Gabonese Republic
Gabon - Policy Notes
{Gabon Export Diversification and Competitiveness Report}

{September 2014}

GMFDR
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The Gabon Export and Diversification policy note is part of the Country Team’s effort to strengthen the analytical basis for its assistance to Gabon. The aim is to provide analysis and recommendations that can serve as basis for the dialogue with the Gabonese authorities concerning economic diversification. The report first highlights the major constraints to Gabon’s diversification of exports. The Government current to address these constraints is based on three main instruments: (1) banning raw log export to encourage local transformation, (2) promoting special economic zones (SEZs) to attract big foreign investors, and (3) assisting small and medium enterprises (SMEs). However, given the size of Gabon’s supply-side constraints, the recommended path for the Government’s emerging export policy would be to move away from the manipulation of incentives and instead focus on building domestic capabilities, in particular through a medium-term infrastructure and education strategy.

The report recommends that the country should adopt a sequential approach that combines, first, eliminating cross-cutting constraints, including the improvement of its business climate, and then targeting specific sectors/products to promote.

This report was prepared by the Macroeconomics and Fiscal Management (MFM AFR3). The team was led by Rick Emery Tsouck Ibounde (Senior Economist) under the supervision of Raju Singh (Lead Economist) and Souleymane Coulibaly (Lead Economist). Erik Von Uexkull (Country Economist, Trade Specialist) provided precious guidance at all stages of the work. The team consisted of Rick Emery Tsouck Ibounde (TTL); Akiko Suwa-Eisenmann (Consultant), and Olivier Cadot (Consultant). Sonia Vanecia Boga (Team Assistant) contributed to the formatting and editing of this report and provided administrative assistance to the team. Alicia Hetzner (Senior Editor) edited the final report.

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1 The seminar took place on July 28, 2014 at the World Bank Resident Mission in Libreville.
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ABBREVIATIONS

ACV Analyse de la chaîne de valeur
AFD Agence Française de Développement
AfDB African Development Bank
AGOA African Growth and Opportunity Act
ANPI Agence Nationale de Promotion des Investissements
APE Agence de Promotion des Exportations
APEC Association Professionnelle des Etablissements de Crédit du Gabon
APIEX Agence de Promotion des Investissements et des Exportations
BBS BGFI Business School
BEAC Banque des Etats de l’Afrique Centrale
BEPC Brevet d'Etudes du Premier Cycle
BGD Banque Gabonaise de Développement
BGFI Banque Gabonaise et Française Internationale
BIETC Bordereau d'Identification Electronique de Traçabilité des Cargaisons
BIT Bureau International du Travail
CAEMC Central African Economic and Monetary Community (Republic of South Africa).
CEA Communauté Est Africaine (see EAC)
CEEAC Communauté Économique des États de l’Afrique Centrale
CEMAC Communauté Économique et Monétaire de l’Afrique Centrale
CET Common External Tariff
COBAC Commission Bancaire de l’Afrique Centrale
Comilog Compagnie Minière de l’Ogooué
COMTRADE Base de données de Statistiques du Commerce des produits de l'ONU
DB Doing Business
DGS Direction Générale de la Statistique

DSCRP: Document de Stratégie de Croissance et de Réduction de la Pauvreté
EAC East African Community (see CEA)
ECCAS Economic Community of Central African States
EPZ Export Processing Zone
ES Enterprise Survey
FAGA Fond d’Aide et de Garantie aux PME
FLEGT The Forest Law Enforcement Governance and Trade
FOB free on board
FODEX Fonds de Développement et d'Expansion des PME-PMI
FSC Forest Stewardship Council
GATS3 General Agreement on Trade in Services 3
GPM Gabon port Management
ISO International Organization for Standardization
ITB Institut des Techniques Bancaires
JV joint-venture
MCPMÉADS Ministère du Commerce, des Petites et Moyennes Entreprises, de l’Artisanat et du Développement des Services
MENETP Ministère de l’Education Nationale et de l’Enseignement Technique et Professionnel
MEP Ministère de l’Economie et de la Prospective
MERH Ministère de l’Energie et des Ressources Hydrauliques
MIISPD Ministère de l’Intérieur, de la Sécurité Publique, de l’Immigration et de la Décentralisation
MJGS Ministère de la Justice, Garde des Sceaux
MPIIHAT Ministère de la Promotion des Investissements, des Infrastructures, de l’habitat et de l’Aménagement du Territoire
MT Ministère des Transports
OHADA Organisation pour l'Harmonisation en Afrique du Droit des Affaires
ONG Organisation Non Gouvernementale
<table>
<thead>
<tr>
<th>Acronyme</th>
<th>Signification</th>
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<tbody>
<tr>
<td>OPRAG</td>
<td>Office des Ports et Rades du Gabon</td>
</tr>
<tr>
<td>PAF</td>
<td>Plan d’Aménagement forestier</td>
</tr>
<tr>
<td>PIB</td>
<td>Produit Intérieur brut</td>
</tr>
<tr>
<td>PME</td>
<td>Petite et Moyenne Entreprise</td>
</tr>
<tr>
<td>PSGE</td>
<td>Plan Stratégique Gabon Emergent</td>
</tr>
<tr>
<td>RDC</td>
<td>République Démocratique du Congo</td>
</tr>
<tr>
<td>REDD++</td>
<td>Reducing Emissions from Deforestation and Forest Degradation</td>
</tr>
<tr>
<td>RSA</td>
<td>Reimbursable Services Agreement (Accord de Services Remboursables)</td>
</tr>
<tr>
<td>SARL</td>
<td>Société à Responsabilités Limitées</td>
</tr>
<tr>
<td>SEEG</td>
<td>Société d’Eau et d’Energie du Gabon</td>
</tr>
<tr>
<td>SEPBG</td>
<td>Société d'Exploitation des Parcs à Bois du Gabon</td>
</tr>
<tr>
<td>SETRAG</td>
<td>Société d’Exploitation du Transgabonais</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>SFI</td>
<td>Société Financière Internationale</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Middle Enterprise</td>
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<tr>
<td>SMI</td>
<td>Small and Middle Industry</td>
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<tr>
<td>STCG</td>
<td>Société des terminaux à Conteneurs du Gabon</td>
</tr>
<tr>
<td>TEC</td>
<td>Tarif Extérieur Commun</td>
</tr>
<tr>
<td>TVA</td>
<td>Taxe sur la valeur ajoutée</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>Conférence des Nations unies sur le Commerce et le Développement</td>
</tr>
<tr>
<td>UPDEA</td>
<td>Union des Producteurs, Transporteurs et Distributeurs d'Energie électrique d'Afrique</td>
</tr>
<tr>
<td>VAT</td>
<td>value-added tax</td>
</tr>
<tr>
<td>VCA</td>
<td>value-chain analysis</td>
</tr>
<tr>
<td>WDI</td>
<td>World Development Indicators</td>
</tr>
<tr>
<td>ZES</td>
<td>Zone Economique Spéciale</td>
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<tr>
<td>ZFE</td>
<td>Zone franche d’exportation</td>
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EXECUTIVE SUMMARY

The diagnosis of Gabon’s trade potential and the lessons from international experience suggest that, in the long run, the best way to foster export diversification may not be to try to achieve it immediately through providing inefficient incentives but rather to first build domestic capabilities, step by step. To do so, a comprehensive approach that prioritizes and sequences actions needs to be implemented. Key recommendations of this report are to (1) strengthen the regulatory and institutional framework for export promotion, (2) improve the quality of human capital, (3) build a fair and transparent business environment, and (4) upgrade the quality, and reduce the cost, of infrastructure services.

Background

Efforts to diversify the Gabon’s economy have not yet succeeded in reducing its dependence on oil. Gabon has one of the most concentrated export structures in the world. On average, over the last 5 years, the oil sector accounted for 81 percent of exports, 45 percent of GDP, and 60 percent of current budget revenue. Nonoil value added has grown at an average rate of over 4.0 percent a year since 2007, surpassing the sluggish 1.7 percent growth in oil value added. However, nonoil growth started from a very small base so has not made a major dent in oil’s domination of Gabon’s economy.

The risks associated with excessive export concentration are well known:

1. It can contribute to a dual economic structure with weak trickle-down.
2. It can be a source of excessive income volatility.
3. In the case of subsoil resources, excessive concentration makes the economy vulnerable to exhaustion.
4. It can be self-perpetuating by generating induced macroeconomic imbalances.

However, none of these downsides is unmanageable. Natural resource wealth can generate “growth dividends” when it is accompanied by good governance that combines redistribution, investment in public capital, and savings through sovereign funds, prudent macroeconomic management, and pro-competitive reforms. Ultimately, when used rationally, natural resources provide a domestic alternative to international aid for financing pro-growth infrastructure, education, and capital accumulation.

Gabon’s export diversification potential is limited and constrained by several factors. At the sectoral level, crude oil, manganese, and timber are Gabon’s traditional exports. However, based on Gabon’s current capabilities, and building on the Document de Stratégie de Croissance et de Réduction de la Pauvreté (DSCRP) action matrix, a sources of growth study conducted by the African Development Bank (AfDB) in 2008 identified 3 nontraditional exports with potential. These are the first and second transformation of timber, peri-urban horticulture, and industrial fishing. However, the lack of development of peri-urban activity given the substantial margins it generates suggests high barriers to entering the activity—including access to small
tracts of land. AfDB recommended the identification and allocation of small tracts of land in suburban areas to encourage peri-urban horticulture catering to urban food demand and to give some land-title security to the farmers.

Similarly AfDB noted that fishing contributes to less than 2.0 percent of GDP with an annual catch of a little over 40,000 tons whereas the sector’s potential is much larger. Currently, the country’s fish resources primarily are exploited by Japanese and EU operators under fishing-rights arrangements that bring revenue but have limited impact on job creation.

A retrospective analysis based on revealed comparative advantage\(^\text{2}\) looked at products that Gabon already has exported as evidence of potential. That analysis showed that, since 1965, Gabon has exported only 84 products for at least 2 years to at least 1 destination.\(^\text{3}\) Unsurprisingly, Gabon’s longest surviving products are those that lie at the core of its comparative advantage: oil, ores, and timber. Other exports are drawn from a variety of manufactured products, some of which are likely to be re-exports of second-hand equipment. Strikingly, Gabon exports not a single agricultural product. The cross-sectoral pattern of export products, in particular their duration, can be considered an indication of what kind of export products originating from Gabon have a chance to survive in foreign markets. From this pattern, it seems clear that miscellaneous manufactured products, whether produced locally or, more probably, re-exported and sold to regional markets, are the only alternative that has survived in the past. Breaking from this pattern will require a quantum change in the country’s productive capacity.

In 2013 the World Bank conducted value chain analyses (VCA) for three sectors: agriculture, forestry, and tourism. The analysis of the agriculture sector in general, and cassava and plantain value chains in particular, points to broader underlying challenges that Gabon faces. Specifically, the high costs of labor and transportation, combined with rapid urbanization and changes in dietary habits among the peri-urban and urban populations, are shifting household consumption patterns from traditional food stuffs such as cassava to cereals and other staples. For the latter two, local production is relatively weak, and very little is understood about their production.

The VCA for wood processing revealed that the high costs of transporting logs to sawmills decrease competitiveness due to poor transport infrastructure, thus adding cost and time. Moreover, finished goods are not price competitive due to high labor costs combined with low labor productivity, low level of craftsmanship, and lack of technical know-how. The sector is

\(^2\) Introduced by Balassa in 1965, the concept of revealed comparative advantage (RCA) pertains to the relative trade performance of individual countries in particular commodities. It assumes that the commodity pattern of trade reflects the inter country differences in relative costs as well as in non-price factors, this is assumed to reveal “the comparative advantage of the trading count. It is assessed by the share of an industry in the country’s total exports relative to the industry’s share in total world exports of manufactures.

\(^3\) A product is defined here as a tariff line in the United Nations’ Standard International Trade Classification (SITC). It is assumed to be exported if Gabon exported more than US$25,000 of it to any destination years in a row between 1965 and 2011. The list of products is given in the first column of appendix table A1. The second column lists the main destinations (those among the world’s top 10 importers) for these products. The last column shows Gabon’s major competitors for those products among developing countries.
also hampered by old, inefficient machinery and poor operational management skills. Finally the VCA for tourism showed that the sector is constrained by high barriers to tourists’ arrivals, including high visa fees, high airfare, low awareness of touristic products and limited access to tourism information for trip planning. The sector also suffers from high hotel prices driven by high labor, electricity, and other operating costs, coupled with lack of skills and attributes required for developing the tourism industry.

Firm-level data analysis provides few signs that export entrepreneurship has been gaining strength. The quantitative analysis based on customs data reveals that, due to the small scale and capacity of Owendo, the main port of the country, import and export operations by Gabonese companies, which also are small, cannot benefit from any economies of scale. Therefore, Owendo is not able to serve as an efficient port of entry for its “hinterland.” In addition, exporting firms seem to face, by and large, the same hurdles as non exporting firms. Moreover, exports to the Communauté Économique et Monétaire de l’Afrique Centrale (CEMAC) are marginal (less than 1 percent of total Gabon’s exports in the customs database). What highlight the region’s lack of integration and that Gabon’s exporters are regionally specialized. The few firms that export to the region export almost exclusively there, while out-of-region exporters typically do not serve the region.

Moreover, the analysis of a qualitative survey of Gabonese service-exporting companies conducted as part of the present study confirms that Gabon’s international service supply is very marginal (less than 5 percent of the domestic production of services). Furthermore, in the short or medium terms, service exports cannot constitute an alternative to economic diversification. A strategy for progressively replacing service imports (FCFA400 billion in 2013) by locally produced services could generate better results, especially in services to oil and mining companies, which account for the major portion of service imports. Services-exporting enterprises attribute the weakness of Gabon’s service exports primarily to seven factors:

1. Administrative obstacles to the entry into target markets
2. Dynamic local markets
3. Absence of financial support from the financial sector
4. In the case of affiliates, presence of members of their group in the sub region
5. Inadequate or no administrative assistance
6. Lack of infrastructure, such as paved roads, ports
7. Poor quality of human resources.

The Government of Gabon’s diversification strategy is based on instruments that, alone, are unlikely to trigger a self-fuelling process of economic diversification. The Plan Stratégique Gabon Emergent (PSGE) does not include any explicit export diversification strategy. However, a careful reading of the document clearly shows that Gabon’s diversification strategy is based on three main instruments: (1) banning log exports to encourage local transformation, (2) attracting large foreign investors through special economic zones (SEZs) and (c) assisting SMEs. In 2010 the Government of Gabon imposed a ban on raw log export to 

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4 Enquête qualitative auprès des entreprises exportatrices des services, World Bank, 2014
5 Franc des Communautés Financières d’Afrique
induce the private sector to perform local value-adding transformation on timber before export. However, international experience has demonstrated that the presence of natural resources is not enough to establish comparative advantage and that profitability depends on many macro and micro factors. Logging and woodworking essentially are different trades, so vertical synergies at the firm level appear limited. Thus, diversification into downstream activities essentially calls for bringing in new players. Comparative advantage in transformation needs to stem from 1 or more of 4 components: (1) low labor costs, (2) woodworking skills, (3) cross-cutting competitive advantages in terms of infrastructure, or (4) governance. Since, for reasons stated above, Gabon is a rather high-cost location for manufacturing, changing it into an attractive location for timber transformation will call for supply-side policies to improve the business environment.

A key vehicle for the GoG’s diversification strategy is the special economic zone set up in 2010 at Nkok, approximately 30 km from Libreville, as a joint venture with Olam, a Singapore-based multinational agri/food producer. Olam owns 60 percent of the shares and manages the joint venture (JV). The Nkok SEZ will benefit from dedicated infrastructure, including a gas-fired power plant with a planned capacity of up to 107MW. The plant also is situated on the Transgabonais railway, a recently rehabilitated standard-gauge line that runs three trains a day between Franceville and Owendo, Libreville’s port; and is close to the intersection of the country’s main roads to the forest region (Oyem, Makokou, Koulamoutou, and Ndjolé). A loading station is planned inside the SEZ. The SEZ will include commercial and residential areas for workers and executives. Provided that they export at least 75 percent of their turnover,6 establishments located in the SEZ will benefit from extensive tax rebates. These rebates will include a 10-year tax holiday for corporate income taxes, followed by a 5-year period at 10 percent; total tariff exemption on imported capital equipment and parts; and 10-year total exemption from the value-added tax (VAT). In addition, profit repatriation is unlimited and tax free, and labor laws will be made flexible for seven years for the employment of foreign workers (Gabon 2010). Finally, electricity will be provided at half the standard rate of the Société d’Eau et d’Energie du Gabon (SEEG), that is, approximately US¢8.00/kwh.

However, international experience with SEZs suggests that, with the exception of export growth, their record is uneven. First, backward linkages are not always obvious. Second, spillovers to other sectors are limited unless the host-country government adopts strategic flanking policies to build public infrastructure and, most crucially, to rapidly accumulate human capital in the form of relevant vocational skills.

Another export diversification instrument that Gabon has long used but without much tangible success is assistance to SMEs. Recognizing the pressing need for economic diversification and the role that SMEs could play in job creation and growth, the Government of Gabon has multiplied its efforts to promote SMEs. Recently, it dissolved several public agencies that collectively fulfilled the missions of investment promotion, business registry, and enterprise support. Their overlapping mandates resulted in a suboptimal allocation of human and financial resources and often reflected negatively on the quality of service offered and on customer

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6Intrazone trade is considered to be exports. For instance, a civil construction firm in the SEZ supplying services to another firm building a factory in the SEZ could count these services as exports.
experience. All of these functions have been incorporated within a new agency, ANPI-Gabon, which has three departments:

1. The Investment Promotion Department’s mission will aim to generate investments in Gabon through reactive and proactive targeted promotion, and to facilitate setting up investors in the country
2. The Business Registration Department will aim at completing all business registry procedures on behalf of investors within a period not exceeding two days.
3. The Enterprise Support Department will advise and guide companies concerning the formalities, services, and opportunities that may concern them, especially those relating to the export process.

New evidence from international experience suggests that export promotion is a good thing but also that it is likely to work best in countries that have a substantial fabric of large, established firms that serve the domestic market. Gabon does not yet have this fabric. Therefore, before focusing on exports, the Government must first put in place the policies necessary to help the emergence of small and medium-sized companies (SMEs) capable of re-conquering the domestic market.

The diagnosis of Gabon’s trade potential and the lessons from international experience suggest that, in the long run, the best way to foster export diversification may not be to try to achieve it immediately through shortcuts but rather to first build domestic capabilities, step by step. To do so, a comprehensive approach that prioritizes and sequences actions needs to be implemented. Key recommendations of this report are to (1) strengthen the regulatory and institutional framework for export promotion, (2) improve the quality of human capital, (3) build a fair and transparent business environment, and (4) upgrade the quality, and reduce the cost, of infrastructure services.

1. **Strengthen the regulatory and institutional framework for export promotion.** Key measures could include the definition of a comprehensive export diversification strategy, the reinforcement of the administrative support to existing and potential exporters, and the development of active programs to encourage links between the NKOK SEZ and the local economy.

2. **Build a fair and transparent environment.** The Government should take the opportunities of the World-Bank-financed investment promotion project and programs developed with other donors to put in place a comprehensive reforms agenda to build a fair and transparent environment. Critical actions recommended in this area are to (a) streamline the procedures to facilitate business activities and operations of the investors. (b) Simplify the tax system by working at the CEMAC level to improve the fiscal environment through lower Common External Tariff (CET) rates; (c) streamline the fiscal system through the elimination of most exemptions; (d) facilitate access to credit by conducting a review of financial instruments that are SME accessible; (e) create a central register of company balance sheets to provide information to all interested parties; (f) encourage banks to cooperate in the creation and management of a credit bureau and...
(move forward on the land-right reform, with a view to improve the capacity of land titles that will be used as collateral for bank loans); and (f) create one or several certified management centers to provide management/accounting assistance and account certification for SMEs.

3. **Improve the quality of human resources.** Educational investments should target basic and vocational/technical skills demanded by the market in sectors in which Gabon has a latent comparative advantage. These investments require prior analyzes of expansion potential at the sectoral level. The Government has been working with the donor community to improve and expand technical and vocational training in key growth sectors and increase youth employability.

4. **Upgrade the quality, and reduce the costs, of infrastructure services.** Priority actions should focus on (a) reducing the cost of transport and logistics in the main part of Libreville, (b) reducing transportation costs, and (c) reducing electricity costs and improving the reliability and the governance of the electricity sector.

Detailed recommendations of the report are summarized in table 1.
Table 1. Matrix of Key Recommendations

<table>
<thead>
<tr>
<th>Constraints and Challenges Identified</th>
<th>Recommendations</th>
<th>Responsible Administration/Agency</th>
<th>Timeframe</th>
</tr>
</thead>
</table>
| Absence of export diversification strategy | • Conduct impact evaluations of current export promotion instruments (log export ban, SEZs, assistance to SMEs)  
• Conduct sectoral studies to identify the most relevant sectors with the highest potential for development and impact, in which investment and export promotion and business development activities will be concentrated  
• Develop a comprehensive strategy to promote exports. | ANPI-Gabon                        | Short term |
| Ineffective administrative support to exporters | Build the capacity of existing and potential exporters through:  
• Training of inexperienced exporters on the export process, marketing, negotiations, products markets trend,  
• Providing technical assistance on how to take advantage of export opportunities and organizing participation of exporters to international trade shows,  
• Producing and dissemination of an Exports Guide available online;  
• Develop comprehensive interactive existing and potential exporters database;  
• Production and dissemination of an Exports Guide available online;  
• Assisting SMEs with upgrading/compliance with export procedures; norms and standards; packaging; quality, link potential exporters with markets, and organize trade missions | ANPI-Gabon                        | Short term |
| Weak rate of export survival | Monitoring and evaluation of exports and assessment of their long term sustainability | ANPI-Gabon                        | Frequently |
| Absence of linkages between the SEZ of NKok and the local economy | Generate supply chain linkages between firms in the SEZ and firms in the local market through the following measures:  
• Strengthen institutional capacity for internal market players to | ANPI-Gabon                        | Medium term |

7 Short term: 1 year; medium term: 1 year–2 years; long term: over 2 years.
8 ANPI-Gabon = Agence Nationale de Promotion des Investissements.
<table>
<thead>
<tr>
<th><strong>Improvement of the quality of human resources</strong></th>
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<tbody>
<tr>
<td><strong>Weak quality of labor</strong></td>
</tr>
<tr>
<td>• Assess professional skills needs in the main priority sectors of the Strategic Plan for Emerging Gabon (PSGE);</td>
</tr>
<tr>
<td>• Development of training provision extension and skills development in key growth sectors,</td>
</tr>
<tr>
<td>• Development of lifelong learning and the establishment of bridges between the general educational system and the technical and vocational education and training system,</td>
</tr>
<tr>
<td>• Promotion of public-private partnerships (PPP) in the educational, training and research sectors,</td>
</tr>
<tr>
<td>• Make effective the <em>Conseil National de l’Éducation, de la Formation et de la Recherche</em> (CNEFOR) which is in charge of assessing and monitoring the design of training courses and the implementation of infrastructure and equipment projects.</td>
</tr>
<tr>
<td>• Improve employability through the youth integration and entrepreneurship promotion by: (a) developing apprenticeships programs, (b) on-request skills training system, (c) implementing training programs that promote the economic insertion of young people with local initiatives for employment, and (d) developing entrepreneurship.</td>
</tr>
<tr>
<td>• Accelerate the functioning of the <em>École Supérieure des Métiers du Bois</em> in Booué;</td>
</tr>
<tr>
<td><strong>Building a fair and transparent Business environment</strong></td>
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<tr>
<td>Weak SMEs fabric</td>
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<tr>
<th>Inefficient tax incentives system</th>
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<td></td>
<td>ANPI-Gabon</td>
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<tr>
<td></td>
<td>MJGS/Parliament</td>
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<td></td>
<td>ANPI-Gabon</td>
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<tr>
<td></td>
<td>MEP, CEMAC</td>
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<td>MEP</td>
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<thead>
<tr>
<th>Difficult access to credit</th>
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<tbody>
<tr>
<td></td>
<td>MEP, APEC</td>
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<tr>
<td></td>
<td>MEP, BEAC, COBAC</td>
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<td></td>
<td>MEP, BEAC, COBAC</td>
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<tr>
<td></td>
<td>MEP, BEAC, COBAC, APEC</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Upgrade the quality and reduce the costs of infrastructure services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate transit and logistic</td>
<td>Reduce the cost of transport and logistics through following</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>ANPI-Gabon</th>
<th>Short term</th>
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<tbody>
<tr>
<td></td>
<td>MJGS/Parliament</td>
<td>Short term</td>
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<tr>
<td></td>
<td>ANPI-Gabon</td>
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<td>MEP, CEMAC</td>
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<td></td>
<td>MEP, BEAC, COBAC</td>
<td>Short term</td>
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<td></td>
<td>MEP, BEAC, COBAC</td>
<td>Medium term</td>
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<tr>
<td></td>
<td>MEP, BEAC, COBAC, APEC</td>
<td>Medium term</td>
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<td>MEP, BEAC, COBAC, APEC</td>
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<td>MEP, BEAC, COBAC, APEC</td>
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<tr>
<td></td>
<td>MEP, BEAC, COBAC, APEC</td>
<td>Medium term</td>
</tr>
<tr>
<td>Infrastructure measures:</td>
<td>MPIIHAT</td>
<td>Medium term</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Creating teams of emergency response menders who will fill potholes and repair other obstacles to traffic;</td>
<td>MT, OPRAG</td>
<td>Short term</td>
</tr>
<tr>
<td>Allowing trucks to deliver goods in the city beyond the opening hours of shops and warehouses;</td>
<td>MPIIHAT, MT, OPRAG</td>
<td>Medium term</td>
</tr>
<tr>
<td>Increasing the service hours of administrations in charge of controlling imports at the port in order allow the containers to exit the terminal long after 18h;</td>
<td>MPIIHAT, MT, OPRAG</td>
<td>Medium term</td>
</tr>
<tr>
<td>Creating a logistics platform in Libreville that will receive containers, store imports, wholesale place, and distribution base targeted to small businesses in the neighborhoods;</td>
<td>MPIIHAT, MT, OPRAG</td>
<td>Short term</td>
</tr>
<tr>
<td>Improving transportation networks by planning new roads penetrating into the city;</td>
<td>MT, OPRAG</td>
<td>Short term</td>
</tr>
<tr>
<td>Improving the functioning of the concession of the container terminal and aligning its rates on stevedoring prices in neighboring ports;</td>
<td>MPIIHAT, MT, OPRAG</td>
<td>Short term</td>
</tr>
<tr>
<td>Opening the competition for the delivery of containers in the large Libreville;</td>
<td>MPIIHAT, MT, OPRAG</td>
<td>Short term</td>
</tr>
<tr>
<td>Removing the Gabonese Shippers Council fees for the BIETC and other charges which are not justified by real value to imports or exports;</td>
<td>MPIIHAT, MT, OPRAG</td>
<td>Short term</td>
</tr>
<tr>
<td>Reducing the transit time to less than 11 clear days of charge;</td>
<td>MPIIHAT</td>
<td>Short term</td>
</tr>
<tr>
<td>Reducing costs for import and export containers by allowing transfer and electronic processing and establishing a system that allows electronic submission of customs declarations for export.</td>
<td>MT, MIISPD</td>
<td>Short term</td>
</tr>
<tr>
<td>Reduction of transportation costs through following measures:</td>
<td>MPIIHAT</td>
<td>Medium term</td>
</tr>
<tr>
<td>Revise the strategy for road maintenance and use of maintenance funds on a triennial basis favoring preventive maintenance to better safeguard road assets;</td>
<td>MT, MIISPD</td>
<td>Short term</td>
</tr>
<tr>
<td>Develop a multi modal logistics platform in Ndjolé in the center of the country when traffic warrants it;</td>
<td>MPIIHAT, MT</td>
<td>Medium term</td>
</tr>
<tr>
<td>Capacity building for the Department of Road Transport, the Office des Ports et Rades du Gabon (OPRAG) and the Agence Nationale de l'Aviation Civile (ANAC), to better manage and develop their assigned sector.</td>
<td>MPIIHAT, MT</td>
<td>Short term</td>
</tr>
</tbody>
</table>
| High cost of electricity | • Preparation of a generation and transport master plan  
• Improve operational efficiency of the distribution part of SEEG/VEOLIA |
| Reliability of the energy network | • Upgrade and development of the transmission network  
• "Define a new institutional framework to be operational as soon as the current concession agreement is terminated"  
• Implementation of the energy sector reform |
| Weak governance of the sector | • Improve operational efficiency of the distribution part of SEEG (post concession) (such as reduction of technical and nontechnical losses, and commercial dimension)  
• Reinforce the role of the electricity regulator (redefinition of its role, capacity building)  
• Capacity building at the level of the MERH |
| | MERH  
MERH/SEEG  
MERH Asset company  
SEEG  
MERH  
MERH/SEEG  
MERH |
| Medium term  
Medium term  
Medium term  
Medium term  
Medium term  
Medium term  
Medium term  
Medium term |
I. WHY GABON SHOULD DIVERSIFY

Gabon, a resource-rich country well-endowed with arable land, forest, and mineral resources, has one of the most concentrated export structures in the world, even relative to comparator countries at the same level of income. On average, over the last 5 years, the oil sector accounted for 81 percent of exports, 45 percent of GDP, and 60 percent of current budget revenue, respectively. Gabon’s exports appear as fairly concentrated even among other oil or mining producers of the same level of development in the region (Figure 1).

![Figure 1. Export Concentration in Sub-Saharan Africa](image)

Note: Herfindahl index of exports (square root of the sum of the squared shares of exports by industry over total exports). The index goes from 0 (equal distribution) to 1 (high concentration).

Indeed, whereas export concentration is a fact of life for low-income countries, in contrast, at Gabon’s level of income, diversification usually already has taken place (Figure 2).

Moreover, there currently is no identifiable trend toward diversification in Gabon. Besides petroleum products, Gabon exports manganese and unprocessed timber, which used to rank second until a ban starting in 2010 (Figure 3). Although, in recent years, the agricultural sector has grown significantly, a large proportion of the country’s food is imported. Manufacturing is limited, reflecting the small economy, high labor costs, and limited entrepreneurship experience.
Figure 2. Export Concentration: Gabon vs. Comparators, 1995–2010

Note: The measure of export concentration used is Theil’s index, calculated over HS6 products. See Cadot and others 2011 for calculation details on Theil’s index.

Excessive concentration has at least four downsides: (a) it can contribute to a dual economic structure with weak trickle-down; (b) it can be a source of excessive income volatility; (c) in the case of subsoil resources, it makes the economy vulnerable to exhaustion; and (d) it can be self-perpetuating by generating induced macroeconomic imbalances. However, none of these downsides is unmanageable. Indeed, policy has leverage on every single one of them.

Figure 3. Gabon’s Cross-Sectoral Export Pattern, 2002–11


Dualism. In an economy in which redistribution mechanisms are not well developed, dependence on raw materials can create an unhealthy dual structure. A modern enclave could be producing commodities for export while the rest of the economy remains largely closed and traditional. Openness data suggests a dual economic structure in Gabon. With an export-to-GDP ratio hovering at 50 percent–60 percent, on the export side, Gabon is an open economy.
However, this export ratio is due largely to crude oil exports and minerals. On the import side, with a ratio of imports to GDP below 20 percent, the country is substantially below the (green) regression line (Figure 4), suggesting that oil wealth is not redistributed as widely in the economy as it could be.

**Volatility.** Volatility in GDP levels and growth rates has been shown across countries to correlate with sectoral concentration (Bacchetta and others 2009). Figure 5 shows the coefficient of variation$^9$ of GDP against the share of crude oil in export revenues across countries. The relationship is positive and statistically significant. At the far right of the figure, Gabon is among the most oil-dependent countries, with consequent high income volatility.$^{10}$

For resource-rich countries, income volatility can be “imported” from world markets through fluctuations in the international price of primary products. As is typical of oil-dependent economies, for Gabon, fluctuations in oil prices shape the evolution of overall export revenues.

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$^9$The coefficient of variation is a statistical measure of the dispersion of data points in a data series around the mean. It is a measure of volatility, unaffected by size differences.

$^{10}$However, the policy implications of “imported volatility” should not be overstated. Deaton and Miller (1996) and Raddatz (2007) have shown that, although external shocks have significant effects on the growth of low-income countries, combined they explain only a small part of the overall variance of their real per-capita GDP. For instance, in Raddatz, changes in commodity prices account for a bit more than 4% of GDP, shocks in foreign aid approximately 3%, and climatic and humanitarian disasters approximately 1.5% each. Combined, these shocks leave 89% to be explained, presumably by home-grown instability. Thus, in terms of policy implications, authorities should put high priority on reducing domestic, policy-induced sources of GDP volatility through prudent macroeconomic management.
Exhaustion. Oil exhaustion is an additional challenge for Gabon. Although rising oil prices have kept the value of Gabon’s crude oil export roughly constant, volumes have declined, as predicted by the so-called Hubbert curve (Figure 5). Between 1998, the peak oil year, and 2004, Gabon’s oil output declined from over 350,000 barrels per day (bpd) to approximately 225,000 bpd. From 1997 to 2010, the country’s oil production fell from 18 million tons to 12.5 million tons. If, as some experts predict, the U.S. drive toward oil self-sufficiency were to put international oil prices on a downward trend, Gabon’s oil revenues could shrink substantially, highlighting the need to uncover and develop new sources of growth.

Macroeconomic imbalances. Natural resource exports generate foreign exchange earnings. The latter alleviate chronic foreign exchange constraints in developing economies. However, they also can have perverse effects if they push the value of the domestic currency above its equilibrium level. Moreover, oil and mining activities often generate inflation at home by
pushing up the price of non tradables (for example, services and real estate), skilled labor, and intermediate products. The combination of domestic inflation and an overvalued exchange rate can squeeze the competitiveness of the nonoil sector to the point that very few activities remain profitable. This syndrome, known as the “Dutch disease” (after the experience of the Netherlands with natural gas in the 1970s), can lead to deindustrialization or prevent non resource sectors from becoming profitable.

**Despite these dangers, there is no such thing as a “natural resources curse.”** A number of resource-abundant countries have recorded disappointing growth and political and economic instability over the long term, leading to the term “natural resource curse.”

However, others have made natural resources, particularly forestry and minerals, engines for economic development. The latter countries include Canada, Chile, New Zealand, and Norway. Across a set of 115 developing countries, there was no statistical relationship between the value of subsoil endowments in 2000 and average real GDP-per-capita growth between 2000 and 2010. Gabon lies at the extreme right of figure 7 (very rich subsoil endowment) but below the regression line (less than average growth). This position suggests that, in Gabon’s case, slow growth is attributable to home-grown factors rather than to a general rule about growth and natural resources.

**Figure 7. Is There a Natural Resources Curse? Subsoil Wealth per Worker and Growth, 2000–10 (US$)**

For natural-resource-rich, poor-growth performers, the dominance of the natural sector is largely the *result* of the failure of policies to promote growth in the nonoil sector for a variety of reasons that, ultimately, have little to do with natural resources (Stijn 2005; Lederman and Maloney 2009). To the contrary, when combined with good governance, natural resource wealth can generate “growth dividends.” Good governance is characterized by redistribution, investment in public capital and savings through sovereign funds, prudent macroeconomic management, and pro-competitive reforms. Ultimately, when used rationally, natural resources provide a domestic

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11 The term “natural resource curse” goes back to the work of Sachs and Warner (2001). It designates a negative correlation between dependence on natural resources and subsequent growth. This statistical finding since has been challenged using new data and techniques.
alternative to international aid for financing pro-growth infrastructure, education, and capital accumulation.

The objective of the present report is to recommend policy measures for Gabon to develop nonoil export activities based on an analysis of both its potential for and constraints against export diversification. The report highlights the limitations of an export diversification policy focused exclusively on demand-side incentives for selected sectors. The report will show how measures to level the playing field and alleviate cross-cutting constraints, especially on the supply side, could put future Gabonese entrepreneurs in the driver’s seat of the country’s economic transformation. In other words, given the size of Gabon’s supply-side constraints, the best path for the Government’s emerging export policy would be to move away from the manipulation of incentives and instead focus on building capabilities, in particular through a medium-term infrastructure and education strategy.

The report is organized as follows. Chapter II analyzes Gabon’s export diversification potential at both sector and firm levels, including service exporting companies. Chapter III analyzes Gabon’s export diversification strategy and brings together the latest international evidence on diversification and industrialization policies for resource-rich countries. Chapter IV analyzes Gabon’s key constraints and policy issues vis a vis promoting export diversification. Chapter V concludes with policy recommendations.
II. GABON’S EXPORT DIVERSIFICATION POTENTIAL

Section II analyzes the country’s nonoil export potential and the challenges that could impede this potential. The section includes three subsections: (a) sector- and product-level analysis; (c) firm-level analysis based on data collected from customs, and (c) qualitative survey of services-exporting enterprises.

II-1. Sector-/Product-Level Perspective

Three approaches can help guide the Government of Gabon’s thinking about export-diversification potential at the sectoral level:

a. Resource-based approach based on Gabon’s existing endowment of factors of production (capital, labor, and education)

b. Retrospective approach based on revealed comparative advantage, looking at products that Gabon already has exported as evidence of potential

c. Prospective approach based on a business-style analysis of market potential at the product level.

Each of these approaches has its own merits, and the approaches complement one another.

2.1.1 Resource-based analysis

Although strong and binding are the supply-side constraints to the growth of Gabon’s nonoil exports, including a weak educational system with persistent mismatch between workforce skills and labor-market demands, the country’s export portfolio currently “under-sells” its factor endowments\(^\text{12}\). Figure 8 shows that the largest items in Gabon’s export portfolio, including of course timber but not limited to it, are below the country’s limited endowment of capital and human capital. This diagnostic justifies the authorities’ vision to push the country’s export strategy toward value addition and transformation so as to better leverage its underlying strengths and potential.

Based on Gabon’s current capabilities, and building on DSCR’s action matrix, in addition to Gabon’s traditional exports noted above, AfdB (2008) identified three nontraditional exports that have potential:

a. First and second transformation of timber
b. Peri-urban horticulture
c. Industrial fishing.

\(^{12}\) The amount of labor, land, money and entrepreneurship that could be exploited for manufacturing within the country
Timber transformation is discussed later in this report. The following subsection will focus on the other recommendations.

**Figure 8. Factor Content of Gabon’s Nonoil Exports Compared to Its Factor Endowment, 2010**

Note: The horizontal axis measures capital intensity (in dollars of capital per worker, see Annex I for the definition); the vertical one measures human-capital intensity (in years of educational achievement per worker). The cross at the intersection of the two lines is Gabon’s current factor endowment ($16’600 of capital per worker, 7 years of education per worker). The bubbles represent the factor intensities of its exports, with bubble size proportional to the dollar value of 2010 exports.

Source: Authors calculations using COMTRADE and UNCTAD factor endowments and factor intensities database (UNCTAD’s educational achievement data is from the Barro-Lee database).

The objective of peri-urban horticulture (vegetable production) could not be to diversify exports straightaway because too many constraints on trade remain. Rather, in the short term, an import substitution strategy—notably informal imports from Cameroon—could be more efficient in creating jobs and diversifying revenue sources. Given the relative concentration of Gabon’s population around cities, small-scale agricultural activity could develop in peri-urban areas and displace imports. Figure 9 suggests that, at current prices, producer margins (in grey) are substantial. The lack of development despite these substantial margins suggests barriers to the activity—including access to small tracts of land. AfDB (2008) recommended the identification and allocation of small tracts of land in suburban areas to encourage the activity and give some land-title security to the farmers. The Government also can encourage the activity through the creation of cold-storage facilities, although cold storage is of secondary importance for vegetables.
AfDB (2008) also notes that fishing, with an annual catch of a little over 40,000 tons, contributes less than 2 percent to GDP although the sector’s potential is much larger. The country’s fish resources are exploited by Japanese and E.U. operators under fishing-rights arrangements. These arrangements bring revenue but create few jobs. The AfDB’s report recommends an action plan that includes (a) the creation of a vocational school for marine professions, (b) the deployment of means of surveillance, and (c) investments in fishing infrastructure.

2.1.2 Retrospective-based approach

Turning to the second approach, according to the UN Comtrade database, 84 products have been exported by Gabon for at least 2 years, to at least 1 destination, since 1965. Unsurprisingly, Gabon’s longest surviving export spells lie at the core of its comparative advantage: oil, timber, and ores (Table 1). Other spells are drawn from a variety of manufactured products, some of which are likely to be re-exports of second-hand equipment. Strikingly, Gabon exports not one agricultural product.

Gabon is largely an importer of agricultural products from neighboring countries and Central African Economic and Monetary Community (CAEMC) partners, particularly Cameroon. One might expect some two-way trade. Such trade is likely to take place on the ground but is not recorded in official statistics. Based on surveys at the border, Nkendah (2010) estimates that informal trade between Cameroon and Gabon of agricultural products (such as plantain, cassava

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13 A product is defined here as a tariff line in the Standard International Trade Classification (SITC). A product is assumed to have been exported if Gabon exported more than US$25,000 of it to any destination 2 years in a row between 1965 and 2011. The list of products is given in the first column of appendix table A1. The second column lists the main destinations (among the world’s top 10 importers) for these products. The last column shows Gabon’s major competitors among developing countries for these products.

14 The CAEMC partners are Congo Rep., Chad, Cameroon, Gabon, CAR and Equatorial Guinea.
flour, onion, mango, avocado, carrot, and tomato) amounted to 4,569 million CFA\textsuperscript{15} in 2008, which is 50 percent more than official figures of 8,090 million FCFA.

Despite the shortcomings of official statistics, one might take the cross-sectoral pattern of export spells, particularly their duration, as indications of what kinds of export products originating in Gabon have a chance of survival on foreign markets. Using this pattern, miscellaneous manufactured products, whether produced locally or, more probably, re-exported and sold to regional markets, are the only alternative that survived in the past. Breaking from this pattern will require a quantum increase in the country’s productive capacity.

<table>
<thead>
<tr>
<th>SITC Code</th>
<th>Description</th>
<th>Average Spell Length</th>
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<tbody>
<tr>
<td>24</td>
<td>Timber</td>
<td>23.9</td>
</tr>
<tr>
<td>33</td>
<td>Petroleum and petroleum products</td>
<td>13.5</td>
</tr>
<tr>
<td>63</td>
<td>Wood manufactures (excl. furniture)</td>
<td>12.7</td>
</tr>
<tr>
<td>27</td>
<td>Crude fertilizers</td>
<td>12.3</td>
</tr>
<tr>
<td>28</td>
<td>Metalliferous ores and metal scrap</td>
<td>11.4</td>
</tr>
<tr>
<td>71</td>
<td>Power-generating machinery and equipment</td>
<td>10.5</td>
</tr>
<tr>
<td>72</td>
<td>Machinery specialized for particular industries</td>
<td>8.9</td>
</tr>
<tr>
<td>73</td>
<td>Metalworking machinery</td>
<td>8.3</td>
</tr>
<tr>
<td>82</td>
<td>Furniture</td>
<td>8.0</td>
</tr>
<tr>
<td>89</td>
<td>Miscellaneous manufactured articles, n.e.s.</td>
<td>7.9</td>
</tr>
<tr>
<td>69</td>
<td>Manufactures of metals, n.e.s.</td>
<td>7.3</td>
</tr>
<tr>
<td>84</td>
<td>Articles of apparel and clothing accessories</td>
<td>6.5</td>
</tr>
<tr>
<td>51</td>
<td>Organic chemicals</td>
<td>5.1</td>
</tr>
<tr>
<td>85</td>
<td>Footwear</td>
<td>5.0</td>
</tr>
<tr>
<td>81</td>
<td>Sanitary, plumbing, others</td>
<td>5.0</td>
</tr>
<tr>
<td>59</td>
<td>Chemical materials and products, n.e.s.</td>
<td>4.7</td>
</tr>
<tr>
<td>11</td>
<td>Beverages</td>
<td>3.5</td>
</tr>
<tr>
<td>65</td>
<td>Textiles</td>
<td>3.2</td>
</tr>
<tr>
<td>29</td>
<td>Crude animal and vegetable materials, n.e.s.</td>
<td>3.0</td>
</tr>
</tbody>
</table>

Source: Authors calculations using Comtrade
Note: Number of years during which the product was continuously exported by Gabon to any destination, since 1965.

There is little sign that “export entrepreneurship” has been gaining strength in recent years, suggesting that Dutch disease is still active. The oil-boom decade (1965–75) was characterized by a relatively low number of export spells (15 percent of the total). The rate of spell starts then picked up and peaked during the 1985–95 decade (29 percent), after which it slowed again (Figure 10).

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\textsuperscript{15} \textit{Communauté financière africaine}, or African Financial Community, franc.
The absence of agricultural products in Gabon’s past export spells is related to the collapse of agriculture in resource-rich CAEMC countries (Figure 11).

Reversing the decline of agriculture in Gabon likely will require a strategic revival plan, possibly starting with the recommendations by AfDB (2008) on the development of a peri-urban horticulture sector. As will be discussed later, the Government of Gabon is betting essentially on large plantation investments to revive agricultural production.
2.1.3 Prospective approach

As part of the activities conducted under the first Reimbursable Services Agreement (RSA), signed in 2012 with the Government of Gabon, the World Bank conducted value chain analyses (VCAs) for three sectors: agriculture, forestry, and tourism.

The purpose of the agriculture value chain analysis was to assess opportunities for Gabon to achieve self-sufficiency in food production and economic diversification through agribusiness. VCAs were conducted for two products: plantain and cassava.

The VCA for plantain indicated that, independent of the farm management system used, the high cost of labor is the primary cost driver, accounting for 50 percent or more of the total production cost. In addition, depending on whether existing planting material can be accessed, the cost of seedlings accounted for nearly 45 percent of the overall cost. When retained seedlings were available, the second highest cost driver was transportation. In all farm management systems, land preparation accounted for the most expensive process along the value chain; weeding and mulching came second. In both cases (land prep and weeding and mulching), the primary factor was the cost of labor.

With regard to cassava production, the VCA showed that farms that were using traditional varieties and farming practice were handicapped by low yields (3.2 tons/ha–8.0 tons/ha, compared to the world average of 10.9 tons/ha and the African average of 9.0 tons/ha) and the cost of labor. Labor accounted for 58 percent–68 percent of production cost.

The VCA for wood processing revealed that poor road infrastructure explains the high transport costs (US$0.14–US$0.25/km-ton via road) of bringing logs to sawmills. Finished goods were not price competitive due to four factors: high labor costs, low labor productivity, low levels of craftsmanship, and lack of technical know-how. These drawbacks were exacerbated by old, inefficient machinery and poor operational management skills.

Finally, the VCA for tourism showed that the development of the sector is constrained by barriers to tourists’ arrivals, including high visa fees, high airfare, and low awareness and limited access to tourism information when tourists are planning their trips. Moreover, hotel prices are high, again due to labor, in addition to electricity cost and other operating fees coupled with lack of skills and attributes required to develop the industry. The tourism sector’s offerings are small and fragmented, including the availability and flexibility of tour packages and excursions. Furthermore, transport options within Gabon are limited. Road travel is expensive and time consuming because of labor and maintenance costs worsened by poor road conditions. Other transport options (rail, boats) are limited, and their schedules are geared toward industrial users.
II-2. Firm level analysis

2.2.1 Quantitative analysis of customs data

Diversification can be measured and discussed at the country level, but managerial decisions are taken at the firm level. This section explores the diversification of Gabon’s individual exporting firms across products and destinations. The section puts the numbers in perspective by comparison with other countries on the continent for which firm-level data is available. Firm-level data was provided by Gabon Customs.\(^\text{16}\)

Key findings from the analysis of firm-level data are that:

- Import and export operations by Gabonese companies are on a small scale, highlighting the inability of Owendo, the main Port of Gabon, to serve as port of entry for its “hinterland.”
- Exporting firms seem to face, by and large, the same hurdles as non exporting firms.
- Exports to CAEMC are marginal (less than 1 percent of Gabon’s exports in the customs database), highlighting the region’s lack of integration.
- Gabon’s exporters are regionally specialized. The few firms that export to the region export almost exclusively there, and the out-of-region exporters typically do not serve the region.
- Regional exporters are narrower in product scope than out-of-region exporters.

The analysis of Gabon’s customs database suggests that, unlike the East African Community (EAC), for which similar firm-level analyses have been carried out, the formation of Central African Economic Community (CAEMC) has not fostered the emergence of a small market for regionally produced foodstuffs and manufactures.

Gabon has approximately 200 exporting firms, or 13 per 100,000 inhabitants, more than Uganda (9 per 100,000) or Tanzania (5 per 100,000). Mean annual export turnover per firm stood in 2011 at US$93,486,904 with a median of $7,204,959.

Based on the Enterprise Survey’s sample (Figure 12), Gabon’s nonoil exporters do not appear fundamentally different from firms serving the domestic market. However, given the very small size of the sample, results should be interpreted cautiously. Large oil and mineral exporters are excluded from the sample. Although exporting firms average one-third larger than non exporting firms, the percentage of inputs and capital equipment sourced abroad is similar: 60 percent.\(^\text{17}\) Exporters are not completely specialized; they realize approximately one-third of their sales in the domestic market. No data is available to assess their productivity or the skill levels of their

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\(^{16}\)Firm-level data is available on a confidential basis from the World Bank’s Enterprise Survey (ES), but the sample is very small, and results should be interpreted cautiously. Of 179 Gabonese firms in the ES’s database, only 16 are exporters, of which 9 are trucking companies (listed in ISIC 60, land transportation), while 20 import inputs or capital equipment, among which, again, trucking companies are the majority.

\(^{17}\)Given the high proportion of trucking firms in the exporters’ sample, domestic purchases include a substantial proportion of fuel.
workforces. However, exporting firms appear to employ substantially more female employees than do domestic producers.

**Figure 12: Characteristics of Exporting vs. Non exporting Firms**

Gabonese exporters are concentrated in terms of destinations and products, reflecting a small overall scale of operations. They serve on average 10 destinations and one-sixth of them specialize in just 1 destination (Figure 13). Close to 50 percent of Gabon’s exporting firms are single-product exporters; the average portfolio is 2 products. This pattern has remained remarkably constant over time. By comparison, Tanzanian exporters send an average of 27 products to 6 destinations. However, these figures could be somewhat misleading. Many Tanzanian exporters are actually re-exporters because Dar es Salaam serves as a port of entry for the region’s “hinterland.” Ugandan firms are more similar to those in Gabon: Ugandan exporters serve an average of 2 destinations with 3 products.

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18 Products are in this section defined at the HS-6 digit level, at which there are notionally 5,000 products. In Gabon, as in other African countries, highly diversified exporters (those exporting more than 20 products–25 products) are likely to be trading houses rather than being producers. Customs databases do not distinguish reliably between them.
Firms that are more diversified by product also are more diversified by destination. Put differently, there is no trade-off between geographic and product diversification (Figure 14).

In contrast, diversification (growth at the “extensive margin”) does not correlate with higher turnover per market (growth at the “intensive margin”), suggesting that it does not reflect economies of scale. In this section, the trade dynamics can be divided in two components: (a) the deepening of already existing exchanges (“intensive margin” of trade) and (b) the establishment of new trade flows (“extensive margin” of trade). In this section, the
of approximately 15 destinations, before the turnover starts to decline (Figure 15). This statistic indicates that few of the exporters in the customs database actually are producers. Regarding producers, diversification typically implies larger production runs, economies of scale, and, thus, higher market shares in each individual market as well. The absence of this correlation in Gabon suggests that few export products are domestically produced manufactures—an indication that was verified on the ground during the mission.

**Figure 15. Export Value per Destination (in Log) vs. Number of Destinations, 2011 (US$)**

Source: Authors calculations using customs data.
Note: Each point represents a firm's export value per destination over the number of countries that the firm serves in 1 year.

Geographic concentration (proxied in Figure 16(a) by a Herfindahl index calculated over destination countries) goes down with export turnover. At the product level, Figure 16(b) shows little much action. Even though most firms remain single-product at any level of turnover, small firms slightly diversify their product portfolios, and large firms tend to reconcentrate.

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extensive margin is defined along two dimensions: as either the number of products exported, or the number of destination countries.

20 See Annex I for the definition of the Herfindahl index.
Figure 16. Firm-Level Herfindahl Concentration Index as a Function of Export Turnover, 2011

a. Destinations

b. Products

Source: Mission calculations using customs data.
Note: The Herfindahl concentration index in panel (a) is the sum of the square of destination shares in the firm's portfolio. It goes from 0 (low concentration) to 1 (high concentration). The index is equal to 1 for a single-destination firm and goes to zero as the portfolio spreads out evenly over an increasing number of destinations. In panel (b), the Herfindahl index is calculated the same way over export products. The concentration index (in destinations and number of products) is drawn against the firm's total turnover to determine whether large firms are more diversified than small ones. The finding is that large firms are more diversified by destination, but not by product.

Exports to CAEMC, which account for less than 1 percent of Gabon's exports, are substantially different from out-of-bloc exports in terms of operators (Figure 17 and Figure 18). On average between 2009 and 2011, nearly 70 percent of firms exported exclusively within the region. Close to 20 percent were shipping at least 95 percent outside the region.

Figure 17. Distribution of Regional Shares in Firm Exports, Average 2009–11

Source: Author calculations using customs data.
Note: The vertical axis represents the share of firms in the total number of firms: 60 percent of firms are specialized in CAEMC countries. (CAEMC accounts for more than 95 percent of their exports). The width of bars is 0.5 percent of firm's exports.

Products also are highly specialized. Some were distributed exclusively within CAEMC. Hence, regional and global exporters are inherently different firms so the potential of the regional market to act as a springboard for more export expansion can only be limited. Over the whole sample period, only 13 percent of firms changed status between regional and global. This number
highlights the current limited potential for “learning by exporting” so long as the trade complementarity among CAEMC partners remains weak and the regional market remains small.

**Figure 18. Distribution of Regional Shares by Product, 2009-11**

Source: Author calculations using customs data.
Note: The width of the bars is 0.5 percent of products' export.

Regional exporters also are narrower in terms of product and destination scope than out-of-region exporters (Figure 19). No out-of-region exporter was a single-destination exporter (panel b) and relatively few were single-product exporters. In contrast, a substantial chunk of the regional exporters were single-product or single-destination ones.

**Figure 19. Breadth of Product and Destination Portfolios: Regional vs. Non regional Exporters**

a. Regional exporters  

b. Out-of-region exporters

Source: Mission calculations using customs data.
Note: Both number of products (horizontal axis) and number of destinations (vertical axis) are measured in logs, so zero means “one product” or “one destination.”

Among out-of-region destinations, OECD countries get a higher share of Gabonese rubber while non-OECD countries are more active in Gabonese ores (Figure 20).
In modern cross-border supply chains, large buyers distribute thin slices of value chains around the world according to comparative advantage. In other words, each stage of a product’s transformation takes place in a different country, with each country importing components from the previous stage, adding a small layer of value, and then shipping the transformed components to the next stage. These flows show up in trade data as large imports and exports of components at slightly different stages of transformation, a phenomenon called “intra-industry trade” or “vertical trade.” Gabon is not yet integrated in such supply chains, although some preliminary signs of integration. In 2011, according to Customs, 6151 Gabonese firms were active in international trade, among which 80 firms were only exporting and 119 were both exporting and importing. The importer-exporter firms represented 99.5 percent of total export value and 33.0 percent of total imports.

However, 97 percent of the Gabonese firms that are active in international trade are pure importers that supply the country with consumer goods (agri-food, textile, and apparel) and transport equipment (Figure 21). This huge preponderance of importers contrasts with the tiny share (3 percent) of firms that are both exporting and importing that buy mining and machinery goods for their production.
The export-import firms seem to source more from countries in the region than do pure importers, either a promising sign of possible regional value chains or, more probably, simply a matter of out-of-region imports entering from neighboring ports (Figure 22).

Manufacturing activities are marginal in Gabon. Import-export linkages are limited and show up in the data only in the timber and plastics sectors (Figure 23), suggesting essentially imports of capital equipment. In terms of policy implications, the firms’ data highlight the importance of a hassle-free and low-cost trade policy regime for capital goods in export-oriented sectors.
2.2.1 Service exporting enterprises in Gabon

Services Gabon, one of the 3 pillars of the Strategic Plan for an Emerging Gabon aims at 3 objectives: (a) to develop a dynamic and innovative digital economy, (b) to position Gabon as one of the reference destinations for sustainable tourism, and (c) to turn Gabon into a regional pole for value-added services. Considering the current international trade in services, the two last objectives toward a service-exporting country are very ambitious. Gabon still makes a very low contribution to the international trade in services. Between 2009 and 2013, service exports accounted for an average of only 1.3 percent of the total amount of exports. This rate classifies Gabon as a net importer of services with a structural deficit of balance of services estimated on average at 22.5 percent of its GDP between 2008 and 2013, that is, approximately of 3.1 percent of services imports.

The structural deficit in services balance confirms that Gabon’s strategy to promote its exports is likely to be maintained over time. In the short and medium terms, a strategy for import substitution could have more impact for wealth and job creation.

This subsection aims at understanding the profile of service-exporting businesses through an analysis of their main characteristics, identified in a qualitative survey that was conducted with 40 service businesses (World Bank, 2014).\footnote{The selection of the companies to investigate was made according to a two-stage purposive sampling. In the first stage, and based on the directory of the actually operating companies given by the Directorate General for Statistics (DGS), only enterprises in the service sector were selected and classified by industries. Consequently, a sample of 600 enterprises was retained. In the second stage, exporting companies were isolated based on the declarations the companies had made in their statistical and tax returns declaration (At this point, stratification enabled taking on approximately 30 companies. The sample was completed with similar companies from various identified industries.}
General characteristics of Gabon’s service exporting companies

Most of the Gabonese services exporting companies consist of small and medium businesses, of fewer than 50 employees. BGFI (Banque Gabonaise et Française Internationale) (financial services) and Gabon Telecom/Libertis are exceptions, with 450 and 250 employees, respectively. Staffs of exporting companies are entirely composed of permanent employees except the post and telecommunications industry in which there is a noticeable presence of nonpermanent staff, especially in the commercial line.

Exporting companies’ registered capital is owned primarily by Gabonese shareholders. In general, subsidiaries of major multinational groups restrict their activities to the country because the commercial strategies of their head offices aim at the creation of subsidiaries in every country of the subregion.

Gabon’s supply of international services is still marginal and concentrated. The supply is limited to air transport, telecommunication, banking, and insurance services as well as other professional services (computing, architecture, accounting, audit and taxation, advisory services in forest development and management) and hotel and catering services. Within each industry, the number of companies also is limited. For instance, air transport, which accounts for most of the services exports, is comprised by a single firm.

to achieve a final sample of approximately 80 companies in Libreville, Owendo, and Port-Gentil. This approach aimed at understanding the situation of some economic operators that were willing to tap into external markets and face obstacles. Of the final sample of 80, only 40 enterprises were surveyed.

The questionnaire submitted to companies (Annex II) was provided by the World Bank’s International Trade Department and had been adapted to the Gabonese context. The qualitative survey took place from April to May 2013 and was completed in February 2014 by additional interviews with 10 exporting companies. These last interviews focused on the obstacles to export and incentives that GoG needs to implement to foster service exports.

The objectives of the survey were to (a) characterize the profile of service exporters; (b) analyze the export supply capability including the strategies implemented by service exporting companies; (c) identify commercial opportunities in booming industries; and (d) identify potential obstacles in order to recommend to GoG reforms necessary to significantly increase of exports to the identified markets.
Exports account on average for less than 5 percent of the turnover of firms in the Gabonese services sector. The exception is the financial sector, in which foreign subsidiaries represented 40 percent of total net banking income in 2012.

Even small exports in services have increased remarkably by 14 percent on average between 2009 and 2013 according to the Directorate General for Statistics (DGS). Exports in banking services have increased by 34 percent each year from 2008 to 2012. Hotel and catering services exports also experienced sustained growth due to the organization in Gabon of the African Cup of Nations in 2012 as well as several international conferences and fora in Libreville and elsewhere in the country. On the contrary, exports in air transport services declined, following the liquidation of the domestic company, Gabon Airlines. Exports of other business services increased, mostly toward the Central Africa sub region, due to the generalization of International Organization for Standardization (ISO) certification and Reducing Emissions from Deforestation and Forest Degradation (REDD++) process. Both require international tendering of related services from firms and governments. Consequently, a regional market is emerging that assists firms in preparing for their certifications and provides conformity audits once the firms are certified.

Most surveyed companies have been exporting for approximately 10 years. Only 2 firms, IG Telecom (provider of telecommunication services) and METRIKA GABON (studies and consulting firm specializing in business intelligence), have been exporting longer (since 1996). Most of the surveyed firms have websites, and 64 percent engage in commercial transactions with foreign customers online.

Gabon’s service exporting companies use all four modes to supply services that are defined in the General Agreement on Trade in Services 3 (GATS3). Cross-border trade (Mode 1) is the

22 Four modes of services foreign trade are defined by the WTO under GATS3. Mode 1–Cross border trade: supply of services by non-resident suppliers outside the country’s boundaries to be used in another country. Mode 1 is the most classical export of goods in Gabon. Mode 2–Consumption abroad: a consumer of a company moves to another country to use services. Mode 3–Commercial presence: a foreign company establishes an affiliate or a subsidiary in
mode most used. Consumption abroad (Mode 2) is used by hotel and catering, telecommunications, and other business services (particularly for accounting, audit, taxation, and architecture firms). Mode 2 is the only export mode used by accounting firms. However, these firms have experienced a large increase in their activities in Gabon so have little or no incentivize to expand abroad. For such companies, sending staff abroad, especially to the sub region, also is a constraint due to the high level of the salaries paid in Gabon in comparison to salaries for equivalent jobs in the sub region.

Three companies operate abroad through a presence on site (Mode 3): BGFI, which has 9 subsidiaries in Africa and France; MÉTRIKA, which owns a subsidiary in Côte d’Ivoire; and TEREA (research bureau for forest development and management studies), which declared the opening of an office in France and a representative in Argentina. Temporary presence of natural persons abroad (Mode 4) is used by all types of services activities, mostly for regional or international tenders.

Destinations of exports, customers, and types of exported services

The Central Africa sub region is by far the main destination for Gabonese service exports. Eighty-nine percent of the companies interviewed export to at least one country of the CAEMC. Fifty-six percent export to Cameroon (telecommunications services, computer services, banking services, architecture services, air transport), 40 percent to Congo (telecommunications, computer, banking, air transport, forestry, and environment services), 33 percent to Equatorial Guinea (telecommunications, computer, and air transport services), and 22 percent to the Central African Republic (CAF) (telecommunications, forestry, and environmental services).

Gabonese exporting companies have two major types of target markets in Africa: (1) countries that are experiencing a commodity boom (such as oil exporters) with high growth and (2) post-conflict countries involved in major reconstruction projects. The former group includes Congo, Equatorial Guinea; the latter one includes Democratic Republic of Congo, and Côte d’Ivoire. Oil-producing countries are targets for the banking industry, which is motivated by the opportunity to manage the excess oil revenues and the emergence of a middle class willing to invest in real estate and consumption goods. In post-conflict economies, reconstruction calls for huge financing. An example is Côte d’Ivoire, to which Gabonese computer services, telecommunications, and financial services companies export.

another country to provide services. Mode 4—Temporary movement of natural persons: A foreign national leaves his/her country to provide services in another country. “A ‘natural person’ is human being, as distinct from legal persons such as companies or organizations (Wikipedia).
Gabon’s focus on African markets is very likely related to its geographic and linguistic closeness to them. Indeed, Gabonese services companies are totally absent in Africa’s English- and Portuguese-speaking countries. For instance, Gabon has 8 subsidiaries in francophone Africa and just 1 in a Spanish-speaking country, Equatorial Guinea.

**Governments and major multinational companies are the main customers of the Gabonese exporting companies.** Transport services cater primarily to government officials, international civil servants, and executives from large mining or oil companies; and are very active in the Gulf of Guinea. Business-services-exporting companies target governments and multinational firms that are investing in the Congo basin area. The governments and multinationals seek a regional expertise on law, taxation, and accounting, as well as analysis of forest development and environment services. The general acceptance of ISO standards represents an opportunity for Gabonese small businesses to tap into foreign markets generated by regional private enterprises that are mandated to use competitive and transparent procurement procedures.

Although the range of services offered by Gabonese companies is limited, the products are varied. In the air transport segment, Gabon has high quality business aviation services including freight, aircraft rental, medical evacuations to Europe and South Africa, and the maintenance of foreign airlines. Telecommunications services include access to satellite telecommunications, supplying dedicated segments, and developing private networks. Gabonese companies’ IT services offer the design and development of decision-support-oriented software tools in varied areas such as fraud detection, management of interconnection flows, and billings (applied to telecommunications). Services provided by the country’s banking sector vary depending on geographic destination. In Africa, exported banking activities cover three business units: retail banking, private banking and finance, and investment banking. In France, BGFI operates in the trade finance market—a strategic “link” between BGFI’s banking activity in Africa and Europe.
Because Gabon is one of the countries of the Congo basin that has had a logging industry for more than 50 years, it has developed expertise in the management and development of forest properties. Based on this experience, a multitude of services have been developed and are exported. These services encompass the design of programming-aid tools; the collection of forestry statistics that are requested by domestic and foreign operators; the development of management plans, forest inventories, traceability and control chain, forest certification, environmental impact assessments (EIAs), environmental audits, ISO 14001 certification, carbon and climate change reports and institutional support. Gabonese accounting and audit firms are subcontracting to international firms operating in the region or locally. These firms also are assisting foreign investors with feasibility and procedure studies and the completion of administrative and legal formalities for the creation of companies prior to their local settling in the country.

**Export strategy and level of attainment of service-export objectives**

Gabonese exporting companies surveyed claim that they have not developed their own formal export strategies. The exception is BGFI, which, upon its fortieth anniversary, defined a strategy called “CAP 2015” targeted at foreign markets with specific objectives (box 1). Similarly, 83 percent of the firms surveyed do not seek advice from skilled staff or specialized firms. Nevertheless, 40 percent of these firms want to be leaders in the subregion. For another 40 percent of the firms surveyed, the primary motivation of exports is to diversify their markets. The last 20 percent want to increase product turnover.

**Figure 26. Primary Motivation of Gabonese Service Companies to Seek Foreign Markets (%)**

![Bar chart showing primary motivations of Gabonese service companies to seek foreign markets as follows: Become leader in the subregion (40%), Increase of turnover (35%), Diversification of markets (30%)](image)


Many services firms have started to export through international tenders. For instance, MÉTRIKA, a research bureau specialized in the development of decision-support tools and software, managed to gain market shares in West Africa (Côte d’Ivoire) and Angola due to the general acceptance? of ISO standards linked to competitive and transparent procurement procedures and international competitive bidding. The case is similar for projects financed by
international donors. In the forestry sector, forest planning and management research and advisory firms are benefitting de facto from the obligation for timber companies from the Congo Basin that export to Europe to comply with ISO 14001 certification, Reducing Emissions from Deforestation and Forest Degradation (REDD++) initiative and Forest Stewardship Council (FSC) processes.

Box 1. CAP 2015: BGFI’s Strategy for Entering New Markets

Entering new banking markets is a part of Gabon’s strategy called “CAP 2015.” The strategy was developed during the celebration of BFGI’s fortieth anniversary in 2010. In 2011, the first year of implementation, branches were opened in Benin and Côte d’Ivoire, followed by the CAEMC (Cameroon) countries and the rest of Africa including the Democratic Republic of Congo (DRC) and Madagascar.

The objectives of “CAP 2015” are ambitious: a 15 percent increase in the annual income, a maximum operating ratio of 55 percent; and a minimum yield on shares increasing by 7 percent annually based on a very aggressive marketing strategy.23 The group already has opened new BFGI branches in no fewer than 5 countries in the 2 last years. The ultimate objective is to be present in “18 countries in Africa and Europe by 2015.”

According to the 2011 activity report, the first results can be considered satisfactory.24 The results achieved for the second year of implementation were beyond initial expectations with a growth of the net banking revenue up to +55 percent, a profitability of approximately 15 percent, and a net result of XAF 225 billion.

An alternative method for approaching foreign markets in the subregion consists in prospecting markets by contacting political and administrative authorities in these countries. This practice is used largely in the CAEMC and oil countries in which service providers use their networks to approach the local authorities. However, Gabonese companies declare that their individual efforts would be more productive if this practice were taking place within company unions and if the companies were supported by Gabonese political authorities who would promote the companies’ products abroad.

Opening an office in France is a third method used by Gabonese companies to tap foreign markets, mainly (1) research firms that specialize in computer services and (2) forest and environmental services firms. In such cases, the targets are not the French market but, rather, large companies operating in Africa or North Africa, Asia, or Latin America. Opening an office in France gives a Gabonese company more credibility for international tendering. Establishing a presence in France also is used to prospect new large multinational firms planning to invest in Gabon or in Africa. The intention is to secure subcontracting markets or to get the multinational firms to intervene on behalf of the Gabonese companies until they are established permanently in the foreign country or in the region.

More than five years after their first export experience, the result for services firms proves generally mixed. Forty-five percent of the companies declared that the objectives they had set when entering the foreign market had not been achieved. Only 27 percent declared that their objectives had been achieved. For telecommunications and banking services firms that declared that they had achieved their objectives, reasons for their success were the expertise gained in the

domestic market, competence, know-how, efficiency in securing markets, and reliability of the foreign partners.

Thirty-six percent of the companies also said that they had identified additional potentially promising markets, but that they still cannot venture there because of the absence of credible partners and infrastructure.

**Box 2. Some Successful Gabonese Service Exporting Companies**

**Banque Gabonaise et Francaise Internationale (BGFI)**

Created from Paribas Gabon remnants, BGFI’s organizational structure includes BGFI Holding Corporation SA. Under it are (1) BGFI Bank (commercial banking), (2) BGFI Capital (financial services and assets management), (3) BGFI Bourse, (4) Finatra (consumer credit), and (4) Loxia Emf (microcredit). BGFI Bank is the core activity. BGFI Capital operates in investments. BGFI Bourse acts as a middleperson between stock exchange and classic or institutional savers. The group also has an integrated service center called BGFI Business School (BBS), which trains staff. BGFI Bank group operates in eight African countries.

**METRIKA GABON**

A company that designs computer applications (software packages) for the forest and timber industry, METRIKA GABON operates in many African countries including Cameroon and Côte-D’Ivoire. METRIKA GABON takes part in tendering, most often teamed with local partners.

**INTERNET GABON**

This access provider and web host has diversified its service supply to VSAT. Established in Côte-d’Ivoire through a subsidiary, Internet Gabon earns 50% of its income outside Gabon.
III. GABON’S EXPORT DIVERSIFICATION STRATEGY

In 2009 Gabonese authorities defined a new national development strategy, the Strategic Emerging Gabon Plan (PSGE). The PSGE’s goal is to turn Gabon into an emerging economy by 2025. The PSGE has three pillars: (1) Industrial Gabon, to develop a light metal industry, a wood processing industry, and self-sufficiency in clean and sustainable energy; (2) Services Gabon, to develop a regional hub of intellectual services and a digital economy; and (c) Green Gabon, to promote the sound management of biodiversity and to revitalize agriculture. Each pillar includes development and reinforcement efforts to strengthen the economy. These efforts, in turn, will contribute to export diversification.

However, in practice, the Government’s export diversification is based on three key instruments: (1) raw log ban to encourage local transformation; (2) promotion of special economic zones (SEZs) to attract big foreign investors; and (3) assistance to SMEs. These de facto instruments are analyzed in this subsection.

III-1 Banning raw log exports: A return to command-and-control?

In 2010 the Government of Gabon imposed a ban on raw log exports to induce the private sector to perform local value-adding transformation on timber before export.\(^{25}\) As discussed in section III-4, the record of export bans in fostering the emergence of downstream transformation industries is patchy. In fact, in some cases, bans have had negative side-effects on the environment. However, each case should be discussed on its own merits. Beyond its impacts, the ban’s long-term success will depend on

- Its being based on a correct assessment of Gabon’s comparative advantage
- Adequate design
- GoG’s ability to create a business environment that will make investment in transformation activities attractive even without the ban.

A sound microeconomic rationale for proactive policy intervention to foster the emergence of a local transformation industry must rest on two assumptions. They are that (1) Gabon has a potential comparative advantage in such an industry, and (2) without government intervention, private investors would fail to leverage it because of what economists call a “market failure.”

Regarding comparative advantage, the presence of the natural resource is not enough to establish it because profitability depends on many macro and micro factors. Logging and woodworking essentially are different trades so vertical synergies at the firm level appear limited. Thus, diversification into downstream activities essentially calls for bringing in new players. In addition, comparative advantage in transformation needs to stem from either low labor costs; available relevant skills; cross-cutting competitive advantages of infrastructure, governance, and others; or agglomeration. As for the first two, the next sections will show that Gabon is rather a high-cost location for manufacturing. Indeed, in the second half of the 1990s, a limited wave of

\(^{25}\) A follow-up to decision 227 of 2001, the ban was adopted in October 2009, effective January 2010.
foreign investment from Canada and Italy, among others, for the first transformation of timber into planks and plywood ended in failure. Political interference, widespread lack of governance and infrastructure, and the sudden collapse of Asian markets in the late 1990s all contributed to unsustainable losses. Local banks ended up footing part of the bill. Making Gabon an attractive location for timber transformation will call for supply-side policies to improve the business environment.

As for the existence of a market failure, the need for a government incentive could be justified by the presence of agglomeration economies. Recent research on African exporters suggests that when more firms from the same country export a given product, the resulting “critical mass” effect improves their chances of survival on export markets (Cadot and others 2011). However, beyond general considerations, there is little evidence of strong synergies among wood-transformation companies. For example, technology spillovers are not likely to be very strong because this is a low-technology activity, at least for the first stage of transformation). Thus, the case for a market failure is fairly weak.

Beyond a basic rationale, government intervention must be tailored correctly to the “market failure” it seeks to address. First, the ban applies to an annual output of raw logs approximately 3 million m³. However, in 2009 transformation capacities in Gabon stood at approximately 1.6 million m³ (World Bank 2010a). The measure allowed for a two-year phase-in period to ramp up production capabilities. Capacity has been building up steadily (114 wood-transformation units processing 1.6 million m³ of logs in 2011 compared to 81 treating 1.2 million m³ in 2009). However, it is not certain that investment will be sufficiently sustained to ensure that transformation capabilities match cutting capabilities and stay at optimal scale.

Second, the GoG has in place a rule stipulating that all logging companies must have a transformation capacity that matches their cutting capacity. In other words, downstream capacity must match exactly upstream capacity at the firm level. That makes no sense because the economics of the two activities have little in common so vertical trade among operators would be more efficient. Worse, a similar rule in Cameroon (section 3.2) has led to the proliferation of small-scale, inefficient transformation units with high costs and waste rates of up to 70 percent, leading to the squandering of the precious resource.

Most importantly, the ban on raw log exports must be part of a coherent policy for the entire value chain with twin objectives: (1) employment creation and value addition, and (2) sustainable forest management. There are multiple risks involved. The current over-complex and opaque mechanism for the attribution of forestry concessions allegedly involves rent redistribution to cronies and non performant companies. Such a system attracts fly-by-night

26 Alternately, the argument could be cast in historical terms. Since the beginning of the twentieth century, logging in Gabon has been characterized by very limited spillovers such as transformation activities, infrastructure investment, or economic development, fitting Acemoglu and others’ 2001 characterization of an “exploitative” mode of operation (see Pourtier 1989, for a detailed historical analysis). Although the Forestry Code calls for logging companies to provide infrastructure and amenities for local communities, few of them have done anything. Without incentives—positive or negative—history’s lesson is that the logging industry would be unlikely to make much effort to contribute to the country’s development.
operators lured by the prospect of easy profits and can lead only to illegal logging and uncontrolled deforestation. Combined with an inherently volatile market environment, an erratic regulatory environment that does not attract reputable, skilled operators risks generating boom-and-bust cycles, with social and environmental costs. Finally, ad hoc tax exemptions granted to compensate the dysfunctional business environment deprive GoG of legitimate tax revenue. The exemptions also create the atmosphere of a race among investors for the best tax deal. Such a race is not conducive to mutual respect between the national authorities and foreign investors.

One way of ensuring that logging is subjected to clear legal rules is for the GoG to conclude negotiations with the EU on compliance with the timber regulation and implementation of the Forest Law Enforcement Governance and Trade (FLEGT) traceability system. Negotiations seemed to be stuck in January 2013 at the stage at which the FLEGT’s evaluation grid for the transparency and legality of the concession attribution system should be field tested. The GoG should make the implementation of the FLEGT a show of its commitment to go forward with cleaning up the country’s forestry sector. This show of commitment would send a strong signal to investors, including in the downstream transformation sector, and help it attract serious investors who would have the willingness to build capacities and work with the country in the long run instead of stripping its assets.

Provided that these conditions are created and maintained, a cluster of wood-transformation and other activities could develop to the point at which the ban becomes redundant because the cluster itself has become an attractor, an objective that could be attainable within a 20-year horizon, in accordance with the Gabon emerging plan.

III-2 Betting on big players

Although the Government of Gabon has vowed repeatedly to support SMEs, its strategy to diversify the economy seems to be betting, de facto, on large foreign investors. For instance, numerous fiscal incentives are offered to foreign investors that are not available to local investors (Box 3). Public investments also are skewed toward large investors, who are able to negotiate with the Government for dedicated infrastructures and special utility rates. Government procurement contracts seem also skewed, for a variety of reasons, toward large firms.

There is a clear rationale for betting on large players to make the Government’s economic-diversification strategy effective. Recent research has shown that, in almost all countries, export flows are dominated by very large firms (“export superstars”) (Freund and Pierola 2011). Many firms may be engaged in foreign trade, but most do so on too small a scale to make a difference in country-level trade statistics. In Gabon, the problem is especially severe given that the fabric of SMEs is practically nonexistent. The development of SMEs is a chicken-and-egg problem because firm development is difficult with a very narrow cross-SME business-to-business market.
Agence Française de Développement (AFD), the French cooperation agency, has a 20-year history of projects in the Forestry sectors of the Congo Basin. In the early 1990s, AFD’s objective was the development of downstream activities by forestry operators. At the end of the 1990s, AFD’s objective turned to sustainable forest management. For that purpose, it promoted a *Plan d’aménagement forestier* (PAF), a forest-management tool used in France based on an exhaustive survey of detailed forest resources (up to the tree variety and diameter). The PAF requires a long-term contract between the State and the operator based on logging rotation across parcels. In other words, each forest concession is divided in parcels. Only some of the parcels are exploited over 25 to 30 years, before they are left for the subsequent 30 years to let the forest regenerate. In each parcel, only trees from certain varieties and above a certain diameter are felled.

In promoting the PAF, AFD has chosen a different path from the one implemented by Brazil. In the Amazon, forest management is implemented on a geographic basis without entering into the detail of the variety or diameter of each tree. However, Brazil’s simpler scheme is criticized by environmental activists as being inefficient for true forest conservation.

In the Congo Basin, 50 percent of the forest area was exploited in 2010. 32.5 percent of the forest area had been entered in a PAF, and only 10.4 percent was certified by the Forest Stewardship Council (FSC), the most stringent certification.\(^{27}\) The PAF was implemented by large, established, French-owned forestry firms, partly because their international reputation was at stake and under the scrutiny of international NGOs. The resulting PAF was a quality-logging scheme validated by the FSC. However, because of its complexity and cost ($2.50–4.00 per ha on average), the PAF is not suited for small and medium operators, who tend to postpone their participation with the support of corrupt officials. Newcomers in the forestry industry, such as Asian companies, also have less incentive to implement the PAF or apply for FSC certification unless they target the EU market. Even so, they may qualify for the FLEGT requirements, which are less demanding than those of the PAF. In the long run, whether large firms will pursue efforts to seek FSC certification will depend largely on whether certification gives them an edge in terms of price or market access.

Source: Samyn and Gassana 2011.

The few SMEs that Gabon has are mostly trading companies. Only one, EDF-Toutelec, plans to set up a manufacturing plant to complement its existing service activities. Regarding policy, although practically every government claims to support SMEs, very few programs have had any measurable effect in alleviating credit constraints, building managerial capacities, or improving SME survival (section 3.3).

A key vehicle for the GoG’s diversification strategy is the special economic zone (SEZ) set up in 2010 at Nkok, approximately 30km from Libreville. This SEZ was a joint venture (JV) with Olam, a Singapore-based multinational agrifood producer. Olam owns 60 percent of the shares and manages the JV. The Nkok SEZ will benefit from dedicated infrastructure, including a gas-fired power plant with a planned capacity of up to 107MW. It also is situated on the Transgabonais Railway, a recently rehabilitated standard-gauge line that runs three trains a day between Franceville and Owendo, Libreville’s port, and close to the intersection of the country’s main roads to the forest region (Oyem, Makokou, Koulamoutou and Ndjolé). A loading station is planned inside the SEZ. The SEZ will include commercial and residential areas for workers and

\(^{27}\)In Gabon, in 2010, 10.5 million ha (of a total forest area of 18.5) were attributed for production; 5.8 million ha were in a PAF process; and 1.8 million ha were FSC certified.
executives. Provided that they export at least 75 percent of their turnover, establishments located in the SEZ benefit from extensive tax rebates. They include:

- A 10-year tax holiday for corporate income taxes, followed by a 5-year period at 10 percent
- Total tariff exemption on imported capital equipment and parts
- Total exemption from VAT.

In addition, profit repatriation is unlimited and tax free, and labor laws will be made flexible for the employment of foreign workers for seven years (Gabon 2010). Finally, electricity will be provided at 50 percent the standard rate of the Société d’Eau et d’Energie du Gabon (SEEG), that is, approximately US¢8.00/kwh.

As detailed in World Bank (2013a), the GoG may be going too far with tax rebates. First, in a resource-rich country, access to foreign exchange is not an issue, so there is little a priori justification for special treatment of exporters, compared to the treatment of companies serving the domestic market. What matters is to generate economic activity inside the national territory, whether for domestic sales or export. Second, international evidence suggests that the provision of high-quality infrastructure tends to weigh more in the decisions of multinationals than tax rebates, which come last in the sequential selection process. Even though, in the end, indirect tax receipts (on induced income) may make the SEZ a tax contributor in spite of the rebates—which also are widespread practice around the world—there is a case for containing the rebates within reasonable bounds.

World Bank (2013a) gives practical recommendations to simplify the tax system and make it fair and attractive without jeopardizing the State’s ability to generate tax income from the presence of foreign investors. The gist of the recommendations is to replace the combination of high statutory rates with numerous exemptions by moderate, but fair and uniformly enforced, statutory rates with no exemptions. In particular, clear signals should be given that sunset clauses are not renegotiable because renegotiation of special status at its expiration is standard practice among multinationals, sometimes accompanied by threats to relocate. Insider accounts suggest that those threats are not always credible, especially in the case of plantations that are not particularly footloose and seem particularly profitable.

Beyond the issue of tax rebates, the record of SEZs and (export processing zones) (EPZs) in the African continent is uneven (section 3.1). However, there is reason to believe that Nkok has the

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28 Intrazone trade is considered export. For instance, a civil construction firm in the SEZ supplying services to another firm building a factory in the SEZ could count them as exports.

29 Given the small size of the domestic market, the 75% export requirement is likely to be redundant since production at an economic scale is unlikely to be realizable on the domestic market only.

30 A simpler tax system will also gain in predictability. Interviews with the private sector suggested that the custom fee for the use of the IT system (RUSID) rate calculation lacked transparency, with rates varying between 1.19% and 2.24% for timber shipments, with a ceiling of 50 million FCFA.

31 For instance, plantation investments in Gabon easily can have payback horizons of less than 3 years, implying rates of return on capital in excess of 30%. Few investments in agriculture or manufacturing offer such rates of returns.
potential to be a success story. A field visit suggested that infrastructure investments were well advanced, including water and energy networks, access roads, a power station, and a water-treatment plant. Management by Olam, an experienced multinational with extensive subcontractor networks, appears to portend cost efficiency and strict adherence to deadlines and contractual terms.

Nkok is largely for big firms because the flip side of the coin of Olam’s energetic management is that the price of land is high (€68/square meter with water and electricity grid access), probably too high for SMEs (if there were manufacturing SMEs in the country).\(^3\) Should a substantial fabric of SMEs progressively develop in Gabon, the GoG may want to leverage the experience of Nkok to replicate the model on a smaller scale and with fewer amenities—a “no-frills” SEZ—for SMEs.

Drawing on the international experience of SEZs, the Government of Gabon and its Singaporean partner have planned a number of investments to ensure the links between the SEZ and the local economy. These include: (a) the establishment of a multimodal logistics hub including a filling container terminal, a timber yard, wharf, and (b) the pooling of a number of facilities such as units of drying wood, timber yard, a training center, a medical center, etc ... These investments should help to significantly reduce the cost of production when taking in account the exemptions and the cost of electricity halved in two.

Regarding employment, the Government has set up a practical mechanism to ensure the priority of employment to nationals through the One-Stop shop issuing entry permits and work permits for foreign workers. The prevailing principle, concerning the hiring of workers from companies admitted into the SEZ, is that when it comes to hiring employees with equal qualifications, investors will give priority to the nationals.

Additionally, to mitigate the deficit in qualified human resources, the development plan of the SEZ Nkok includes the construction of training center dedicated to careers in wood processing. To set up this structure, the Ministry of Forestry made an official visit to Kuala Lumpur in 2011 to initiate the development of cooperation relations between Gabon and Malaysia in the field of training and research and development of the timber industry.

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\(^3\) For instance, in an interview with the mission, executives from a local SME indicated that even if they had chosen the site of their new Gabon Energy factory after Nkok was available, they probably would have stayed out given the price of land in the SEZ.
Box 4. Special Regimes: A Daunting Maze?

The GoG offers a multiplicity of tax-exemption regimes as incentives for foreign investors. The resulting environment is very complex, as illustrated by a brochure published by APIEX, the Export and Investment Promotion Agency (APIEX, 2012).

The mining code entitles companies in an exploration phase to exemption from all income taxes, property taxes, and local taxes and patents. In addition, these companies are entitled to VAT refunds under the conditions of the Tax code and VAT exemptions on “certain amortizable goods not available on the international market.” Finally, some expenses can be deducted from corporate income taxes (notwithstanding the fact that companies also are eligible for income-tax exemptions, as per above).

The agricultural code, applicable to plantations, exempts agricultural establishments from patente, VAT on raw agricultural products (“produits du cru”), capital goods, and inputs; corporate income taxes (for three years in the case of agricultural export firms), land taxes on a permanent basis for surfaces up to ten hectares, and on a temporary basis for surfaces over ten hectares and newly used for big cattle, or cleared and planted; and custom duties for inputs listed in the Agricultural code’s Annex.

Wood transformation industries benefit from a VAT suspension on capital equipment specific to wood-transformation factories; from a refund to the VAT tax base “remboursement de l’assujetti de la TVA” on locally purchased new capital equipment.

Source: APIEX, Les Mesures prévues par les textes spécifiques, Fiche # 3.
Note:
1. CGI stands for Conseillers en Gestion et Informatique (Information Systems and Management Consultants). However, the official English meaning is “Consultants to Government and Industry.”

III-3 Inadequate and ineffective assistance to SMEs

The Gabonese economic fabric comprises essentially very small and medium-sized enterprises that need special assistance due to their low level of human and financial resources. Recognizing the pressing need for economic diversification and the role that SMEs could play in job creation and growth, the Government of Gabon has multiplied its efforts to promote SMEs.

In 1980 Gabon adopted a law to promote and develop SMEs that had three goals: (a) creating a class of Gabonese entrepreneurs, (b) increasing the share of SMEs in GDP, and (c) generating activity in rural areas to stem the rural exodus. The SME law planned incentives for priority access to public markets and tax and customs advantages through a license issued by a commission headed by the Ministry of SMEs. To achieve the law’s objectives, the Government created two institutions: (a) Promo Gabon, a public institution whose mission is to assist business promoters in developing projects, feasibility studies, and financial and business plans; and (b) Guarantee Fund (Fond d’Aide et de Garantie aux PME) (FAGA) for SMEs.

This institutional framework was revised in 1993 with the creation of the Funds for Development and Expansion of SMEs, or FODEX (Fonds de Développement et d’Expansion des PME-PMI). The mission of FODEX was to finance project feasibility studies and equity loans to provide capital needed to launch projects and provide guarantees. In 2010 both FAGA and FODEX were

33 Lloi no 1/81 du 8 juin 1981, instituant des mesures administratives financières propres à promouvoir les PEM/PMI
closed for failing to achieve their respective goals. Their resources were transferred to the Gabonese Development Bank (Banque Gabonaise de Développement) (BGD), which is specialized in financing SME/SMIs. However, BGD’s actions to facilitate SMEs have been constrained by the fact that BGD is subject to the same prudential rules as are commercial banks. This fundamental barrier has created a very risk-averse entity that is unable to finance small and medium-sized enterprises. For example, BGD had financed only 19 percent of the 3000 Gabonese SMEs.

Promoting Gabonese exports has devolved to be the responsibility of the agency for the promotion of investment and exports, APIEX (Agence de Promotion des Investissements et des Exportations). It has four missions: (a) to promote and boost foreign direct investment (FDI); (b) to inform, advise, and guide investors; (c) to assist and support exporting companies; and (d) to facilitate relations between producers and buyers. However, APIEX is seen by exporters as the agency that promotes imports and foreign investments rather than the agency that promotes local exports and exporters. APIEX’s activities still focus on promoting business opportunities in Gabon and do not incorporate sufficiently prospecting for business opportunities for exporting companies.

Similarly, the participation of Gabonese exporters in economic fairs and fora involve mainly the exports of goods. Moreover, the role of the African Growth and Opportunity Act (AGOA) Resource Centre in APIEX is to help Gabonese exporters to benefit from the trade preferences granted under AGOA. Unfortunately, the resource center is very little known so has limited impact. In addition, Gabon’s Chamber of Commerce and Industry, whose missions include promoting exports, is being restructured and suffers from insufficient capacities and financial resources. Finally, abroad, Gabonese embassies do not have economic departments/divisions capable of guiding companies seeking foreign markets.

The goal of the Plan Stratégique Gabon Emergent (PSGE) is to make Gabon an emerging economy by 2025. In 2014, as part of the implementation of the PSGE, the Government of Gabon decided to dissolve several public agencies that collectively had fulfilled the missions of investment promotion, business registry, and enterprise support. Their overlapping mandates resulted in a suboptimal allocation of human and financial resources and often downgraded the quality of services offered and of customer experience. Their 3 functions have been incorporated in one new agency, ANPI-Gabon, with 3 departments:

The Investment Promotion Department’s mission is to generate investments in Gabon through reactive and proactive targeted promotion, and to facilitate setting up investors in the country.

The Business Registration Department’s mission is to complete all business registration procedures on behalf of investors in not more than two days.

The Enterprise Support Department will be in charge of advising and guiding companies with regard to internal formalities, services, and opportunities that may concern them, especially those relating to the export process.
Also planned is the establishment within ANPI a department in charge of public-private partnerships (PPPs).

In February 2014, the Government also adopted a decree that establishes and organizes the High Council for Investment (HCI). The commission’s mission is two-fold: (a) to create a framework for consultation and public-private dialogue; and (b) to promote measures to stimulate and improve the business climate by setting priorities to develop the private sector. Under the authority of the President of the Republic, HCI is composed of national investors’ representatives, ministers of economy and promotion of investment and other sectoral ministers involved in the agenda. The Permanent Secretariat of the High Council will be carried by the General Directorate of ANPI Gabon.

It would benefit Gabon’s business climate if the HCI and ANPI were established as soon as possible to speed up the work and to enhance the coordination and supervision of programs to promote a transparent and attractive investment climate in Gabon.

To become efficient, the activities of this newly created agency should be based on a national export promotion strategy.

### III-4. Industrial policy: Lessons from international experience

This subsection brings together recent international evidence that highlights the strategic choices faced by the Government of Gabon: special economic zones (SEZs), commodity export bans, and assistance to small and medium enterprises by removing their credit constraints and promoting exports.

**Special economic zones: The evidence**

Special economic zones (SEZs) in various forms (export processing zones, offshore assembly zones, zones franches) have spread widely around the world to nearly 4,000. SEZs account for 20 percent of developing-country exports (Farole 2011). These zones have been leading export-led growth in a number of countries. Moreover, the most successful SEZs, such as Malaysia’s Penang Zone, created in 1972, have generated tremendous agglomeration forces. For example, electronics firms clustered in Penang now produce 10 percent of the world’s semiconductors. In addition, in some countries, most famously China but also, on a smaller scale, in Mauritius, SEZs provided political space for reforms that would have been difficult to implement directly at the country level and had a demonstration effect that helped overcome resistance to wider reforms later on. With 130 countries having 1 or several SEZs, they have become a fixture of global industrial policy.

**SEZs worldwide: No silver bullet for job creation**

SEZs can prove powerful engines for export growth, as proved in the mid-2000s by the exports of Nicaragua (79 percent), the Philippines (78 percent), Bangladesh (75 percent), Morocco (61
percent), and even Madagascar (80 percent). In terms of FDI, SEZs also can come to dominate the picture, accounting for all inward FDI in Vietnam, 48 percent in Ghana, 30 percent in Bangladesh, 20 percent in Kenya, and 18 percent in Tanzania (Farole 2011).

However, beyond export growth, the SEZ record is uneven. Backward linkages are not strong everywhere. Some SEZs developed local sourcing as they grew. For instance, companies in Korea’s Masan Free Zone, created in 1970, sourced only 3 percent of their components in Korea in 1971. Fifteen years later, they sourced 45 percent (Farole 2011). Nevertheless, the broader picture is uneven (Figure 27). For example, some of the most successful EPZs, such as Vietnam and Bangladesh, which were overwhelmingly active in the garment sector (as is Lesotho’s EPZ), have very weak backward linkages.

![Figure 27. Proportion of Materials Locally Sourced](image)

Source: Adapted from Farole 2011, table 3.7.

Regarding employment, export-processing zones’ contribution to national employment is limited. The exceptions are in small countries in Central America, in which the contribution can reach 33 percent. Kenya’s EPZ accounts for 15.0 percent of national employment, Ghana’s Tema EPZ for 3.5 percent, Tanzania’s for 2.5 percent, and Nigeria’s Calabar for less than 1.0 percent. Even highly successful and labor-intensive EPZs such as Bangladesh and Vietnam account, respectively, for only 5 percent and 19 percent of national employment.

Wages in SEZs typically are higher than economy-wide minimum wages (Figure 28). However, in some cases, such as Bangladesh’s EPZ, wages still are extremely low ($32/month) in both nominal and real, PPP-adjusted terms—in fact, too low to generate much local purchasing power. Some SEZs come with anti-union legislation, which is seen as an additional incentive to investors. As examples, Kenya prohibited unions and collective bargaining in EPZs until 2005, while Nigeria’s free zone prohibits strikes for 10 years following the start of a company’s operations, leaving labor disputes to be settled by the zone’s management. In Bangladesh’s SEZ,

34 In Madagascar, political unrest and in 2004 the end of the Multi-Fiber Arrangement (MFA) quotas led to its SEZ’s eventual collapse.
instances of human-rights abuses, poor worker safety conditions, and anti-union violence repeatedly have been reported in the press.

Figure 28. SEZ Wage Differential Compared to Economy-Wide Minimum Wage (%)

Also limited is SEZs’ ability to draw on local skills. Particularly in African SEZs—except Tanzania and, to a lesser extent, Senegal (Figure 29)—and there seems to be a widespread problem in generating job-advancement opportunities, especially for women. In sum, SEZs worldwide do not appear to be silver bullets to generate quality jobs and linkages to domestic economies.

Figure 29. Employment of Local Vocational-Training Graduates (% of SEZ workforce)
Understanding the weak record of Africa’s SEZs

For all SEZs, export volumes take time to take off—usually at least 10–15 years. For the successful SEZs, that first phase is followed by exponential growth. In contrast, for Africa’s SEZs, growth has been slow or has even reversed. Several factors have contributed to these patterns.

First, African labor is expensive compared to Asia’s (Figure 30). Farole, 2011) shows that a good chunk—although not all—of the difference is due to general-equilibrium effects, that is, to the fact that the cost of living is high in Africa. In other words, real wages in Africa are not much higher than on other continents. For instance, once adjusted for PPP, wages in Ghana are lower than in Vietnam (Bangladesh is an exception with very low nominal and real wages). Africa’s low real wages highlight the need to think of export competitiveness from a general-equilibrium standpoint, including measures such as reductions in import tariffs and electricity rates to achieve reductions in factor costs that do not impoverish workers.

Second, Africa’s SEZs have come “too late.” The early success of the SEZs in Lesotho, Madagascar, and Mauritius, and, to a lesser extent, Kenya was linked to preferential access to large markets (U.S. and E.U.) in the garment sector while Asian powerhouses were contained by MFA quotas. Once those quotas went away in 2005, the conditions of competition changed radically with the onslaught of Bangladesh, China, and Vietnam, leading to the decline or collapse of the embryonic African manufacturing centers. For instance, in Kenya’s EPZ program, employment is down 20 percent from its 2003 peak. In Lesotho, garment employment is down 15 percent from its 2004 peak, and Madagascar’s EPZ all but collapsed. Of these, Kenya and Mauritius managed to diversify out of garments. For instance, Kenya’s non-apparel exports (including horticulture, processed food, and pharmaceuticals) doubled between 2004 and 2008.

35 A situation where demand and supply requirements of all decision makers (buyers and sellers) have been satisfied without creating surpluses or shortages
Meanwhile, Mauritius developed a substantial services activity. Productivity rose in Kenya’s EPZ; however, the price to pay for higher productivity was less employment.

Third, and most important, international experience shows that SEZ competitiveness depends on factors that do not stop at the EPZ’s gate. Out-of-zone logistics is crucial. Yet, many of Africa’s SEZs are not located right at the countries’ international gateways, which in many cases themselves are dysfunctional. For instance, West Africa’s ports, particularly Libreville, are congested and expensive. Transit infrastructure between the SEZ and the port often is also congested and deficient. Similarly, few of Africa’s SEZs offer quality, competitive power supplies and access to key networks.

**Commodity export bans: Have they worked?**

Export bans have been used repeatedly by resource-rich countries to encourage local transformation. While their redistributive effects (from upstream to downstream sectors) are clearly documented, their record in fostering industrialization is uneven.

The rationale for a log export ban encompasses at least 2 dimensions (Resosudarmo and Yusuf 2006):

- Forcing loggers to sell only to domestic processors is hoped to induce the development of a downstream industry that would be competitive on the world market thanks to a cheaper input price.
- Because a lower log price eliminates the incentive for deforestation, the log export ban is viewed as a second best policy tool for addressing environmental externalities.

Logging bans have been put in place in many industrial and developing countries including Canada, New Zealand, and the U.S.; and in Brazil, Cambodia, Cameroon, Costa Rica, Ghana, Indonesia, Malaysia, the Philippines, and Thailand.

However, profitable wood processing is capital intensive (especially the high-value segment of pulp and paper) and creates fewer jobs than logging alone. Due to insufficient access to credit and investment, inefficient processing units tend to develop. Because the inefficient processors use more logs compared to efficient units, the log export ban will result in a higher rate of deforestation. Moreover, paradoxically for a policy that might be expected to slow logging, the low price of logs intensifies the pressure to clear forests for more profitable uses such as agricultural crops and plantations. The first-best solution for environmental preservation should be based on domestic measures, a clear assignment of property rights, and long-term contracts on responsible logging between the State and forestry operators, with NGOs as vigilant watchdogs (Samyn and Gasana 2011).

As with any trade instrument, a ban on log export is likely to impact other countries. For instance, an export ban on crude palm oil by Indonesia in 2011 (Box 5) has adversely hit refineries in India and Malaysia, which used to process it. Another case is a ban on the export of raw cut and sawn wood in Vietnam, while the country simultaneously continued to develop its
timber processing sector (second only to China as the main wood products exporter in Southeast Asia). As a result, 80 percent of the wood required by the furniture industry is imported, roughly half of which is from illegal sources in Cambodia and Laos (Fyfe 2012).

**Box 5. Timber Export Bans in Indonesia and Cameroon**

**Indonesia**

In 1985 Indonesia imposed a ban on the export of raw logs to stimulate the emergence of a local transformation industry. The immediate effect was a 15 percent–30 percent drop in the local price of meranti logs compared to Malaysia, which had no ban at the time. The drop in the price of local timber acted as an implicit subsidy for Indonesia’s plywood industry, which gained market share on the U.S. and Japanese markets at the expense of its Korean and Taiwanese competitors.

However, the ban’s effectiveness was undermined by widespread smuggling through the Indonesian archipelago’s numerous ports. To improve the policy’s effectiveness, in 1990 the Suharto government replaced the ban with stiff export taxes on raw logs. Combined with numerous tax breaks to the wood-transformation industry, the policy enabled Indonesia’s plywood industry to become the world’s largest by the end of the 1990s, with an output close to 10 million cubic meters per year.

The 1997 Asian financial crisis put an end to the boom, but, by then, the policy also was a victim of its own success for other reasons. Paradoxically, although the ban had redistributed income at the expense of the logging industry (to the benefit of the downstream transformation industry), a rising and price-elastic demand for plywood led to the acceleration of uncontrolled logging. With no replanting or controls, easy-access sites were quickly exhausted and severe environmental degradation resulted, particularly in the coastal forests of Sumatra and Kalimantan.

**Cameroon**

In 1994 Cameroon imposed a minimum quota of 70 percent locally transformed timber by concession. In 1999 the country adopted an outright ban on raw log exports, except for certain species whose export is allowed subject to special taxes and quotas. Forestry companies adapted by investing in local transformation activities, and some new investors entered.

Today, Cameroon’s timber sector has both consolidated and diversified. However, there is a gap between local operators—who often lack the ability to invest in new technologies—and subsidiaries of large international groups. After the 1994 CFA franc devaluation, large operators of foreign subsidiaries turned to export markets. Local exporters relied on the domestic market.

Moreover, despite interfirm trade, the industry as a whole has excess capacity, which creates an incentive, especially for local operators, to procure illegally felled logs.

**Assistance to SMEs**

Given Gabon’s currently very weak SME fabric, SME promotion policies are unlikely to make a difference in the country’s export performance in the short to medium term, especially in view of the uneven record in countries in which they have been used. However, in the long term, developing a fabric of SMEs will be key to reconquer the domestic market, a prerequisite for employment-generating export diversification. This subsection briefly reviews the international experience in SME promotion, considering some of the most commonly used instruments and highlighting their potential and limitations.

**Export promotion**

After a long history of failure in developing countries (due largely to misguided flanking policies such as import substitution and currency overvaluation), export-promotion agencies (EPAs) recently have had more success in increasing exports, particularly those whose management involved the private sector (Lederman and others 2010).

However, the recent evidence should not lead to excessive optimism about EPAs. The literature suggests that they tend to be more successful at affecting the performance of established exporters than at encouraging non-exporting firms to start exporting. Gabon has a strongly dual economy. On one hand, the country has very large commodity exporters (oil and mining companies and large, established forestry operators), which do not need export-promotion assistance. On the other hand, the country has of very small firms, which are far from having established positions on the domestic market. Therefore, the best target for EPAs in Gabon is a rare type of firm.

Second, the evidence is that EPAs have stronger impacts at the extensive margin (new destinations and, to a lesser extent, new products) than at the intensive margin. This pattern is somewhat natural, and perhaps even desirable, if the information hurdles to break into new markets (product- or destination-wise) are larger than to simply ramp up export volumes. However, the contribution of the extensive margin (new products and new destinations) to export growth has been shown to be limited.36

All in all, the new evidence suggests that export promotion is a good thing but also that it is likely to work best in countries with a substantial fabric of large, established firms that serve the domestic market. Gabon does not have that fabric. Therefore, policies need to be put in place first to help the emergence of small and medium-sized companies capable of reconquering the domestic market.

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36For instance, Evenett and Venables (2002) found that approximately 60% of total export growth was at the intensive margin. Brenton and Newfarmer (2007) found that intensive-margin growth accounted for 80.4% of trade growth for 99 countries over 20 years. Amurgo-Pacheco and Pierola (2008) found that extensive-margin growth for a panel of 24 countries accounted for only 14% of export growth over 15 years (1990–2005).
**Policies to reduce credit constraints**

Access to credit is a major impediment in developing countries, particularly for SMEs. Typically, SMEs need larger loans than are typical in microfinance; yet SMEs usually are not considered by formal credit institutions to be as bankable as microenterprises. Asymmetric information on credit markets entails (a) a selection cost for the bank and the need for a collateral for the firm before a project is financed and (b) a monitoring cost afterwards. Because part of these costs are fixed for the bank irrespective of project size, projects presented by SMEs often are not worth their cost for the bank and end up being rejected even though they could have been profitable.

Credit constraints can be alleviated through different means: (a) credit lines specifically targeted at SMEs, sometimes with lower interest rates; (b) credit guarantee schemes; and (c) public or partially public venture-capital funds.

International evidence shows that it is difficult to direct bank credit towards SMEs because of the shortage of bankable projects. Even in the presence of specific credit lines extended to them by donors to encourage SME credit, banks usually do not alter their selection policies, considering them good management practice with or without credit lines. Moreover, even in rare cases in which they do lend more aggressively to SMEs, banks may fail to relax loan conditions such as duration (KFW 2005) or interest rates (AfDB 2008), sometimes resulting in perverse effects (weakened balance sheets) for borrowing firms.

Public credit guarantees are intended to transfer and diversify the risk borne by the bank. However, such schemes are rife with moral hazard because banks and borrowers are tempted to free-ride on public funds (Cowan and others 2009). Moreover, political interference often weakens the viability of guarantee schemes, piling up bad risks resulting from loans to politically connected individuals.

Private equity, which is booming in emerging countries, requires specific regulatory environments. They are characterized by strict enforcement of contracts and the ability to distinguish among different types of shareholders. In developing countries, the performance of private equity is heavily dependent on the funds’ general partners and the quality of monitoring them (Wilton 2012). Moreover, when risk and payback horizon (typically approximately 10 years) are taken into account, the final profitability of private equity is unclear.

All three instruments—credit lines, public credit guarantees, and private equity—can help mitigate market failures on credit markets ((quantity rationing due to asymmetric information). However, the most critical market failures may lie upstream in the regulatory environment. For instance, accounting and disclosure norms may be (and often are) insufficient for banks’ needs. Market failures also may be downstream in product markets. For instance, SME clients may pay for the products after long delays, forcing the banks to hold large quantities of working capital. Such market failures can be handled directly by improving accounting norms and training SME managers to use them; sharing information on debtors through credit bureaus; providing technical assistance to banks on how to deal with relatively informal clients; and/or shortening
payment delays, especially in public procurement, and capping the discount rate for early payment.

**Step-wise strategy for services**

For services companies, the huge potential of Gabon’s local market is a strong disincentive to export. In the qualitative interviews, the local market was ranked by 18 percent of firms as a factor explaining their sluggish exports. With service imports estimated at approximately XAF 400 billion, the domestic demand for Gabonese services is still untapped territory. Ancillary services to the oil sector, in logistics or drilling, have a high growth potential. Similarly, audit and accounting firms, which estimate the annual growth of the turnover in the profession at more than 12 percent, are not incentivized to enter regional markets because a large part of the local demand remains unmet.

In the short term, Gabonese authorities should develop strategies to replace imports of ancillary services to traditional exports such as oil, mining and timber, or new ones such as agri-exports. Replacement could be done in partnership with the established foreign private investors in Gabon and by helping other foreign ancillary services firms to enter in Gabon. These arrangements would build local capacity, raise it to international standards, and respond to domestic demand, which is unmet with imported services. Over time, this strategy would help local firms to develop enough expertise to enable them to operate competitively in regional and international markets.
IV. LIFTING CONSTRAINTS TO GABON’S EMERGENCE

Based on the preceding diagnosis of Gabon's trade potential and current situation, section IV turns to the key constraints and policy issues faced by the GoG when promoting export diversification in the industrial sector. The preceding discussion has shown that it is still too early to hope for a surge in exports in agriculture or in services. However, the structural reforms that are required for industry will create the conditions for the emergence of other sectors as well. An emerging Gabon's industrial policy relies on banning raw log exports and attracting large foreign investors. The constraints are threefold: the cost and quality of labor, business environment, and infrastructure.

IV-1. Human capital: Involving the private sector

Labor bottlenecks frequently are put forward by Gabonese companies as a brake on export expansion and as a source of competitive disadvantage relative to companies in other countries in the region. World Bank’s investment climate survey carried out in 2009 on a representative sample of Gabon’s companies shows that staffing comes third as a bottleneck, after transportation infrastructure and electricity prices.

Part of the problem is a physical constraint; part of it is fragmentation (World Bank 2013a). Gabon’s population was 1.6 million inhabitants in 2010—more than Equatorial Guinea’s 720,000 but considerably fewer than Cameroon’s 20 million, Ghana’s 24.9 million, or DRC’s much higher 67.7 million. Gabon’s labor market also has a dual structure, with barely one-third in the formal sector and the rest in either the informal sector (41 percent) or unemployed (28 percent).\(^3\) Formal-sector employees get a minimum wage of FCFA 80,000 per month (US$ 170), social benefits, and job protection. Sixty-eight percent of formal employment is in the public sector and state-owned enterprises (SOEs). Ultimately, only 11 percent of the active population work for formal private employers, of which 2 percent are in the oil and mining sectors.

Given its small size relative to total employment, formal private-sector employment cannot by itself provide an answer to the unemployment problem and absorb the labor force currently in the informal sector. However, the need to diversify employment sources of the oil and mining sector can drive the required changes in the labor market’s functioning.

One key issue repeatedly raised by private-sector employers is the shortage of skilled labor. Private companies need accountants, electricians, IT specialists, machinery and truck drivers, and welders. Gabon’s educational system fails to produce those skills. A recent report

\(^3\) The unemployment rate in the International Labor Organization (ILO) definition is 20.4 % of the active population, to which must be added 8 % of discouraged workers who have done no active job search in the preceding month (Enquête National sur l’Emploi et le Chômage -ENEC 2010). Most of the recorded unemployment is urban (87.2%), and thus located mainly in the Estuary region. Unemployment particularly affects women (59%) and high-school educated youth. Three-quarters of the unemployed stay so for over 1 year; the average duration for all unemployed is 6 years.
(République gabonaise 2012a) highlights the lack of fit between graduates’ skills and job vacancies. The labor market needs skilled workers with high-school degrees. However, 68 percent of entrants in the labor market have failed to reach that level. In contrast, 12 percent of new entrants have college degrees. However, executive jobs comprise only 5 percent of the vacancies. Moreover, technical and vocational training in Gabon fails to produce the skills needed by employers, as only 1 graduate in 3 finds employment. On OLAM’s plantations, for instance, most of the technical personnel are Indonesian or Malaysian. Against this backdrop, a few initiatives have been launched in the timber and oil sectors.38

For services-exporting firms, one of the reasons for their specialization in the sub region and not farther abroad is the lack of sophisticated skills that would enable them to export to the more demanding markets of the Maghreb or France. For instance, architects declared that they do not venture into the Maghreb countries because they do not have the required technical capacity to meet those standards and operate competitively with the existing operators.

Only 36 percent of the services companies in Gabon say that they have found enough skilled labor at home to supply their export services. This is the case mainly for the banking sector, where BGFI (Banque Gabonaise et Française Internationale) has developed the BGFI business school, which delivers diplomas and qualifications for any category of the profession. Such courses are adapted and in line with the group spirit whereas most of their competitors merely provide their staffs with generic courses of the ITB (Technical Institute for Banking).

Telecommunications and computer service companies consider the quality of local workers rather average and insufficient to operate competitively at the regional and international levels. These companies often invest in their employees’ training in the hope of upgrading their skills to the level required for the companies’ export activities. In addition, they note a shortage in skilled staff in highly technological sectors. These shortages of qualified employees are unmistakable signals of the mismatch between Gabon’s educational system and the production sector. This mismatch is seen as one of the main causes of unemployment in Gabon (World Bank 2013a).

To find a solution, the Gabonese government, with the support of the World Bank, is planning to develop a program to improve young people’s employability. The purpose is to increase technical and vocational training supply in the economy’s high growth and employment potential sectors through the creation of new training centers resulting from the demand and through the restructuring of the existing training institutions. The program encompasses two components: (a) extension of the training supply and competencies development in growth-enhancing sectors and

38 Created in Port Gentil in 2010, the Petroleum and Gas Institute, a PPP with oil companies Total Gabon, Addax Petroleum, ENI, Perenco, and Shell Gabon, recruits high-school graduates on a competitive basis and trains them for 14 months. The institute also offers short-term training for technicians and engineers in oil and related industries. Two timber-work training institutes are planned, one specialized in forestry similar to Libreville’s existing L’Ecole Nationale des Eaux et Forêts (ENEF), and the other, in Boué, focusing on timber transformation in partnership with Switzerland’s Ecole Technique ES Bois de Bienne.
(b) improvement of young persons’ employability, integration, and promotion of entrepreneurship.

Another problem concerns labor turnover. Growing agro-industrial activities must attract to production sites, sometimes located in rural areas, a labor force that is essentially urban (82 percent of Gabon’s population lives in urban agglomerations). The average length of stay of a worker in timber transformation plants in rural areas is approximately three years, or an annual turnover of approximately one-third. Similar turnover is observed in rubber and palm tree plantations, in which unattractive locations are compounded by physically demanding working conditions.39

One option for Gabon’s private sector would be to resort to foreign workers. However, international experience suggests that massive recourse to immigration for economic reasons portends future political and social frictions. The possibility of hiring foreigners en masse is strictly regulated by Gabon’s 1968 Code du Travail. Hiring even one foreign worker is subject to Labor Ministry authorization. Permission is granted under the condition (standard in industrial countries) that the hiring company can show that no national can fulfill the vacancy’s requirements.

Moreover, foreign workers must not total more than 10 percent of a single company’s labor force. These regulations are not strictly enforced; and, not infrequently, companies simply refrain from declaring foreign workers (World Bank 2013a) or use labor agencies. The share of non-natives in formal and informal employment is estimated at 25.6 percent (République gabonaise 2012b). The government seems to have taken a pragmatic approach to the question. In the Nkok Special Economic Zone, companies will be able to recruit more foreign workers than allowed under the Code du Travail for a period of seven years, under the condition that they also must train equal number of Gabonese workers during the same period. However, no concrete mechanism has been put in place to ensure that this clause is being carried out.

In sum, Gabon’s labor market is affected by an array of incompatible constraints.

- At current Gabonese wages and exchange rate, few if any labor-intensive industries could be internationally competitive.
- Gabon does not have the skilled human resources to attract service or manufacturing assembly industries that have substantial human capital needs, even for basic technical skills.
- Natural-resource-based activities offer jobs whose conditions are so harsh that they are only marginally attractive for Gabon’s unemployed.
- At the same time, the Government of Gabon desires—for obvious reasons—to promote national employment.

Clearly, this array of conflicting constraints cannot be resolved overnight. Because many other constraints weigh on the potential for export diversification, short-term fixes such as massive

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39 Interviews with employers indicate that rubber plantation workers carry over 300kg per day on their backs for several miles. Palm tree plantation workers are said to carry five times more weight per day.
recourse to foreign labor or a rapid relaxation of labor laws could involve disproportionate political costs relative to their potential economic benefits.

To solve this conundrum, GoG needs to put in place a sequential strategy to alleviate skill shortages by using temporary measures in the short term while putting in place the structures needed to invest in domestic skills in the medium term.

In the short term, the Government could envisage liberalizing visas for 2–3 years while imposing as a quid pro quo on whom each individual employer that the hiring of foreign technicians be matched by the hiring of local trainees—if not on a one-to-one basis, at least on a ratio considered workable for the private sector. Moreover, the Nkok SEZ should have a technical training center managed by the zone’s companies, with private-public collaboration (possibly also involving donors) on curriculum design. The center could provide skills in accounting, management, and selected technical skills. Private-sector involvement in the center’s management would have to be matched by the sector’s commitment to take trainees or even to hire a specific percent of the center’s graduates. This commitment would give the private sector a vested interest in ensuring that the curriculum, standards, and conditions of study were adequate. The center could position itself at the high school level (after the Brevet d’Études du Premier Cycle, or BEPC, and before the baccalauréat) and could usefully involve affirmative action for girls, who are particularly vulnerable to unemployment. The center also should offer housing to both students and faculty, leveraging the quality of the zone’s infrastructure; and provide scholarships.

The private sector’s commitment to invest resources in the training center in the form of financing, management, and hiring commitments could be viewed as a quid pro quo for pre-existing tax exemptions (discussed in the following section). The sector’s commitment would have the added advantages of generating externalities for the local population, alleviating concerns about the spread of foreign investment and tax-exempt zones. It would also contribute to the brand image of the companies involved in terms of corporate social responsibility and long-term commitment to the host country’s social development.

Gabon’s skills shortage is region wide. In the services sector, access to professional occupations (such as chartered and certified accountant, tax consultant, medical practitioner, dentist, nurse, lawyer, architect, and court officer) are limited for expatriates or subject to the obligation to join national associations or to partner with a local operator. These are legal provisions that constitute barriers to entry, mainly for Gabonese providers of ancillary services. However, such provisions sometimes prove to be inconsistent. Indeed, except Cameroon, CAEMC countries and even ECCAS countries have deficits in the supply of these qualifications. It would be desirable for the ECCAS countries to consider establishing regional associations and regional legislation that would establish the freedom for professionals to conduct business within the sub region.

**IV-2. Toward a fair and transparent business environment**

The poor quality of Gabon’s business environment stands as a major constraint to the diversification of its economy. Gabon ranks 163 of 189 countries in the 2014 Doing Business
(DB) ranking, behind Zambia (93), Tanzania (145), and Nigeria (147); and close to Cameroon (168) and Equatorial Guinea (166). Ranking better than the 2 Congos (DRC 183 and Congo-Brazzaville 185) is little comfort given the current quality of their business environments.

The Government of Gabon is working proactively with the International Finance Corporation (IFC) to explore leads to improve the country’s DB ratings. An interministerial group has been created to examine all criteria relevant to DB ratings and propose practical measures to improve them. World Bank is part of this process through an Investment Promotion and Competitiveness Project. Beyond the low-hanging fruit in regulatory simplification, the Government of Gabon and donors need to engage in long-term assistance to entrepreneurs and SMEs to improve managerial and accounting standards to make SMEs more bankable risks.

In sum, measures likely to improve Gabon’s business environment should include:

- Work at the CAEMC level to improve the fiscal environment through lower Common External Tariff (CET) rates.
- Streamline the fiscal system through the elimination of most exemptions, whether for domestic (corporate income taxes, VAT) or border taxes. Particular targets should be the exemptions granted ad hoc as part of bilateral conventions. Additional targets should be the special regimes at the sectoral level whose effects shift rents to foreign shareholders.
- Move forward on land-rights reform to improve the capacity of land titles to be used as collateral for bank loans.
- Create one or more certified management centers to provide management/accounting assistance and account certification for SMEs; create a central registry of company balance sheets to provide information to all interested parties; and encourage banks to cooperate in the creation and management of a credit bureau.

For services, countries from the CAEMC, the primary destination of service exports in Gabon, have all the commercial laws fostering the freedom to undertake any industrial, commercial, or service for all individuals regardless of their nationalities. Nevertheless, legal and regulatory provisions or specific practices are pervasive and work as administrative barriers to entry into each country’s markets (Figure 31). For example, companies specializing in logistics and oil services (another sector in which Gabon has developed expertise) cite regional obligations for foreign companies to partner with local companies in order to be allowed to tender; and/or heavy clearing procedures as main obstacles to tapping regional markets. Hence, administrative barriers also should be tackled at the regional level.

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40 The bottlenecks are well known and identified by many works prepared by the Government of Gabon, the World Bank others donors.
Enterprise creation

For enterprise creation, Gabon ranks 153 in the 2014 Doing Business ranking. The country takes 50 days and 7 procedures to create a SARL (Société Anonyme à Responsabilité Limitée) for a total cost equivalent to 17.3 percent of the country’s per capita income, and with a minimum capital requirement corresponding to 19.3 percent of the country’s per capita income. In June 2011, to establish a single window for enterprise creation, the Government created the Center for Enterprise Development (CDE) to replace the investment promotion agency.

More simplification is needed. In a 2012 World Bank report, with the objective of establishing a single window for enterprise creation, Diéye recommended additional procedural simplifications. Two were: to reduce the number of documents required and to adopt a standard company statute based on the rules of the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA). Under the Investment Promotion and Competitiveness Project supported by the World Bank, the Government intends to put in place an agency for the promotion of investments and competitiveness Agence Nationale de Promotion de l’Investissement (ANPI). This agency will be in charge of creating businesses, promoting investment and exports, and supporting businesses (subsection II.b).

Access to land is a key step in enterprise creation. In Gabon, the entirety of the national territory is under State ownership. Getting a land title was a drawn-out procedure that could take up to 15 years. Each title, whether granted to a physical person or to a corporation, had to be approved by the Prime Minister’s office. Final attribution was conditioned on effective use of the land within 2 years. During those 2 years, the investor did not have a definitive land title to use as collateral to seek bank loans, limiting her/his capacity to get access to credit.
In 2011 GoG undertook an important reform to lighten these procedures. The Ministry of Housing, Urbanism and the Cadaster (MHUC) was closed, its personnel fired, and its powers transferred to the new National Agency for Urbanism, Topography and Cadaster (ANTUC). The two-year provisional land attribution system was eliminated, and land attribution acts were decentralized to provincial tax offices (IFC 2012).

However, effective access to land is not limited to legal and regulatory issues. Investors need land with access to key infrastructural networks (electricity, water, sewage, and roads), particularly for the smaller investors, who cannot lay down their own network access. Such land is very rare. Land parcels in the Nkok SEZ will provide full access to networks. However, at 55,000 FCFA (€68.00) per square meter, they are expensive for smaller companies and may end up being affordable only to those engaged in highly profitable sectors.

**Access to credit**

In the World Bank’s 2009 Enterprise Survey, access to credit is cited as a major constraint by 30 percent of Gabon’s enterprises. Unequal access to credit penalizes domestic investors relative to foreign ones, which have access to international credit markets, thus compounding the effect of reverse discrimination in the tax system. The survey also highlights that barely 9 percent of the country’s companies have bank credit, a lower proportion than the Sub-Saharan average (22 percent), itself not especially high; and lower than regional comparators (30 percent in Cameroon and 16 percent in Tanzania and Zambia).

Among the services companies interviewed for this report, less than 50 percent use banking to finance their working capital. Sixty-two percent finance with their own capital by using retained earnings or by managing their customer portfolio in an optimal manner. The fact that most of the exporting companies use their capital bases to finance their working capital requirements reflects a lack of support from the banking sector. This reality was borne out by other analysis on the investment climate in Gabon. The lack of support from the banking sector is even more constraining for exporting companies owing to the fact that, once their technical proposals are successful, they must give to the administrative authorities of the countries where they are awarded a contract evidence of solid creditworthiness. The obligation to prove financial capacity as a guarantee in regional tenders is seen by 18 percent of the services companies interviewed as an additional obstacle to entering regional markets.

At present, Gabon’s financial sector is undergoing restructuring after failed attempts to engineer financing for SMEs. The Fonds d'Aide et de Garantie Gabonais (FAGA) and the Fonds de Développement et d'Expansion (FODEX) were closed in March 2010 and their portfolios taken over by the Banque gabonaise de Développement (BGD)—but without a clear commitment to pursue the prior agencies’ development missions.

Paradoxically for a financial market characterized by “over-liquidity,” access to bank finance by domestic firms, whether for short-term cash advances or for long-term investments (to break into new markets or introduce new products), is almost nonexistent. Moreover, for those few firms
with sufficient collateral to obtain bank loans, interest rates are high (8 percent–12 percent for 3-year credit, sometimes more).

In Gabon as in many developing countries (in which the paradox of simultaneous over-liquidity and credit constraints often is found), credit rationing stems from a combination of factors that concern the potential borrowers’ ability to make themselves “bankable risks,” the legal and regulatory environment, and the market structure in the banking industry.

One key reason for bankers to limit lending to Gabon’s SMEs and individual enterprises is that the risk of a project often is the risk associated with the owner. In the absence of well-functioning life insurance markets, illness or accident can easily transform a good risk into a bad one. In addition, SMEs often do not have audited accounts and credible balance-sheet information, making due diligence all but impossible. Financial statements are not available through the courts, and Gabon does not have a central repository for company accounts. Some banks try to compensate by imposing special covenants such as advance repayment on request or a commitment by the borrower not to mortgage her/his assets. Some donors such as France’s AFD provide guarantee funds, but their utilization is cumbersome and time-consuming. Other (national) guarantee funds have been plagued by moral hazard and political interference.

In such a context, it will be difficult for Gabonese companies to operate competitively on international markets. Instruments that allow export pre-financing and raising funds abroad need to be developed at both national and regional levels. Since there is no institution specialized in financing export activities such as EXIM Bank, such instruments can be developed within BGD through opening credits to support exporters, or within BGFI, which has the advantage of being present in many regional markets.

A land-rights reform clarifying land titles and making them more effective collateral undoubtedly would help. However, international experience suggests that credit to SMEs and individual entrepreneurs is not only a question of collateral, the value of which depends on the liquidity of real estate markets and the effectiveness of court systems in settling bankruptcy cases. The willingness of banks to lend to SMEs also depends on the banks’ ability to closely monitor the financial viability of their borrowers through long-term relationships. Such monitoring requires the combination of lending and deposit-banking roles with the same customer. Monitoring also requires technical skills in the banks and management/accounting skills in the borrowing firms. Such skills are in short supply in Gabon, highlighting once again the need to build skills.

III-3. Infrastructure and public services

Power

World Bank’s 2009 Enterprise Survey suggests that limited and expensive access to electric power is the first constraint faced by Gabon’s private sector. In 1997 the State-owned Société
d’Energie et de l’Eau du Gabon (SEEG) was sold to France’s Veolia. Despite privatization, the grid is saturated and worn out, resulting in significant power losses and frequent black-outs (Figure 32: Frequency of Power Outages per Month, As Reported by ES Respondents).

In the past, electricity in Gabon was generated mainly by hydroelectric power stations. However, in recent years, as a result of the rapid growth of demand and lack of anticipation/planning, the share of thermal generation using liquid fuels has increased significantly. Nowadays, they account for more than 60 percent of national electricity production. This trend has increased the average cost of electricity and challenges the financial sustainability of the sector. As a consequence, power is extremely expensive. The operator carries these high costs forward more than proportionately into the rate charged to users (Deloitte 2011). Consequently, in 2009 power in Gabon was more expensive than in most of the region’s oil-producing countries (Table 3).

Figure 32: Frequency of Power Outages per Month, As Reported by ES Respondents


The Gabonese electricity and water utility (SEEG) is 51% owned by Veolia Water India and Africa and is one of the most important assets of IFC. VW IA is owned by Veolia Eau (80.5%), IFC (13.9%), and Proparco (5.6%); and has assets in Gabon, Niger, and India.
Large-scale energy users in the oil, timber, and plantation sectors largely produce their own power, albeit also at a very high cost. Following the amendment of the concession contract in 2006, the sector investment responsibilities are now shared between the Government and SEEG. The Government of Gabon and SEEG have agreed that “structural investments” (investments in generation, transmission, and distribution whose lifespan exceeds the term of the concession contract) specifically designated by mutual agreement fall within the responsibility of the Government.

The Government of Gabon is tackling the problem of high electricity cost piecemeal. To companies that will locate in the Nkok SEZ, the Government is providing improved access through a dedicated gas-fired power plant commissioned to Telemania, with gas provided by Perenco. The price of this high-voltage power is forecast to be half the standard rate, or 8–10 cents US$/kwh, in lieu of the 21.3 cents US$/kwh for SEEG’s high-voltage power.

Table 2. Enterprise Survey Indicators: Gabon and Comparators Spanning 2007–10 (%)

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</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>58.0</td>
<td>38.9</td>
<td>49.2</td>
<td>58.6</td>
<td>71.1</td>
<td>75.9</td>
<td>88.4</td>
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<td>Transportation</td>
<td>48.8</td>
<td>21.8</td>
<td>26.9</td>
<td>27.7</td>
<td>38.8</td>
<td>48.4</td>
<td>28.1</td>
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<tr>
<td>Tax administration</td>
<td>37.3</td>
<td>22.9</td>
<td>26.5</td>
<td>68.9</td>
<td>56.8</td>
<td>47.3</td>
<td>13.7</td>
</tr>
<tr>
<td>Customs and trade regulations</td>
<td>35.1</td>
<td>17.7</td>
<td>21.9</td>
<td>26.3</td>
<td>54.0</td>
<td>45.9</td>
<td>5.0</td>
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<tr>
<td>Tax rates</td>
<td>30.9</td>
<td>34.8</td>
<td>36.1</td>
<td>45.9</td>
<td>39.5</td>
<td>40.9</td>
<td>20.9</td>
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<tr>
<td>Access to finance</td>
<td>30.4</td>
<td>31.7</td>
<td>44.9</td>
<td>55.1</td>
<td>73.3</td>
<td>44.8</td>
<td>53.1</td>
</tr>
<tr>
<td>Business licensing and permits expected to give gifts to public officials &quot;to get things done&quot;</td>
<td>21.3</td>
<td>15.7</td>
<td>16.2</td>
<td>28.1</td>
<td>31.9</td>
<td>28.7</td>
<td>12.2</td>
</tr>
<tr>
<td>Firms with a bank loan</td>
<td>9.0</td>
<td>35.6</td>
<td>22.0</td>
<td>30.3</td>
<td>10.7</td>
<td>12.8</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: Enterprise Surveys, World Bank
Note: % of firms identifying the item as a major constraint.

Table 3. Power Prices in Gabon and Comparators (medium voltage, US cents/Kwh)

<table>
<thead>
<tr>
<th>Country</th>
<th>Price (US cents/Kwh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gabon</td>
<td>16.17</td>
</tr>
<tr>
<td>Cameroun</td>
<td>13.17</td>
</tr>
<tr>
<td>Congo Dem. Rep.</td>
<td>9.80</td>
</tr>
<tr>
<td>Congo Rep.</td>
<td>7.60</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7.95</td>
</tr>
<tr>
<td>Tanzania</td>
<td>9.91</td>
</tr>
<tr>
<td>Zambia</td>
<td>4.72</td>
</tr>
</tbody>
</table>
In the long run, rebalancing the energy mix toward hydroelectric power is to be accomplished through a number of hydropower projects including the *Barrage de l’Impératrice*, *Barrage FE II*, and *Barrage du Grand Poubara*. This result, together with increased reliance on gas, should help reduce Gabon’s power prices to internationally competitive levels. Whereas firms selling on the domestic market have competitors that face the same hurdles, firms selling abroad face competitors who may not be subject to the same constraints and excessive costs. Thus, GoG should be especially concerned with the internal business environment faced by exporters.

In addition, the concession agreement with VEOLIA will expire in 2017. This perspective provides the impetus to draw lessons from nearly two decades of PPP in the electricity and water sectors. The purpose would be to assess how Gabon’s institutional and contractual framework may have to evolve to create the conditions for pursuing the country’s long-term development objectives for the electricity and water sectors.

The Government already is engaging a wide range of stakeholders on the options for sector reform and the post-concession institutional framework. The Government is considering a two-phased process for the sector reform: (a) the transitional period from today until the end of the concession agreement (2017), and (b) the post-concession stage. During the transitional period, the Government will define the key reform elements, and preparatory work will commence to ensure that the new framework will be operational as soon as the concession agreement is terminated. The concession agreements will remain in place until 2017, but it should be amended to take into account the role and responsibilities of the new sector’s organization and framework.

Whereas firms selling on the domestic market have competitors facing the same hurdles, those selling abroad face competitors who may not be subject to the same constraints and excessive costs, so the government should be especially concerned with the business environment faced by exporters. Figure 33 suggests that it is no better than that of domestic firms. Enterprise Survey exporters even report having to resort to irregular payments to get access to electricity even more than do firms selling on the domestic market. The special conditions granted to firms establishing themselves in the Nkok SEZ may help address this problem. However, these special conditions contribute to the uneven playing field and the reverse discrimination between the largely foreign-owned firms in the zone and the domestically owned SMEs outside it.
Moreover, administrative pressure from fiscal authorities appears almost as heavy on exporters as it is on firms selling domestically, with inspection rates over 60 percent (over 80 percent for non exporters). Such high inspection rates suggest a lack of trust between companies and fiscal authorities, an attitude that is not conducive to investment and wealth creation. Moreover, heavy inspection rates coexist with the public’s widespread perception that a number of informal firms escape scrutiny.

**Transit infrastructure**

The second after access to electricity constraint to the private sector highlighted by Enterprise Surveys is the inadequate transit infrastructure. Road is the main transport mode for 45 percent of merchandise and 33 percent of timber. In 2010 Gabon had 9,170km of roads, of which only 935km were paved. The rest were treated with laterite, which often is impracticable during the rainy season (Bechtel 2012). Port-Gentil, the economic capital, is not accessible from Libreville by road. Bridges affected by technical problems or inadequate capacity—such as the Komo River bridge, which was closed to truck traffic at the time of the mission, or the bridge to Cameroon—bottleneck major road corridors. The private sector also complains about police road blocks for levying taxes of various sorts. The Government of Gabon has launched a project with AfDB support to build a North-South road corridor and to rehabilitate the East-West one.

By Africa’s standard, Gabon’s railways are far from the worst. Management is in the hands of a competent private operator, and the service, even though rudimentary, works. Nevertheless, the system has much to be improved. The Transgabonais Railway links Libreville to Franceville along a 640km corridor. The railway is used essentially for log and manganese transportation. Its exploitation has been privatized and is managed by Société d'Exploitation du Transgabonais (SETRAG), a subsidiary of Comilog (ERAMET Group). Users complain about a shortage of working locomotives and about the inadequacy of the rolling stock, whose open cars cannot be used to transport merchandise other than logs. The operator recently purchased 6 new General Motors locomotives, 2 of which were delivered in September 2012, and 10 passenger cars.
Transit capacity is planned to increase substantially to respond to the needs of the Belinga iron-ore mine. Other leads have been explored to improve conditions for merchandise transit, including navigation along waterway and maritime cabotage between Port-Gentil and Libreville.

Gabon’s access to the sea is penalized by the cost and inefficiency of Libreville’s port, Owendo, which is the result of a multiplicity of factors. Private-sector operators complain of both high fees and long delays, particularly for ships waiting to dock. Data provided to the mission by the port authority suggests average waiting and service times of 3.81 days and 2.55 days respectively, or a total of 6.29 days, but with a large standard deviation (6.12 days). The distribution is fairly spread out, with a tail at over 20 days (Figure 34).

Figure 34. Distribution of Cargo Dwell Times in Owendo Port, 2012 (days)

Source: Office des Ports et Rades du Gabon (OPRAG).

Owendo suffers from a number of physical and managerial problems in need of repair. The port must be dredged every 2 months to prevent clogging and has a maximum access channel depth of 12 meters, which can be a problem for very large container or bulk carriers. The main pier often is full, generating berthing delays. Turnover should improve with the recent addition of two cranes and improvements in the management of container storage areas. OPRAG, the port authority, outsources some of the control missions on vessel movements and bonded warehouses to the Gabon Port Management (GPM). The container terminal is run under a concession by Société des Terminals à Conteneurs du Gabon (STCG), a subsidiary of the Bolloré Group. The bulk terminal is run by Comilog, also under concession, and the timber park by Société d’Exploitation des Parcs à Bois du Gabon (SEPBG). The port’s ability to handle processed timber exports is inadequate, with no dry storage area. In addition, handling fees are fairly high, at approximately 5 percent of a container’s FOB value for outbound timber shipments.

The data consists of 371 ships movements between January and September 2012. The mission is grateful to OPRAG for sharing the data.
Gabon’s other port, Port-Gentil, is essentially an oil terminal. Its extension under a PPP is under study by the Government, but it is not yet clear whether expected demand growth could sustain large expansion investments (World Bank 2012c).

Regarding air transport, GoG needs to reconsider the fee structure at Libreville’s airport, which penalizes export diversification. Libreville is, with Douala, the most expensive of 16 African airports surveyed in a recent World Bank report (World Bank 2013b). Outbound fees ($14,000 for a 2-ton shipment) are approximately 70 percent above average and 300 times more than in Lagos or Johannesburg. In contrast, Libreville’s inbound fees ($9,960 for the same 2-ton shipment) are slightly below the African average. This fee structure, which is atypical on the continent (inbound fees are usually more expensive), unnecessarily raises export costs.
V. CONCLUSION: POLICY RECOMMENDATIONS

The present report highlights the Gabon’s major constraints to export diversification. The Government of Gabon is addressing these constraints through a strategy based on three main instruments: (a) a log ban export to encourage local transformation, (b) promotion of special economic zones to attract large foreign investors, and (c) assistance to SMEs. The diagnosis of the country’s trade potential and the lessons from international experience suggest that the best long-term way to foster export diversification may not be to try to achieve it immediately through shortcuts, but rather to build domestic capabilities, step by step.

To do so, a comprehensive approach that prioritizes and sequences actions needs to be implemented. Key recommendations are to (a) strengthen the regulatory and institutional framework for export promotion, (b) improve the quality of human capital, (c) build a fair and transparent business environment, and (d) upgrade the quality and reduce the cost of infrastructure services.

(a) Strengthen the regulatory and institutional framework for export promotion. Key measures could include defining a comprehensive export diversification strategy, reinforcing the administrative support to existing and potential exporters, and developing active programs to encourage links between the NKOK Special Economic Zone and the local economy.

- **Defining an export diversification strategy.** The development of an integrated export diversification strategy would complement the PSGE. (1) The strategy should be based on a pre- and post-evaluation of the current three main export diversification instruments (log ban export, promotion of special economic zones to attract big foreign investors, and assistance to SMEs). (2) The strategy then would be complemented by sectoral analysis to identify the highest export potential in which investment, export promotion, and business development activities will be concentrated.

- **Streamline and make effective the administrative support for exports promotion.** Leonidou and Theodosiu, 2004) show that information is essential for five reasons: (1) to understand the market place in which the firms intend to operate and to monitor changes in rapidly shifting business environments, (2) to design reliable marketing plans and strategies, (3) to find solutions to specific marketing problems such as changing prices, (4) to set up distribution channels, and (5) to choose effective means of promoting products.

In 2014, building on its past experience and with the support of the World Bank, GoG set out to modernize its administrative and economic diversification support departments. One ongoing reform is the creation of an agency for the promotion of investments and competitiveness (ANPI Gabon), which replaced the intermediate bodies that had provided support to the private sector. That new agency will include three departments in line with its statutory/legal missions. These are the departments...
for (1) investment and exports promotion, (2) business creation, and (3) business support. In addition to supplying access to reliable and specific information for potential investors, this agency will be responsible for assisting Gabonese exporters. It will be responsible for designing the national plans to promote investments and exports. The plan will be developed with communication strategies based on international best practices. To become more efficient, the activities of this agency should be based on the above mentioned national strategy.

The challenge is to make the newly created agency effective. Concerning export promotion, it is recommended to focus on three main missions:

1. Collecting and making available information on foreign markets opportunities. Measures to make available information on foreign markets opportunities could include the development of an information and documentation based on business opportunities that will provide specific information on trade opportunities abroad;

2. Building the capacity of existing and potential exporters. The capacity building programs of existing and potential exporters could build on the experience of Peru’s national export promotion agency, PROMPEX. It would include following measures: training inexperienced exporters on the export process, marketing and negotiations, and products markets trend; providing technical assistance on how to take advantage of export opportunities; organizing and assisting Gabonese exporters to participate in international trade shows; producing and disseminating an Export Guide, to be available online; developing an Investor Tracking System; assisting with upgrading/compliance of export procedures; norms and standards; packaging; ensuring the quality of the relationship of potential exporters with markets, and organizing trade missions; And,

3. Evaluating and monitoring export flows to assess export survival rates. Through their export promotion agencies and trade consulates around the world, governments should pay particular attention to support new exports to new markets (Brenton and others 2009). In parallel, the analysis of export potential in Gabon has revealed a weak rate of exports survival. It is recommended that the Government monitor and frequently assess export flows and their sustainability to provide assistance if necessary.

- **Increase the linkages between Nkok SEZ and the rest of the economy**. International evidence on special economic zones shows that without proactive policies to foster linkages with the local economy, they tend to remain enclaves with limited spillovers to skilled employment and backward linkages. The Government of Gabon should use the opportunity provided by Nkok SEZ’s fiscal incentives—on which it cannot turn back—to put in place a partnership with investors and with the TA of the donor community to establish active programs to enhance linkages with local economies.
These programs would include development of supply chain development programs, supplier databases, supplier matching, and supplier training and quality initiatives.

(b) Build a fair and transparent environment
The Government should take the opportunities of the World-Bank-financed investment promotion project and programs developed with other Donors to put in place a comprehensive reforms agenda to build a fair and transparent environment. Critical actions recommended:

- Streamline the procedures to facilitate business activities and operations of the investors
- Simplify the tax system: Work at the CEMAC level to improve the fiscal environment through lower CET rates; streamline the fiscal system eliminating most exemptions
- Facilitate access to credit by conducting a review of financial instruments that are accessible to SMEs; create a central register of company balance sheets providing information to all interested parties
- Encourage banks to cooperate in the creation and management of a credit bureau; move forward on land-rights reform to improve the capacity for land titles to be used as collateral for bank loans
- Create one or several certified management centers to provide management/accounting assistance and account certification for SMEs.

(c) Improvement of the quality of human resources
Educational investments should target the basic and vocational/technical skills demanded by the market in sectors in which Gabon has a latent comparative advantage. These investments require prior analyses of expansion potential at the sector level. GoG has been working with the donor community to improve and expand technical and vocational training in key growth sectors and increase youth employability. Priority actions recommended by the report are to:

- Assess professional skills needs in the main priority sectors of the Strategic Plan for Emerging Gabon (PSGE)
- Develop training provision extension and skills development in key growth sectors
- Develop lifelong learning and establish bridges between the general educational system and the technical and vocational education and training system
- Promote public-private partnerships (PPP) in the educational, training, and research sectors
- Make effective the Conseil National de l’Éducation, de la Formation et de la Recherche (CNEFOR), which is in charge of assessing and monitoring the design of training courses and implementing infrastructure and equipment projects.
- Improve employability through the Youth Integration and Entrepreneurship Promotion by (a) developing apprenticeships programs, (b) implementing an on-request skills training system, (c) implementing training programs that promote the economic insertion of
young people in local employment initiatives, and (d) developing entrepreneurship training programs.

• Accelerate the functioning of the École Supérieure des Métiers du Bois in Booué.

(d) **Upgrade the quality and reduce the costs of infrastructure services.** The Government should build on recent analyses of transport options and logistics completed under the first reimbursable agreement and the ongoing dialogue on the energy sector with the World Bank to design a priority action to improve the quality and reduce the costs of infrastructure services. Specific recommendations are:

**For transport and transit:**

**Reduce the cost of transport and logistics in the main part of Libreville through the following measures:**

• Create teams of emergency response repair personnel who will fill potholes and repair other obstacles to traffic
• Allow trucks to deliver goods in the city past the opening hours of shops and warehouses
• Increase the service hours of administrations in charge of controlling imports at the port to enable the containers to exit the terminal long after 18h
• Create a logistics platform in Libreville that will receive containers and store imports, a wholesale location and distribution base targeted at small businesses in the neighborhood
• Improve transportation networks by planning new roads that will enter the city
• Improve the functioning of the concession of the container terminal and align its stevedoring rates with those of neighboring ports
• Open the competition for the delivery of containers in Libreville
• Remove the Gabonese Shippers Council fees for the Bordereau d'Identification Electronique de Traçabilité des Cargaisons (BIETC) and other charges that are not justified by real value added to imports or exports
• Reduce the transit time to fewer than 11 days
• Reduce costs for import and export containers by allowing transfer and electronic processing and establishing a system that allows electronic submission of customs declarations for export.

**Reduce transportation costs through the following measures:**

• Revise the strategy for road maintenance and use of maintenance funds on a triennial basis to favor preventive maintenance to better safeguard road assets
• Strengthen the opening up of the airplane market and access to visas issued on entry
• Develop a multimodal logistics platform in Ndjolé in the center of the country when traffic warrants it
• Build capacity within the Department of Road Transport, OPRAG, and *L'Agence Nationale de l'Aviation Civile* (ANAC) to better manage and develop their assigned sectors.

**For the energy sector:**

**Reduce the cost of electricity through:**

• Preparing a generation and transport master plan
• Improving the operational efficiency of the distribution part of SEEG/VEOLIA.

**Improve the reliability of the sector through:**

• Upgrading and developing the transmission network
• Upgrading the distribution network.

**Improve the governance of the energy sector through:**

• Defining a new institutional framework to be operational as soon as the current concession agreement is terminated
• Implementing the energy sector reform
• Improving the operational efficiency of the distribution part of SEEG
• Strengthening the role of the electricity regulator
• Building capacity at the MERH level.

**International experience with regulatory reform to improve the business environment suggests that viable reform agendas tend to be comprehensive and consistent rather than piecemeal.** The overall objective of regulatory improvement is to make markets more competitive. There is little point for Gabon to eliminate harmful or unnecessary regulations if its ministries will be developing new ones. When regulations protect particular interests, making their elimination politically viable requires compensation. The objective of a consistent reform agenda is to find compensations that also enhance overall efficiency—such as improvements in the domestic regulatory environment, customs reform, labor-market reform, or a better competitive policy. However, exposing economic players to more competition is hardly acceptable if upstream services (banking, telecommunications, energy, transportation) are dominated by a few large players. Making goods markets more competitive is acceptable if doing so is compensated by lower input costs brought about by effective competition policy upstream.

**For one country to reform alone is difficult. International experience shows the critical importance of international support.** Many of the regulatory improvements that need to be implemented in Gabon have been tried in other countries. Similarly, many of the laws and regulations needed to ensure the functioning of markets already are in place elsewhere and need only be transplanted. Finally, efficient approaches to the management of exhaustible resources,
and the key tradeoffs involved in the simultaneous encouragement of natural resource extraction and environment-based tourism development, have been encountered elsewhere. Gabon’s path to become an emerging economy should draw as much as possible on international experience in all these areas.

The sustainability of reform requires top-down support from the highest level. Additionally, engaging middle-ranking administration in the reform process is crucial. Regulatory reform is positive in high-level pronouncements and in Doing Business rankings, but it is worth only what actually happens on the ground. The corporate change-management literature has highlighted that the strongest resistance to change typically comes from mid-level managers. The same dynamic applies to public administrations. Changes in rules and procedures mandated from the top are only as good as division heads and lower ranking officials make them. What requires their adhesion in the face of uncertainty about the effect of regulatory reforms on their status and position. This calls for particular efforts to improve the appropriation of reports, policy papers, and action plans.
## ANNEX I Nonoil Products Exported for at Least Two Years

<table>
<thead>
<tr>
<th>sitc</th>
<th>product name</th>
<th>Gabon's destinations which are among the world top 10 importers</th>
<th>main other developing countries exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>4602</td>
<td>Meal and groats of wheat or meslin</td>
<td>US</td>
<td>Mexico, Mauritius</td>
</tr>
<tr>
<td>5172</td>
<td>Other edible nuts</td>
<td>EU, HK</td>
<td>China, Mexico, Singapore, Syria</td>
</tr>
<tr>
<td>8109</td>
<td>Sweetened forage</td>
<td>US, India</td>
<td>China, Thailand, Peru, Singapore</td>
</tr>
<tr>
<td>11102</td>
<td>Lemonade</td>
<td>EU, HK</td>
<td>China, Mexico, Singapore, Syria, Thailand</td>
</tr>
<tr>
<td>11212</td>
<td>Wine</td>
<td>EU</td>
<td>Vietnam</td>
</tr>
<tr>
<td>24221</td>
<td>Raw logs</td>
<td>EU, China</td>
<td>Congo, rep</td>
</tr>
<tr>
<td>24231</td>
<td>Veneer logs</td>
<td>EU, China, Vietnam</td>
<td>Vietnam</td>
</tr>
<tr>
<td>24322</td>
<td>Lumber</td>
<td>EU, US</td>
<td>China, Mexico</td>
</tr>
<tr>
<td>24323</td>
<td>Lumber, non conifer</td>
<td>EU, US</td>
<td>Côte d'Ivoire, Bolivia, Peru, Paraguay, Thailand, Vietnam</td>
</tr>
<tr>
<td>27069</td>
<td>Mineral substances</td>
<td>China, India, Mexico, Singapore, Thailand</td>
<td></td>
</tr>
<tr>
<td>28402</td>
<td>Copper</td>
<td>EU, China, HK, India</td>
<td>Indonesia, Mexico, Thailand</td>
</tr>
<tr>
<td>28404</td>
<td>Aluminium</td>
<td>EU, US</td>
<td>Mexico</td>
</tr>
<tr>
<td>28406</td>
<td>Lead</td>
<td>EU</td>
<td>Côte d'Ivoire</td>
</tr>
<tr>
<td>29112</td>
<td>Horn, antlers, whalebone</td>
<td>EU, US</td>
<td>China, India, Madagascar, Pakistan, Singapore</td>
</tr>
<tr>
<td>29271</td>
<td>Cut flowers</td>
<td>US</td>
<td>China, Ecuador, Ethiopia, India, Mexico, Thailand, Vietnam</td>
</tr>
<tr>
<td>33295</td>
<td>Pet. bitumen, shale oil</td>
<td>EU</td>
<td>Côte d'Ivoire, Indonesia, Iran, Thailand</td>
</tr>
<tr>
<td>41133</td>
<td>Lard stearin and oil</td>
<td>Cameroon</td>
<td>China, Egypt, Vietnam</td>
</tr>
<tr>
<td>43131</td>
<td>Fatty acid, acid oils</td>
<td>EU</td>
<td>China, Egypt, Indonesia, India, Thailand, Singapore</td>
</tr>
<tr>
<td>51339</td>
<td>Other inorganic acid and oxygen comp.</td>
<td>EU</td>
<td>China, Indonesia, Mexico, Oman, Thailand</td>
</tr>
<tr>
<td>51352</td>
<td>Manganese oxides</td>
<td>EU, Singapore</td>
<td>China, Thailand</td>
</tr>
<tr>
<td>53332</td>
<td>Varnishes, lacquers, distempers, water</td>
<td>EU, US</td>
<td>China, HK, India, Singapore</td>
</tr>
<tr>
<td>55123</td>
<td>Mixt. of odoriferous substances</td>
<td>EU</td>
<td>China, Egypt, Indonesia, Singapore, Thailand</td>
</tr>
<tr>
<td>59975</td>
<td>Anti knock preparations</td>
<td>EU, Singapore</td>
<td>India, Iran, Mexico, Oman, Singapore, Thailand</td>
</tr>
<tr>
<td>59999</td>
<td>Other chem products</td>
<td>EU, US</td>
<td></td>
</tr>
<tr>
<td>63121</td>
<td>Plywood</td>
<td>EU</td>
<td>China, Ecuador, Indonesia, Vietnam</td>
</tr>
<tr>
<td>63141</td>
<td>Improved wood</td>
<td>EU</td>
<td>China, Singapore</td>
</tr>
<tr>
<td>63142</td>
<td>Reconstituted wood particle board</td>
<td>EU, US</td>
<td>China, Ecuador</td>
</tr>
<tr>
<td>63183</td>
<td>Hoopwood, chipwood, split, poles, piles</td>
<td>China, EU</td>
<td>Congo, Rep., Indonesia, Thailand, Vietnam</td>
</tr>
<tr>
<td>63209</td>
<td>Other articles of wood</td>
<td>EU, US</td>
<td>China, HK, Mexico, Vietnam</td>
</tr>
<tr>
<td>64195</td>
<td>Paper, board, impregnated, coated</td>
<td>EU, US</td>
<td>China, Indonesia, India, HK, Singapore, Thailand</td>
</tr>
<tr>
<td>65213</td>
<td>Other cotton fabrics woven unbleached</td>
<td>EU, US</td>
<td>China, Dominican Republic, Egypt, HK, India, Indonesia, Pakistan, Thailand</td>
</tr>
<tr>
<td>65229</td>
<td>Other cotton fabrics, bleached, EU</td>
<td>EU, US</td>
<td>China, Egypt, HK, Indonesia, India, Mexico, Pakistan, Singapore, Thailand</td>
</tr>
<tr>
<td>67431</td>
<td>Plates</td>
<td>EU</td>
<td>China, India, Mexico, Singapore, Vietnam</td>
</tr>
<tr>
<td>68221</td>
<td>Bars, rods, angles, shapes, wire of copper</td>
<td>France, US</td>
<td></td>
</tr>
<tr>
<td>69211</td>
<td>Tanks, etc. for storage or manufacture of ice</td>
<td>EU, US</td>
<td>China, Indonesia, Iran, Iraq, Mexico</td>
</tr>
<tr>
<td>69231</td>
<td>Compressed gas cylinder of iron or steel</td>
<td>EU, US</td>
<td>China, Indonesia, Mexico, Thailand</td>
</tr>
<tr>
<td>69421</td>
<td>Nuts, bolts, screws, rivets, washers of iron</td>
<td>EU, Mexico, Thailand, US</td>
<td>China, Indonesia, Thailand, Vietnam</td>
</tr>
<tr>
<td>69523</td>
<td>Hand tools</td>
<td>EU, Singapore</td>
<td>China, Indonesia, Mexico, Thailand</td>
</tr>
<tr>
<td>69524</td>
<td>Interchangeable tools for hand or mail</td>
<td>EU, Mexico, Singapore, Thailand, US</td>
<td>China, Indonesia, Mexico, Thailand</td>
</tr>
<tr>
<td>69801</td>
<td>Articles of iron or steel</td>
<td>China, EU, Mexico, Thailand, US</td>
<td>China, Mexico, Thailand</td>
</tr>
<tr>
<td>71492</td>
<td>Parts of office machinery</td>
<td>EU, US, Hong Kong, Mexico, Singapore</td>
<td>China, Indonesia, Mexico, Thailand</td>
</tr>
<tr>
<td>71829</td>
<td>Other printing machinery</td>
<td>US, EU, Singapore</td>
<td>China, Indonesia, Mexico, Thailand, Vietnam</td>
</tr>
<tr>
<td>71841</td>
<td>Road rollers</td>
<td>EU</td>
<td></td>
</tr>
<tr>
<td>71842</td>
<td>Excavating, levelling machinery</td>
<td>US, EU, Singapore, Indonesia, India</td>
<td>China, Indonesia, Mexico, Iraq</td>
</tr>
<tr>
<td>71851</td>
<td>Mineral crushing machinery</td>
<td>EU, Indonesia</td>
<td>China, Indonesia, Iraq</td>
</tr>
<tr>
<td>71921</td>
<td>Pumps for liquids</td>
<td>US, China, EU</td>
<td>China, Indonesia, Mexico, Thailand</td>
</tr>
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<td>Pumps for gases</td>
<td>EU, US, Mexico</td>
<td>China, Indonesia, Mexico, Thailand</td>
</tr>
<tr>
<td>71923</td>
<td>Centrifuges and filtering machinery</td>
<td>EU, US, China</td>
<td>China, Indonesia, Mexico, Thailand</td>
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<tr>
<td>71931</td>
<td>Lifting and loading machinery</td>
<td>EU, US, Mexico</td>
<td>China, Mexico</td>
</tr>
<tr>
<td>71964</td>
<td>Spraying machinery</td>
<td>EU</td>
<td>China, Mexico</td>
</tr>
<tr>
<td>71992</td>
<td>Taps, cocks, valves</td>
<td>US, EU, Mexico</td>
<td>China, Indonesia, Mexico, Thailand</td>
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<tr>
<td>71993</td>
<td>Transmission shafts, cranks, pulleys</td>
<td>China, US, EU, Mexico, Indonesia</td>
<td>China, Indonesia, Mexico, Thailand</td>
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<td>71999</td>
<td>Machinery parts non electrical</td>
<td>US, EU, Singapore, Indonesia, India</td>
<td>China, Indonesia, Mexico, Mexico</td>
</tr>
<tr>
<td>72322</td>
<td>Other insulating fittings for electrical e</td>
<td>EU, China, Mexico, Vietnam</td>
<td>China, Mexico, Thailand, Vietnam</td>
</tr>
<tr>
<td>72401</td>
<td>Electrical line telephone and telegraph</td>
<td>EU, US, China, Vietnam</td>
<td>China, Indonesia, Mexico, Thailand, Vietnam</td>
</tr>
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<td>72409</td>
<td>Other telecommunication equip.</td>
<td>EU, US, China, Singapore</td>
<td>China, Mexico, Thailand, Vietnam</td>
</tr>
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<td>72911</td>
<td>Primary batteries and cells</td>
<td>EU, China, Mexico</td>
<td>China, Indonesia, Mexico, Thailand, Vietnam</td>
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<td>72952</td>
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<td>72902</td>
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<tr>
<td>73289</td>
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<td>Floating structures</td>
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<td>82101</td>
<td>Chairs, seats</td>
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<td>86172</td>
<td>Mechanico therapy appliances</td>
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<tr>
<td>86191</td>
<td>Surveying instruments</td>
<td></td>
<td></td>
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<tr>
<td>86193</td>
<td>Drawing, measuring, calculating instruments</td>
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<tr>
<td>86107</td>
<td>Inst for measuring liquids</td>
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<tr>
<td>86108</td>
<td>Inst for physical or chemical analysis</td>
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<td>Other printed matters</td>
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<td>US, EU, Thailand</td>
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Export concentration is measured using the same family of indices used to measure income inequality in populations: Gini, Herfindahl, and Theil. Because exports typically are very concentrated for all countries (even industrial ones), Gini index values are clogged together and difficult to interpret. Herfindahl and Theil are preferred.

Herfindahl’s index is defined as follows. Let \( x_{ik} \) be country i’s exports of product k, \( x_i = \sum_k x_{ik} \) country i’s total exports, and \( s_{ik} = x_{ik} / x_i \) product k’s share in country i’s exports, all estimated in a given year. Then

\[
H_i = \sum_k (s_{ik})^2
\]

That is, the Herfindahl index is the sum of the squares of export shares in a country’s basket. It can be normalized to lie between zero and one with the following adjustment:

\[
H_i^* = \frac{H_i - (1/n_i)}{1 - (1/n_i)}
\]

where \( n_i \) is the number of products exported by country i.

Theil’s index is given by the following formula. Let \( \mu_i = \sum_k x_{ik} / n \) be the average value of product-level exports for country i. It can be calculated in two ways; either by including zero-export lines, in which case \( n \) is the total number of HS6 products and is the same for all countries; or by excluding them, in which case \( n = n_i \) is country-specific (and time specific as well).

\[
T_i = \frac{1}{n} \sum_k \left( \frac{x_{ik}}{\mu_i} \right) \ln \left( \frac{x_{ik}}{\mu_i} \right)
\]

If zero lines are included, the term in the summation can be set to zero, as

\[
\lim_{z \to 0} z \ln (z) = 0
\]

It is more sophisticated in that it can be decomposed additively between 2 components, 1 corresponding to the extensive margin and 1 to the intensive margin (Cadot and others 2011).

**Revealed factor intensities**

The revealed factor intensities of products compared to Gabon’s factor endowments in Figure 8 are calculated as follows. Let \( \kappa_i = K_i / L_i \) be the dollar value of the stock of capital per worker of country i. The “revealed capital intensity” of product k is calculated as a weighted average of the capital endowments of countries exporting k, the weights being Balassa indices modified to add up to one. That is,

\[
\kappa_k = \sum_i \omega_i \kappa_i
\]
where

\[ \omega_{ik} = \frac{x_{ik} / x_i}{\sum_i (x_{ik} / x_i)} \]  \hspace{1cm} (0)

The approach is very close to that used to construct the PRODY (Hausmann and others 2007) with GDP per capita replaced by endowments.
ANNEX III. QUESTIONNAIRE OF THE QUALITATIVE SURVEY ON EXPORT POTENTIAL AND SUPPLY CAPACITIES IN SERVICES

The overall objectives are to generate useful information for profiling service exporters, highlight trade opportunities in the selected sectors, and indicate areas in which reforms are needed to enhanced exports to key markets under the study.

The survey covers the following issues:

1. Firm’s characteristics and capacities
2. Exported services and target markets including export processes and procedures
3. Financial and legal resources of the exporting companies
4. Human resources of the exporting companies and support services
5. Competitiveness of the exporting companies
6. Domestic regulatory measures that affect services exports
7. Export market characteristics.

The assessment will be carried out by the local consultant on the basis of the following questions:

1. **Firm’s characteristics and capacities:**
   - How many employees are engaged in your firm, both permanent and nonpermanent?
   - What is the share of domestically owned equity? What is the share of foreign equity?
   - What percentage of turnover does export constitutes?
   - What is your company’s total turnover?
   - What has been the growth in your export sales over the last 5 years?
   - For how long has your company been in the export business?
   - Does your company host a website? Does your company use web-based transactions while exporting?

2. **Exported services and target markets including export processes and procedures:**
   - What objectives did your company set out to achieve by entering your current export markets?
   - To what extent has your company met your objectives in your current export market?
   - What are the key features of the exported service? Please describe them in detail and provide various examples. Please ask detailed questions about all exported services and give as many examples as possible. This information is essential for the analysis.
   - Does your firm sell services in the domestic market or does it focus exclusively on exports?
   - If your firm currently sells, or sold at some point, services in the domestic market, did your company change its original service to adapt it for exporting? If yes, which modifications did your company implement?
   - Which modes of supply are used for services exporting?
   - What is your company’s perceived comparative advantage in the delivery of services abroad?
To which markets does your company actively export and how much? What are the names of your company’s major clients abroad? Is any of those your parent company?

Which other markets does your firm consider to have high growth potential?

Why has your organization NOT entered those markets?

What is your company’s pricing strategy? How are prices determined?

How is the service exported by your company perceived in the target market (service positioning)?

What is your company’s marketing strategy in the target market?

How many export contracts/shipments per year does your company have? Do they occur on a regular or a non regular basis?

What is the method of payment for your company’s exports (cash in advance, letter of credit, open account, documentary collection)? In a given year, are payments for your company’s exports made all at once, or are they made as soon as deliverables are received?

What is the nature of the export contract (fixed price contract or adjustable prices)?

How are the terms of the export contract determined: Are they imposed by the buyer abroad or are they negotiated between your company and the buyer abroad? Does the contract include bonus clauses for early delivery or penalty clauses for delay?

How does your company get export orders/contracts?

What processes or procedures do you follow to export your services to the export market?

3. Financial and legal resources of the exporting companies:

What are the sources of finance used by your company to finance its working capital needs: internal funds/retained earnings, customer credit, commercial banks, equity, or informal credit?

What are the sources of finance used by your company to finance its investment needs: internal funds/retained earnings, customer credit, commercial banks, equity, or informal credit?

How does your company deal with the following risk factors in export markets: market risks, credit and currency risks, and political and other risks?

Does your company employ/contract people to advise it on the legal and tax implications of exporting? Do you request legal advice in reviewing your export contracts?

4. Human resources of the exporting companies and support services:

What specific skills and/or qualifications are necessary for you to offer services in this industry?

What qualifications/certifications are required to export to the target market?

Are the qualifications in your profession recognized in the market you export to?

What is your company’s assessment of the adequate skills needed in your industry?

What kind of marketing support services does your company receive from associations, government, and other trade support organizations?

What are the export support services you expect to get from associations, government, and trade support institutions (TSIs)?
• What specific incentives do you consider appropriate for your services to enter and remain competitive in export markets?
• What are the qualifications of the workers in your company: how many have a general secondary school degree? How many have a vocational training degree and in what fields of specialization? How many have higher education degrees and in what fields of specialization? Where did they work prior to joining the firm?
• How many employees have prior experience in international business?
• What are the qualifications of your company’s manager?
• How does your company handle the extra demand associated with export orders—through current personnel working extra shifts or by hiring additional personnel?
• Does your company have employees who handle exports exclusively?
• How does your company respond to customer inquiries?
• How does your company deal with language barriers?

5. **Competitiveness of the exporting companies:**

• How does your company obtain export contracts: do foreign buyers contact your company directly? Does your company contact foreign buyers directly? or does your company bid for contracts?
• Did your company undertake market research to assess the exportability of its services? If yes, what resources did your company use to do market research on the exportability of its services?
• How did your company select its market-entry methods?
• How did your company identify which services are potentially viable in its target market?

6. **Domestic regulatory measures that affect services exports:**

• Which domestic regulatory issues constitute barriers to services development and exports?

7. **Evaluate and assess potential markets for the selected sectors and specific constraints to market entry**

• What are the regulatory and standard requirements for entry into your current product markets?
• What is the level of competition and who are your main competitor companies in the product market?
• What are the advantages your competitors have from government interventions?
• What are the key constraints faced when exporting your services to the target markets?
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