gabon in the early 1980's, eventually decided to go through French intermediaries and have subsequently been very successful.

Import duties are an important revenue source for Gabon. Custom duties are levied at ad valorem rates from as low as three percent (for enterprises under the special Investment Incentive Code) to over 100 percent in the case of certain luxury items. In addition, fiscal duties, generally between five and thirty percent, are levied on imports.

In general, business executives believe that Gabon's international trade policies are relatively favorable to companies located in Gabon. Although they feel that duties are high, at least they know the rules and can plan accordingly with the assurance that they can import as necessary to keep their businesses operating.

Taxes

Because of the high GOG revenue from petroleum, manganese and uranium exploitation, only about one-third of the government's annual revenue comes from import duties and fiscal taxes. Generally, corporate and personal income taxes are similar to those in neighboring countries.

Corporate taxes are 45 percent on profits, plus an additional ten percent surcharge for the Development Fund. Taxes on corporate remittances for interest and dividends are 18 percent; on the salary and wage bill, five percent; and turnover taxes (sales taxes) vary from four percent on construction, eight percent on normal transactions, to 15 percent on services and 21 percent on arts and sports. Repayment on loans and interest payments are limited based on reported profit. There is also an additional "Internal Consumption Tax" for companies benefiting from Investment Code Incentives.

Individual incomes are taxed on a progressive scale, reaching 60 percent for annual incomes over 15 million CFA (about $33,000). However, in calculating taxes, a "family" system is used. Total family income is divided by the number of persons in the family, tax is calculated on one part, and then mutiplied by the number in the family.

Generally, business leaders contacted in Gabon felt that Gabon's tax regulations and rates are slightly high relative to other developing countries trying to attract foreign investments, although in-line with neighboring countries such as Cameroon. Consequently, they believed that this factor is probably a deterrent to attracting foreign investment, although not as significant as other factors. More significant is the lack of meaningful tax holidays and incentives in the investment code.

Labor Laws

In general, the labor law is very protective of employee's rights and interests. Sick employees with seniority are guaranteed their wages for six months. Dismissal and retirement termination payments are high, twice those in France, for example.

The government goal is that all employment will eventually be held by Gabonese nationals. Currently, according to labor statutes, before employment of a foreign worker is permitted, including management staff, the non-availabilty of Gabonese workers to do the job must be proven with the Ministry of Labor. Prior to the granting of a temporary residency and work permit to a foreigner, a Gabonese must be nominated to the position, a training program must be planned, and, in some cases, a date for the Gabonese to "take over" must be agreed upon. As of 1985, every business operating in Gabon had to file a Gabonization plan.

The current minimum wage for Gabonese workers is 65,000 CFA which is composed of the following items:

- o 45,000 CFA basic monthly salary,
- o 15,000 CFA "prime" bonus for Gabonese, and
- o 5,000 CFA transport bonus.

The minimum wage for non-Gabonese workers is the same except the 15,000 CFA "prime" is not required.

Because of the scarcity of qualified workers, actual pay rates in various Gabonese companies run between 45 percent to 85 percent premium over the basic labor rates. In addition, when absenteeism and holidays, and termination benefit are added into the monthly-paid wage scales, it is estimated that a semi-skilled laborer costs U.S. $2.50 per hour in Gabonese industry. Similar estimates were made for labor in agriculture, which approximated $1.50 per hour at a lower level of skill. This compares to about $1.00 <u>per day</u> in Ghana, $2.00 per day in Cameroon, and $3.00 per day in the Ivory Coast.

While the mission was in Gabon, one of the frequent topics from the speeches of the President was the preference of Gabonese nationals for higher education over technical training (the technical school is not fully subscribed), and for Government positions over private employment. Completion of the University curriculum requires that the graduate serve his country for at least a limited period. If the graduate can secure a post in an expanding ministry or other Government organization, he or she can be reasonably assured of lifetime payroll security. The employment in a Government position does not necessarily require regular job attendance. Present Government employment stands at approximately 26,500 Gabonese. This is not inclusive of 17,500 foreign (African) contract labor in the public works and construction organizations. Total salaried employment in Gabon is estimated at about 141,500. The share of employment by the Government is therefore in excess of 30 percent, and is relatively greater than in the United States, including local, state, federal and military employment.

Libreville has many young who have completed their course of study and who are now seeking government employment. The GOG is attempting to place as many of these as possible in the private sector. For example, recently, due to a surplus of trained nurses (aide level, not registered level), all enterprises with over twenty-five employees will be required to have a trained nurse on the premises during all operating hours. This decree, published in June 1985 was in Gabon, changes the requirement from a level of 50 employees. That in turn was changed from a level of 100 employees several years ago.

Business executives complain that the GOG is pressing the private sector to Gabonize more rapidly than qualified Gabonese can be trained, especially in the white collar categories. Since the Gabonese employees are often not qualified for the positions, this results in either double employment (a qualified foreigner and a Gabonese-in-training in the same position) or a qualifications vacuum when the GOG refuses to grant a work permit for a qualified foreign worker.

Another problem is that the Gabonese generally refuse to be employed in entry level positions and work their way up to senior positions. Thus they are unable to become qualified through on-the-job training and experience.

As will be discussed further in the next section of this report, the scarcity and high cost of labor is a major deterrent to investment in Gabon. Government regulations with respect to fringe benefits and termination payments aggrevate the situation. Furthermore, while long term goals with respect to Gabonization are understandable, insistance on appling Gabonization policies prematurely could create further labor shortages. Those interviewed generally agreed that the government's labor laws and policies are a major negative contribution to the business climate.

Government Controls and Interference

Gabon has a private sector oriented economy and publically ercourages foreign investment. Unfortunately, although it wants to attract private investment, both foreign and local, some business leaders complained that the GOG has a vast array of controls which discourage new investment and are harmful to existing businesses.

In addition to the labor regulations and the complex investment code discussed above, the Government also has price and profit controls in the form of fixed prices and mark-ups, with severe penalties for transgressors, including prison sentences. Where prices are fixed on locally produced raw materials, business executives reported instances where sufficient margins were not allowed to permit profitable local manufacturing operations.

Also, the availability of local capital -- in the form of equity loans -- is severely limited in part due to Government regulations on interest rates and length-of-term on loans and savings. The Government's refusal to allow free market forces to establish interest rates and tenor of loans is considered by some business officials and diplomats as a significant constraint to private investment.

The Government has also begun to demand that substantial investments in infrastructure accompany any new industry -- especially agribusiness -- projects. To qualify for Investment Code Incentives now, it may be determined that the investment must be made in some area other than the urban centers of Libreville or Port Gentil. Since the outlying areas contain little or no infrastructure, the cost of the project would have to be increased to provide these facilities.

The GOG requires an entry visa from business people, with the exception of those from France and West Germany. It routinely takes at least three weeks to obtain one from Gabonese embassies or the nearest French embassy in cases where Gabonese diplomatic services are not available. Detailed justification of the purpose of the visit is required. Interviewed Government officials agree that very few American businessmen would be willing to part with their passports for that length of time and submit themselves to indiscreet inquiries. The commercial section of the U.S. Embassy in Gabon documented 14 recent instances of Americans declining to visit Gabon under such conditions.

Taken in total, government interference, while clearly annoying to the business executives, is not as serious in Gabon as in such countries as Ghana, Cameroon and Madegascar. These are countries recently surveyed by other Africa Bureau assessment teams. However, the Gabon Team does consider this factor as a moderate deterrent to private investment, especially with respect to potential foreign investors.

Investment Promotion Activities

Gabon's major investment promotion activities are carried out by the Gabonese Center for Exterior Commerce. The Director travels frequently to countries likely to produce foreign investors. For example, Franco-Gabonese and German-Gabonese Days were held to promote potential investments. Similar investment promotion activities are contemplated in the U.S. So far, with the exception of the petroleum sector, Gabon's investment promotion activities have seen little success. While this may be explained in part by the small domestic market and high labor costs, business executives and diplomats say that the GOG has not presented well organized investment opportunities to potential investors. As a result, little interest has been shown in the proposed projects.

Summary

In summary, of the ten categories of factors relating to government policies, regulations and procedures, the team found that four were of major or moderate importance in encouraging investment in private enterprise in Gabon. The most important is the stability of the government and continuity of policies; second most important is the category "international agreements", and, specifically, membership in the French franc area. This membership, in turn, allows a liberal foreign exchange policy with regard to both remittances and trade.

The three principal factors which were considered to inhibit private sector development were the procedure relating to business formation, especially with respect to the Investment Incentive Code, excessive government controls and interference, and overly costly and protective policies toward labor.

In general, the business community of Gabon believes that it has a slightly more favorable climate with respect to government than that of business in most other countries in sub-Sahara Africa once a business has been established, provided it has the advantages of the Investment Incentive Code. However, the major government related problem to attracting new investment is the complex and lengthy approval procedures involved in getting a new business started.

Table 1

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO GOVERNMENT POLICIES, REGULATIONS AND PROCEDURES IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT IN GABON.

Factors	Considered as Favorable			Considered as Unfavorable		
	Degree of Importance			Degree of Importance		
	Major	Moderate	Minor	Major	Moderate	Minor
Political Stability & Risk	X					
National Development Priorities			X			
Business Formation & Investment Incentives				X		
International Agreements	X					
International Remittances	X					
International Trade Policy		X				
Taxes						X
Labor Laws				X		
Government Controls and Interference					X	
Investment Promotion						X

Source: DIMPEX Associates, Inc. based on results of interviews in Gabon, June 1985.

II BASIC ECONOMIC, MARKET AND RESOURCE FACTORS

Economic Stability and Growth Prospects

Although Gabon's economy has seen little real growth since 1981, largely due to depressed oil prices, the country continues to be one of the most creditworthy countries in Africa. In 1984, according to GOG statistics, Gabon's Gross Domestic Product was $3.3 billion and its population was about 1.2 million, resulting in a per capita income of $2,800, the highest in sub-Sahara Africa.

Since 1978, the Gabonese government has followed conservative fiscal policies aimed at restraining government spending and reducing the nation's foreign debt. The Government's long-term goal is to maintain this policy.

Petroleum production dominates the economy accounting for close to 50 percent of the GDP, about 84 percent of exports and over 60 percent of total government revenue. Oil production is expected to remain stable or even increase after 1986 if recent oil finds by Tenneco, Elf, and Shell prove to be significant.

For planning purposes, the government is conservatively projecting a decline in oil production in the near future. However, oil industry representatives are much more optimistic and believe that Gabon will continue to produce large quantities of oil well beyond that period.

In addition to oil, Gabon's non-oil resources - timber, uranium, manganese, and, possibly in the longer term, iron ore - are expected to provide a steady flow of income well into the 21st Century.

Although private investment has been strong in petroleum exploration and drilling, private investment in agriculture and manufacturing combined has been negligible, less than eight percent of the total.

In large part, the reasons for the lack of investment in these sectors are the lack of domestic and neighboring markets, the shortage and high cost of labor, inadequate infrastructure, and the almost complete lack of capital markets. These factors and others are discussed below.

Market Factors

Virtually all of Gabon's physical output - petroleum, minerals and forest products - are exported in the form of raw materials to the world's developed countries. Agriculture and manufacturing production account for less than nine percent of the GNP. Investment in these sectors has been slow largely because of Gabon's lack of internal and neighboring markets, its poor internal distribution systems, and high cost of production.

Of the total population, officially estimated at 1.2 million, only about 250,000 are in the accessible markets of Libreville and Port Gentil. The remainder of the population are mostly subsistance farmers located in the interior regions. Some live in small towns, but most live in very small villages in the forests. Transport throughout the country's interior is severely hampered during the rainy season because most of Gabon's roads in the interior are unpaved laterite.

While GOG officials frequently mention that the countries of the Central African Custom Union (UDEAC), composed of Gabon, Cameroon, the Congo and the Central African Republic, represent a potential market for Gabonese products, there is little prospect of developing the UDEAC market in the foreseeable future. At the present time the potential purchasing power of this community is limited and many political and economic obstacles must be overcome to achieve UDEAC's goals. According to the recent IMF Direction of Trade Statistics, the 1984 figures reveal that Gabon's exports to the UDEAC community amounted to only 2.1 percent of its total exports or roughly US $10 million, and these consisted almost entirely of petroleum products and services. Gabon obtained less than one percent of its total imports from UDEAC, or about US $7 million. Gabon's export to the UDEAC countries consisted of petroleum products and services. With the Cameroon and the Congo now exploiting their own crude oil reserves and their own refineries now operational, this export market will be reduced.

Thus, a major constraint to the development of manufacturing and agriculture in Gabon is the lack of markets to support such activities.

Economic Base

The country's economic base is narrow and highly sensitive to fluctuations in world market prices of non-renewable resources and to exchange rate movements. In essence, Gabon's economy depends on a few foreign-controlled, capital-intensive oil and mining consortiums operating in a soft market.

Manufacturing

The small manufacturing sector is dominated by foreign owned companies, principally French. In 1984, total manufacturing value added was only $ 110 million, three percent of GDP. Of this amount, tobacco and beverages accounted for about one-third of the total and woodworking slightly under one-third. The remaining third was spread relatively evenly among construction materials, metal working, petroleum products, and food processing.

Because of the slow growth in manufacturing, the government has initiated a number of projects. Due to faulty project analysis, many have failed or did not materialize after substantial investment. In fact, no government initiated businesses could be identified which have thus far succeeded in operating profitably.

The GOG is now anxious to encourage private development of industry in such areas as glass, matches, pharmaceuticals, paper pulp and light bulbs. The current five-year plan projects a total investment in the industrial sector of $250 million. This figure is highly optimistic considering that only about one-half that amount was invested by the private sector in industry since 1980.

Most of those interviewed in Gabon believe that future growth in the country's manufacturing sector will, with a few exceptions discussed below, be limited to small and micro industries catering to local markets.

Agriculture

Less than one percent of Gabon's land area is under cultivation largely because of a shortage of agricultural workers and lack of adequete transportation to the major markets. As a result, Gabon imports about 50 percent of its food requirements.

Most of Gabon is tropical rain forest and the Gabonese have very limited experience in crop and animal production. Primary food sources for the local population consists of tubers (manioc, taro, igname, sweet potatoes), plantin, fish and wild game. Since the early 1970's, when the increase in petroleum revenues turned Libreville and Port Gentil into cosmopolitan urban areas, there has been a rural exodus of the young and a pronounced shift in dietary preferences to imported cereals, meats and vegetables.

The Government is focusing on agricultural development in its current Five Year Plan with a total capital outlay of US $270 million projected. The emphasis is towards Gabonese self-sufficiency in food production for local consumption, and tropical cash crops for export, the latter oriented towards plantation-type crops such as oil-palms, rubber, coffee and cocoa.

Although recent figures are not available, private investment in agriculture averaged about $23 million per year in the 1980 to 1982 period. The goal of $270 million for the 1984 through 1988 period appears to be high in light of insufficient labor and infrastructure in rural areas.

Agricultural development in Gabon has only taken place since the late 1970's. Thus far the most significant agricultural projects are limited to about one-half dozen parastatal organizations involved in cattle, poultry, palm oil and hevea production; sugar production and refining; and a pilot tropical fruit project. With the exception of the poultry project, which is highly protected by the government, Gabon's other major agricultural projects have thus far required considerable government financial support.

There has been a significant amount of interest by outside investors in agricultural development projects. However, no significant investments have been made since no proposals have yet been developed which appear to be profitable. A major reason for this is that investors have been asked by the Ministry of Planning to develop the necessary infrastructure to support the projects. As a result, investors have lost interest because of the high investment costs involved.

Forestry

About sixty percent of the country's surface area is covered with commercially exploitable forests. These forestry reserves, covering about fifty million acres, could last indefinitely if rationally exploited. The Government has established an annual production target of two million cubic meters by 1988.

At present the world forestry market is depressed, and the annual production ranges from 1.2 to 1.5 milliom cubic meters. About twenty percent of these cut logs are processed into plywood, chiefly for export. In most instances, the logs have been rafted down the rivers to the embarkation ports on the coast.

Although forestry and wood processing contribute only about five percent to GNP and represent 7.3 percent of the value of exports, the potential for further development appears promising, especially when the Transgabon Railroad will have been completed and access roads are built. As discussed below, this industry might provide significant opportunities for private sector development.

Mining

Gabon's mining industry is another important source of foreign exchange earnings. In 1983, exports of manganese and uranium combined accounted for 7.3 percent of the value of exports - about the same as the export of wood products.

Reserves of high concentration manganese ore are estimated at about 200 million tons. Annual production, at a fairly steady rate of 1.9 million tons, earns about $113 million in revenues. Reserves of uranium are expected to last about 35 years at an annual production rate of 1,000 tons of enriched yellow cake, earning about $70 million in revenues. In addition, Gabon has estimated reserves of 800 million tons of high grade iron ore. Furthermore, a substantial deposit of barites has been discovered. Considerable sums are budgeted in the Five Year Plan for mineral surveys in the interior.

Unfortunately, as discussed in further detail below, economic exploitation of these mineral resources will require large capital investment in transport infrastructure.

Summary

In summary, the petroleum sector remains the mainstay of Gabon's economy. Mineral and forestry resources are also important, though their contribution is small relative to oil. Opportunities for attracting private investment for the development of other sectors of the economy are extremely limited. However, some opportunities do exist, particularly over the long term, which will be discussed below, after reviewing other aspects of the economy.

Gabon's Infrastructure

From the early 1970's when the increase in petroleum revenues brought affluence to Gabon, the GOG has invested heavily in governmental, social, commmercial and transport infrastructure. These capital investments represent a potential capital stock for the new investor.

Much of the infrastructure development has been in two urban areas. Gabon has built an industrial activity center near its major city -- Libreville. This center, containing most of the industrial enterprises, is easily accessible from the Port area. Another smaller industrial activity center is located at Port Gentil. This latter center serves the petroleum industry which is mostly located off-shore, and the wood processing industry. Located at the mouth of Gabon's major river, it has its own port area. Both cities have adequate power.

Infrastructure facilities, especially transport systems, outside these two principal cities are inadequate. However, the government's highest development priority is transportation which, in 1984, received 53 percent of a total development budget of $653 million. Major investments were the Transgabon Railroad ($258 million) and roads ($91 million).

When completed in a few years, the Transgabon Railroad, together with feeder roads, should be an important environmental factor encouraging private enterprise development in the country's interior.

Business leaders interviewed agreed that the infrastructure development in Libreville is not only adequate, but is a major positive factor in encouraging investment there. However, in rural areas, the infrastructure is so inadequate that it is a major deterrent to investment.

Local Credit and Capital Facilities

Gabon's currency and monetary policies are administered by the Central Bank for Central Africa (BEAC). Gabon's Ministers of Finance and Planning, and the Director of Gabon's Development Bank sit on the Board of Directors, along with their counterparts from the Cameroon, Chad, Central African Republic, Congo and Equatorial Guinea. Credit policy is determined by the BEAC, with the advice of the National Credit Council composed of representatives of the commercial banks. Gabon has ten commercial banks in operation, including one American (Citibank).

The commercial banks make only short-term loans, usually 80 days, at interest rates about 2 to 2.5 percent above the BEAC rediscount rate. Currently commercial banks charge 15.5 percent on short-term loans.

Gabon has an Investment Development Bank (BGD) which is charged with medium and long term development lending to industry. In practice, however, the bank has found it to be more profitable amd less risky to make short-term loans to the commercial and consumer sectors, especially for consumer durable imports such as automobiles. Financial experts, including the French Caisse Centrale in Gabon, have criticized the BGD for failing to provide long-term development loans and believe the Bank should no longer qualify for the preferential interest rates and terms for its own borrowings.

The absence of a capital market capable of providing funds for long-term financing of productive enterprises has been debated extensively by concerned Gabonese since at least 1975. Many Gabonese government and banking officials and advisors agreed with the team that the local financial market is incomplete and lacks mechanisms capable of channeling money to productive enterprises. Instead, available funds which are primarily short-term, are diverted to unproductive projects incapable of sparking sustained economic development.

The limited availability of local capital in the form of medium and long term loans and equity is considered by business exexutives to be an important, though not major, deterrent to private investment in Gabon.

Business Services

According to those interviewed the business service sector - legal, accounting, market research and the like - is generally adequate. These services are provided by subsidiaries of foreign companies, predominantly French. Although there are no market research firms, the commercial banks provide assistance. This factor, however is considered to be only a minor positive contribution to the business climate.

Human Resources.

The lack of skilled and unskilled workers has long been a serious constraint to economic development in Gabon. To fill these shortages, Gabon uses foreign workers. It has been estimated that about one half the employment in the cash economy consisted of foreign workers.

Traditionally, Europeans, predominantly French, have filled shortages of white collar positions while other skilled and unskilled shortages have been filled by Nationals of neighboring West African countries, especially Equatorial Guinea, Cameroon, and Nigeria.

The last officially published figures of 1983 indicated that there are about 100,000 persons of non-Gabonese origin living in Gabon. Of the Africans, the Equatorial Guineans were the most numerous, estimated at about 25,000; followed by the Cameroonians 23,000; Nigerians 10,000; Beninoise 8,000; Malians 6,000 and Senegalese 5,000.

Of the other foreigners, the French are the most numerous among Europeans, estimated at about 22,000. Many French are in Gabon as "Cooperants", serving as technical advisors and teachers. Also most industrial organizations rely on a French general manager, chief of production, chief accountant and chief technician. In addition, many of the supporting jobs such as office manager, bookkeeper, supervisor and secretary are filled by French dependents.

Entrepreneurial Talent

Although there are a number of good Gabonese entrepreneurs, the Gabonese by tradition have not been business oriented. Virtually all the medium and large businesses are predominately foreign owned. Although Gabonese with senior titles can be found in most significant businesses in Gabon, almost without exception all businesses, including parastatals, are effectively managed by non-Gabonese. This lack of a pool of entrepreneurial talent is a major deterrent to the development of indigenous private enterprise.

Management and Technical Personnel

Although Government Gabonization policies encourage the use of Gabonese in senior management positions, most companies are actively managed by European executives. However, many companies have at least one Gabonese director or senior official. The majority of educated Gabonese prefer government positions to those in private enterprise. As a result, qualified technical and management personnel are in short supply for the private sector.

To attract European management and technical personnel, Europeans must be paid salaries at least commensurate with those in Europe, and be reimbursed for the costs of moving themselves and their families to Gabon plus housing and other benefits. This substantially increases the cost of doing business in Gabon, and is yet another serious constraint to the development of the private sector.

Skilled and Unskilled Workers

Because of a general labor shortage and the need to employ expatriates at high salaries, labor costs in Gabon are extremely high in comparison with other countries in West and Central Africa. Hourly rates in Gabon generally equal or exceed daily rates in such countries as Cameroon, Ghana and even the Ivory Coast. Unskilled workers may receive as much as $400 per month in wages and benefits. Skilled workers receive as much as $1,000 per month plus fringe benefits. The high cost of labor seriously limits the ability of local producers to compete with imports and is a major deterrent to private enterprise development.

Other Factors

Adequacy of Police and Fire Protection

With regard to the physical infrastructure for police and fire protection, Gabon has made most of the required investments. The effectiveness of both services suffer from general low standards of performance. To this date, the French Government continues to provide supervision and training to the GOG police and fire establishments.

Facilities for Expatriates

Although expensive, Gabon has a good stock of housing, generally owned by Gabonese government officials or Lebanese immigrants, which is suitable to the expatriate higher level community. A lively demand for this limited housing stock keeps prices high and rising. There are also several hospitals and clinics in Libreville, Port Gentil, and most regional capitals of Gabon. Libreville and Port Gentil are among the most pleasant places to live in Central Africa, to a large extent due to GOG investment in basic infrastructure in these areas.

Principal Sectors for Investment Potential

Lack of markets, labor and infrastructure seriously limit Gabon's attractiveness to foreign investors. The lack of infrastructure is a particularly serious impediment to the development of potential mineral deposits.

Large deposits of high-quality iron ore and barites have been discovered in Gabon, but are located in the interior of the country. Exploitation of the iron deposit would require an improvement in world iron prices, the construction of an additional 250 kilometer railroad link to connect it with the Transgabon Railroad, and completion of an iron-handling facility at Port Owendo near Libreville. The International Finance Corporation (IFC) has had both iron and barite production under study for some time, but is of the opinion that they are not feasible given the current outlook for iron and barite prices in the world market.

Private Sector Service Industries

The most promising potential for private enterprise development would appear to be in the small-scale industrial sector, and the highly profitable services and maintenance industries.

In addition, the private sector might replace the Government in a variety of existing, (unprofitably managed) enterprises ranging from road maintenance to insurance and city bus services. However, many of these activities are considered traditional and exclusive preserves of the State.

It was also suggested by a few business executives that the metropolitan Libreville area, with its highly affluent lifestyles, abundant amenities and an efficient international airlines network, might become an important regional center for companies establishing their operations in Central Africa if the concept were properly promoted.

Import Substitution Industry Potential

As was stated above, the accessible market for import substitution is only about 250,000 people currently importing US $280 million worth of consumer goods. The long-term potential market, including Gabon's and the other UDEAC countries' rural populations, exhibits highly diversified behavioral patterns and uneven income distribution, ranging from relative affluence to absolute poverty levels. Furthermore, Gabon's small rural population lacks purchasing power and remains inaccessible to modern marketing methods. While the completion of the Transgabonese Railway will open a corridor to this interior, the main distribution system will remain the unpaved interior roads, which are not always usuable during Gabon's two rainy seasons. Therefore, the manufacture of products for import substitution will have to be in industries where small-scale plants are economical.

Export Processing Potential

The development of any significant processing industries for export markets should be considered as impractical in the foreseeable future because of a pronounced penury of skilled Gabonese manpower, high labor costs with poor productivity, and the requirement for capital-intensive investment where there is a scarcity of investment capital available.

However, there is one notable exception to the foregoing, that of further processing of Gabon's forestry or mineral exports. In these cases, the potential reduction in shipping costs to Europe and U.S. markets could not outweigh the disadvantages faced by export processing industries in Gabon.

The okoume wood of Gabon is especially suited for the manufacture of plywood. However, the approval of an additional plywood plant by a French-based wood exporter has been tied-up in the government for several years. The project proposal is available for all to read, but the GOG is reluctant to indicate exactly why the project has not been approved.

The further transformation of presently exploited hardwoods, mostly by French firms, offers some possibilities to be explored. A large, Gabonese-owned furniture manufacturing plant located in Libreville's industrial development area, is interested in exporting finished furniture to the American market. However, the infrequency of container transport from Libreville by ship has led to a park of over one thousand empty containers. Such ship traffic that does exist is oriented north-south, that is to say to and from Europe, and not east-west to and from the Americas.

Summary

Table 2 summarizes the importance of ten economic and market factors in encouraging or discouraging business development in Gabon. Unfortunately, most factors are unfavorable toward business development with the few exceptions noted above, i.e., small manufacturers catering to local consumer needs (import substitution), local service businesses, and industries based on local raw material (minerals and lumber). The most serious constraints are the shortage and consequent high cost of labor and the small internal market.

Table 2

RELATIVE IMPORTANCE GIVEN BY BUSINESS EXECUTIVES TO ECONOMIC AND MARKET FACTORS IN ENCOURAGING PRIVATE SECTOR DEVELOPMENT IN GABON

Factors	Considered as Favorable			Considered as Unfavorable		
	Degree of Importance			Degree of Importance		
	Major	Moderate	Minor	Major	Moderate	Minor
Size of Market and Growth Prospect				X		
Basic Materials and Parts			X			
Infrastructure	0			X		
Credit and Capital					X	
Business Services			X			
Entrepreneurial Talent				X		
Management and Technical Personnel				X		
Skilled Workers				X		
Unskilled Workers				X		
Other Services	0					X

Legend: X - Countrywide
0 - Libreville Only

Source: DIMPEX Associates, Inc. based on results of interviews in Gabon, June 1985.

III CONCLUSIONS AND RECOMMENDATIONS

The GOG is anxious to encourage local and foreign private investment in agriculture and industry, with emphasis on small and medium enterprises. However, several major factors constrain such investment:

- The limited absorbative capacity of the local market;
- The relatively high cost of doing business in Gabon;
- The lack of Gabonese entrepreneurial, managerial and technical personnel;
- The lack of medium and long term financing;
- The highly complex and time consuming procedures involved in establishing a business;
- A shortage of skilled and unskilled labor; and
- The lack of capability to define and promote potential investment opportunities.

While these constraints can not be fully overcome through government action, some major steps can be taken to improve the situation:

First, revision of the antiquated Company Act and Investment Code in order to encourage foreign and local investors to establish productive and profit-oriented joint ventures in Gabon.

Second, define and implement educational and training programs, especially on-the-job training at commensurate salaries, required to provide future entrepreneurs, managers and technical personnel to industry and agriculture.

Third, develop a long-term program for the gradual increase of Gabonese involvement in the workforce, but, in doing so, provide assurance to private business that they will be permitted to use expatriate workers until qualified Gabonese personnel are available.

Fourth, continue the emphasis in the government's development budget on infrastructure improvement, especially on distribution systems aimed at opening up the rural areas of the country.

Fifth, develop a local capital market with instruments and mechanisms capable of responding to the long-term financial needs of the private enterprise sector to include its development and expansion.

Sixth, privatize, wherever possible, state enterprises. Possible candidates for privatization include the government-owned insurance company (OGAR) and the city bus company (SOTRAVIL).

Seventh, conduct systematic sectoral studies to define investment opportunities in industry and agriculture, and "promote" those opportunities both in Gabon and abroad using industry-oriented, business consultants with the guidance of executives in the Gabonese private business community, both local and expatriate.