

**Republic of Gabon**

**Economic and Sector Work**  
**Private Sector Development**

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## **CURRENCY EQUIVALENTS**

April 2010

Currency Unit = CFAF

UA 1 = CFAF 780.923

UA 1 = EUR 1.19051

UA 1 = USD 1.47433

## **WEIGHTS AND MEASURES**

Metric System

## **FISCAL YEAR**

1 January – 31 December

## **ABBREVIATIONS AND ACRONYMS**

ADB	:	African Development Bank
AFD	:	French Development Agency
APIP	:	Private Investment Promotion Agency
BDEAC	:	Development Bank of Central African States
BEAC	:	Bank of Central African States
BGFI	:	Banque Gabonaise et Française Internationale
BICIG	:	Banque Internationale pour le Commerce et l'Industrie du Gabon
CCAIMG	:	Gabon Chamber of Commerce, Agriculture, Industry and Mines
CDE	:	Business Development Centre
CEMAC	:	Central African Economic and Monetary Community
CET	:	Common External Tariff
CNPG	:	Gabonese National Confederation of Employers' Associations
COMIBEL	:	Belinga Mining Company
COMILOG	:	Ogooué Mining Company
CPG	:	Confederation of Gabonese Employers' Associations
CT	:	Corporate Tax
DGE	:	General Directorate of the Economy
ECCAS	:	Economic Community of Central African States
EDF	:	European Development Fund
EIB	:	European Investment Bank
ENEF	:	National School of Forestry
ESC	:	Economic and Social Council

EU	: European Union
FAGA	: SME/SMI Assistance and Guarantee Fund
FAO	: Food and Agriculture Organization of the United Nations
FER	: Road Maintenance Fund
FIAS	: Study on the Business Climate in Gabon
FODEX	: Development and Expansion Fund
GDP	: Gross Domestic Product
GNP	: Gross National Product
GPRSP	: Growth and Poverty Reduction Strategy Paper
HDI	: Human Development Index
HEVEGAB	: Gabonese Rubber Development Company
IMF	: International Monetary Fund
MDG	: Millennium Development Goals
MIGA	: Multilateral Investment Guarantee Agency
OHADA	: Organization for the Harmonization of Business Law in Africa
PPP	: Public-Private Partnership
PromoGabon	: Gabonese SME and SMI Promotion Agency
SC	: Steering Committee
SEEG	: Société d’Energie et d’Eau du Gabon (Gabon Water and Energy Company)
SEPBG	: Société d’Exploitation des Parcs à Bois du Gabon (Gabon Timber Company)
SETRAG	: Société d’Exploitation des Transports Routiers du Gabon (Gabon Road Transport Company)
SIAT	: Société d’Investissement pour l’Agriculture Tropicale (Tropical Agriculture Investment Company)
SME	: Small- and Medium-size Enterprise
SMI	: Small- and Medium-size Industry
UDEAC	: Central African Economic and Customs Union
UGB	: Gabonese Banking Union
UNDP	: United Nations Development Programme
UNIGABON	: Interprofessional Union of Gabon
VAT	: Value Added Tax
VSME	: Very Small and Micro Enterprise
WTO	: World Trade Organization

## 1. INTRODUCTION

### 1.1 Study Objective

1.1.1 The purpose of the study on private sector development in Gabon is to help design public policies geared towards the development of the private sector which is the linchpin of economic diversification, growth and poverty reduction. It examines (economic, institutional, fiscal, etc.) constraints on private sector development, highlighting those that require immediate action. The study highlights measures to be taken to stimulate or revitalize key diversification sectors already identified by a previous study<sup>1</sup> and makes recommendations in terms of reforms to be implemented.

1.1.2 In a world characterized by increasing competition on domestic and foreign markets, the study seeks to assess the quality of institutions that influence the expansion of activities, focusing particularly on transaction costs. It also focuses on the costs of production factors and the risks they pose to the effectiveness of diversification.

### 1.2 Context and Justification

1.2.1 Gabon, which has a Gross Domestic Product of USD 3 860 per capita, **is one of the few countries in sub-Saharan Africa in the category of middle-income economies.** This per capita income level is due mainly to the country's raw material endowment, which benefits a small national population. These raw materials are the reason for the establishment of major international companies and the huge foreign direct investment (FDI). Although the **per capita income level is relatively high, the country's economy has the features of a low-income country.** In May 2010, Standard & Poor's and Fitch Ratings rated Gabon BB-. Distribution inequalities are significant and poverty remains a problem. In 2009, the Human Development Index ranked Gabon 103<sup>rd</sup> out of 182 countries.

1.2.2 There is need to diversify the economy and expand activities based initially on those corresponding to factor endowment and comparative advantages. The Bank's Study on the Diversification of the Sources of Economic Growth carried out in 2008 identified potential growth relays such as wood processing, mining and gas, agro-food, fisheries and tourism sectors. However, further diversification implies tackling the problem of factor cost and quality of the institutional environment. It is only by addressing all these factors that Gabon will be able to improve its competitiveness and broaden the base of tradable goods on domestic and foreign markets.

1.2.3 The country's Growth and Poverty Reduction Strategy Paper (GPRSP)<sup>2</sup> identified the private sector as the engine of strong and diversified economic growth that is beneficial to the poor. It is therefore necessary to overcome the very serious constraints facing the sector (on the ease of doing business, *Doing Business* ranked Gabon 158<sup>th</sup> out of 183 countries in 2009). The structural constraints related to the legal and regulatory framework and availability of basic services slow down efforts to attract private investors to the potential value-added sectors identified. In addition, the weight of the private sector (excluding foreign companies)

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<sup>1</sup> ADB, Gabon, Study on the Diversification of Sources of Economic Growth, ADB/BD/IF/2009/57, February 2009.

<sup>2</sup> Republic of Gabon – Growth and Poverty Reduction Strategy Paper, 2006.

in the economy, particularly in terms of the number of companies, investments and jobs, is poorly assessed. This does not facilitate the development and implementation of appropriate policies to strengthen the sector.

### 1.3 Report Structure

1.3.1 The first part of the report reviews the main arguments for diversification and difficulties in its implementation. The second part examines the institutional framework and identifies the institutional reforms that can facilitate the emergence and development of the private sector. The third part deals with factor cost, focussing on primary factors of production, namely labour and capital, as well as electricity and taxation. The thematic action plan is presented in the annex. It gives details on the common and specific actions to be carried out in diversification sectors and in the areas of reform.

1.3.2 This report is a summary of the detailed study report available at the Bank's Country Regional Centre Department for consultation.

## 2. DIVERSIFICATION OF THE PRODUCTION SYSTEM AND GROWTH RELAYS

This part reviews reasons for diversification and main impediments to its implementation. In light of issues facing the main diversification sectors, it proposes specific and general measures to overcome the difficulties encountered.

### 2.1 Diversification and Private Sector Development

2.1.1 Diversification, which is necessary to stimulate lasting growth, must face different types of obstacles. In Gabon, these obstacles are partly due to the negative impact of the oil windfall on relative prices and costs, but also to institutional problems, the weak national private sector and the export-oriented nature of major foreign companies.

#### *The Need for Diversification*

2.1.2 **Diversification is the expression of development.** However, in the whole of Central Africa, the diversification process is lagging behind in relation to what obtains elsewhere. **Gabon's diversification index**, which improved until the mid-1980s, once more took a **products concentration** path. In general, economists consider that exports of manufactured products provide more lasting support to growth than traditional exports of primary commodities. Which factors stimulate diversification in Gabon? Petroleum development is marked by a predictable decline. Furthermore, oil does not provide many direct job opportunities and has not contributed to developing inter-sectoral flows. In fact, in a modern economy that employed about 120 000 workers in 2007, the General Directorate of the Economy indicates that the **oil sector provided only a little more than 2 000 jobs at the national level, representing less than 2% of the workforce**<sup>3</sup>. The sector's contribution was rather indirect, with tradable or even non-tradable service jobs (public services). Despite rising oil and gas prices, this source of employment is expected to dry up owing to the decline in petroleum development. Yet, the number of **people entering the job market** is increasing with a very young population (about two out of five people are aged below 15). This situation now exerts pressure on training and employment structures.

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<sup>3</sup> The low weight of the oil sector in employment should be compared to its dominant share in the economy. The sector accounts for nearly 80% of exports, 40% of GDP and 60% of current budgetary revenue.

### *Impediments to Diversification*

2.1.3 Oil-producing countries generally find it very difficult to develop a diversification policy that takes advantage of the oil windfall. The difficulty is partly due to the “Dutch disease” phenomenon. A country that benefits from a windfall is less inclined to implement economic reforms and faces relative price distortions **which hamper the production of tradable goods**. The uncontrolled high increase in income raises factor costs, including that of labour, which leads to a real appreciation of the country’s currency and the loss of competitiveness and hence impedes industrialization. The cost of economic factors is important as it influences profitability. There is need to underscore institutional deficiencies that affect both the structure and level of costs. The World Bank *Doing Business* Report 2009 ranked Gabon 158<sup>th</sup> out of 183 countries in terms of ease of doing business. Concerning the business climate, Gabon has good ranking only in two columns (taxes and issuing of building permits). In the other columns, it is ranked between 130<sup>th</sup> and 160<sup>th</sup>, whether these columns relate to corruption, taxation authority, judicial system, banks or financial audits.

2.1.4 Another impediment to diversification is the weakness of diversification sectors and the national private sector as reflected by the low number of Gabonese entrepreneurs. It is not possible to boost such sectors without the support of a dynamic national private sector. However, the export-oriented nature of major foreign companies and their lack of complementarity with the national private sector, deprive the national private sector of outlets and training opportunities and constitute an obstacle to diversification.

### *Diversification should take place within the context of a heterogeneous private sector*

2.1.5 The business law in force in Gabon is in line with the OHADA Uniform Act<sup>4</sup> on Companies and Economic Interest Groups that came into force on 1 January 1998. An investor can choose his/her legal structure from a wide range of structures such as partnership, joint venture, economic interest group (EIG), corporation and limited liability company (LLC). The forms most commonly found in the formal sector are corporation and limited liability company. The participation of nationals in the capital of a company is not mandatory and no authorization is required prior to investment. There are restrictions on the recruitment of foreigners (such recruitments are subject to prior approval by the Ministry of Labour).

2.1.6 The number of enterprises and corresponding jobs in the Gabonese private sector is not well known. **The exact number of enterprises in the formal sector is not known**<sup>5</sup>. In 2007, the General Directorate of the Economy (DGE) estimated the number of paid workers to be 54 000 in the private sector and 64 000 in the public sector. According to the Gabonese National Confederation of Employers’ Associations (CNPG), the number of small- and medium-size enterprises and small- and medium-size industries (SME-SMI) would be less than 1 000. Out of this number, only one hundred would be medium-size. Very small and micro enterprises (VSME) are the most common and are said to be about 10 000 units. Most of them or a significant part of their business falls within the realms of informality.

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<sup>4</sup> Gabon belongs to the OHADA zone comprising 16 countries that have decided to harmonize their business law.

<sup>5</sup> According to the estimates of the Private Investment Promotion Agency (APIP), the number of enterprises in the formal sector is between 2 000 and 10 000, at a creation rate of 4 000 per year.

2.1.7 An examination of the private sector and efforts to promote its diversification cannot lose sight of such structuring into major, medium, small and micro enterprises, as well as these major statistical uncertainties about the size of the sector and its composition according to the legal form and size of organizations. Furthermore, such examination cannot underestimate the **heterogeneity of this sector with regard to demands for an improved economic and institutional environment**. In other words, the issue of factor cost differs according to the sector of activity, size and form of the organization. This also applies to the role of institutions. Therefore, there is need to consider the heterogeneous nature of the sector with major enterprises, on the one hand, and a fabric of SMEs and SMIs many of which fall within the category of small or even very small enterprises, on the other hand.

## 2.2 Diversification and Sector Development

The examination of the different potential diversification sectors (mining, oil and gas, timber, agro-food and fisheries, tourism, etc.) shows areas to develop and weaknesses to overcome through the implementation of recommendations specific to each sector or common to all the sectors.

### *The Mining, Oil and Gas Sector*

2.2.1 Annual oil production has been declining steadily for many years now, and currently stands at approximately 12 million tonnes. In the absence of the discovery of new exploitable deposits under global market conditions, the decline in the petroleum industry will be structural. The country is now among the leading four oil producers in sub-Saharan Africa with production largely dominated by foreign investors. About forty foreign (mostly North American and European) oil companies are operating in some thirty onshore and offshore oilfields. So far, oil has not been a key factor in the development of inter-sector relations and positive spillover effects in terms of diversification. However, there is a potential for natural gas development, which can lead to the construction of a petrochemical complex and the development of the related industry.

2.2.2 The development of the country's abundant **mineral resources can** also be a **growth relay**. There are very large iron ore deposits in the Belinga sector located in Gabon's North-East. Geological reserves estimated to be more than one billion tonnes have an iron content of approximately 60%. There are numerous iron ore processing opportunities, each of which has its own operational constraints, environmental requirements and permissive factors. The sector is plagued by high cost of infrastructure and skilled local labour, as well as weak capacity to establish public-private partnerships (PPP). The cost of unskilled labour presents less difficulty.

2.2.3 The establishment of partnerships with foreign companies in the mining and hydrocarbons sector is indispensable for raising the funds needed for local mineral extraction and development, as well as infrastructure expansion. Such partnerships would help to facilitate export marketing and import of technology. The partnerships should seek to mobilize resources as well as develop economic relations between major foreign companies and the rest of the economy and SMEs/SMIs.

## *The Timber Sector*

2.2.4 The strategy for the development of this sector is one of the main responses to the expected slowdown in the oil sector. The forest covers more than 20 million hectares, i.e. approximately 80% of the territory, containing about sixty commercial species, including *okoumé* and *ozigo*. The transportation of logs and setting up of processing plants are impeded by often long distances, the poor road network and many hazards associated with the railway and port handling. Hundreds of companies (75% of which are owned by expatriates) are involved in the timber sector. In early 2010, the Government somewhat surprised operators of the timber sector by raising the timber processing target to 100% from 2010 as against an initial target of 75% by 2012. Henceforth, no company can depart from the requirement to set up local processing units. Although there is need for a transitional period, the obligation to locally process timber would bring about the redistribution of value added for the benefit of Gabon, in particular, through employment and profit redistribution. For the time being, the rate of processing of timber for export is between 25% and 35% against the 100% target set by the Government. The degree of processing must first be specified. The new Government wants the domestic production of logs to primarily satisfy the processing needs of local units. For now, the issue is to know what the duration of transition will be and when the CFAF 20 billion Fund to be set up by the Government to support timber processing will actually get off the ground.

2.2.5 The export of logs is sensitive to the global economic situation, particularly to that of Asia which accounts for about 70% of sales (mainly to China and India). The current crisis has affected enterprises. Exports can be resilient to external shocks only if internal profitability is not too fragile. The more timber is processed, the more Gabon competes with Asian countries, including China. **The sector's future depends primarily on the capacity of basic activities to remain competitive under global market price conditions.** The two major constraints on the sector are the weak financing capacity of SMEs which are not supported by banks, including the Gabonese Development Bank, and inadequate skilled local labour. Yet, the capacity to climb the ladder of processing depends on the capacity to gain access to capital at affordable cost and to enhance labour through qualification. The strengthening of private sector support structures and the financial system should help to surmount this financial constraint. The competitiveness of the sector also depends on better mastery of labour. One of the structural problems of the companies in the sector is **the ability to rely on skilled local labour at a cost that is not too high.** The gap between wage development and productivity gain should not be too wide. Productivity will also be enhanced through better training of the sector's workforce.

## *The Agro-food and Fisheries Sector*

2.2.6 Besides diversification activities based on forestry and mining raw materials, **the agro-food sector is also a source of employment near urban and peri-urban centres.** Since independence, the agro-food sector's share in GDP has witnessed a slow but significant decline due partly to the oil dynamics. In 2008, food imports alone represented 20% of total imports, that is nearly CFAF 250 billion. Yet, in the Gabonese culture, people have little regard for farming. Many vegetable growers are foreigners as Gabonese nationals more spontaneously engage in service activities, particularly trade, which leads to the import of food products rather than local food production. Yet, the agricultural potential is huge; in the long run, pressures on the world prices of these products remain strong owing to global population dynamics and difficulties faced by some emerging countries in meeting the

growing needs of their populations. Therefore, genuine **opportunities to develop the sector for both import substitution and export in the sub-region exist**. As seen with other raw materials, these products may support high local production prices when the industrial margin rates will radically fall due to cheap labour in countries like China and India.

2.2.7 The potential of the sector can be developed through investments such as those financed by the Bank for the opening up of oil palm and rubber plantations, as well as the modernization of the corresponding processing plants. Indeed, **the Bank has, through a EUR 10 million loan, contributed to the financing of an agricultural extension project by SIAT Gabon**<sup>6</sup>, a Gabon-registered whose promoter is SIAT SA of Belgium. The purpose of the project is to reduce poverty in the project area by creating 520 permanent jobs and supporting 500 smallholders. As envisaged, since the implementation of the project, SIAT has rehabilitated industrial equipment. However, there has been some delay in the opening up of new plantations. To make up for the time lost, SIAT relies on services provided by local small entrepreneurs to open up the plantations. It would be useful to study the effective contribution of SIAT to diversification and poverty reduction more precisely.

2.2.8 As with agriculture, industrial fishing should mobilize the technical and financial resources needed to put a stop to the inadequate exploitation of the fishery potential estimated at 300 000 tonnes per year. The general objectives of the Growth and Poverty Reduction Strategy Paper (GPRSP) are to promote better knowledge of this resource in order to ensure its sustainable management, increase production and marketing on local and international markets, and build the capacity of the sector. The development constraints on this sector result from the absence of a critical mass of national entrepreneurs, as well as the difficulty of having access to financing for those wishing to operate therein, and the absence of a policy and an institutional framework that promotes the forging of partnerships with foreign operators. Lack of appropriate infrastructure, notably for ship repair, and inadequate tax incentives for setting up fleets of ships further compound these problems<sup>7</sup>.

2.2.9 The **development** of activities in the agro-food and fisheries sector calls for various actions: (i) implementation of **suitable financing policies and instruments** and, where necessary, **promotion of agricultural cooperatives or associations of fishermen** which help to reduce risk through joint and several liability for loans; (ii) **strengthening of the training and operational capacity of support services** of the Ministry of Agriculture and specialized research institutions; (iii) **improvement of all public services**: road network and other communication channels, electricity supply, etc.; (iv) identification of reasons for the very insufficient sale of local products in supermarkets and implementation of a strategy for the promotion of competition in distribution.

### *The Tourism Sector*

2.2.10 Gabon has assets for tourism development, in particular its rich biodiversity that can be made profitable by economically enhancing its thirteen national parks. However, tourism is not well developed and the country's image as a tourist destination is still to be built. The country is not or is hardly on the agenda of tour operators. Its accommodation capacity and tourist supply are weak. Due to the absence of tourist-attracting neighbouring

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<sup>6</sup> ADB, Appraisal Report of the SIAT Gabon Agricultural Extension Project, ADB/BD/WP/2007/95, May 2007. The total cost of the project is EUR 40 million.

<sup>7</sup> It should be noted that the Bank has already provided financial support to the fisheries sector through the Fisheries and Aquaculture Sector Support Project, June 2005.

countries, it can hardly benefit from the spin-off effects of the development of local tourism. Concerning factor costs, **the cost of capital in the country is high**. It affects profitability and impedes the strengthening of hotel capacity. **Salary costs also weaken competitiveness**, including within French-speaking countries. Air transport influences tourist flows through tariffs and supply capacity. The cost of transportation and poor road infrastructure within the country, inadequate electricity supply and telephone services are also factors that hamper tourism development.

2.2.11 The development of the private tourist sector will require the formulation of a development programme in close collaboration with all public and private operators under the coordination of the Ministry in charge of tourism. It would be necessary to better identify the domestic demand potential and to develop a strategy for the market promotion of the tourist product in relation with the countries of the region. The development of this activity requires the conduct of market studies to identify potential customers. In the short term, foreign customers should be targeted because they are many and have a high income level. **Sector cooperation agreements could be negotiated** so that Gabon does not confine itself to developing the sector only within the country. There would be need to evaluate the role and specific actions of the State concerning all public tradable and non-tradable services, the development and exploitation of sites and strengthening of training for the development of the sector. Lastly, it would be necessary to assess the quality of tax incentives to direct resources to the tourism industry.

2.2.12 In short, **the constraints identified in the sectors reviewed are economic, institutional or legal**. They relate particularly to a weak national private sector, an unfavourable business climate, unmet SME and VSME financing needs and the inability of banks to finance them, high capital and labour costs, deficient economic infrastructure and basic services, inadequate qualified human resources, taxation, and the legal and institutional environment. To overcome these constraints, besides the specific recommendations made per diversification sector mentioned above, it would be necessary to implement a number of recommendations for all these sectors, namely:

- **Carry out sectoral studies** to deepen research on each diversification sector and identify obstacles to their growth. This diagnosis should begin with the timber sector in view of declarations by public authorities to reorganize the sector.
- **Build the capacity of** the administration in forging public-private partnerships with international and national operators.
- **Reallocate the resources earmarked for general education to vocational training**, taking diversification needs into account.
- **Overcome constraints on the financing of enterprises**, particularly those affecting SMEs and VSMEs, by developing a variety of sources of financing, including micro-finance.
- **Develop diversification support infrastructure** that meets the development needs of sectoral activities (energy, transport, telecommunications, etc.).

2.2.13 The purpose of these recommendations is to surmount the identified economic, institutional or legal constraints. They must be detailed and supplemented by a thorough examination of constraints regarding the institutional mechanism and costs of setting up enterprises. These issues will be examined successively in the next two parts of this report.

### 3. CHANGES IN PRIVATE SECTOR SUPPORT INSTITUTIONAL MECHANISM

There is need to better identify the required reforms of the private sector support institutional mechanism and examine the possibilities of reconstructing the institutional landscape, as well as ways of restoring dialogue between public and private partners. Diversification efforts will therefore be based on an institutional mechanism that more effectively supports the private sector. As underscored by the study on the sources of growth in Gabon mentioned earlier on, diversification presupposes the emergence of a critical mass of entrepreneurs whose innovation, creativity and initiative are an essential source of wealth creation. As was done in emerging economies, this requires public authorities putting in place a legal framework and institutions that promote such transformation and the release of entrepreneurial energy.

#### 3.1 Existing Public Agencies and Limitations to their Effectiveness

3.1.1 In Gabon, public authorities should improve the institutional framework, better coordinate the action of the ministries concerned and ensure the functioning of public bodies that support the private sector which until now have not properly performed their mission. These are the Private Investment Promotion Agency (APIP), the Gabonese SME and SMI Promotion Agency (PromoGabon), the Gabon Assistance and Guarantee Fund (FAGA) and the Development and Expansion Fund (FODEX).

##### *The Private Investment Promotion Agency (APIP) and its Structural Weaknesses*

3.1.2 APIP was set up in 2000 within the framework of implementing the investment charter (1998). It is an administrative public establishment initially placed under the supervision of the Ministry of Trade and Industrial Development. For a year now, it has been under the supervisory authority of the Ministry of Finance. According to its establishment instrument, its main mission includes: looking for investors and technical and financial partners throughout the world; organizing meetings on the investment and business environment in Gabon; collecting and disseminating economic information to operators; directing and assisting investors; facilitating the development of businesses and modification of their activities; contributing to the conduct of sector work and identification of business opportunities; and evaluating projects that would enjoy specific advantages. It is structured around three services: (i) one-stop shop; (ii) marketing and economic information; (iii) studies and projects. Of these three services, only the **“one-stop” shop is truly active (actually a misnomer because all activities leading to business development are not yet being carried out on the same premises)**. Its role is only to monitor the processing of files. The current time taken to start a business is far beyond the **48 hour-target** set by the 1998 Investment Charter. According to *Doing Business* (2009), the time currently taken to start a business is **58 days**. It ranks Gabon 152<sup>nd</sup> out of 183 countries on the ease of starting a business (and 158<sup>th</sup> on the ease of doing business).

3.1.3 APIP has a workforce of about sixty employees. Approximately 10 000 business registration files were submitted to it between 2004 and 2007 and 4 318 in 2008. Seventy-five per cent of the businesses concerned are privately owned, while 25% are companies. The

analysis of the standard profile of applicants shows that they lack adequate financial resources and that 68% of planned activities are in the services sector. **According to APIP, 60% to 80% of businesses established do not survive beyond the first year of creation.** This high death rate can be explained by the fact that many privately owned businesses are set up mainly to take advantage of a business opportunity or to win a contract within the framework of an invitation to tender; they disappear once the opportunity is seized.

3.1.4 Currently, **APIP cannot improve the quality of information on investment opportunities or support private operators in setting up investments or provide services to businesses.** The negative perception of APIP by economic actors can be explained by: (i) its failure to promote the one-stop shop; (ii) few services provided to businesses; and (iii) inadequate quantity and quality of its human and financial resources.

#### *PromoGabon and its Inadequate and Inefficient Assistance to Promoters*

3.1.5 PromoGabon is a public establishment placed under the supervision of the Ministry of Small- and Medium-size Enterprises. It was set up in 1972 to support and provide advice to investment promoters. Its mission is to assist them in project development, the conduct of feasibility studies as well as the development of financing and business plans. Accordingly, PromoGabon can assist promoters in compiling files to be submitted to the Investment Approval Commission in the Ministry of SMEs/SMIs and the Credit Committee for SME/SMI Assistance and Guarantee Fund (FAGA) resources or guarantees. PromoGabon has about ten employees and a budget of CFAF 225 million.

3.1.6 In 2008, 245 investments files were submitted to PromoGab. Forty-two were approved for submission to the Investment Approval Commission. However, the Credit Committee has seldom met due mainly to insufficient resources allocated to FAGA. Very few entrepreneurs have succeeded in obtaining public financing to support their businesses. **Over time, PromoGabon has been a failure.** Its effective functioning has been hampered by lack of expertise in conducting studies. It has hardly performed its study and training missions, instead mainly focusing on information and sensitization activities. The dissolution of FAGA may further weaken PromoGabon if financing is not provided to guarantee investments.

#### *Public Funds: Failure of FODEX and FAGA, Dissolved in 2010*

3.1.7 Until recently, two public establishments with mission to provide financial support to the private sector (Gabon Assistance and Guarantee Fund (FAGA) and the Development and Expansion Fund (FODEX)) were still operating. Over time, none of them lived up to expectations. The mission of **FAGA**, which was set up in 1981, was to provide loans or bank guarantees to SME/SMI promoters. It virtually stopped functioning between 2003 and 2008 and its rehabilitation in 2008 led to the approval of only six loans by the Credit Committee. Due to inadequate replenishment of FAGA and its malfunctioning, **promoters of duly approved projects could find themselves in a financing gridlock.**

3.1.8 **FODEX** was set up in 1993 and financed mainly with resources from an ADB loan of about CFAF 20 billion<sup>8</sup>. The Fund was expected to finance project feasibility studies, equity loans for project initiation; 50% of bank loan guarantees and refinancing of primary commercial banks. In reality, FODEX was poorly managed and strayed from its initial

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<sup>8</sup> The loan was granted through the ADB SME Development Project (ADB/BD/WP/93/34, March 1993). Its objective, which was not achieved, was to promote and develop about 200 SMEs in Gabon.

objectives. It therefore carried out activities that benefited sectors where speculation and profiteering took precedence over all other objectives. Consequently, FODEX failed to attain its objectives and recorded only a 60% loan recovery rate. In view of their weaknesses, FAGA and FODEX were dissolved in March 2010 and their missions, activities and resources were transferred to the Gabonese Development Bank (BGD) which until then served as the trustee of their funds on behalf of the State.

## 3.2 Intermediary Organizations Representing the Private Sector

3.2.1 The new approach to the revitalization of the private sector involves broad-based and comprehensive dialogue between the public sector and private operators. It will attain its goal only if intermediary bodies representing the private sector are established to defend the varied interests of a very heterogeneous private sector. Dialogue between social partners must reflect the world of SMEs/SMIs and of artisans who are also a potential vehicle for diversifying sources of growth.

### *Employers' Representatives*

3.2.2 Established in 1978, the **Confederation of Gabonese Employers' Associations (CPG)** is the largest employers' union. The CPG - which groups together major enterprises - accounts for nearly 80% of GDP and 90% of jobs in the formal sector. Some 256 enterprises representing 22 branches and 16 trade unions are affiliated to it. Established in 1987, the **Gabonese National Confederation of Employers' Associations (CNPG)** is the second major organization representing employers. Currently, it has 75 active members which are mainly SMEs/SMIs. These two organizations are expected to play an active role in the dialogue bodies to be established.

### *Gabon Chamber of Commerce, Agriculture, Industry and Mines*

3.2.3 Governed by its 1978 statutes, the Gabon Chamber of Commerce, Agriculture, Industry and Mines (CCAIMG) or the Consular Chamber, is an administrative public establishment placed under the supervisory authority of the Ministry of Economy. It represents the (mainly private) economic sector and seeks to serve as a link between the private sector and public authorities. In theory, its mission is to provide targeted training, technical assistance and counselling to its members as well as keep economic data banks, the business register and the business opportunities directory. Today, it is very difficult to know the number of affiliated enterprises. Its main activities are carried out in Libreville. It has branches in Port Gentil and Franceville. While its statutes provide for the election of its President, s/he is appointed by the Government. The current President is a former Prime Minister. Its budgetary resources are provided by the State. In 2009, its budget totalled CFAF 780 million. It employs about 60 workers, few of whom have the required qualifications to provide the expected services.

3.2.4 The track record of the Chamber of Commerce is quite modest. Its functioning is hampered by a mismatch between competencies and set objectives. Yet, many SMEs/VSMEs could benefit from the redeployment of its activities that would enable the Chamber to **effectively represent the private sector and facilitate its business** in and out of Gabon. To play its role, the Chamber of Commerce should: **have governance structures in line with its statutes** and its representative character, and be represented on the Steering Committee of the new private sector promotion structure to be put in place; **revive its information activities**

**and promote access to its databases; foster the provision of business services** in collaboration with APIP or the new structure to be put in place<sup>9</sup> (SME/VSME promotion, training, accounting support and empowerment of an approved management centre, search for and dissemination of business opportunities, including export opportunities); **improve the quality of its human resources and supplement its budgetary resources** through the sale of business services.

### **3.3 Reconstruction of the Institutional Mechanism around a New Structure to Promote and Finance Private Investment**

3.3.1 An examination of the present main components of private sector institutional support revealed the limits of their effectiveness. APIP, PromoGabon, the Chamber of Commerce and the banking system failed to attain their objectives and their coordination is very poor. It was realized that allowing many agencies in charge of promoting private businesses to continue to function weakened responsibilities and spread thin the available resources. This hampered the provision of the expected support services to businesses.

3.3.2 To address this situation, the Government decided, after the Council of Ministers held on 4 March 2010, to “strengthen the structure of the Gabonese Development Bank by refocusing its action on its traditional trades and to transfer the missions, activities and resources of the Development and Expansion Fund (FODEX) and the SME/SMI Assistance and Guarantee Fund (FAGA) to the Gabonese Development Bank”. The aim is to streamline the institutional mechanism and regroup the bodies involved in investment promotion. However, further measures are expected regarding the methods of executing the guarantee and refinancing missions hitherto performed by FAGA and FODEX, as well as broadening BGD’s support to SMEs/SMIs. Furthermore, these decisions do not concern all the reforms and measures needed to bridge gaps in private sector support.

3.3.3 The whole institutional landscape of private sector support should be restructured to better coordinate and facilitate the creation, development and functioning of private sector enterprises. Within this context, **a new institutional landscape should be set up based on:** (i) the effective provision to enterprises, particularly SMEs and VSMEs, of expected services with regard to their creation, development and functioning; (ii) the promotion, in conjunction with banks, lending institutions and development partners, of financing and guarantees needed by enterprises; (iii) equipping the structures concerned with statutes adapted to their mission, organization of active stakeholder participation (public and private, banks, development partners, etc.), ensuring transparency and peer control, and facilitating the mobilization by these agencies of resources necessary for their operation; and (iv) qualification of employees of the bodies concerned and selection of competent managers in line with their statutes. **This mechanism will be based on a new structure (NS) aimed at promoting and financing private investments;** this could be a sort of reformed APIP.

3.3.4 To this end, it would be necessary to review the mission, positioning, statutes and resources of ministries and agencies in charge of providing support to the private sector, in particular APIP, PromoGabon, Chamber of Commerce, and BGD. This review should also cover their interaction and involvement with all other stakeholders in the support process such as ministries, regional and local authorities, banks, organizations representing the private sector, development partners as well as the professions concerned (consultants, notaries, lawyers, accountants, etc.).

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<sup>9</sup> See paragraph 3.3.

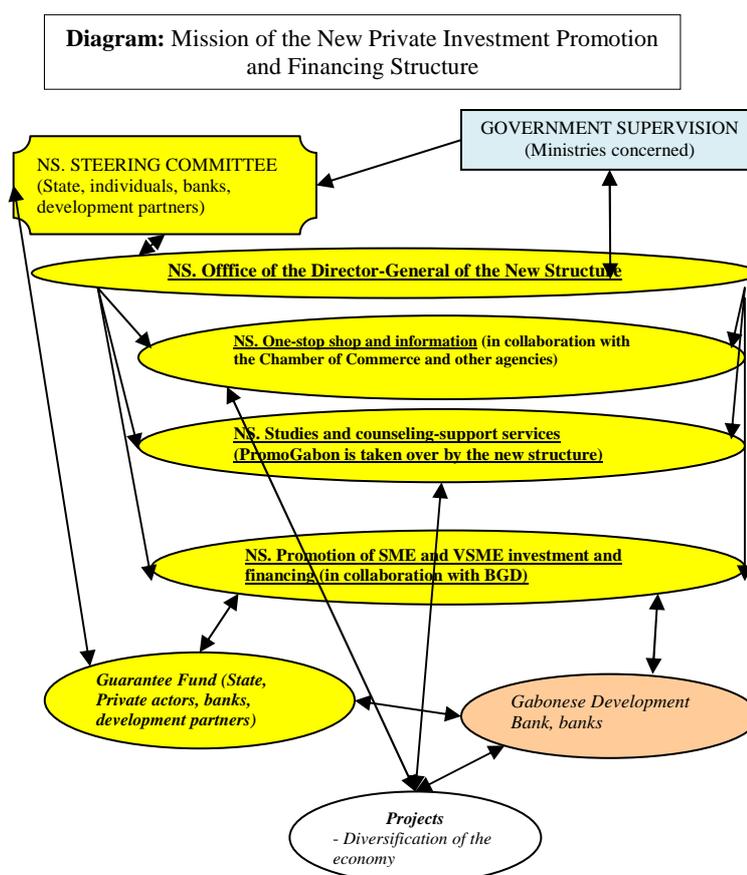
## The New Structure (NS)

3.3.5 The new structure (NS) should be assigned missions that **prioritize services provided to enterprises** and be endowed with an **adequate statute that provides for a steering committee (SC) combining the public and private sectors**. The structure should be assigned **three main missions**: the setting up of a one-stop shop and dissemination of information, conduct of studies and provision of advisory/support services, and promotion of SME/VSME investment and financing.

- (i) **One-stop shop and information**: ensure the smooth functioning within the new structure of the one-stop shop with regard to the registration, modification or deregistration of enterprises, and reduce the time taken to register an enterprise to 48 hours; inform entrepreneurs and promoters about growth sectors, procedure for business development, their main interlocutors and existing business services; set up a documentation centre and databases sustained by its other services to receive and provide information to entrepreneurs and promoters.
- (ii) **Study and advisory/support services**: conduct or promote the conduct of studies and works to upgrade the level of information and knowledge of enterprises, notably on sector investment opportunities; promote the conduct of studies, offer proposals relating to the business environment and make the new structure one of the representatives of organizations rating businesses, notably *Doing Business*; support enterprises in various procedures related to investment or to their functioning; develop advisory/support services for business development (market research, development of business and financing plans, preparation of investment files); provide advisory/support services for the development and operation of enterprises (management charts, diagnoses, information, computerization, accounting, exports, markets); provide legal support at various stages of business development and operation; within the framework of this mission, the new structure will take over PromoGabon whose duties and resources will be incorporated into it in order to strengthen NS's capacity and credibility in preparing and presenting investment files.

- **(iii) Promotion of SME/VSME investment and financing<sup>10</sup>**: source and identify strategic investors at the national and international level; support enterprises in the search for financing (guarantees, bank loans, etc.); support consulting and training activities of private entrepreneurs through the promotion and, eventually, provision of financing for that purpose; promote dialogue and coordination on private investment financing policies, in particular to guarantee investments and obtain financing from development partners, but without direct involvement in the granting and management of investment loans; promote the establishment of a guarantee fund financed by the public and private sectors and development partners, placed under the control of the Steering Committee of the new structure whose management by the banking system must be transparent.

3.3.6 The diagram highlights the main missions of the new structure and its relations with the public supervisory authority, the Steering Committee, the Chamber of Commerce as well as banks and the new guarantee fund mentioned above. It maintains PromoGabon's integration into the new structure. It shows the relations between the new structure and the Chamber of Commerce (for information and business support)<sup>11</sup> and between the new structure and the BGD (for investment guarantee and financing). It should have mentioned the possibility of setting up one or more business information centres in the country to carry out a number of support activities and promote consultations between enterprises or between enterprises and their partners.



3.3.7 To successfully carry out its missions, the new structure must forge and promote partnership with the direct involvement of the State, the private sector and foreign donors as well as banks and micro-finance institutions. The mission of these actors is to discuss and ensure the implementation of private investment and financing promotion policies **within the framework of the steering committee of the new structure**. The steering committee would help improve policy development and mitigate the problem of access to financing faced by SMEs and VSMEs. It should conduct quarterly analysis of economic and financial information concerning the implementation of private investment and financing policies.

<sup>10</sup> More detailed recommendations on the financing policy are presented in Part 4 of the report relating to factor cost and competitiveness, particularly in paragraph 4.2.7.

<sup>11</sup> The role of the Chamber of Commerce is presented in Part 3 of the study.

3.3.8 **The form of the new structure should be defined in line with these missions.** It should facilitate the establishment of public-private partnership, help mobilize adequate resources for its functioning, ensure transparency and control, and provide for the functioning of active entities within the structure (one-stop shop, documentation centre, enterprise support centres, etc.) to provide services. Based on the experience of Gabon and other countries, **the choice of the form of the new structure can be made from three legal forms applicable<sup>12</sup>:** public establishment, semi-public company and non-profit association. The criteria for choosing the legal form of the new structure in light of Gabon's specificities notably include its legal structure, method of governance, staff regulations, accounting rules and procurement procedure. **The "semi-public company" legal form is more likely than the other two legal forms to** promote public-private partnership, transparency, appointment of competent officials and control by all stakeholders, including donors. To definitively retain this form for the new structure and other agencies within the mechanism, it is necessary to carry out a feasibility study to determine its capacity to mobilize adequate human and financial resources needed for its functioning. The study should also examine the method and different stages of establishment of the new private sector support institutional mechanism. It should particularly determine how APIP's missions will plug into those of the new structure and how the staff of existing bodies will be redeployed.

### 3.4 Resumption of Dialogue Between Public and Private Partners

3.4.1 Over the last few years, there has been virtually no institutionalized dialogue in Gabon between the State and the private sector. Until 2003, consultation days organized by the General Directorate of the Economy served that purpose and afforded an opportunity for a free exchange of views between the actors of all sectors. Currently, there are exchanges albeit organized piecemeal within a bilateral framework where each actor tries to further its own interests. To promote the development of the private sector and restore an atmosphere of mutual trust, there is need to restore true dialogue between the public sector and private operators. To that end, the State should take the initiative in organizing an annual national consultation meeting. The dialogue could be held between three groups of key actors: (i) organizations representing the private sector; (ii) donors supporting the private sector; and (iii) ministries and bodies involved in the private sector.

3.4.2 This meeting can be organized on the initiative of the Prime Minister or under the auspices of the Office of the President of the Republic, with linkages in technical ministries as well as specialized institutions, in particular the new structure. Regarding the private sector, the main structures concerned are the CPG, the CNPG and the Chamber of Commerce. This list may be extended to include artisans and traders operating in the micro-enterprise or informal sectors. It is also desirable that development partners take part in the meeting to enable them to share the holistic vision of the society desired by the government and civil society.

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<sup>12</sup> (i) **The public establishment** can be administrative or industrial and commercial. Its organs are the board of directors (comprising representatives of the public and private sectors) and the director general. Its staff is placed under the control of the Ministry of Public Service. (ii) The semi-public company is a private law structure provided for by the OHADA act whose capital is publicly- or privately-owned. Its organs are the board of directors (which is responsible for guidance and control; it can be organized into sub-groups such as government, private, donors, etc.) and the general manager appointed by the board of directors. Its staff is governed by private law. (iii) **The non-profit association** is governed by private law. It does not have authorized capital; its organs are the general assembly, the board of directors, the president of the association and the general manager appointed by the board of directors. Its staff is governed by private law.

3.4.3 Other periodic meetings could also be organized by such entities as the NS, the Chamber of Commerce or employers' associations.

#### 4. FACTOR COST AND ECONOMIC COMPETITIVENESS

The recommendations already made following the analysis of constraints on diversification underscored actions to undertake to better control capital and wage costs in the timber, agro-food, fisheries and tourism sectors. Indeed, the cost of inputs impedes the diversification, competitiveness and development of the private sector. The review of some of its major components, namely wage and capital costs as well as corporate taxation and electricity, can help formulate guidelines and actions to control them. Subsequent studies could focus on other costs related to tradable and non-tradable public services such as telecommunications, road infrastructure, building plots, etc.

##### 4.1 Wage Cost

###### *A Factor whose Cost Reflects the Influence of the Oil Windfall*

4.1.1 **Labour directly impacts the competitiveness of an economy.** It contributes to production cost formation through money wage (i.e. wages) and the quality of the factor (i.e. its productivity). Productivity is itself a function of the training system, the effort of workers (which depends on labour agreements) and the equipment placed at their disposal. The minimum guaranteed inter-occupational wage fixed in 1970 at CFAF 64 000 per month was increased to CFAF 80 000 in September 2006. In January 2010, there was another significant increase in this minimum wage, to CFAF 150 000. This new wage adjustment could have significant impacts on the competitiveness of the tradable goods sector.

4.1.2 **Is the labour cost in Gabon very high?** A high unemployment rate and an informal sector that employs a significant proportion of the active population whose wage levels are lower than those in the formal sector suggest a high labour cost. However, the answer to this question is more complex and somewhat subjective, depending on the worker to whom it is posed. For the employee, a wage is primarily a means of livelihood. For the producer, labour cost is above all an element of the production cost and is related to the productivity of labour. A comparison with other countries, for example Cameroon, indicates that the cost of labour in Gabon is higher.

4.1.3 Rent-seeking activity or monopolistic sectors can easily afford relatively high wages. In other words, wages that are higher than productivity in terms of value do not seriously affect the profitability of the oil sector. The consequences are different for non rent-seeking activities. In recent years, the loss of profitability in the timber sector was suggestive of some problems of competitiveness, including wage cost. The gap between the unit cost and the selling price is so narrow that wages, affordable when world timber prices are high, become a factor of non-competitiveness when world timber prices are low.

4.1.4 The recent wage increase significantly raised the amount of public resources allocated for civil servants' salaries. Furthermore, this level of salaries is much higher than the level of salaries currently paid by most enterprises in the modern sector. Within the global context of liberalization and greater competition, **every discretionary high increase in wages can lead to a decline in competitiveness** in key diversification sectors and impede job generation. The development of timber processing, for example, will be significantly affected

insofar as the wage conditions of many competing Asian countries, including China, continue to vary between USD 100 and 200 per month, that is CFAF 50 000 to 100 000, with a factor output which is considered to be higher. The difficulties are the same in the services sector, including tourism.

4.1.5 Thus, **a wage increase must be accompanied by an increase in production and productivity**. In addition, the analysis of the consequences of increasing the minimum wage to CFAF 150 000 on competitiveness targets must be carried out. The **improvement of the quality of training should also be considered as a factor in enhancing productivity**. The resources allocated to the educational system would therefore be more beneficial if they are reallocated to vocational and technical training in line with the needs of diversification sectors.

## 4.2 Capital Access and Cost

The use of capital depends on its availability, accessibility and cost. The analysis of the financing system will help to indicate actions to carry out to surmount the constraints identified.

### *The Private Sector Financing System and Obstacles Faced*

4.2.1 **The internal financing system involves three main types of actors:** banks, government support agencies and micro-finance institutions. Enterprises and banks can also enjoy external financing in the form of official development assistance from partners such as ADB, AFD and EIB which operate through lines of credit, guarantee mechanisms and loans.

4.2.2 The banking sector in Gabon consists of five deposit banks, three of which account for 85% of deposits and outstanding credits. These are UGB, BICIG and BGFI. To these may be added the Gabonese Development Bank (BGD). Two government agencies, namely FAGA and FODEX (the guarantee and refinancing funds dissolved in 2010), supported private sector financing. The mission of BGD, a public company set up in 1960, is to provide technical and financial support for implementation projects that promote the economic and social development of the country. Its activities include the granting of short-, medium- and long-term loans, equity participation and granting of guarantees in the form of security or backing. Its clients are individuals, enterprises or regional and local authorities that apply for real estate and consumer loans. It also finances business investments and manages FAGA and FODEX loans on behalf of the State. However, it is yet to determine the detailed conditions and terms of managing the responsibilities recently transferred to the Institution.

4.2.3 **The micro-finance network is new and its scope is limited.** Gabon is lagging behind in this domain compared to other countries in Central Africa. Five structures are operational. The *Financière Africaine de Microprojets* (FINAM) approved in October 2005 with a capital of CFAF 500 million is the only institution with a significant volume of activities. The impending inception of two new structures, LOXIA and GAMIFI, is expected to help boost this sector, albeit to a limited extent. In the next few years, micro-finance could expand to other activities other than trade and consumer coverage. It could play an important role in poverty reduction and VSME financing. The presence of micro-finance institutions in the services as well as production sectors could be facilitated through the establishment of a Fund to refinance microfinance agencies, enabling them take on commitments compatible with VSME operating and investment cycle.

4.2.4 **Few SMEs and VSMEs are able to resolve their financing problems.** Although there is no accurate evaluation, their potential demand for financing is deemed significant. **Barring few exceptions, the financing of long-term investments is beyond the scope of commercial banks** which prefer to invest their surplus liquidity. As other banks, the BGD hardly finances SMEs and VSMEs. **Major enterprises are better off.** They have access to the banking system and those that are subsidiaries can receive transfers from the “parent companies”. The incapacity of the financial system to support private sector development, in particular SMEs and VSMEs, is due to numerous obstacles, including insufficient guarantees, high credit costs and high risks.

4.2.5 **Insufficient guarantees** are associated with several institutional factors: inadequate protection of investors, major difficulties in contract execution and debt recovery, long time frames and high costs relative to the provision of guarantees and winding up of businesses. To these obstacles should be added the very slow pace of judicial system reforms, titles of ownership and the acceleration of debt recovery procedures. Although FAGA and FODEX have been dissolved, the organization and effectiveness of investment guarantees are still problematic.

4.2.6 **High interest rates** constitute another obstacle to private investment financing since they affect production costs and hence economic competitiveness. The nominal interest rates of the banking system range from about 7.5% to 8.5% for the “safest” short- and medium-term operations and the most “reliable” enterprises (fewer than one hundred). The few SMEs that obtained loan from FAGA had to pay an interest rate of about 12% and provide 100% liability coverage. The interest rate on overdraft facilities is more than 20%. The interest rates of micro-finance institutions vary from 3% to 6% a month, i.e. 50% to 100% per annum. The sustainability of these rates depends on the very short rotation of loans, and profit margins (indicating the funding principally of commercial activities). Other obstacles to financing are the **absence of reliable and relevant business information** and difficulties in risk calculation, thus leading banks into rationing credit.

### *Removing Constraints and Reducing the Cost of Credit*

4.2.7 Removing constraints to improve access to banks and reduce capital cost is not the duty of banks alone. There is need to better finance the different categories of business. The State, in collaboration with government agencies, the private sector and donors, notably the ADB, should help establish an institutional framework for coordinated and transparent private sector financing. Given the delicate nature of problems facing SMEs/SMIs, the following recommendations have been made essentially for these enterprises. Their implementation will be monitored notably by the new structure proposed to promote private sector investment and financing:

- **Better assess the respective financing requirements of the different components of the private sector** (major enterprises, SMEs/SMIs and micro-enterprises), particularly in diversification sectors, and propose concrete measures to surmount the obstacles faced by each investment project recommended.
- **Increase the financing of SMEs/SMIs (especially their investments) by the BGD and other banks**, through better consideration of their risks and improvement of their legal environment.

- **Lay more emphasis on financial intermediation** by improving the quality of business information, particularly by establishing and ensuring compliance with accounting and audit standards.
- **Improve the institutional environment, in particular the legal environment, to enhance the financing of SMEs/SMIs.** This requires the establishment of more reliable land title and credit guarantee systems in order to protect creditors; eliminate legal and judicial constraints that hamper the recovery of property to help develop leasing.
- **Take better account of risk perception by banks** by reducing risks through investment project reliability and risk sharing. Project reliability requires the building of promoters' capacity to submit "bankable" projects. Risk sharing requires guarantee and refinancing funds to function smoothly.
- **Improve the implementation of SME/SMI investment and financing policies** by enabling the proposed Steering Committee of the new investment promotion structure to fully play its role.
- **Set up the proposed guarantee fund within the new structure (NS) and define its operation mechanisms.** This fund, which will be **financed by the State, the private sector, banks and development partners**, will be placed under the control of the Steering Committee of the NS. It will take decisions concerning the extension of guarantees based on the technical files submitted by the NS. The banking sector will be responsible for implementing such decisions and the transparent management of funds allocated. This mechanism should prevent the misuse of resources and reduce State financial and policy constraints on public loans.
- **Involve actors of the micro-finance sector in various economic sectors** and broaden the activities of micro-finance institutions by setting up a refinancing fund.

### 4.3 Cost of Electricity

4.3.1 Business surveys carried out show electricity to be a factor in declining competitiveness that could particularly affect SMEs/SMIs. Recommendations for the development of other infrastructure to support diversification were made during the review of the development needs of sectoral activities.

4.3.2 In 1997, Gabon privatized its water and electricity company and granted a concession to *Veolia Environnement* for its management. The concession covers the production, transportation and distribution of drinking water and electricity in a given area. The State reserves the right - so far not used - to grant new concessions for electricity generation only. The main objectives assigned the concession holder are to: obtain the lowest possible rates, ensure internal financing and the stability of the service granted to it, ensure a steady increase in the coverage rate, upgrade the technical quality of the service granted to it, maintain the equipment and structures in good condition, and ensure the judicious management of human resources.

4.3.3 The concession helped to revitalize the activities of the company, thus enabling it to achieve growth rates of 5% for water and 8% for electricity over the last ten years. However, recent power cuts and major increases in rates have tarnished the reputation of SEEG among the population. From 1997 to 2007, electricity and water prices increased faster than the consumer price index. Although privatization has produced some of the expected outcomes, much remains to be done. Power cuts have underscored the urgent need to reinforce energy production and transportation structures which are under the responsibility of the State.

4.3.4 In the light of this assessment and in view of the difficulties in promoting the establishment of lasting partnerships between the State and the private sector with a view to enhancing the development of the energy sector in Gabon, it is necessary to: ensure the ability of parties to comply with their specifications; strengthen the capacity of the State to make the required investments or open the production market to other producers; reduce prices by extending the nominal production capacity; and put in place an independent regulator to serve as an institutional intermediary between the public and private sectors, consumers and producers.

## 4.4 Corporate Taxation

### *Formal taxation and the private sector*

4.4.1 **Does the tax system constitute an impediment to the development of the private sector in Gabon?** The existence of specific tax regimes, particularly for the oil and forestry sectors, and exceptions that often provide for very significant tax exemptions makes this question complex. The role of taxation is assessed by analysing the main types of taxes in force in Gabon and by comparing them with those in force in other regions of the world. This role is specified by examining “incidental taxation” that can significantly modify the mechanism provided by law. In Gabon, this expression includes a series of legal or illegal tax levies imposed on economic operators by regional and local authorities, ministerial departments and, from time to time, corrupt civil servants.

4.4.2 **Corporate tax (CT).** Companies or establishments must pay corporate tax. **The profits tax rate is 35%.** This rate applies to profit as defined in the OHADA accounting plan. In 2007, the average tax rate throughout the world was 26.8%. On average, European rates remain the lowest (24.2%) compared to 28% for Latin America and 30.1% for Asia-Pacific. In *Doing Business*, Gabon was ranked 107<sup>th</sup> out of 183 countries with regard to corporate income tax rate. **Regarding the objective of ensuring competitiveness, the rates in force are not the obstacle most dreaded by enterprises as there are many exemptions, particularly during the first three years of operation, and establishment conventions which help in the ad hoc negotiation of this tax,** notably for major companies. The law of September 2006 stipulates that registered SMEs/SMIs shall be exempt from income tax, levies and duties on inputs for five years.

4.4.3 **Value added tax (VAT).** VAT is now in force in more than one hundred developing countries. It prevents any tax burden on exports that would jeopardize external competitiveness. It is reputed for economic neutrality. It does not penalize production for the domestic market as imported products are liable (as do local products) upon entry into the national territory. It does not further penalize exports once the country applies a zero tax rate. **The normal VAT rate is 18%.** However, some products are taxed at 10% and others, considered as luxury goods, at 25%. The normal rate of 18% is slightly higher than the rates in OECD countries as well as in developing countries.

4.4.4 ***Port dues. Intra-community trade, at least that giving rise to production in CEMAC member countries, is exonerated from customs duties under the Generalized Preferential Tariff.*** The rates of customs duties applicable to products from third countries imported into the CEMAC zone (Common External Tariff - CET) are as follows: essential goods (Category I): 5%; raw materials and capital goods (Category II): 10%; intermediate and other goods (Category III): 20%; wage goods (Category IV): 30%. In the coming years, these rates are expected to change in line with the extension of global free trade, but also the probable signing of economic partnership agreements (EPA) with the European Union.

#### ***Insidious Impact of Incidental Taxation***

4.4.5 According to the legal regime of incidental taxation, deductions should be attached to beneficiaries. This is not easy to do, as the beneficiaries are not necessarily corporate bodies. In addition, **not all incidental charges are included in the finance law**, which should authorize their collection. What usually obtains are discretionary situations that do not fall under the rule of law *stricto sensu*. For that reason, the Government intends to rescind these tax levies or to legalize them by including them as of right in the finance law. Indeed, **these levies have become the scourge of the private sector. According to economic operators, incidental charges add 10% to 20% to product prices.**

#### ***Towards a more Transparent and Attractive Tax System***

4.4.6 Taxation in Gabon is largely contingent on CEMAC membership. The corporate tax (CT) rate and the normal VAT rate are rather high. CT could be reduced in a context where return on other taxes would offset tax revenue shortfalls. Before reviewing the CT rate, it is necessary to assess its impacts, which differ according to sectors and age of organizations. Perhaps the interest of the community would be to reduce the scope of tax exemption regimes as well as the tax rate. Investment incentives should be maintained and better organized. At the same time, efforts should be made to address incidental taxation, transaction costs incurred as a result of corruption and bureaucratic excesses that undermine private sector development.

## **5. CONCLUSIONS AND RECOMMENDATIONS**

5.1. This study has identified the major constraints on the private sector and highlighted the necessary reforms and actions to be implemented to diversify the economy, strengthen the private sector institutional support mechanism and control costs in order to enhance corporate competitiveness.

5.2 The study has made relevant recommendations to boost the development of diversification sectors: conduct sector work to deepen research on each diversification sector and identify obstacles to their growth; build the capacity of the administration to forge public-private partnerships with international and national operators; reallocate the resources earmarked for general education to vocational training; overcome constraints on the financing of enterprises by developing a variety of sources of financing; and develop diversification support infrastructure (energy, roads, etc.).

5.3 Alongside these actions, the study recommends institutional changes to enhance the attractiveness of the economy and the private sector. There is need to streamline private enterprise promotion structures, notably on the basis of a new private investment and

financing promotion structure in the form of a reformed APIP and a strengthened Chamber of Commerce. The new structure would have three basic missions: operate the one-stop shop and disseminate business information; carry out studies and provide advisory/support services, and promote SME/SMI investment and financing. Dialogue between the State and private operators should be encouraged, particularly within the Steering Committee of the new structure, which could take the legal form of a “semi-public company” that is more likely to promote public-private partnership and transparency than other legal forms.

5.4 There is need to implement a factor cost reduction and control policy. Compared to what obtains in other countries in the region, costs (notably labour, capital and electricity costs) are high in Gabon. Human resources should be oriented towards key diversification sectors. This requires the relocation of public funds earmarked for general education to vocational training. The inability of the financial system to support the development of SMEs and VSMEs should be addressed. Such incapacity is due to numerous obstacles: inadequate guarantees, high credit cost and high risks. Furthermore, taxation should be more transparent and attractive. Illegal forms of “incidental taxation” should be checked.

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- Web sites: Chambers of Commerce (Cote d'Ivoire, Benin, Mali); Maison de l'Entreprise (Burkina Faso); etc.

**ANNEX**  
**Republic of Gabon: Study on Private Sector Development**  
**THEMATIC ACTION PLAN**

THEMATIC ACTION PLAN	Problems Identified	Proposed Solutions	Expected Outcomes	Potential Partners
<i>Diversification of the Production System</i>				
<b>Mining and oil and gas sector</b>	<ul style="list-style-type: none"> <li>▪ Structural decline in oil activities because new oil deposits have not been discovered.</li> <li>▪ Problems inherent in diversification through the development of mines: basic infrastructure; PPP negotiation capacity; availability and cost of skilled labour.</li> <li>▪ Inadequate visibility on the establishment of a petrochemical complex in Port Gentil and development of natural gas.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improve the quality of energy distribution. Improve goods transportation within and out of the country through infrastructure improvement.</li> <li>▪ Set up a National Mining College.</li> <li>▪ Use public-private partnership as in the electricity sector.</li> <li>▪ Enhance the mastery of international negotiation techniques.</li> <li>▪ Study the gas market and its synergies with the oil and mining activities.</li> <li>▪ Assess public conditions for the development of such activities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improved competitiveness in terms of profits through reduction in real factor cost and enhanced labour efficiency through training.</li> <li>▪ Increased value added in the oil and gas sector to mitigate the effects of declining crude oil production.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Mines, Oil and Hydrocarbons.</li> <li>▪ Ministries concerned. International bilateral assistance (Brazil, China, France, etc.).</li> <li>▪ Establishment of relationships with major foreign companies to facilitate the extraction and marketing of products.</li> <li>▪ EU (roads, education), AFD, ADB.</li> </ul>
<b>Timber sector</b>	<ul style="list-style-type: none"> <li>▪ Inadequate local processing to obtain further processed products; difficulty in diversifying due to a competitive environment.</li> <li>▪ Decision by the government to raise the processing target to 100% in early 2010.</li> <li>▪ Relatively high factor cost (labour, capital, energy, transportation).</li> <li>▪ Poor state of the road network and numerous vagaries of rail transportation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Carry out a sectoral study on the timber sector and examine obstacles to its growth.</li> <li>▪ Promote small community logging groups. Promote joint responsibility for commitments to facilitate the obtaining of loans (BGD, banks, micro-finance institutions, bilateral assistance, international private financing).</li> <li>▪ Evaluate the competitiveness and impact of local processing of timber on exports with immediate effect.</li> <li>▪ Role of SETRAG and SEPBG in handling and means of transportation.</li> <li>▪ Evaluate external market approach conditions and identify international partnerships.</li> <li>▪ Critically evaluate the tax regime applied to the forestry sector.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Removal of financing constraints by improving the quality and real cost of labour in processing operations.</li> <li>▪ Improved infrastructure to enhance the efficiency of human resources, in particular the National School of Forestry.</li> <li>▪ Increased rate of processing and hence value added of rare species exported.</li> <li>▪ Study on short-term consequences of the obligation to locally process timber for export and evaluation of long-term conditions for success in the local processing of timber.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Forestry, Environment and Sustainable Development.</li> <li>▪ Ministries concerned.</li> <li>▪ Development of partnerships with bilateral partners and development agencies (AFD, PROPARGO, etc.).</li> <li>▪ ADB, WB, EU, etc.</li> </ul>
<b>Agriculture, agro-food and fisheries sector</b>	<ul style="list-style-type: none"> <li>▪ Since independence, the share of the agricultural sector in GDP has witnessed a steady but significant</li> </ul>	<ul style="list-style-type: none"> <li>▪ Carry out a sectoral study on the sector and examine obstacles to its growth.</li> <li>▪ Address problems of factor cost and sensitize</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase in agricultural, agro-food and fishery production.</li> <li>▪ Increase in the number of</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Agriculture and other ministries concerned.</li> <li>▪ AFD, PROPARGO.</li> </ul>

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	<p>decline.</p> <ul style="list-style-type: none"> <li>▪ Domestic markets are not sufficiently competitive and flexible; accessibility and development problems. It is difficult to list local products in these markets.</li> <li>▪ Absence of a critical mass of national entrepreneurs in the agricultural and fisheries sector, particularly in industrial fishing.</li> </ul>	<p>the youth on employment opportunities in the sector.</p> <ul style="list-style-type: none"> <li>▪ Improve public services: road network and other communication channels, and ensure electricity supply, etc.</li> <li>▪ Strengthen national and regional training capacity.</li> <li>▪ Evaluate the causes of obstacles to product listing through distribution. Improve the conditions of product access to markets, including packaging, conservation and distribution.</li> <li>▪ Adopt financing policies and instruments. Promote agricultural cooperatives and associations of fishermen.</li> <li>▪ Build the operational capacity of the Ministry of Agriculture and specialized research institutions (CIAM, IRAF).</li> </ul>	<p>companies belonging to nationals in the agricultural and fisheries sector.</p> <ul style="list-style-type: none"> <li>▪ Increase in the relative share of these activities in GDP and employment of nationals.</li> </ul>	<ul style="list-style-type: none"> <li>▪ FAO.</li> <li>▪ ADB, WB, EU.</li> </ul>
<b>Tourism sector</b>	<ul style="list-style-type: none"> <li>▪ Accommodation capacity and tourist supply are currently low; Gabon is hardly on the agenda of tour operators and there is poor knowledge of potential demand.</li> <li>▪ In view of high interest rates, the profit margin is partly used to cover financial expenses.</li> <li>▪ Wage costs are a significant impediment to competitiveness compared to other zones where tourism is more developed.</li> <li>▪ Air transport rates and capacity impact tourist flows.</li> <li>▪ Poor quality of infrastructure within the country.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conduct a sectoral study on the tourism sector and examine obstacles to its growth.</li> <li>▪ Better identify potential international tourist demand and diversion tourism, given the number of expatriates with high income levels.</li> <li>▪ Design a development programme in close collaboration with all public and private sector operators under the coordination of the Ministry of Tourism.</li> <li>▪ Develop a tourist product market promotion strategy.</li> <li>▪ Evaluate the role and specific actions of the State regarding all tradable and non-tradable public services.</li> <li>▪ Assess the quality of tax incentives to direct resources to the tourism industry.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase in production in the tourism sector and its economic impact in terms of GDP contribution and direct and indirect jobs (handicrafts, agriculture, transport, etc.).</li> <li>▪ Regional development respectful of wildlife and flora.</li> <li>▪ Increased capacity for the training of hotel staff.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministries of Economy; Trade, Industry, and Tourism.</li> <li>▪ World Tourism Organization (WTO).</li> </ul>
<b>Private investment and financing promotion</b>	<ul style="list-style-type: none"> <li>▪ <i>Doing Business</i> 2010 ranks Gabon 152<sup>nd</sup> out of 183 countries regarding the ease of starting a business (158<sup>th</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Restructure the private sector support institutional mechanism to ensure better coordination and transparent handling of</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reduction in the number of days needed to set up a business.</li> <li>▪ Increase in the number of</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Small- and Medium-Size Enterprises and Handicrafts, Ministry of the</li> </ul>

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<p><b>structures</b></p>	<p>in terms of ease of doing business) and indicates that it takes 58 days to set up a business.</p> <ul style="list-style-type: none"> <li>▪ Poor coordination of private sector support structures and few services provided to the private sector for business development.</li> <li>▪ APIP has three services: one-stop shop; marketing and economic information; studies and projects. Only the “one-stop shop” is operational; the “one-stop shop” is a misnomer because the service only monitors dossiers through information circulating between various ministries.</li> <li>▪ PromoGabon’s support to promoters is insufficient and ineffective.</li> <li>▪ FAGA and FODEX failed in the performance of their duties and were dissolved in 2010.</li> <li>▪ Insufficient qualified human resources and major shortcomings in governance have rendered the private sector support mechanism inefficient.</li> </ul>	<p>corporate needs with regard to the creation, development and functioning of enterprises.</p> <ul style="list-style-type: none"> <li>▪ Organize this mechanism within a new structure (NS) responsible for the promotion of private sector investments and financing, which could take the form of a semi-public company with a steering committee comprising representatives from the public and private sectors.</li> <li>▪ Assign three missions to the NS: set up and manage a one-stop shop and provide information, carry out studies and provide advisory/support services, promote SME/VSME investments and financing. The NS will absorb PromoGabon.</li> <li>▪ Set up the one-stop shop as a single unit and ensure the electronic transfer of information with response deadlines, expiry of which would mean acceptance by default.</li> <li>▪ Study the possibility of setting up business information centres, taking into account existing structures.</li> <li>▪ Increase the human and financial resources of the NS.</li> <li>▪ Promote investments and investment financing, including investment guarantees.</li> </ul>	<p>businesses set up and in private investments.</p> <ul style="list-style-type: none"> <li>▪ Reports and studies to help improve the understanding of business “development” and “destruction” dynamics.</li> <li>▪ Knowledge of businesses and sectoral investment opportunities.</li> <li>▪ Adequate monitoring/evaluation of the business climate. The NS is an appropriate forum for discussions relating to the business climate.</li> <li>▪ Development of the capacity to provide clarifications on private sector development with respect to public objectives of diversifying sources of growth.</li> <li>▪ Increased business advisory/support services.</li> <li>▪ Effective granting of credit to various categories of businesses, in particular SMEs and VSMEs that create value added through employment.</li> </ul>	<p>Economy and Finance, and other ministries.</p> <ul style="list-style-type: none"> <li>▪ Chamber of Commerce.</li> <li>▪ Organizations representing the private sector</li> <li>▪ The BGD and other banks.</li> <li>▪ Micro-finance institutions.</li> <li>▪ Major development partners (ADB, AFD, the European Union, the World Bank, etc.)</li> </ul>
<p><b>The Chamber of Commerce, Agriculture, Industry and Mines</b></p>	<ul style="list-style-type: none"> <li>▪ The Chamber of Commerce is a public establishment. Its governance is not recognized by the private sector. The President of the Chamber is appointed by the Government in violation of its statutes, which provide for his election.</li> <li>▪ Its track record is very modest. It faces problems of inadequate human and material resources; poor databases and lack of accurate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Refocus the Chamber of Commerce on its missions: representation, training, provision of business services, education of entrepreneurs.</li> <li>▪ Organize the election of the President of the Chamber by its members, in accordance with its statutes, and ensure ownership of the structure by the private sector.</li> <li>▪ Improve coordination with other private sector support organizations, in particular the NS.</li> <li>▪ Enhance the resources of the Chamber through allocation of public resources and provision of business services.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improved corporate knowledge and facilitation of the formalization of organizations, thanks to services that enable the keeping of private accounts.</li> <li>▪ Improvement in the quality of information on organizations and improved access to financial resources.</li> <li>▪ Improvement in business support (information, vocational training,</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministries concerned.</li> <li>▪ The NS and private sector support organizations.</li> <li>▪ Organizations representing the private sector.</li> <li>▪ Development partners: European Union, <i>Proinvest</i>, World Bank, CDE, ADB, etc.</li> <li>▪ Regional and international networks of Chambers of Commerce.</li> </ul>

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	<p>information on private sector enterprises.</p> <ul style="list-style-type: none"> <li>▪ Poor internal and external private sector representation.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Assign the responsibility for the management of an approved management centre to the Chamber.</li> </ul>	<p>and provision of business services).</p>	
<b>Dialogue between the public and private sectors</b>	<ul style="list-style-type: none"> <li>▪ Inadequate capacity for promoting public-private partnership.</li> <li>▪ There has been no consultation between the public and private sectors and employers' associations (CPG, CNPG, etc.) for about ten years now.</li> <li>▪ Difficulty of having a development vision shared by the public and private sectors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Strengthen the capacity of the administration in forging public-private partnerships with international and national economic operators.</li> <li>▪ Re-institutionalize dialogue at the highest level by organizing annual national public-private sector consultation days. Such consultation should be relayed by the technical ministries concerned.</li> <li>▪ Identification of organizations representing the private sector, in particular artisans and informal micro-finance institutions.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Public-private partnerships are better organized.</li> <li>▪ Better development and understanding of the development vision, and existence of a mutual listening capacity that is favourable to the private sector and public action.</li> <li>▪ Greater transparency and peer control.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Presidency, Ministries, Banks, NS.</li> <li>▪ The CGP, the CNPG, other federations of employers' associations or representatives of artisans, the Chamber of Commerce.</li> <li>▪ Major foreign companies.</li> <li>▪ Development partners, including the ADB.</li> </ul>
<b>Reforms Initiated to Reduce Factor Costs</b>				
<b>Labour</b>	<ul style="list-style-type: none"> <li>▪ The nominal price of labour is high compared to what obtains in the region. Moreover, it is higher than the factor cost in competing countries, particularly for timber processing.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evaluate the consequences of an increase in labour cost aligned with increasing the minimum wage to CFAF 150 000.</li> <li>▪ Prioritize the contractualization of labour by allowing the SMIG to serve as the minimum remuneration.</li> <li>▪ Avoid too much regulation of wage formation.</li> <li>▪ Improve labour productivity through training and education that enhance the quality of the factor.</li> <li>▪ Reallocate resources earmarked for general education to vocational training, taking into account the need for diversification.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improvement in labour competitiveness</li> <li>▪ Increase in employment and reduced unemployment.</li> <li>▪ Increased diversification of the economy and increase in value added of exports.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Labour.</li> <li>▪ Ministry of Technical Education and Vocational Training.</li> <li>▪ Ministry of National Education, Higher Learning, Innovation and Research.</li> <li>▪ NS, organizations representing the private sector.</li> <li>▪ Development partners, including the World Bank, the ILO, etc.</li> </ul>
<b>Capital</b>	<ul style="list-style-type: none"> <li>▪ Lack of access to and high cost of capital, thus limiting the use of efficient technologies and jeopardizing the competitiveness of products open to internal and external competition.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Remove constraints on business financing, in particular those concerning SMEs and VSMEs, by developing a variety of funding sources, including microfinance.</li> <li>▪ Assess financing needs and the degree of frustration of enterprises in their efforts to access capital, including the self-selection phenomenon.</li> <li>▪ Reduce creditor risks: improvement of the</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial constraints on small- and medium-size enterprises are removed and there are possibilities of access to technologies that help improve the competitiveness of local products.</li> <li>▪ The capacity of BGD to perform the missions of previous public agencies (FODEX, FAGA).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Finance and other ministries concerned.</li> <li>▪ The new structure, the Gabonese Development Bank, other banks and micro-credit institutions.</li> <li>▪ Private sector support bodies.</li> <li>▪ Development partners, including the WB, AFD,</li> </ul>

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		institutional climate, development of mechanisms of joint and several liability. <ul style="list-style-type: none"> <li>▪ Development of microfinance in favour of small producers; establishment of a microfinance re-financing fund.</li> </ul>		ADB, EIB, IMF, etc.
<b>Electricity</b>	<ul style="list-style-type: none"> <li>▪ Inadequate rated production capacity.</li> <li>▪ Relatively high electricity prices.</li> <li>▪ Load shading.</li> <li>▪ Inadequacy of other diversification support infrastructure (energy, transport, telecommunications, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Expand the rated capacity of electricity production, possibly through the establishment of PPP, particularly for energy production.</li> <li>▪ Mobilize financing PPPs, including the Stock Exchange.</li> <li>▪ Develop other infrastructure to support diversification in order to meet the needs of sectoral activities (energy, transport, telecommunications, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Significant drop in electricity price.</li> <li>▪ Reduced power cuts.</li> <li>▪ Increase in the volume of production.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministry of Energy and Water Resources and other ministries.</li> <li>▪ Development partners, including AFD, PROPACOADB, ADB and WB.</li> <li>▪ SEEG.</li> </ul>
<b>Taxation</b>	<ul style="list-style-type: none"> <li>▪ Relatively high profit tax rate, which is reduced by numerous exemptions.</li> <li>▪ Practice of exemptions and establishment conventions negotiated in some sectors by company.</li> <li>▪ Significant “informal” incidental taxation, which limits public action to improve the business climate.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Examine the possibility of reducing the corporate tax as compensation for the cancelation of certain exemptions and non-transparent negotiations of profit tax.</li> <li>▪ Examine the possibility of reducing the normal VAT rate when the fiscal situation so permits.</li> <li>▪ Carry out a study on the scope of incidental taxation and its consequences on companies in various sectors.</li> <li>▪ Carry out a cost/benefit analysis of tax incentives with the knowledge that 60% to 80% of companies set up each year wind up within a year.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Companies are competitive at the global level and there is greater transparency in the tax system through the reduction of the dichotomy between the formal and informal sectors.</li> <li>▪ The State takes the initiative once again to assess the impact of taxation on the competitiveness of businesses.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ministries of Finance and the Budget, Economy, Trade and Industry and Tourism.</li> <li>▪ The new structure.</li> <li>▪ Organizations representing the private sector.</li> <li>▪ IMF.</li> <li>▪ Development partners, including the World Bank and the ADB.</li> </ul>