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GABON

GABON

OFFICIAL VISIT OF MR. ROBERT S. McNAMARA
PRESIDENT OF THE WORLD BANK GROUP

(January 17 - 19, 1971)

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January 4th, 1971
M.N.Kochman

FINAL PROGRAM

OFFICIAL VISIT OF MR. ROBERT S. McNAMARA

PRESIDENT OF THE WORLD BANK GROUP

IN THE REPUBLIC OF GABON

(January 17 - 19, 1971)

Sunday, January 17

17:00	Leave Douala aboard Gabonese President's plane.
17:40	Arrive Libreville Reception at airport by Government Delegation, U.N. Resident Representative, Foreign Affairs Chief of Protocol. Radio and TV statement.
19:00	Brief courtesy visit to the President of the Republic.
20:00	Dinner free

Monday, January 18

08:00	Leave for Port-Gentil
08:30 - 10:30	Visit to oil refineries and logging companies
	- "SPAFE": Société des Pétroles de l'Afrique Equatoriale
	- "SER": Société Equatoriale de Raffinage
	- "SGCFG": Société de Gestion de la Compagnie Française du Ga du Gabon
10:30	Leave Port-Gentil for Moanda
11:30	Arrive Moanda Visit to manganese project (COMILOG)
13:00	Lunch at COMILOG headquarters
15:00	Leave for Libreville (itinerary: Moanda-Booué-Lambaréné-Libreville with flight over future railway, La Lopé game park and city of Lambaréné).
17:00	Arrive Libreville
20:00	Dinner offered by the President of the Republic

.../...

Tuesday, January 19

08:00 - 09:00	Visit of the site of the Port of Owendo (by car or helicopter)
09:00 - 11:00	Meeting with Government officials
11:30	Meeting with President
13:00	Leave Libreville for Nouadhibou by Gabonese President's plane (Mystere 20 Falcon jet) Lunch on the plane

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REMARKS AT AIRPORT UPON ARRIVAL IN GABON

It is a very great pleasure indeed for me to be here in Gabon, and I look forward eagerly to meeting your President, and seeing something of your fascinating country.

The objective of my visit is simple: it is to observe at first hand some of your efforts in the field of economic development, and to assess what we in the World Bank Group can do to support those efforts more effectively.

The Bank Group has made some contribution to your country's development in the past. We now look forward to making a substantially greater contribution in the future.

The Bank's lending here began in 1959 with a loan of $35 million for the manganese ore mining project in Moanda which I will be visiting. Since then, we have made loans totaling nearly $20 million for highway construction and education projects. In the years ahead, we hope not only to continue our assistance for such projects, but also to look into the possibilities in other sectors, such as agriculture, with a view to helping build a stronger and more diversified economy.

Gabon, I am convinced, has a promising potential for development. We in the World Bank Group are anxious to help you transform that potential into reality. In this, we share with you a common aim: to enable the people of Gabon to move forward to the greater prosperity and well-being that I believe to be both their desire and their destiny.

(JLMaddux)
12-31-70

DRAFT REPLY TO TOAST AT PRESIDENT BONGO'S FORMAL DINNER AT LIBREVILLE

MONDAY, JANUARY 18, 1970

Mr. President:

Thank you for your generous remarks, and for the warm hospitality you have extended to Mrs. McNamara and myself.

I am told that a motto which you frequently repeat is the phrase: "Dialogue, Tolerance, Peace."

It is difficult to think of any other three words that are more relevant to the needs of the entire world today.

Here in Gabon, the evidence that these words are meaningful -- and that they are not merely spoken, but are being translated into action -- is clear to anyone who has the good fortune to visit this gracious land.

All of us know the stirring story of how this capital of Libreville -- "the place of liberation" got its name.

Now, a new kind of liberation is taking place in Gabon: a liberation from the deprivations of disease and illiteracy and social and economic inequality.

Under your leadership, Mr. President, history is in a hurry here in Gabon. You are determined that progress shall go forward -- and that it shall go forward not merely for this faction, or that faction, but for all the citizens of the Republic, whatever their differences, whatever their diversity.

We in the World Bank are proud to play a role in this great task, and we are anxious to continue and expand that role.

My visit to various development projects, and my conversations with you and your colleagues about your plans for the future are directed entirely to that end. We in the Bank welcome the opportunity to be a partner of Gabon in its pursuit of progress. We are confident that that partnership will grow.

Ladies and Gentlemen, I ask you to join me in a toast to President Bongo -- to a man whose youth lends vigor to his resolve -- to a man who takes pride in thinking of his role in the Republic as a Rénovateur -- to a man who has indeed renovated the enthusiasm and efforts of the people of Gabon in their building of a better future.

E N D

OFFICIAL VISIT OF MR. ROBERT S. McNAMARA

PRESIDENT OF THE WORLD BANK GROUP

IN THE REPUBLIC OF GABON

(January 17 - 19, 1971)

TOAST BY THE PRESIDENT OF THE REPUBLIC

Monday, January 18, 1971

Mrs. McNamara, Mr. President, Your Excellencies, Ladies and Gentlemen,

For a developing country, it is a pleasant privilege to receive an official visit from the President of the World Bank Group. As you have seen, this is a gala occasion for the whole country. My Government, my party and the people of Gabon are happy to welcome you, your wife and your delegation in our small but very dear country. I am personally delighted to see you in Libreville - a city proud of its tradition of warm hospitality.

Your visit of the four African States south of the Sahara is an historical event that I would like to place in its true context, namely a visit to Africa. And this makes us all happy. Maybe, too, this is the reason why I cannot help seizing this unique opportunity to voice some thoughts and concerns which are prompted by your presence here among us.

Two years ago, you visited three countries member of our group in the World Bank, namely Senegal, Ivory Coast and the Democratic Republic of the Congo. Your thirst for knowledge has already led you in many other countries members of the Bank, scattered over all the continents. Your present trip has already taken you to the Republic of Chad and the Federal

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Republic of Cameroon; soon you will be in the Islamic Republic of Mauritania. I see in this your constant concern for having a first-hand knowledge of the men and realities of our vast continent in spite of your manifold and heavy tasks. Our sincere thanks go to you.

I was saying one moment ago that we were happy to welcome you here. I so doing, we are welcoming you not merely as President of the World Bank and its Affiliates but above all as a Statesman, as a humanist, as an economist, and more specially as the indefatigable and persevering champion of peace and development. Some will be surprised that I link your visit with both peace in the world and economic and social promotion of the international community. For those who might still have some doubts about your personal attitude, I may suggest that they read your historic speech delivered in Montreal on May 18, 1966 to the American Society of Newspaper Editors while you were still the American Secretary for Defense.

By one of these intriguing twists of fate, you passed, Mr. President, without transition from the Pentagon to the World Bank Group. And there you gave a full evidence of your capabilities while bringing about profound changes in this group of institutions, both in their structures and in their field of intervention and methods of work. Your personal action has been felt in Washington as well as in the member states.

I therefore salute in you today the anonymous fighter for economic and social progress, hence for peace, in the world. More than four years ago, you had indeed already proclaimed that the most important fact in the world of today and in our increasingly dangerous planet is "the direct and constant relationship which exists between violent incidents and the economic condition of the countries" afflicted by poverty, ignorance and political

.../...

instability. In your Montreal speech, you made a masterful analysis of this relationship between violence and the socio-economic development of the international community. You even quoted statistics showing that the rich countries were much less subject to violent political and institutional upheavals and coups than the very poor countries.

I therefore firmly believe, as you do, Sir, that there is no doubt that "there exists an indisputable relationship between violence and economic underdevelopment. And that this violence tends to increase rather than decrease". Consequently, your task as President of the World Bank Group is quite clear. Your responsibility is the difficult and sensitive one of providing the developing world with objectively assessed assistance. You are at the head of the most powerful group of financial international institutions which history has known. This group of institutions can be the best possible catalyst to give to the international development aid effort its true significance and the required dimensions.

Of course, I do not underestimate in any way the various obstacles, the hidden pressures and the delicacy of the work before you. No state has become a charitable institution and there is no international organization which is totally disinterested. The ideal situation would be to have bilateral aid go hand-in-hand with multilateral aid. I know that this is utopian because there are conflicts of interest and competition everywhere, even within the Ministries of the member Governments of your organization.

This being said, there remains the style, the substance, the conviction and the will to do better and to act better. And such are your attributes, Mr. President. This is why today we do not see in you the President of the World Bank visiting Gabon, but rather a great man who has come to renew physical contact with our continent. For us Gabonese, your visit takes on new dimensions. And it is a visit which is readily

.../...

interpreted as a visit to the whole of Africa and against the backdrop of well understood international cooperation.

I believe, Mr. Chairman, that the future world balance, or better yet, peace and cooperation between peoples, depends only on the measures which are taken to remedy this situation. Such measures are in the hands of those states, international organizations or private foreign investors which are willing to help us while respecting the requirements of our newly acquired sovereignty. As far as Gabon is concerned, and you know that our watchword is "Gabon First", the rights of any man, whatever his nationality, who desires to participate in the building of Gabon will be preserved and guaranteed.

The time has come, I believe, to digress a little and to solemnly state that my Government follows a policy of free trade which it believes can pull our country out of a state of chronic underdevelopment. The doors of Gabon are opened to all those who loyally and honestly wish to help us in our sacred mission, which consists in turning this country into an island of peace and prosperity. To those, I say quite simply: "respect our sovereignty, help us in having our good men participate in the common tasks; get rich while enriching Gabon and the Gabonese; if you believe in this, Gabon will become your second homeland".

No doubt, I am convinced as you are, that in a developing society the deepest commitment remains the daily and stubborn search for security, in the widest sense of the term. In fact, this security must be available to both Gabonese and foreigners; I insist on this, because security alone can bring about development and, therefore, a state of general wellbeing. One does not go without the other and you so aptly stated in Montreal: "in a developing society, security means development.... security is development..."

.../...

Mr. President, I have spoken at length of peace, international cooperation and Africa. From time to time, I have mentioned Gabon. I have spoken about you and your qualities. However, this should not be interpreted as an expression of overall satisfaction. This is not my havit, because I always state what I think, even if sometimes I hurt the feelings of my listeners. Tonight I merely wanted to share my thoughts and my immediate concerns.

I do not intend here to speak of the relationship which exists between the World Bank Group and Gabon (this relationship is excellent); I will not mention the numerous projects which have already been financed by your Bank, nor even those which are currently under study. Other more competent than I am have already done so and will do so again tomorrow. Today, you have travelled with your delegation inside Gabon; therefore, you have seen the true Gabon. I believe that, following this journey, I might have the benefit of your impressions and of your comments on our problems.

I did not invite you so that you could hear arguments; rather, I wished you could have a personal knowledge of my people, my country and its reality.

It is in this spirit that I may be allowed to speak of a project which I share with my people. This project is said to be grandiose for a country like Gabon. Some even say that it is a dream. Dream or not, the Trans-Gabon railroad will be built, because it is a viable and economically and socially necessary project. This is our great chance. As my people do, I believe in it firmly and irrevocably. The Trans-Gabon railroad will be built, I am personally convinced of it. And since the name of the World

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Bank has been associated with this project, I wish to state here that I personally prefer that this project be undertaken with than without the World Bank. Why? People will ask. Quite simply, because the objectivity and the competence of the World Bank are incontested and incontestable and because the presence of the World Bank among the promoters of the project will markedly improve it. To be convinced of this, it suffices to see, for example, the beneficial role played by the Bank in the development of iron in Mauritania and of copper and bauxite in Guinea; since we are talking here of a railroad, I may mention also the continued support given by the Bank to the railroads in Senegal, in Mali and in East Africa.

Mr. President, I know that you are placing my allusions in their true context. What is important, as I have told you, is our deep confidence in you because you have faith in your mission, faith in man and faith in a better and peaceful world.

Your Excellencies, ladies and gentlemen, I invite you to raise your glass and drink to the health of Mr. Robert McNamara and of Mrs. McNamara, to the strengthening of international cooperation and above all to the collaboration between the World Bank Group and the Gabon Republic.

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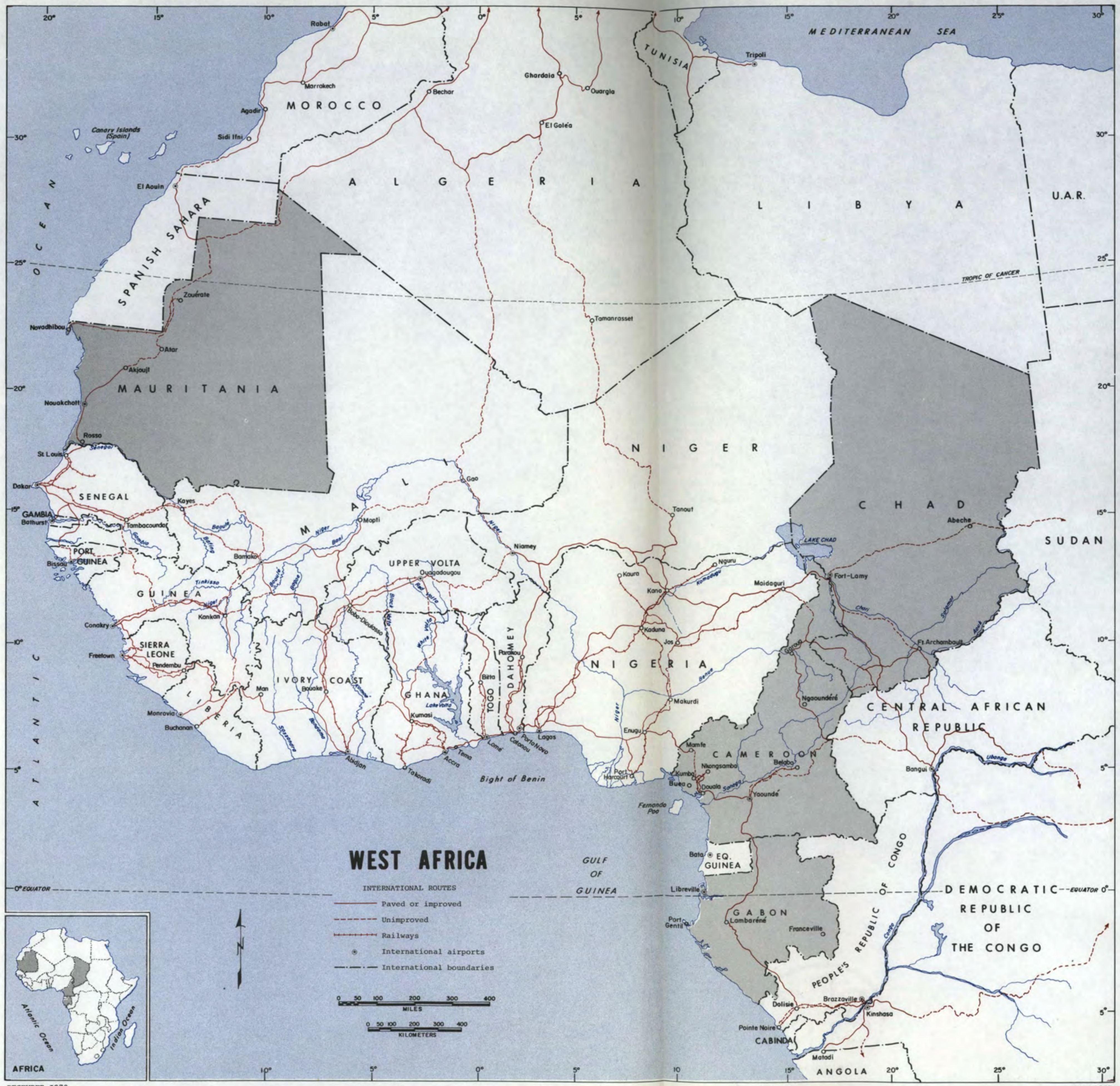

DECEMBER 1970

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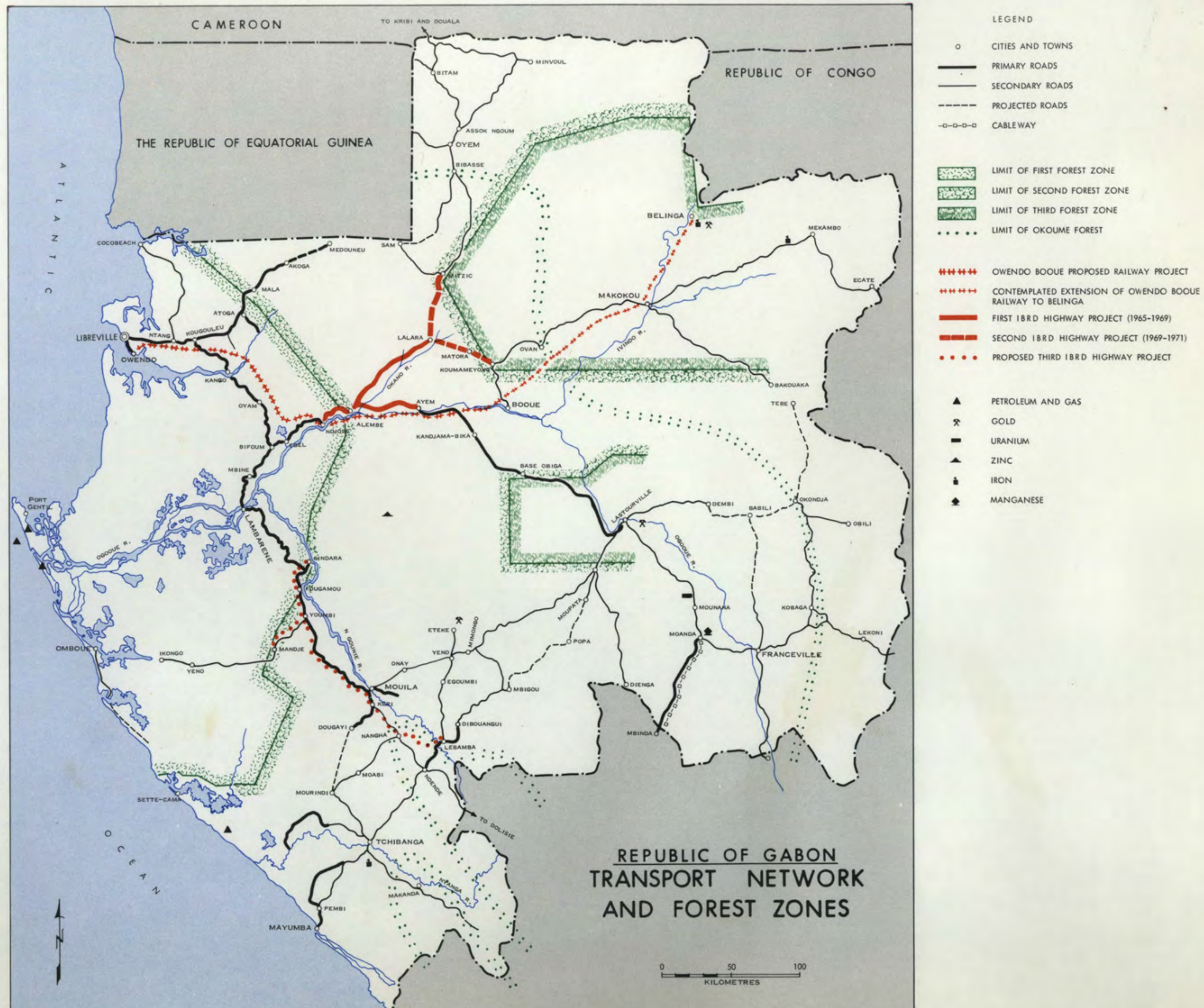

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GABON

BASIC DATA

Area	: 267,000 square kilometers
Population	: 468,000 in 1966
of which	: 8,000 non-Africans
Rate of growth	: 0.6% per annum
Density	: 1.8 per km^2
Political Status	: Independent since August, 1960.

Monetary or Customs Area Membership

Joint Central Bank for Equatorial Africa and Cameroon (BCEAEC)
Central African Customs and Economic Union (UDEAC)
Joint African and Malagasy Organization (OCAM)
Associate member EEC

Gross Domestic Product	: 55.3 billion CFAF in 1966
Rate of growth (1960-66)	: 9.7% at current market prices
(in real terms, 1960-66)	: 4.3%
Per capita GDP	: U.S.$ 479 in 1966
	: U.S.$ 440 in 1965

Percentage of GDP at Factor Cost	1966	1963
Mines :	18.1%	14.3%
Agriculture :	14.1%	17.7%
Commerce :	10.0%	11.3%
Transport :	9.7%	7.9%
Forestry :	8.8%	12.2%
Construction :	8.8%	5.8%
Manufacturing and energy :	5.9%	6.2%

Percentage of GDP at Market Prices	1965	Average 1960-65
Total consumption (private and public) :	67%	61%
Gross investment (private and public) :	24%	32%
Gross domestic savings :	33%	39%
Exports :	52%	43%
Imports :	43%	36%
External balance on goods and services (resource surplus) :	9%	7%
Investment income payment and private transfer abroad :	18%	n.a.
Government tax revenue :	21%	18%

Money, Credit and Prices		Dec. 31, 1966	Annual Average Rate of Change 1960-66
Money supply (billion CFAF)	:	8.6	+ 7.6%
Time deposits (billion CFAF)	:	0.6	+38.0%
Commercial bank credit to private sector (billion CFAF)	:	8.7	+20.0%
Cost of living index (1960 = 100)	:	136.9	+ 5.4%

Public Sector		(in billion CFAF)	
Total government revenue (Prel.)	:	13.3	+19.4%
Government current expenditures	:	10.9	+17.8%
Surplus	:	2.4	+30.0%
Government development expenditures	:	1.9	+24.0%
Net public borrowings	:	- 0.2	-

External Public Debt		1967 (in billion CFAF)	million U.S.$
Debt outstanding December 31, 1967	:	18.5	75.0
Total annual debt service	:	2.1	8.3
Debt service ratio	:	7.0% of projected 1968 exports	

Balance of Payments		1966 (in billion CFAF)	Average Annual Change 1964-66
Total exports	:	26.6	+ 7.8%
Total imports	:	18.6	+10.2%
Net invisibles	:	- 5.8	+ 2.7%
Net current account balance	:	+ 2.2	+ 2.4%

Commodity Concentration of Exports		1966		Average (1960-66)	
Wood products	:	38.9%		51.6%	
of which: Okoume logs			25.6%		34.9%
Plywood and veneer	:		8.2%		10.7%
Manganese	:	34.1%		19.8%	
Uranium	:	8.1%		8.6%	
Crude oil	:	14.9%		15.2%	

Gross Foreign Exchange Reserves		1966	1960
U.S.$mmillion at end of year	:	10.8	9.5

GABON REPUBLIC

BACKGROUND NOTES

Population: 500,000 (1969 est.)
Capital: Libreville

Gabon straddles the Equator on the west coast of Africa and covers an area of 103,000 square miles (about the size of Colorado). It is bordered by Equatorial Guinea, Cameroon, Congo (Brazzaville), and the Atlantic Ocean.

Nearly all of the country is covered by dense equatorial rain forest. The Ogooué, Gabon's major river, is navigable from N'Djole (about 150 miles inland) to the Atlantic, and its watershed covers almost the entire country.

The climate is hot and humid. There is virtually no rain from June to September, although humidity remains high. In December and January there is occasional rain; during the remaining months rainfall is heavy with an annual average of more than 100 inches at Libreville.

Gabon's flag consists of three horizontal bands—green, yellow, and blue from top to bottom. The yellow band signifies the Equator running between green forests and blue sea.

THE PEOPLE

With only about 500,000 inhabitants, Gabon's average population density is only four persons per square mile. During the last 80 years population has declined because of disease, and as a consequence there is a manpower shortage. Increased medical care and social services have recently halted this decline. Libreville's population is about 57,000; Port Gentil, the center of Gabon's plywood and petroleum industries, has about 30,000 inhabitants.

Almost all Gabonese are of Bantu origin. There are at least 40 tribal groups with separate languages and cultures, the largest being the Fang. Other major tribes are the Eshira, the Adouma, and the Okande. Tribal boundaries are less sharply drawn in Gabon than elsewhere in Africa, and French, the official national language, is a unifying force. Literacy is estimated at 12 percent. There are more Frenchmen in Gabon today than in colonial times.

Gabon is often called the "Bastion of the Cross in Africa" because of its high percentage of Christians (about 46 percent). The remainder are Moslems, animists, and fetishists.

HISTORY

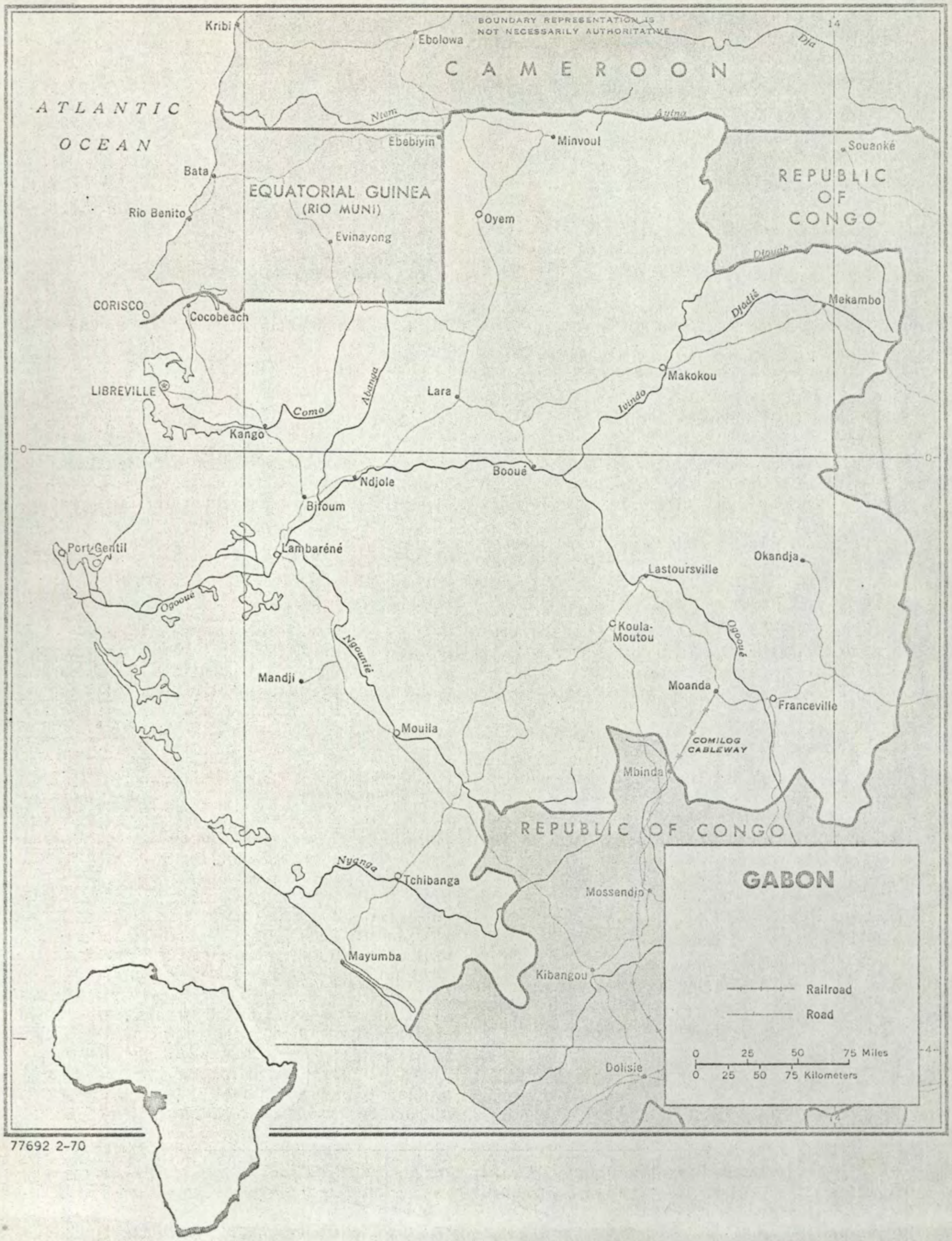
Gabon's first European visitors were Portuguese merchants who arrived in the 15th century. The name Gabon comes from the Portuguese word "Gabao," a Portuguese coat with sleeves and hood, the shape of the Como estuary. Dutch, British, and French traders followed in the 16th century. France assumed protection by signing treaties with Gabonese coastal chiefs in 1839 and 1841. In 1849 the French captured a slave ship and released the passengers at the mouth of the Como River. The slaves named their settlement Libreville—"place of liberation." Various French explorers penetrated Gabon's dense jungles between 1862-87. The most famous of these, Savorgnan de Brazza, used Gabonese bearers and guides in his searches for the headwaters of the Congo River.

France occupied Gabon in 1885 but did not administer it until 1903. In 1910 it became one of the four territories of French Equatorial Africa, a federation that survived until 1959 when Gabon refused political union. The territories became independent in 1960 as Central African Republic, Chad, Congo (Brazzaville), and Gabon.

At the time of Gabon's independence on August 17, 1960, there were two principal political parties: the Bloc Démocratique Gabonais (BDG), led by Léon M'Ba, and the Union Démocratique et Sociale Gabonaise (UDSG), led by J. H. Aubame. In the first postindependence election, held under a parliamentary system, neither party was able to win a majority in the National Assembly. However, the BDG succeeded in obtaining the support of three of the four independent legislative Deputies, and M'Ba was named Prime Minister.

It was soon decided that Gabon could not afford a two-party system, due to the lack of trained men, and the leaders of the two parties agreed on a single list of candidates. In the election of February 1961, held under the new presidential system, Prime Minister M'Ba became President. Aubame became Foreign Minister.

This one-party system appeared to work well until February 1963 when the larger BDG element forced the UDSG members to choose between merger of the parties and resignation. The UDSG Cabinet Ministers resigned, and President M'Ba called for new elections for a reduced number of


BOUNDARY REPRESENTATION IS NOT NECESSARILY AUTHORITATIVE
CAMEROON
ATLANTIC OCEAN
EQUATORIAL GUINEA (RIO MUNI)
REPUBLIC OF CONGO
REPUBLIC OF CONGO
Kribi
Ebolowa
Ntem
Aytna
Dja
Ebebiyin
Minvoul
Souanké
Bata
Rio Benito
Evinayong
Oyem
Djoua
Djadié
Mekambo
CORISCO
Cocobeach
LIBREVILLE
Como
Abanga
Lara
Makokou
Ivindo
Kango
Booué
Ndjole
Bifoum
Port-Gentil
Lambaréné
Okandja
Lastoursville
Ogooué
Koula-Moutou
Ngounié
Mandji
Moanda
Franceville
Mouila
COMILOG CABLEWAY
Mbinda
Nyanga
Tchibanga
Mossendjo
Mayumba
Kibangou
Dolisie
GABON
Railroad
Road
0 25 50 75 Miles
0 25 50 75 Kilometers
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National Assembly Deputies (from 67 to 47) to be held on February 23, 1964.

The UDSG could not muster a list of candidates able to meet the requirements of the electoral decrees, and when it seemed that the elections would go to the BDG by default, the Gabonese military revolted and toppled the M'Ba government in a bloodless coup d'etat on February 18, 1964. French military forces intervened to reestablish M'Ba's government the following day. Elections were held on April 12 with many opposition participants. BDG-supported lists won 31 seats; opposition lists won 16.

Late in 1966 the Constitution was revised to provide for automatic succession of the Vice President should the President die in office. On March 19, 1967, Léon M'Ba and Albert Bongo were elected President and Vice President. President M'Ba died on November 28, 1967, and Bongo became President. The current Vice President was named to replace Bongo as Vice President but has no right to constitutional succession. The next presidential election is scheduled for 1974.

In March 1968 President Bongo declared Gabon a one-party state by dissolving the BDG and establishing a new party, the Gabonese Democratic Party (PDG). He invited all Gabonese, regardless of their past political affiliation, to participate.

The goal of the PDG is to submerge those regional and tribal rivalries which have factionalized Gabonese politics in the past and to forge a single national movement in support of the developmental policies of the Government.

GOVERNMENT

Under the Constitution, promulgated on February 21, 1961, Gabon is a Republic with a presidential form of government.

The President and Vice President are elected for a 7-year term, both on the same ticket. Cabinet Ministers are appointed by the President and serve at his pleasure. The unicameral National Assembly is composed of 47 Deputies and is elected concurrently with the President and Vice President.

For administrative purposes Gabon is divided into nine Prefectures, which are further divided into 28 Districts and 103 Cantons.

ECONOMY

Gabon is patently economically viable. It has always had a favorable trade balance, with the 1968 excess estimated at more than U.S. $60 million. Until 1963 wood accounted for about 75 percent of Gabon's exports. Since then the country's enormous mineral wealth has begun to be exported so that wood now accounts for about 45 percent of all exports. In addition to wood, Gabon exported crude oil, high-grade manganese ore, uranium ore, and gold in 1969. Exports in 1968 totaled $111.2 million. Imports consist primarily of machinery, finished manufactured goods, meat, and processed food and in 1968 amounted to $57.5 million.

Gabon possesses a large deposit of high-grade iron ore which a consortium of U.S. and European steel producers hopes to put into production within 15 years. This consortium has invested several million dollars in exploration and may invest $50-75 million more in opening the iron mine when the necessary financing can be obtained for the construction of a railroad from Mekambo to Libreville.

U.S. Steel, also in consortium with European partners, has invested $50 million in the mining and export of manganese. Mobil and Shell Oil have an on- and off-shore drilling project in association with French partners, and Gulf has an oil concession.

Gabon also has favorable hydroelectric potential. A dam, now under construction at Kinguele, is expected to be completed in 1972. The United Nations Development Program (UNDP) has financed exploration which may reveal additional deposits of commercial minerals.

Gabon welcomes private investment and has recently enacted an investment law providing substantial concessions and guarantees for new foreign investors. U.S. private capital has been attracted to Gabon since preindependence days, and an investment guaranty agreement exists between the two countries.

The per capita gross domestic product (GDP) is more than $400, the highest in sub-Sahara Africa. Reliable figures on recent GDP are not available.

Although rich in comparison with the other states of former French Equatorial Africa, Gabon still depends on external sources for investment capital and trained manpower necessary for its continued economic development. The balance of payments has been unfavorable since 1965, mainly because of debt servicing and repatriation of profits by foreign companies. Domestic inflation concomitant with developing demand is also a problem. Despite these minor economic difficulties, Gabon has great natural resources and potential for growth and should be able to attract foreign investment in sufficient quantities to ensure its continued growth.

FOREIGN RELATIONS

Gabon is a member of the United Nations and several of its specialized agencies, the Organization of African Unity (OAU), the African, Malagasy, and Mauritian Common Organization (OCAMM), and the Equatorial Economic and Customs Union (UDEAC), and is an Associate Member of the European Economic Community (Common Market).

Gabon has continued its close ties with France. Although officially nonaligned, it maintains friendly relations with the non-Communist world, including South Viet-Nam and South Korea. It has no diplomatic relations with any Communist country.

In inter-African affairs, Gabon is among the so-called "moderates"—those states which espouse development by evolution rather than revolution and who tend to favor regulated free enterprise rather than doctrinaire socialism as the system most likely to promote rapid economic growth. While fully supporting OAU positions on southern African questions, the Government has preferred to concentrate its attention and resources on its own development tasks rather than dissipating them on problems of international relations with which it has no direct concern.

U.S. AID

The United States has maintained diplomatic relations with Gabon since December 1960. U.S. aid to Gabon emphasizes regional projects affecting more than one country, or projects confined to Gabon whose financing is multinational. An example of a regional project is U.S. assistance in its campaign against smallpox and measles scheduled for 1970-71. The Peace Corps program was terminated in December 1967 at the request of the Gabonese Government.

PRINCIPAL GOVERNMENT OFFICIALS

President; Minister of National Defense, Information, and Plan—Albert Bernard Bongo
Vice President; Minister of Justice and Coordination—Léon Mebiame
Minister of Foreign Affairs and Cooperation—Jean-Remy Ayoune
Minister of Finance and Budget—Augustin Boumah
Minister of Public Works, Housing, and Urban Affairs—Paul Malekou
Minister of Economic Affairs, Commerce, Industry, and Development—Edouard-Alexis Mbouy-Boutizit
Minister of Waters and Forests—Rigobert Landji
Minister of National Education and Culture—Jerome Okinda
Minister of Public Health and Population—Dr. Benjamin Ngoubou
Minister of Mines, Hydraulic Resources, and Energy—François Nguema-Ndong
Ambassador to the U.S.—Gaston R. Bouckat-Bou-Nziengui
Ambassador to the U.N.—Jean Davin

Gabon maintains an Embassy in the United States at 4900 16th Street, N.W., Washington, D.C. 20011.

PRINCIPAL U.S. OFFICIALS

Ambassador—Richard Funkhouser
Counselor of Embassy—T. Frank Crigler
Public Affairs Officer (USIS)—Stuart P. Olsen

The U.S. Embassy in Gabon is located at Mora Residence, Libreville.

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5. POLITICAL SITUATION

Formerly part of French Equatorial Africa, Gabon became independent in August 1960. A constitution establishing a presidential democracy was approved and enacted in February 1961. At the same time, Leon M'Ba was, with a very large plurality, elected as the first President of the new republic. Since then, the constitution has been amended several times, but it continues to follow the French model.

Gabon has been rather stable politically since independence. One attempt at a coup d'état in 1964 was quickly put down with the help of French troops. After the death of President M'Ba in 1967, there were no transition problems when Vice-President Albert Bernard Bongo was elected President and leader of the "Parti Démocratique gabonais", since 1968 the single authorized political party. President Bongo continues President M'Ba's policy of reconciliation and national unity, freeing more opponents who had been involved in the abortive coup of 1964 and re-integrating them into the unitary party and the government. In general, he has managed to keep the country stable politically and to reduce the frictions between different ethnic groups, and between traditional influences and the better-educated modern minority.

President Bongo is young and energetic, and he leads the country with little delegation of power. He personally holds the portfolios for Defense, Information, Planning, Development and Mining; even relatively minor decisions are made by him. In the interest of reducing the influence of politicians and concentrating on problems of economic development, he has favored young technicians who are attached to the Presidency rather than the technical Ministries. His leadership is undisputed now, but he has staked his political future on the success of his plans to promote economic development through new mineral and forestry exploitation and the construction of the Libreville-Belinga railway. (See 9 A - the Owendo-Booué Railway Project).

In external relations Gabon is a faithful ally of France in particular, and the west in general. Being primarily interested in private foreign capital, the Government refrains from developing socialist tendencies and has no diplomatic relations with communist countries. Gabon is an associate member of the EEC. During the Nigerian civil war, Gabon was one of the four African countries that recognized Biafra. Relations with Canada were suspended between 1968 and 1970 because of Gabon's expressed sympathy with the autonomy movement in Quebec province.

In its relations with neighbor countries, Gabon has favored economic association and considerably slowed down any attempt of a political regional association. at It is a member of the Central African Customs and Economic Union which was set up in 1966 together with Cameroon, Central African Republic, Chad, and Congo (Brazzaville) to harmonize the fiscal and economic policies of the member countries. Following the lack of effective economic integration and the departure of Chad in January 1969, the Union has become mainly a customs union with a common import and export tariff for non-member countries, and a single tax for trade relations between member countries. Gabon was also a member of the Transequatorial Communication Agency (ATEC), set up in 1958 with CAR, Chad, and Congo (B) to operate and maintain the Transequatorial Route, a road-river-rail network. In 1969, following the taking over by Congo of the assets of ATEC located in its territory, ATEC virtually ceased to exist and has been replaced by a Congolese agency (ATC). However, an agreement has been signed between Congo (B) and Gabon on this issue, specifying that transit of Gabon traffic through Congo (B) will be on conditions prevailing when ATEC existed. Relations with other African states are good, and the country is a member of the African and Malagasy Common Organization (OCAM) and, albeit reluctantly, the Organization for African Unity (OAU).

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NOTE: The last Bank Economic Mission visited Gabon in May/June 1967. Our information on recent developments is therefore very incomplete. An economic mission is scheduled for February 1971. The following is based on the report of the 1967 Bank Mission and the IMF report on the 1969 Article XIV Consultation. (Conversion of local currency: At exchange rate prevailing since August 11, 1969: US$1.00 = CFAF 277.71

6. THE ECONOMY

Gabon covers an area of 267,000 square kilometers across the Equator along the west coast of the African continent. This area which is half the size of France, is inhabited by less than half a million people (See 7. Population).

Gabon has an impressive potential wealth in its natural resources. About 85 percent of the country's area is covered with forests containing valuable or potentially valuable woods. The remaining 15 percent is mostly savannah or grassland which could support considerably increased agricultural production, although soils are quite poor. Some of the world's largest deposits of manganese and iron ore, sizable quantities of uranium, gold and off-shore petroleum, and important sources of power supply are also located in the country.

The exploitation of Gabon's primary resources has resulted in a high level of GDP per capita estimated to have been $480 in 1966. The economy grew very rapidly between 1956 and 1960 when the real rate of GDP increase may have been as high as 15 percent per annum. Having attained a larger base in this short period, the economy grew much slower in the 1960s, still achieving, however, real rates of growth of 4 - 5 percent per annum on the average. Although no detailed figures on GDP are available for the years after 1966, it can be estimated that GDP per capita was close to $510 at the exchange rate prevailing since August 11, 1969. On the basis of the exchange rate prevailing before that date, GDP per capita would in terms of US currency be more than $550.

Forestry exploitation provided most of the growth impulse during the 1950s. The relative importance of forestry production has since decreased as a result of the expansion of the mining sector, but in absolute terms timber exploitation continues to increase (log production increased from 1.2 millions okoumé and 130,000 tons other species in 1960 to about 1.5 million tons okoumé and 300,000 tons other species in 1969). Since Gabon's forests cover about 23 million hectares, exploitation of timber reserves will remain one of the determinants of Gabon's growth. Construction of the proposed Owendo-Booué railway would permit the utilization of large additional areas that are still inaccessible (See 9 A - the Owendo-Booué Railway Project, and 9 B - Forestry).

During the 1960s, mineral production, including petroleum, overtook forestry as the most important economic activity. Petroleum was discovered in 1957, and production rose from 800,000 tons in 1960 to 5 million tons in 1969, making Gabon the fourth largest oil producer in Africa; the target for 1972 is 6 million tons. Most of the petroleum is still exported as crude, but in 1967 a 625,000-ton capacity refinery in Port Gentil started operating; production in 1968 was 600,000 tons of refined petroleum and by-products. Natural gas production stood at 25 million cubic meters in 1968. Manganese of highest quality (50 percent metal content compared to 30 percent in India and South Africa) is produced at Moanda by the Compagnie Minière de l'Ogooué (COMILOG), a joint venture by U.S. and French concerns. The Bank contributed to the financing of this project with Loan 230 FR (US$35.0 million in 1959). Reserves at Moanda are estimated at 400 million tons of ore; the present rate of production is about 1.5 million tons per year. Expansion of production to 2 million tons and above depends on measures to increase the capacity of the cableway which connects the mine to the railway system in Congo (B), and of the Holle-Dolisie section of the Congo-Ocean railway. Uranium is extracted and concentrated at Mounana, about 15 km north of the COMILOG manganese deposit site. Production which is exclusively sold to the French Atomic Energy Commission had attained 1.6 thousand tons of concentrate in 1966, but has since stabilized at about 1.4 thousand tons. Gold is mined at Etéké and Lastourville with production reduced from about 1,150 kg in 1965 to about 450 kg in 1969. However, a rich new mine has been discovered at Ouala which will gradually replace the depleted mine of Lastoursville. A rich but unexploited iron ore deposit is located in the Mekambo region near Belinga in the north-east. A mining concession has been awarded to SOMIFER, a combined venture of American, French, German, and Italian steel companies. SOMIFER has not yet committed itself to open a mine at a particular date. The proposed railway project Owendo-Booué would provide about half the required connection between an ocean port and the future mine (See 9 A - the Owendo-Booué Railway Project). Other unexploited mineral resources consist of tungsten, lead and limestone.

Mining and forestry are essentially foreign enclaves with limited effects on growth of the rest of the economy. Apart from a few sawmills and a large plywood factory, the concentration plant for uranium, and the oil refinery, domestic processing of Gabon's resources has not developed. The high per capita GDP therefore conceals an unequal income distribution resulting from the importance of a modern foreign sector which employs only a tiny segment of the population. Furthermore, this enclave sector effects transfer payments abroad that account for about one-fourth of GDP resulting in a substantially lower gross national product (GNP).

Gabon has a considerable trade surplus and a net inflow of capital and foreign financial assistance, offset however, by a deficit on services and private unrequited transfer payments. The large deficit on services account, which amounted to CFAF 15.5 billion ($56 million) in 1968, is expected to rise further both in 1969 and 1970 on account of larger transfers of profits and dividends by foreign enterprises operating in Gabon, and also on account of larger interest payments on the foreign debt. Gabon receives sizable official aid on soft terms, and there is an inflow of private long-term capital, but this inflow is offset by private unrequited transfers and amortization payments on foreign long-term loans.

It is the Government's policy to promote the further expansion of the forestry and mining sectors. This, and the development of other industries (plans call for a pulp and paper plant, a fertilizer plant, a factory for explosives, a battery factory using manganese products, and an expansion of the existing plywood factory) should be financed by foreign private investment. The Government invites foreign capital even for small- and medium-sized ventures, but encourages at the same time the fledgling group of Gabonese entrepreneurs. Since 1962 a semi-public agency "Promogabon" assists small domestic businesses, and the Gabonese Development Bank has received loans from the Caisse Centrale and Kreditanstalt to provide additional support for industrial development outside the forestry and mining enclave.

The First Development Plan (1966-1970) reflects the predominance of the private sector which was expected to finance about 60 percent of investments, chiefly mining and forestry. Total investments proposed were CFAF 90.3 billion ($325 million), of which CFAF 54.1 billion ($195 million) in the private sector and the remaining CFAF 36.2 billion ($130 million) in the public sector. Leaving the financing of industrial development to private capital, whether foreign or domestic, public resources are mainly devoted to the development of infrastructure in transport and public utilities, and agriculture. Most of public investments serve to provide infrastructure for the enclave sector. Data are available now on implementation of the Plan during the years 1966-68. The private sector target of about CFAF 38 billion ($137 million) was just about achieved, although the composition of investments differed from the Plan; shortfalls in projected investments for forestry were compensated by unexpectedly heavy investments for petroleum exploration, production and refining. Investments in the public sector were CFAF 19 billion ($68 million), falling short of the projected CFAF 26 billion ($94 million).

The major reason for the shortfall in public investments was that only about 62 percent of envisaged external financing of CFAF 18 billion ($65 million) was secured.

Investments financed from public savings were CFAF 7.7 billion ($28 million) compared to CFAF 8 billion ($29 million) projected. This apparent achievement conceals shortfalls in physical implementation of the proposed Plan, since the Government invested in urban infrastructure projects not included in the Plan, and since most projects actually implemented turned out to be much more expensive than expected.

Development expenditures financed through the budget declined from CFAF 3.5 billion ($13 million) in 1965 to an average of about CFAF 2.2 billion ($8 million) in the period 1966-69. This was partly due to the fact that a number of development projects were financed by suppliers' credits, so that only scheduled repayments on such credits were included rather than the total value of the project. The decline and subsequent stagnation of development expenditures occurred against the background of rapid increases in total Government revenues and expenditures. Between 1965 and 1968, revenues rose steadily from CFAF 10.4 billion ($37 million) to CFAF 15.8 billion ($57 million), or at an average annual rate of some 15 percent. During the same period, current expenditures rose from CFAF 8.6 billion ($31 million) to CFAF 14.6 billion ($53 million). Until 1967, total revenues always exceeded current expenditures, so that some contribution from the budget to development expenditures were possible. However, in many years development expenditures exceeded the surplus of the ordinary budget, and overall deficits emerged.

The situation has deteriorated since 1968, and the overall deficit during 1969 probably exceeded development expenditures by almost 50 percent. These deficits are being financed by foreign and domestic borrowing, transfers from Reserve Fund, and use of cash balances. Net foreign assets are now negative at CFAF 1.3 billion ($4.6 million).

The paucity of public savings for development expenditures is caused primarily by uncontrolled increases in ordinary expenditures for the creation of new Ministries and Secretariat, construction of Government offices and houses for senior employees, and increased outlays for defense, police and embassies; current expenditures for education and public health also rose significantly. The second reason is the low level of revenues which the Government draws from the foreign-dominated export industries. For 1969, revenue estimates from export taxes were CFAF 2.1 billion ($8 million) as against total estimated revenues of about CFAF 16.1 billion ($58 million). The size of indirect contributions by the export industry, for example, import taxes on equipment, corporate taxes, will have to be evaluated by the next Bank Mission. In view of the large planned infrastructure projects to which the Government will have to contribute - in particular the proposed Owendo-Booué railway - extraordinary efforts will be required to mobilize public savings. The Bank Economic Mission scheduled for February 1971 will investigate the possibilities of containing ordinary budget expenditures and of increasing the budgetary contribution by export industries without destroying investment incentives. The Mission will also review the Government's efforts to develop the non-enclave sector. Subject to the findings of the Economic Mission, we feel that the potential for raising public savings is sufficient for the Government to make adequate contribution to the financing of foreign-aided projects, and that Bank Group contribution to the financing of local cost components should be very limited.

Scheduled amortization and interest payments for 1970 on the outstanding public debt, including undisbursed loans, total CFAF 2.7 billion ($10 million) or about 7 percent of 1968 export earnings. On account of its present and potential wealth and still moderate indebtedness, Gabon should continue to receive Bank loans only. However, the question of Gabon's meriting some IDA funds, which the Government has lately raised on several occasions, will also be investigated by the Economic Mission.

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7. POPULATION

Gabon is sparsely populated; with about 1.8 inhabitants per square kilometer, it has one of the lowest population densities in Africa. According to the latest census carried out in 1960/61, there were about 450,000 people; in 1966 population was estimated to be about 470,000, and the recent IMF mission reported estimates of about 485,000 for 1969. The uniquely low demographic growth rate of 0.8 percent during the 1960s was caused by an excessive mortality rate, estimated at 3 percent per annum, which almost eliminated the gains of the birthrate.

As a result of the very low rate of demographic growth, the population pyramid has a relatively narrow base. Only about 30 percent of the total population is younger than 15 years, whereas in neighboring countries this age group comprises as much as 40 percent.

Vast areas of Gabon, covered by dense rain forest, are virtually uninhabited. In the interior, people live mostly along rivers and roads. Urbanization, especially in the coastal area, is however growing rapidly. While in 1960 only 17 percent of the total population lived in settlements of over 2,000 inhabitants, in 1969 the two port cities of Libreville (more than 60,000 inhabitants) and Port Gentil (about 30,000 inhabitants) alone accounted for nearly one-fifth of total population. Other centers include Mouila, Moanda, Lambaréné, Franceville and Tchibanga.

Gabon's small population is a serious handicap for its economic development. The size of the labor force will be a constraint in the exploitation of Gabon's mineral and forestry wealth, and will tend to limit the growth of a domestic processing industry. For large infrastructure projects such as the proposed Owendo-Booué railway, the shortage of both skilled and unskilled labor will present a serious problem. The subsistence sector which provides employment for about 160,000 people could release some unskilled labor, although friction between the different ethnic groups (Fang, Eshira and M'Bédé) reduces mobility of the labor force. More serious still is the scarcity of skilled labor which cannot be alleviated by releases from the subsistence sector. The scarcity of labor, particularly skilled labor, is partly being met by employing workers from neighboring countries, and there are some 10,000 European expatriates, not exclusively in positions of very high technical and managerial responsibility. There are still French truck-drivers, mechanics and foremen. There are also about 10,000 refugees from Biafra, mostly very young people. However, the Government wishes to pursue a policy of Gabonization, reduce the number of Europeans, and strictly limit the immigration from neighboring African countries. If the problem of the labor force is to be solved while Gabonization continues, extraordinary efforts will be required to reduce the excessive mortality rate and to provide technical and vocational training.

8

8. BANK GROUP OPERATIONS

A. PAST OPERATIONS

Manganese Project (Loan 230 FR)

In 1959, the Bank loaned $35.0 million to the Compagnie Minière de l'Ogooué (COMILOG), a mining company formed by US Steel Corporation (49 percent), a wholly-owned subsidiary of the French Government (22 percent), and two other French companies (29 percent). The project consisted of the opening, equipping and operation of a manganese mine with an annual minimum capacity of 500,000 tons. The loan helped finance construction of facilities for transporting ore to the port of Pointe Noire (Republic of the Congo) and construction of stocking and loading facilities at the port. The project was completed in 1962 at a total cost of about $100 million. Other sources of financing were additions in share capital, shareholders' loans, loans from the French Caisse Centrale, and cash generated during initial operations. The average annual output of the mine is now 1,500,000 tons. So far, the Borrower has been able to pay back a total of $13,378,020, of which $5,919,300 represent pre-payments.

Roads I (Loan 385-GA)

In 1964, the Bank loaned $12.0 million to the Government for construction of roads in the first forest zone. The project was intended to promote commercial logging operations by financing the following roads: N'Djole-Alembe (36 km), Alembe-Lalara (94 km), and Alembe-Oyem (76 km). The project was completed in 1968. Timber production generated by these roads was, according to a recent Government study, about 300,000 tons per annum. This means that the yield in net economic benefits is 60 percent higher than appraisal forecasts; benefits to the logging companies are as much as 30 percent above forecasts. The Government now contemplates the bitumization of the N'Djole-Alembe-Lalara roads, and intends to request the Bank's financial assistance for this purpose.

Education (Loan 540-GA)

In 1968, the Bank loaned $1.8 million to the Government for the first education project. This project consists of the construction and equipping of a primary teacher training college at Libreville and a lycée at Port Gentil; the extension of three lycées at Franceville, N'Dende and Oyem, and of two vocational training centers at Libreville and Port Gentil; and a fellowship program to train Gabonese secondary school teachers. The total cost of the project is $2.9 million. Total disbursement out of the Bank loan was $200,000 as of November 30, 1970. A supervision mission visited Gabon in September 1970 to review implementation. Cost overruns, which amounted to $180,000, were discussed, and economies proposed by the Public Works Department were approved. The Government budget for 1970-71 will include supplementary funds to satisfy requirements. Cost overruns were due to:(a) delay in implementation due to lack of effectiveness of the Project Unit in the past; (b) current conditions in the local construction industry; and (c) the devaluation of the CFA franc which rendered the allocated contingency allowance insufficient. On December 1, 1970, a letter was sent to the Government covering these matters. Close supervision of this project is being maintained.

Roads II (580 GA)

In 1969, the Bank loaned to the Government $6 million for the construction of logging roads. As of November 30, 1970, approximately $3,200,000 had been disbursed. This project comprises the construction of the Lalara-Mitzic (55 km) and Lalara-Koumameyong (65 km) roads; consultants services for detailed engineering and supervision of these roads, and for economic studies and engineering of about 240 km of roads and one bridge in the N'Gounie Valley; and equipment and spare parts for maintenance of the project roads. Construction of the Lalara-Mitzic and Lalara-Koumameyong roads is progressing satisfactorily. About 55 percent of the work is completed and the quality is good.

Due to temporary Treasury problems, considerable delays have accumulated in the payment of contractor's bills. The Government promised to initiate prompt payment of the pending bills. In order to facilitate future payments, a change in disbursement procedure has been agreed, resulting in direct payment by the Bank of its share of the project costs. The economic studies and engineering for improvement and construction of roads in the N'Gounie Valley are progressing satisfactorily.

GABON - Summary of Past Operations

(as of December 1, 1970)

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Amount (US$ million) Bank	IDA	Undisbursed
230 FR	1959	Compagnie Minière de l'Ogooué	Manganese ore	35.0	-	-
385 GA	1964	Gabon	Highway construction	12.0	-	-
540 GA	1968	Gabon	Education	1.8	-	1.6
580 GA	1969	Gabon	Highway construction and engineering	6.0	-	2.8
		Total now held by Bank and IDA		21.3	-	
		Total undisbursed		4.4	-	4.4

B. BANK PROGRAM

There is no doubt that at its present stage of development Gabon must continue to promote exploitation of its primary resources to create an economic base for growth and diversification. The Government has had success in attracting private foreign capital employed in the extraction of Gabon's wealth of minerals and timber. This is mainly due to a very liberal investment code and a lenient taxation policy. However, the mining and forestry sectors have remained foreign enclaves. Gabon's resources are being exploited with limited effects on development and diversification in the rest of the economy.

The Government has not developed a coherent strategy to initiate a second stage of development and to promote other productive sectors, mainly processing industries and agriculture, while mining and forestry production continues. We know too little now to trace through what went wrong during the last decade and to recommend a detailed strategy for the future. The Bank Economic Mission scheduled for February 1971 will provide the required data base and analysis. In principle, however, the issues are clear:

(i) the Government receives insufficient revenues from the forestry and mining sectors;

(ii) far too much of what it receives goes for recurrent expenditures of doubtful urgency. Careful husbanding of resources is required;

(iii) Government investment plans for the allocation of limited public savings need to be reviewed to reduce projects of low priority, for which construction of an international airport in Franceville is an example, and to introduce new investments in directly productive sectors.

A review of Government investments is particularly urgent in view of the fact that public investments for infrastructure aid to a large extent the forestry and mining enclave. At present, the relation between Government expenditure on transport infrastructure and revenues from enterprises using these facilities is unsatisfactory.

In the past, the Bank has assisted in the development of the mining and forestry sectors with a loan for the manganese project and two road projects in forestry areas. Bank strategy in future should not be to block further assistance to these sectors, but to design transport infrastructure so that project implementation creates satisfactory benefits for the Gabonese economy rather than primarily for the infrastructure users. Our approach to the proposed Owendo-Booué railway project and the third highway project already reflects this strategy.

In the longer run, the Bank should be involved more closely in the development of a diversified economy. As in all countries of Equatorial Africa, the promotion of small- and medium-scale industries should be the task of an efficient development bank; at present a Bank intervention is, however, not foreseen, since an exploratory DFC mission recently reported that Gabon's development bank receives adequate assistance from Caisse Centrale and Kreditanstalt.

Agriculture needs increased attention. During the first Plan, only about one percent of public investments are devoted to agriculture, but the Government rightly intends to correct this during the second Plan. At present domestic production cannot supply the national market with sufficient food crops. The output of commercial agriculture such as coffee and palm oil has decreased, This regression of agriculture is caused by the small population, the absence of a stable peasantry and trained agricultural personnel, and the lack of a continuous Government agricultural policy in the past years. It should be possible to increase, improve, and commercialize production, and to gear part of the agricultural sector to produce for exportation. The most promising projects in this respect are a cocoa development project in the North and an industrial fishing project.

New investments will be required for education in order to reduce Gabon's reliance on expatriates which is far more pronounced than in most other African countries. "Gabonization" of the public services, the formation of a group of domestic entrepreneurs, the demand for skilled labor in a growing economy including agriculture, all require an extraordinary effort for education and training. Our lending program therefore includes a second education project for 1973.

A copy of the present lending program is attached. A review is proposed after the next Economic Mission. We will then have better information on the priority and size of a fourth highway project,and the possibility of increasing Bank commitments for agriculture.

C. PROSPECTIVE OPERATIONS

The following projects are being prepared:

(a) Owendo-Booué Railway ($25 million, FY 72). This is the first section of a new railway which would eventually serve the transport of iron ore from deposits near Belinga to an ocean port near Libreville. In the absence of a commitment by the mining concessionaire, advanced construction of the first railway section between the coast and Booué (estimated cost about US$100 million) might be justified on the basis of logging benefits. (See separate briefing papers on this project under 9 A).

(b) Third Highway Project. The proposed third highway project would consist of the improvement or construction of about 185 km of primary roads, and possibly 70 km of secondary roads, to provide improved access to the N'Gounie region comprising roughly 900,000 ha of dense equatorial forest, about 200,000 ha of which have been partly exploited. The proposed project would be justified mainly on the basis of induced timber production, and to a lesser extent on transport savings for the existing timber production, running at about 150,000 tons per annum, and for the general traffic.

Economic and engineering studies necessary for the preparation of the project are now being carried out under the second highway project. The draft consultants' report on the economic analysis indicated that four alternative solutions could be considered with respect to the scope of the project. These range from the minimum solution involving all gravel roads to the maximum solution involving paving of 120 km of primary road and construction of good gravel road on the remaining 65 km of primary road and 70 km of secondary road. The cost of their solution would range between about US$9.5 million and US$15 million (excluding taxes), with foreign exchange component of about 65 percent, i.e. US$6.2 million and US$9.75 million respectively.

The economic analysis taking account of additional surpluses induced by each level of road improvement indicates that under conservative production assumptions, all solutions would yield internal rate of return of 21 - 24 percent; additional analysis on benefits to be retained by Gabon is underway. The selection of the scope of the project will also be influenced by the substantial budgetary effort which will be required for the financing of the Owendo-Booué railway. The Government has requested advice from the Bank on this question.

In the Government scale of priorities, the improvement of roads in the N'Gounie region seems to run second to the construction of the railway. The N'Gounie region is located outside the zone of influence of the railway, and the transport of timber from N'Gounie will not be directly affected. The railway project will, however, indirectly influence the proposed road project. First, implementation of the railway project will make it more difficult for the Government to contribute to the local costs of large road projects. Second, the reform of the forestry tax and permit system as recommended in connection with the railway project would also influence the volume and composition of the forestry production in the N'Gounie Valley. Finally, the expansion of forestry production as a result of railway construction would create a large and consistent supply of species other than okoumé, so that marketing of these species would be much easier. This would also tend to increase the total output of the N'Gounie region. The two projects are now being pursued concurrently.

The third highway project is scheduled for appraisal in mid-1971, and it might include timber regulation and taxation studies requested for the preparation of the railway project, as well as pre-investment studies for roads branching off the railway.

(c) Cocoa Development. A $5.0 million project was identified by PMWA in July 1969. The BDPA feasibility study is due for December 1970. This project would be part of a regional development scheme of the Woleu N'Tem. This program would include cocoa rehabilitation and the development of feeder roads.

(d) Education. Our lending program includes $3.0 million for a second education project in FY 73. This project would consist of the construction of a post-primary teacher training college in Libreville, and the creation or expansion of several vocational secondary schools and centers.

(e) Water Supply. This project would call for $3.0 million, and would provide Libreville, Port Gentil and Owendo with adequate water supply. It was scheduled for FY 74; however, the Government has already asked us to undertake it earlier.

Population: 0.5 m
GNP Per Cap: $410

IVa. GABON - 5 YEAR LENDING PROGRAM

		($ millions)							
		Fiscal Year						Total	Total
		1970	1971	1972	1973	1974	1975	1964-68	1969-73
Cocoa Development	IBRD				5.0				
Communications	IBRD						2.0		
Education	IBRD				3.0				
Roads III	IBRD			7.5					
Roads IV	IBRD					10.0			
Railroad	IBRD			25.0					
Water Supply	IBRD					3.0			
	IBRD			32.5	8.0	13.0	2.0	13.8	46.5
	No.			2	2	2	1	2	5

D. IFC OPERATIONS

Project under Consideration by IFC

In November 1970, IFC was contacted by the President of the Republic and Mr. Roques, President and General Manager of the Banque Internationale pour l'Afrique Occidentale, "BIAO", to help finance the Société Gabonaise de Cellulose, "SOGACEL".

The project, estimated to cost $100 million, is for a 250,000 ton per annum short fiber pulp mill using local tropical woods. The mill will be located near the Kinguele dam, which is expected to supply the power.

The sponsors are the Government of Gabon, major French and Japanese paper manufacturers, who are expected to give a firm undertaking to purchase the entire output, Crédit Commercial de France, BIAO, and the American Klehe & Co., part of the Allen & Co. Group. The sponsorship is a plus factor.

The Company proposes a debt equity ratio of 80:20. The Government of Gabon is expected to hold 15 - 20 percent of the share capital. International financial institutions are expected to provide 30 percent of the share capital and 50 percent of the loans necessary, representing a total of $46 million.

The main issues apparent at this early stage are:

1. The debt equity ratio is too high.
2. The cost of wood from mixed tropical forests may prove to be substantially higher than that from planted or uniform forests.

Preliminary technical studies are under review by IFC staff. Detailed studies are yet to be made by the Company. We would estimate that about one year's work is needed before any final commitment can be made.

A copy of the translation of President Bongo's letter of November 30, 1970 on this project is attached.

This is the only project IFC has under active consideration in Gabon, however, the Gabonese government may bring up the "SOGACHIM" project.

<u>Société Gabonaise de Chimie, "SOGACHIM"</u>

This $ 58 million project is for a 600 T/day ammonia plant and a 1000 T/day urea unit. The entire production was to be exported. In April, 1970, IFC informed the Company about its views on problems of vital importance to the success of the project.

The main ones were :

1. The cost of natural gas was about three times higher than it should have been to allow the Company to compete on the international market.
2. No marketing arrangements were made.
3. The proposed debt equity ratio of 30 : 70 was inadequate.

The sponsors have not pursued the matter with IFC.

December 21, 1970

Dear Mr. President:

I wish to thank you for your letter of the 30th of November 1970 and for the copies of the report on the Société Gabonaise de Cellulose "SOGACEL" which you so kindly sent to me.

As you are already aware, we have recently had preliminary discussions with Mr. Pierre Roques, President and General Manager of the Banque Internationale pour l'Afrique Occidentale, "BIAO", concerning the project and its financial plan. We had then mentioned that we should like to see the equity of the project raised from the proposed 20% to about 40% of the total cost of the project in order for it to be proportionate with the size of operations anticipated.

Our technical services have started their study of the reports and if their recommendations are favorable to the project, I can assure you that we shall lend all our active support towards a solution acceptable to all concerned with a view to promoting the economical development of your country.

Sincerely,

Robert S. McNamara

His Excellency
Mr. Albert Bernard BONGO
President of the Republic
Libreville
Gabon

ENGLISH TRANSLATION

THE GABON REPUBLIC

The President of the Republic

Libreville, November 30, 1970

Dear Mr. President:

As you know, the Government of Gabon is highly interested in a project for providing for the establishment os a paper pulp factory near the Kinguele hydro-electric dam now under construction.

In order to study this project, a semi public corporation, the Société Gabonaise de Cellulose (SOGACEL) was established on October 17, 1969 with a capital of CFAF 10 million and with the participation of the Gabon Republic and the Centre Technique Forestier Tropical, French (LILLE-BONNIERES-COLOMBES) and American (KLEHE & Co.) private groups as well as French banks (BIAO and CCF).

At its session of November 9, 1970, the General Meeting of shareholders of SAGACEL decided to increase the capital to CFAF 50 million and to bring into the company three new shareholders representing the paper-making industry, namely LA ROCHETTE-CENPA and LA CELLULOSE DU PIN, ranking first among the French companies in this field and OJI-PAPER, the largest Japanese paper-making group.

At the present time the capital of SOGACEL is divided as follows:

Public sector	35%
Initial private promoters	35%
Paper industries	30%

The company must now undertake final studies (study of manufacturing processes and technical aspects of the factory, study of the environment, detailed estimate of the cost of investment and return on invested capital)

Mr. Robert McNamara
President,
World Bank
1818 H Street, N.W.
Washington, D.C.

with a view to deciding on the construction phase before the end of the first six months of 1971.

Without further waiting for such a decision, the Government of Gabon is already seeking means to finance the project which are estimated at US$100 million approximately, takinginto account a large margin for contingencies and revisions.

The proposed financing scheme is as follows:

Capital: $20 million	
Private groups	50 to 55%
International financial organizations	30%
Government of Gabon and French public organization (CTFT)	15 to 20%
Borrowing: $80 million	
Long term	
International financial organizations	50%
Financial organizations from countries interested in the project	16%
Medium term (5 years + 2 years grace period)	34%

Among the international organizations which the Government of Gabon would like to approach, both in terms of equity investment and long term credits, is the International Finance Corporation, which might find in this project the first opportunity to intervene in favor of Gabon.

I would be grateful, therefore, if you would pay a special attention to the enclosed report prepared by the Canadian firm of H.A. Simons International Ltd., which summarizes the result of studies made for several years with a view to establishing a cellulose industry in Gabon and concludes in favor of the feasibility of constructing a factory with a capacity of 700 tons/day of bleached pulp.

I shall keep you regularly informed of the progress of the final studies which are to be supervised by a group of engineers seconded by the shareholder paper companies.

I sincerely hope that you will take this project into consideration and would appreciate knowing your comments on the Simons report and the proposed financing scheme.

Sincerely yours,

(Signed) Albert Bernard Bongo
President of the Gabon Republic

RA/sa:mam

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9. MATTERS FOR DISCUSSION AND INSTALLATIONS TO BE VISITED

A. THE OWENDO-BOOUE RAILWAY PROJECT

1. The Government of Gabon intends to construct a 560-km railway (estimated cost US$200 million) between the ocean port of Owendo and the town of Belinga close to a rich iron-ore reserve, Mekambo. The mine concession is held by SOMIFER, a US-European combine, of which Bethlehem Steel is the major shareholder. The Bank has been closely involved with project preparation since 1964. A large number of expensive and time-consuming feasibility and technical studies have been made -- three financed by the UNDP with the Bank as Executing Agency. The project is technically fully prepared; detailed engineering has been completed since mid-1968.

2. A decision to build this iron-ore railway has been delayed by the unwillingness of SOMIFER to commit itself to mine exploitation or to any sort of take-or-pay arrangement which would cover the enormous financial risks involved for the Government in building the railway. The Bank's position has been that without firm mining commitments, the railway investment is not a viable proposition.

3. The Government became increasingly impatient with this situation and President Bongo took initiatives to break the impasse that developed. In 1968 the Gabonese proposed that building the railway as far inland as Booue (330 km from Owendo) at an approximate cost of $130 million including port and feeder road development would make economic sense without a mining commitment. This first stage would open up large forest reserves to logging exploitation and would, in the Government view, facilitate and bring forward in time the decision to open the Mekambo mine. The economics of this proposition were fully studied during 1968/69 by French consultants (SEDES), financed by the UNDP with the Bank as Executing Agency. The findings of these studies were positive; the position of the Bank based on these findings is discussed in paras. 7 - 10 below.

4. Armed with the 1968/69 Sedes studies, President Bongo recently took initiatives to secure financial support for construction of the Owendo-Booue section. He has been very successful. France and Germany have given rather firm commitments totalling $26.7 million equivalent. FED, USAID, and EXIMBANK grants and loans and a second loan from Germany are under active consideration. These would amount to about $58.3 million equivalent. With $20 million equity participation by the Government of Gabon and $25 million from the World Bank, the financing plan would be rounded out at $130 million. Some interest on the part of Canada and others has also been reported. from BA

5. While there has been very favorable progress toward getting financial support from a wide variety of sources, the Bank's role in the matter is more important than its proposed participation might indicate. Other lenders are looking to us for guidance; if our interest flags, the general interest may deteriorate. The Gabon Government is fully aware of this.

6. On the iron-ore mining side, President Bongo has recently called for a reorganization of SOMIFER to bring in new partners and push out those not ready to exploit iron-ore. The Japanese are showing active interest.

Nature and Findings of Bank's Most Recent Analyses

7. The Bank's review of the 1968/69 SEDES studies of the first phase of railway construction based on timber exploitation could be nothing more than a desk study. Although full advantage was taken of all of the studies that have been made of this project, a great number of uncertainties exist, such as the opening date for the mine, the value of the mining operation to Gabon, the exploitable forest area, the timber yield per hectare, the profitability of logging, the market for certain timber species, etc. Probability analysis, using subjective distributions derived in consultation with SEDES, was therefore used to review the findings of the SEDES work. Our basic review dated March 23, 1970 is attached for your reference as Annex I.

8. The Bank's findings may be summarized as follows:

(i) The railway, even to Booue, makes no economic sense if the iron-ore mine at Mekambo is not opened during the economic life of the railway. If only timber were to be exploited, a road/river mode would probably be more economic and certainly less risky. If, however, iron-ore will eventually be exploited, investment now in alternative transport facilities to carry timber would not be the best economic solution.

(ii) Since there is only a remote chance that the rich ore deposits at Mekambo will not be exploited during the next 25 years, the building of a first phase of the railway to Booue may make economic sense. The economic benefits from forest exploitation that otherwise would not take place may earn a return on the added economic costs incurred by building this part of the railway now rather than later when a decision on the mine is firm. The financial resources generated by timber production may also be great enough to meet all financial obligations (given the proposed capital structure) until the mine is opened or if it is never opened. (The financial analysis dated December 11, 1970 is still under review in the Bank, but is attached for your reference, Annex II.)

(iii) The positive findings under (ii) above are highly conditional upon Gabonese decisions as to pricing/tax policy and the timing and nature of logging commitments:

(a) As in the case for the full railway and the iron-ore mine, the Owendo-Booue section is "captive" to timber exploitation; adequate commitment from logging companies is essential to ensure that Gabon is not taking on an unacceptable degree of risk. Specifically, the Bank has suggested that prior to a railway investment decision, the Government should ask for commitments on the part of the logging companies to buy 15-year concession permits covering an adequate area, these commitments to be conditional upon provision of railway services of a certain level, at a specified maximum price by a certain time.

(b) The economics and finances of the project depend on achieving much higher timber yields per hectare than are now achieved in Gabon. The structure of logging costs must be altered by Government pricing/tax policy changes to raise the logger's fixed costs and lower his variable costs in order to ensure the move to more intensive exploitation. Otherwise the loggers will continue to "skim" the forests taking the most profitable species and making a second pass for the less valuable species uneconomic. Specifically, the permit fee mentioned in (a) above should be increased from the present rate of about $4 equivalent per hectare to at least $25 equivalent per hectare. (This can be paid in fixed annual installments to avoid company liquidity problems.) On the other hand, rail rates should be kept at low as possible at the marginal cost level to induce output, and perhaps export duties and other variable charges should be lowered and the equivalent added to the fixed permit charges (subject to ecological constraints).

(c) The economics of the project for Gabon depend on the retention in Gabon of an adequate share of the surpluses generated from logging operations. The overall receipts from permits, rail charges, and export duties have to be high enough to earn an economic return on the rail investment and to ensure that generated financial resources are great enough to meet all debt obligations. The $25 per hectare price of permits (minimum) is an important factor in this system of overall charges and the fact that it is a fixed charge not variable with output also has important risk-reducing aspects for Gabon and its creditors. From an economic analysis viewpoint if the loggers are not willing to pay at least $25 per hectare, it means that the calculations of forest reserves and profitability on which the railway investment decision would be based are either too optimistic or too uncertain.

(d) To achieve higher yields per hectare, it is also necessary to move into the cutting of species not now taken by the logging companies in Gabon. Changes in pricing will help motivate this, but there are also institutional problems. The logging companies in Gabon are cartelized and captive to French wood users which specialize in okoume, the high value Gabonese wood. New blood amongst the loggers is needed to expand into markets of other species. The Bank suggested that logging permits should be let by international competitive bidding or auction. Such an auction would have the added advantages of giving a clear indication of the present value of the forest reserves to commercial operators (thereby shedding considerable light for the railway investment decision), and of ensuring that Gabon would maximize its return from these sales. The Gabon

Government has categorically refused to conduct such auctions. If this position remains unchanged, alternative means of ensuring that non-okoume markets are opened up will have to be devised.

(e) When the time comes to negotiate railway rates and other tax and royalty charges for iron-ore production, the railway from Owendo to Booue cannot be considered as a sunk investment. The present value of the mine to Gabon has been accounted for in the economic justification of the first step, and this present value assumes sufficient surpluses are generated from mining in the form of rail charges and tax receipts to cover the costs of the entire railway. To forget the original premise that this is an iron-ore railway would seriously compromise the project as a whole. There is some indication that the mining companies are waiting until Owendo-Booue is committed before taking up negotiations. Gabon should be put on notice that the Bank's participation even in the first phase would be conditional upon the eventual iron-ore pricing package being sufficient to cover total railway costs at an economic rate of return. (This has not yet been done.)

Remaining Steps in Project Preparation

9. Before the end of the year a letter will be sent to President Bongo summarizing the Bank's present position including detailed recommendations on the conditions for long-term logging contracts and iron-ore tariffs. The next step is for the Government of Gabon to indicate its general agreement with the steps and positions the Bank thinks it must take to make this a good project. Then the Government should proceed to get logging commitments signed for at least $25 equivalent per hectare. When satisfactory progress (as yet undefined) has been made in obtaining commitments, the Bank can conduct its field appraisal.

10. It may be that there will be some delay in getting commitments. The Bank's proposals are radical in the Gabonese context and there is and will be a lot of inertia. Further, the loggers claim inadequate knowledge of the forest areas. Inventories are underway and planned that will eventually secure the necessary forest information. The Bank has recently commented on a Government application to UNDP for forest inventory work and made suggestions to revise it so that if an inventory is required to get the necessary logging commitments, surveys to the necessary intensity will be completed by end 1971. This would mean that finalization of a project would be delayed to about the third quarter of calendar 1972 (FY 1973).

December 18, 1970

GABON

OWENDO-BOOUE RAILWAY

Preliminary Economic Evaluation

I. INTRODUCTION

1. The construction of a new railroad from Owendo to Belinga (560 km) to permit exploitation of a rich and extensive iron ore deposit has been under study for about seven years. As a result of a slowdown of the iron ore market, the mine concessionaire, SOMIFER (principal shareholder, Bethlehem Steel), has not yet committed itself to a firm time schedule for the opening of the mine.

2. In order to induce the opening of the mine, the Government proposes to proceed with construction of the first section of the railway from Owendo to Booue (330 km). This section goes through a rich forest reserve and would support a substantial development of wood production. The economic benefits to be derived from the project would therefore be:

(i) An inducement of the early opening of the Belinga iron ore mine;

(ii) Reduction in transport cost of the wood production of the area served by the railways; and

(iii) A substantial increase in Gabon wood production because of more intensive and wider exploitation of the forest.

The proposal has been studied by the French consulting firm, SEDES, which submitted its final report in December 1969.

3. Gabon has earmarked revenues which it estimates should contribute US$20 to 25 million over the period of construction. The French Government has indicated its intention to participate in the financing of the project for about $20 million.

II. THE PROJECT

4. The project would consist of the railway, and complementary port and road investments. Its total cost of about $100 million is broken down as follows:

Railway:	(US$'000)
Civil works	38,480
Track	16,010
Rails	9,300
Buildings & Miscellaneous	7,250
Rolling stock	5,100
Equipment	2,910
Engineering	5,300
Contingency	7,350
Total Rail:	91,700

Roads: (In addition to roads which would be built anyway)

	(US$'000)
Upgrading of Lalara-Ayem road (70 km)	1,520
Extension of Offoue road (55 km)	3,740
Extension of East Ogoue road (40 km)	2,080
Ogoue Bridge	1,000
Total Roads:	8,340

Ports:

Owendo Port less the avoided cost at Port Gentil	1,240
TOTAL	101,280

III. IRON ORE

5. The Mekambo iron ore reserves, located about 560 km from the coast, are estimated at about 1 billion tons. The ore is rich, containing about 63 percent of iron. It has, however, the disadvantage of high phosphor content. The major problem which so far prevented the mine opening has been the high annual production tonnage required to make the mine viable. This tonnage is evaluated by SEDES at a minimum of 10 million tons.

6. In a November 1969 protocol d'accord with the Government, SOMIFER indicates that (i) construction of the first section of the railway would have a strong bearing on the decision to open the mine, and that (ii) should this section be built, the mine would be opened no later than 1985. This memorandum does not bind SOMIFER, but it reflects improved prospects for the opening of the mine.

7. It is possible that an early decision to construct the Owendo-Booue rail link would advance the opening date of the mine. Besides the fact that it would clear all doubts as to the Government's intention to build the railway, the existence of the first section would slightly reduce the time required between the decision to open the mine and the actual opening date. However, the influence of early construction of the Owendo-Booue rail link on the opening of the mine should not be overestimated. The mining company can assume with virtual certainty that a railway would be built if they decide to open the mine. Early construction of part of the railway should therefore not appreciably influence the mining company's decision whether and when to open the mine. For the purpose of this analysis, it has been assumed that there was one chance out of two that the railway would induce the opening of the mine if it would not otherwise have been opened, and that, in the other cases, it might advance the opening date up to five years, and most likely from two to three years. Discussions with the mining company will be required to arrive at firm estimates.

IV. TIMBER

8. Gabon's forest reserves are conventionally divided into three zones:

(1) The first is located near the coast. It has already been heavily logged. Transport is mainly by water.

(2) Access to the second zone, 250 km from the coast, has been provided by road since 1964. The Owendo-Booue railway would open this area further.

(3) The third zone, farthest inland, has not yet been exploited. It would be opened by a Booue-Belinga extension of the railway.

9. Because of the high cost of logging, partly due to high transport cost, the logging companies find it profitable to exploit only high value trees, and at present cut about one or two trees per hectare. The impact of high transport cost is even more severe for species other than okoume, many of which cannot be floated either because they have too high a density or because they would be damaged by water. The present practice, which may be profitable for the logging companies, appears quite uneconomical for Gabon since it results in many trees being left in the forest which might be worth cutting under cheaper transport cost. This practice results in an irreversible destructive process since these additional trees which would be worth cutting at the same time as the better ones are not valuable enough to justify a second pass through the forest for them alone. High transport costs therefore prevent the logging of secondary trees now. The project could therefore increase the intensity of forest exploitation.

10. However, the increase in production is uncertain since it involves cutting lower value trees. The following table shows that profits per ton do not appreciably increase with the intensification of exploitation.

Profit per ton
(US$)
as a function of yield

	Yield (t/ha)				
	6	7	8.5	11	16
Without the railway and given the present tax system	4.53	4.77	4.39	3.88	-2.28
With the railway and the present tax system	8.60	8.76	8.67	8.79	8.45

11. Under the present circumstances logging companies limit production to 7 t/ha which produces the maximum profit per ton. With the railway, the profit per ton would be maximized at 11 t/ha. However, considering the difficulty of opening markets for non-okoume species, and the small margin in profit per ton at production levels of 7 and 11 t/ha, there would be little or no incentive to alter the 7 t/ha logging practices. The following evaluation has therefore been carried out for both the 7 t/ha yield and the 11 t/ha.

IV. ECONOMIC ANALYSIS

12. In view of the many uncertainties surrounding the project, the economic analysis has been conducted within a probabilistic framework. Most of the variables entering the analysis have therefore been assigned probability distributions. These distributions are given in Annex I.

1. Costs and Benefits

13. On the cost side, the economic justification takes into consideration the railway cost as well as the complementary road and port investments, as described in para. 4. On the benefit side, in addition to reduction in transport cost, the emphasis has been put on the quantification of the benefits resulting from the two induced effects of the railways, i.e.:

(i) the opening of the mine;
(ii) the generated wood production.

14. If the railway induces the opening of the mine where the mine would not otherwise have been opened, the benefit is equal to the net present value of the mine, in its opening year. If the railway only advances the opening date of the mine, then the benefit is only equal to the interest payment on the value of the mine over the period going from the actual opening date to the opening date without the railway. In all cases where the mine is opened, the construction cost of the railway, slightly discounted to take into consideration the extra cost of stage construction and the improvement in building techniques, is also considered as a benefit since the value of the mine has been assumed to be net of the total construction cost of the railway from Owendo to Belinga. In other words, only the cost of advancing the construction date of the railway has been imputed to timber. Naturally, in the case in which the mine is not opened, the construction cost of the railway is never introduced as a benefit, and timber has to support the full cost of the Owendo-Booue section.

15. On the timber side, the benefits are equal to the value added generated by the additional timber production made possibly by the railway construction. Details of the computation of this value added are given in Annex 2. Each item has been broken down into its foreign exchange component, its local cost including profit and distribution cost, and its tax component. The high local cost-component reflects the generally high mark-up of prices in Gabon.

16. A critical aspect of the computation of the value added even though, as we shall see, it has only a limited bearing on the economic justification of the project, is the shadow pricing of African labor. In order to reflect the total lack of alternative source of employment for African labor, it has been assumed that the shadow price of labor was only from 1/3 to 1/10 of its market price. As far as expatriate labor is concerned, it was assumed that only 15 percent to 25 percent of the expatriate salaries represented a net contribution to the Gabon economy (taxes, local labor, profits on local supplies).

17. Finally, the benefits are different whether they are viewed from an overall point of view or from a strictly Gabonese point of view. From an overall point of view, the total surplus of the logging operation can be considered as a profit. From the Gabonese point of view, only that share of the surplus remaining in Gabon is a profit. The transition from one to the other is a function of the tax policy, and for all practical purposes, since all the companies operating in the second forest zone are foreign companies which export all their profit, only the tax component of the logging surplus can be considered as a benefit to Gabon.

2. Results

18. The net present value of the project, at 10 percent, based on the above costs and benefits, are displayed on graph 1 for both the 7 t/ha and the 11 t/ha yield assumption[1/] for the "global case", and on graph 2 for the national case, under the present tax structure and with the 3 CFA/ton km tariff on the railway.

19. They show that, in theglobal case, the project would earn an expected rate of return of 11.5 percent under present logging practices (7 t/ha), and would have a very low probability of earning less than 8 percent. At 11 t/ha, the rate of return at the global level would be about 15 percent with virtually no chance of earning less than 10 percent. It is clear that at the global level with no decrease in future FOB prices, the railway project is economically justified.

20. At the national level, and under the present timber tax system, the picture is different. With production at 7 t/ha the project results in an expected loss to the Gabonese economy of US$ 8.7 million (at 10 percent) and only has a 25 percent probability of yielding a return greater than 10 percent. At 11 t/ha the project yields a rate of return to Gabon of 11.5 percent and has a 90 percent probability of yielding over 8 percent. In view of the weak incentive to improve yields over 7 t/ha as discussed in para. 11, the economic justification of the project at the national level appears questionable.

21. The results of this first analysis therefore show that the project has a good potential return, but that under the present pricing policy it would not be justified in terms of the costs and benefits retained by the Gabon economy. The major problem of the economic justification of the project therefore seems to be the feasibility of a pricing policy which would insure that the project is justified at the national level as well as at the global level and, if possible, which would provide a better incentive for the logging companies to change their practices. This matter will be discussed in paras. 22 through 30 below.

3. Pricing Policy

22. The pricing policy concerns both railway tariffs and timber taxes, and the two are closely related. The target should be to devise a system which will maximize the economic surpluses generated in logging by providing incentives to exploit the timber reserves in the most rational way, and ensure that the Gabonese economy retains as much as possible of this surplus without discouraging the foreign logging enterprises from operating in Gabon.

23. The pricing principle to follow in such circumstances would be to try to at least match and exceed as much as practicable the fixed costs to Gabon with fixed charges for logging concessions, thus ensuring that no more than the variable costs/charges stand in the way of incremental production of timber.

24. In view of the high sensitivity of the logging practices to transport cost, railway tariffs close to marginal cost seem appropriate. The proposed 3 CFA per ton-km would however be low enough and yet would substantially exceed the marginal cost of rail transport; operating revenues would exceed direct

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1/ It will be noted that the analysis is not based on exactly 7 or 11 t/ha but a target of 7 or 11 t/ha with possible deviations around these values.

expenditures by 35 percent. But with the given traffic potential, this tariff is still too low to five a sufficient financial return on investment to cover depreciation, interest on debt and other rail overheads. The proposed solution to this financial problem would be to increase the price of logging permits from their present \$1.80 per ha and to earmark the proceeds to the railway.

25. The amount of the appropriate increase in logging permit prices is a matter of "what the logging companies will bear". As a starting basis, an increase of \$21 per h. (corresponding to a split of the additional logging profit at 7 t/ha resulting from the railway construction into 25 percent for the logging companies and 75 percent for Gabon) could be considered. This will however have to be discussed with the Gabonese delegation which will visit the Bank. In view of the large profit made by the logging companies at the present time (23 percent on sales and close to 80 percent on fixed investments in Gabon), it may be found to be too low.

26. The corresponding logging profit as a function of the yield would then be as follows:

LOGGING PROFIT PER TON AS A FUNCTION OF YIELD
(US\$)

	Yield t/ha				
	6	7	8.5	11	16
Without the railway and given the present tax system	4.53	4.77	4.39	3.88	2.28
With the railway and:					
(i) no change in present taxation	8.60	8.76	8.67	8.79	8.45
(ii) a \$21/ha increase in logging permits	5.04	5.76	6.20	6.88	7.14

It therefore seems that this increase in the logging permit cost would give a strong incentive to the logging companies to shift from their present exploitation method to more intensive ones, possibly above the expected 11 t/ha level. In practice, the higher the increase in logging permit cost, the more incentive for the logging companies to intensify the exploitation of the forest.

27. On the basis of the above logging permit rate, the economic justification of the project at the national level is much more favorable. The result displayed on graph 3 indicates that even if the added incentive is not successful in increasing yields above 7 t/ha, there would be an expected rate of return of 11 percent to Gabon. With a yield of 11 t/ha, the project would earn an expected return of 13 percent and be virtually risk free.

28. From the Government financial point of view, neglecting the foregone tax revenues from the reduction in road transport, the generated tax income and railway revenues would correspond, over 30 years, to a return on investment of 8.8 percent distributed according to the distribution of graph 5. Therefore there should be no question about the ability to meet railway financial needs.

29. Clearly the above analysis is very crude and can only be used as a basis for further analysis. In particular, should these views be accepted, it would be necessary to structure the logging permit cost in a way which would reflect the physical characteristics of the area and the transport cost to the railway station.

30. Finally, the implementation of these changes may have to be limited to areas for which permits have not yet been granted (see map). In this case, export taxes for timber coming from areas for which permits have already been granted should be increased in such a way as to preserve a uniform tax level. This would reduce the incentive effect mentioned above, but only to a limited extent, because the area for which permits have already been granted are areas in which the timber production induced by the railway is small.

4. Sensitivity Analysis

31. The projets' benefits for the 11 t/ha yield, at the global level, break down as follows:

	US$ million
Value added from generated wood production	89
Reduction in wood transport cost	11
Inducement to mine opening	40
TOTAL BENEFITS:	140

The generated wood production is the biggest single source of benefits. Changes in the exploitable area or in the yield per hectare are therefore key factors in the project benefits. In practice, any percentage change in either of these variables would correspond to the same percentage change in the benefits resulting from the generated wood production. Among the variables defining the value add d per ton, the shadow price of African labor is the most important single variable. However, within the range in which we have varied the shadow price, it causes only a 1 percent swing in the expected rate of return.

32. The expected iron ore benefits come only in second position. However, their range of variation is very large, from zero if the mine does not open, to over $100 million in cases where the mine opens before 1980. The opening date of the mine is therefore an important parameter. The following table gives an indication of the project's return for various ranges of opening dates.

Mine Opening	Probability	Expected net present value at 10% of making the investment now instead of when the mine opens ($ million)
Before 1980	4%	51
From 1980 to 1984	22%	28
From 1985 to 1989	38%	12
After 1989	26%	0
Never	10%	-14

5. Logging Contracts

33. The above analysis shows that the economic justification of the project is not endangered by the various uncertainties, and that the project is indeed an attractive one for Gabon as well as for the logging companies. However, this conclusion is based on somewhat theoretical data, and whereas it might be possible to firm up some variables through further studies, including a detailed inventory of the forest, the project justification, in view of the important and uncertain changes on which it rests, will always be uncertain.

34. It is therefore suggested that the project justification be submitted to a practical test by requiring from the logging companies that they sign long-term contracts for the exploitation of the forest. These contracts would commit the companies to a minimum exploitation area at a predetermined logging permit price for the 10 or 15 years following the railway construction. These contracts would be conditional upon:

(i) the construction of the railway and complementary road and port infrastructures;

(ii) the operation of the railway at a predetermined maximum tariff (say 3 CFA/ ton km);

(iii) the existence of a predetermined export tax system.

35. It would be extremely difficult to determine off-hand the duration of these contracts or the permit prices the companies would be willing to pay. But these could be arrived at through a systematic bargaining process starting with a 15-year period and an average permit price of $20 to $25/ha as suggested in para. 26.

36. Since negotiations of such contracts would be based on a given tax system, a tax study should be launched as soon as possible. Preliminary discussions with the logging companies could, however, be opened on the basis mentioned above.

37. The proposed procedure would make it even more difficult than it now is for small African logging companies to enter the market. The possibilities of remedying this situation should also be explored.

V. OTHER QUESTIONS

38. Two more aspects of the project are worth mentioning. They are: (i) the forestry aspect, and (ii) the industrial aspect.

Forestry

39. The life of the forest, assumed to be limited to end of this century, could possibly be lengthened if the forest were cleared around the most promising smaller trees at the same time as the others are cut. This would require the need for a strengthening of the forestry services, and would imply that some research work be done to find out which species could benefit from this treatment.

40. Strengthening of the forestry services would also make it possible to prevent the ongoing skimming of the forest through government control of the trees which should be cut. This is apparently done in other African countries such as Nigeria or the Congo (K).

Industry

41. Unlike in other African countries, the wood industry in Gabon is very little developed. The country has only one plywood factory and a marketing report of the Centre Technique Forestier Tropical repeatedly points to the poor quality of the products of local sawmills. Development of the wood industry has apparently been discussed for a long time with very little result.

42. However, the development of this industry would substantially improve the economic impact of the proposed project in (i) diversifying and therefore improving the market for the large increase in wood production which should result from the project; and (ii) increasing the share of benefits which will stay in Gabon.

VI. SUGGESTED ACTION

(i) A study of timber taxes should be launched immediately, possibly as a follow-up of SEDES' existing work;

(ii) Once the study is completed and approved by the Bank, the Government should be prepared to start negotiations with the logging companies;

(iii) Appraisal of the project could proceed as soon as firm indication will be obtained that the Government will secure a reasonable number of contracts.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

DATE: December 11, 1970

Owendo-Belinga Railway Project
Financial Analysis of Timber and Iron Ore Traffic

1. Issues:

This memorandum analyzes two major financial issues with reference to the proposed Owendo-Belinga Railway. They involve:

(i) The Owendo-Booue line for timber traffic - confirmation that the $25 price for timber permits in the second forest zone proposed in the Bank's economic evaluation is sufficient to ensure the financial viability of the railway (a) before the iron ore mine at Mekambo (Belinga) is opened or (b) if it is not opened.

(ii) The Owendo-Belinga line for iron ore and timber traffic - calculation of a tariff floor for iron ore traffic sufficient to "uncaptivate" the railway from revenues generated from timber-related sources, i.e., to generate net revenue from iron ore traffic sufficient to cover the financial obligations of the entire railway.

These issues are examined in turn.

2. Timber transport: Owendo-Booue line:

The central task here was to see if the $25 per hectare permit price would, in combination with other sources of revenue, provide positive cash flows after all financial obligations of the railway had been met. Several important assumptions were made in the analysis:

(i) The rail line under consideration would extend from Owendo to Booue, a distance of 330 km. The distance utilized for converting traffic forecasts into railway revenues is 280 km., approximating the average distance of forest producing regions from Owendo weighted by the estimated output of each region. Table 1 gives a detailed calculation of this weighted average.

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(ii) The construction period for the rail line is taken at five years, 1972-1976, during which the only source of revenue would be from timber permit sales.

(iii) The investment base of $99.6 million is for the railway alone, and does not include the cost of subsidiary road and port facilities ($10.4 million). The cost of the railway has been increased by 8.6% from $91.7 million in the March 1970 Pouliquen paper to allow for probable cost increases. Table 2 gives the costs of the individual components of the railway, and of the subsidiary road and port investments.

(iv) The initial capitalization reflects a profile of amounts, interest rates and terms from all lenders who are already committed to or are actively considering participation in the project (Table 3). The weighted averages of interest rates and repayment terms have been applied in calculating the Railways debt service obligations. Interest,during construction, estimated at US$7.4 million, has been capitalized. Total debt at start of operations is forecast at US$57 million; grant funds, at US$50 million; total capitalization US$107 million.

(v) Traffic forecasts for okoume and other woods were derived from two sources: a "most likely" estimate from the December 1969 SEDES report and a "pessimistic" estimate from the January 1969 Centre Technique Forestiere Tropical (CTFT) report. Table 4 presents both forecasts on an annual basis.

(vi) Railway revenues were calculated on the basis of 3 CFAF (i.e., US$0.01079) per ton-km, a tariff which would likely exceed the direct costs of rail transport by 35% and approximate the long run marginal costs of rail operations. Revenues from possible backhaul traffic have not been included.

(vii) Railway operating costs per ton were taken from the March 1970 Pouliquen paper and are reproduced in Table 5. Tested against other known and comparable costs they have been shown to be realistic.

(viii) Revenues from permit fees were calculated at $25 per hectare applied to an estimate of exploitable forest of 1,938,000 hectares in the second zone not currently under permit. This area estimate was made in the September 1970 report of Mr. G. Lessard, Forestry Consultant to the Bank.

Ten percent of this permit price is assumed to be paid in equal installments during the construction period 1972-1976, with the balance paid over the following 15 years.

(ix) Revenues from export duties were derived by using the current tax rate, i.e., 15.3% of FOB value.

(x) Revenues from taxes on corporate profits are not included as a source of funds.

Table 6 traces the cash generated by the project during the start-up period, 1977-1982, and then at four year intervals, 1986, 1990, and 1996. For each year analyzed, "most likely" and "pessimistic" estimates are given stemming from the two traffic forecasts.

Traffic is the most sensitive variable as it reflects the total forest area under exploitation, the exploitation rate, the amount of inforest processing and, for areas where choice is possible, the selection of a mode of transport. Other potentially sensitive variables--the world price of okoume, rail operating costs, and initial capital investment--are either conservatively stated in the analysis or have an insignificant influence on cash generation over their probable ranges of fluctuation.

Construction of the traffic forecasts warrants greater explanation. The "most likely" estimate ranges from 700,000 tons in 1977 to 945,000 tons per annum during the period 1978-1987 and was derived by taking 70% of the production forecast made at 3 CFAF per ton-km by the SEDES consulting group. The percentage was scaled down from the 75% used in the Bank's March 1970 economic evaluation to allow for the loggers' intention of establishing onsite sawmills and plywood plants which would somewhat reduce the tonnage shipped. The "pessimistic" estimate grows steadily from 565,000 tons in 1977 to 885,000 tons per annum during the period 1984-1996 and was taken at 100% of the forecast made in the January 1969 CTFT Report. This latter projection is considered a reasonable floor on potential traffic as it was based almost entirely upon the exploitation of high grade okoume at a relatively low rate and did not take into account the considerable stimulus which fixed per hectare permit fees and on-site processing capacity would have upon exploitation of lower quality okoume and other woods.

The findings of Table 6 can be briefly summarized. Until all debt is redeemed in 1993 the cash flow from railway operations alone is always negative after debt service ranging over the period from $6.9 million in 1977 to $0.8 million in 1992 using the most likely forecast and from $7.3 million to $0.9 million using the pessimistic forecast. These deficits are eliminated when the cash generated from export duties and permit fees are added, with the exception of the first year (1977) under the "most likely" assumptions and the first two years under the "pessimistic" assumptions. Even with these additional sources, however, surpluses are small during the start-up period, particularly when the CTFT forecast is used. In 1979, for example, the margin of surplus is less than $0.2 million, suggesting that the cash position of the railway is vulnerable should anything below the $25/ha permit price be accepted.

In conclusion, the major justification of the $25/ha permit fee rests with the economic argument forwarded in the March and July Pouliquen memoranda; that is, upon the incentive a high fixed charge provides the loggers to increase their exploitation of the forest. It is this output that is the most sensitive variable in both the economic and financial analyses. The argument for a $25 permit price is reinforced, however, by the necessity for the railway to cover its commitments, to renew its assets and maintain its debt/equity ratio, particularly during the early years of operation. Thus the $25/ha charge is an important target to achieve in negotiations with the Government of Gabon.

In the foregoing analysis the railway has been considered as an integral and essential factor in expanding timber extraction and increasing revenue from forest exploitation. It is considered that export duties and permit fees on the timber so produced are a legitimate source from which to cover debt service on such a railway. If, however, the more traditional approach is adopted, that the direct earnings of the railway should be sufficient to cover operating costs and interest, it is for consideration that railway charges should be equivalent to CFAF 3 per ton-km plus export duties, and that rail-borne timber be absolved from such duties. At the higher estimate of production (which is probably the more realistic) the financial results of the railway operation would be in equilibrium, or better, as from 1978 onward.

3. Iron Ore Traffic: Owendo-Belinga line:

The major objective of the aggregate Owendo-Belinga railway project is to transport iron ore. The railway only makes economic sense for iron ore transport. If we were only interested in timber, an alternative mode might prove cheaper, or at least a wholly different kind of railway (cheaper) would be in order. The analysis of timber exploitation has been merely to see if building part of the iron ore railway in advance of a firm commitment to exploit the mine can be justified on the basis of timber exploitation, i.e., does the economic return on timber cover the opportunity cost on this capital over the years by which investment precedes the time it would have been made to serve the mine. The decision to open the mine should be made on a basis which includes covering the total costs of rail operations, i.e., "uncaptivating" the railway from timber operations and allowing tax receipts from this industry to be used for general development purposes. The following analysis has been framed with this strategy in mind. It derives an estimate of the revenues from iron ore traffic and thus the tariff per ton necessary to cover (together with railway revenues from transporting timber at 3 CFAF per ton-km) all financial obligations of the entire railway, Owendo-Belinga.

The analysis again has been on a number of assumptions:

(i) The rail line under consideration includes the original Owendo-Booue line and an extension to Belinga for a total distance of 560 km.

(ii) The construction of the extension would take five years, from 1980-1984.

(iii) The total investment base is estimated at $176 million representing the sum of the depreciated costs of the original line and the initial cost of the extension, which is taken at $87 million, some 8.6% above the December 1969 SEDES estimate (Table 7). Interest during construction, estimated at US$8 million, has been added to this.

(iv) The capitalization of the Booue-Belinga extension is assumed to be composed entirely of debt raised on terms which, on average, equate to those offered by the Bank. A five-year grace period, 25 year term and 7½% rate of interest have been used to calculate the debt burden.

(v) Two traffic forecasts have been constructed. The December 1969 SEDES estimate of 10 million tons of ore per year is considered "most likely". An arbitrary "pessimistic" estimate of 7 million tons per year is employed for sensitivity analysis. Traffic is assumed to commence in 1985, the opening date of the mine.

(vi) Railway operating costs fixed and variable, have been updated to $1.05 per ton from an earlier Bank analysis.

Calculations were made for a single year, 1986, when debt service obligations for the entire railway are nearly maximized. Tariffs derived for this base year ensure that revenues from iron ore transport will cover the railways financial needs, provided that assumptions regarding traffic and operating costs are valid.

From the point of view of the railways internal financial situation the minimum tariffs on iron ore necessary to ensure cash flow equilibrium - cover operating costs (excluding depreciation) and debt service for the entire railway - work out at \$2.31 per ton at 10 million tons and \$3.08 per ton at 7 million tons. This curve should be viewed as an approximation of the absolute floor for rail tariffs. The resultant rate of return or net fixed asset would be about 4.5%.

However, iron ore will have to bear higher rail charges and/or perhaps royalties and other taxes to ensure that a satisfactory economic return is achieved for Gabon. We have simulated this higher package of charges by calculating the rail tariff necessary to earn 7% on net fixed assets. Whether or not these funds over and above the floor referred to above actually flow through the railway accounts or not is really a matter of indifference but unless iron ore mining can be seen to be able to bear this higher level of total charges - tariff and tax - it is doubtful that the railway could earn more than 12% economic return to Gabon. The "tariffs" necessary to earn 7% on railway net fixed assets worked out to \$2.78 per ton at 10 million tons and \$3.74 at 7 million tons. According to the most recent estimates of mining costs and current iron ore market prices the maximun total charges that Mekambo ore will be able to bear is in the neighborhood of \$3.00 at 7 million tons and \$3.80 per ton at 10 million tons (due to economies of scale in mining) which means that at anything above about 8 million tons there is no problem. (See Graph).

TABLE 1

GABON

Owendo-Booué Railway Line

Average distance timber hauled by rail weighted by production

(1) Station	(2) Distance from Booué (km)	(3) Annual Production Carried by Rail (tons)	(2) x (3) Weighted Distance
N'Djole	181	40	7,240
Otoumbi	225	70	15,750
Ayem	263	150	39,450
Lopé	302	300	90,600
Booué	332	190	63,080
TOTAL		750	216,120

Calculate average distance timber travels by rail weighted by production as 216,120 ÷ 750 = 288 km.

Source: SEDES March 1969 Rapport Economique: Chemin de Fer Owendo-Belinga Troucon Owendo-Booué, Annexes III and VI.

November, 1970

GABON

Owendo-Booué Railway Line

Railway and complementary road and port investments

Investment base:

1. Railway:

	(US$ '000s)
Civil Works	38,480
track	16,010
rails	9,300
buildings & miscellaneous	7,250
rolling stock	5,100
equipment	2,910
engineering	5,300
contingencies	7,350
TOTAL	91,700
additional contingency for inflation (8.6%)	7,900
Total rail investment	99,600

2. Roads:

Upgrading of Lalara Ayem road (70 km)	1,520
Extension of Offoue road (50 km)	3,740
Extension of East Ogoue road (40 km)	2,080
Ogoue Bridge	1,000
TOTAL	8,340
additional contingency for inflation (8.6%)	660
Total road investment	9,000

3. Ports:

Owendo port less the avoided cost at Port Gentil	1,240
additional contingency for inflation (8.6%)	160
Total port investment	1,400
Grand Total, including additional contingency for inflation	110,000

Source: SEDES, March 1969 - Rapport Economique: Chemin de Fer Owendo-Belinga Trucon Owendo-Booué, Page II.

November, 1970

TABLE 3

GABON

Owendo-Booué Railway Line

Potential Sources of Finance

Lender/status	Amount (US$millions)	% of total amount	interest rate	terms
1. definitely committed				
Government of France	20.0	15.4	grant	grant
Government of Germany	6.7	5.2	4%	4 year grace, 15 year repayment
Government of Gabon	20.0	15.4	grant	grant
2. almost certain				
FED	20.0	15.4	grant	grant
Government of Germany	13.3	10.2	4%	4 year grace, 15 year repayment
3. greater than a 50% chance				
USAID	5.0	3.8	grant	grant
4. under active consideration				
EXIMBANK	10.0 loan	7.7	8%	3 year grace, 15 year repayment
	10.0 suppliers' credit	7.7	8%	10% down payment, balance over 10 years
World Bank	25.0	19.2	7¼%	4 year grace, 20 year repayment
Totals	130.0	100.0		

TABLE 4

GABON

Owendo-Booué Railway Line

Traffic Forecasts

(000's tons)

A. "Most likely" forecast:	1977	1978-1982	1983-1987	1988-1996	20 years total 1977-1996
Total wood production in 2nd. Forest Zone 1/	1,000	1,350	1,350	1,200	25,300
Rail Traffic Forecast at 70% of production 2/	700	945	945	840	17,710

Source: SEDES, December 1969, Etude Complementaire sur le Chemin de Fer Owendo-Booué, p. 210.

B. "Pessimistic" forecast:	1977	1978	1979	1980	1981	1982	1983	1984-1996	
Rail Traffic Forecast	565	645	710	785	830	875	875	885	16,790

Source: Centre Technique Forestier Tropical, L'Exploitation Forestière Gabonaise Liée au Chemin de Fer, page 129.

1/ Production forecasts are based upon assumption that railway is built and tariff is set at 3 CFA francs per ton-km.

2/ Estimated of rail traffic = 70% of total production designed to account for :
(i) establishment of on site peeling plants by some logging companies; (ii) transportation of some woods by water from N'Djole to Owendo.

TABLE 5

GABON

Owendo-Booué Railway Line

Rail Transportation costs per ton of timber 1/

		(US$/ton)
A. Variable Costs 2/		
1. Labor		.11
Expatriate	.06	
African	.06	
2. Heavy Equipment		.28
(a) Parts	.14	
Foreign exchange	.13	
Local	.01	
(b) Fuel	.14	
Foreign exchange	.09	
Local	.04	
Taxes	.01	
TOTAL variable costs		.39
B. Fixed Costs 3/		
1. Labor		1.34
Expatriate	.67	
African	.67	
2. Insurance		.20
Foreign exchange	.15	
Local	.05	
3. Overhead		.31
Foreign exchange	.18	
Local	.12	
TOTAL fixed costs		1.85
TOTAL cost per ton		2.24

1/ Details may not add up to total because of rounding.
2/ On the basis of an average distance of 280 km.
3/ On the basis of a total tonnage transported of 1 million tons/year.

GABON

Owendo-Booue Railway Line

Income and Cash Flow Statements for Timber Related Activities

($ '000)

	1977 SEDES Forecast[1/]	1977 CTFT Forecast[2/]	1978 SEDES Forecast	1978 CTFT Forecast	1979 SEDES Forecast	1979 CTFT Forecast	1980 SEDES Forecast	1980 CTFT Forecast	1981 SEDES Forecast	1981 CTFT Forecast
A. Railway Accounts										
(i) Income Account:										
Revenues from timber traffic	2,114.8	1,707.0	2,855.0	1,948.7	2,855.0	2,145.1	2,855.0	2,371.6	2,855.0	2,507.6
Variable costs	273.0	220.4	368.6	251.6	368.6	276.9	368.6	306.2	368.6	323.7
Contribution to fixed costs	1,841.8	1,486.6	2,486.4	1,697.1	2,486.4	1,868.1	2,486.4	2,065.4	2,486.4	2,183.9
Fixed costs	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0
Operating income available for debt service and/or depreciation	(8.2)	(363.4)	636.4	(152.9)	636.4	18.2	636.4	215.4	636.4	333.9
Depreciation	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8
Income before debt service	(2,579.0)	(2,934.2)	(1,934.4)	(2,723.7)	(1,934.4)	(2,552.6)	(1,934.4)	(2,355.4)	(1,934.4)	(2,236.9)
(ii) Cash Flow:										
Income before debt service	(2,579.0)	(2,934.2)	(1,934.4)	(2,723.7)	(1,934.4)	(2,552.6)	(1,934.4)	(2,355.4)	(1,934.4)	(2,236.9)
Depreciation	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8
Cash flow available for debt service	(8.2)	(363.4)	636.4	(152.9)	636.4	18.2	636.4	215.4	636.4	333.9
Interest	3,613.0	3,613.0	3,396.0	3,396.0	3,174.0	3,174.0	2,945.0	2,945.0	2,709.0	2,709.0
Repayment of principal	3,312.0	3,312.0	3,384.0	3,384.0	3,461.0	3,461.0	3,545.0	3,545.0	3,636.0	3,636.0
Total debt service	6,925.0	6,925.0	6,780.0	6,780.0	6,635.0	6,635.0	6,490.0	6,490.0	6,345.0	6,345.0
Cash flow after debt service	(6,933.2)	(7,288.4)	(6,143.6)	(6,932.9)	(5,998.6)	(6,616.8)	(5,853.6)	(6,274.6)	(5,708.6)	(6,011.1)
B. Cash Generated by Timber-Related Activities										
Railway cash flow after debt service	(6,933.2)	(7,288.4)	(6,143.6)	(6,932.9)	(5,998.6)	(6,616.8)	(5,853.6)	(6,274.6)	(5,708.6)	(6,011.1)
Proceeds from export duties	3,819.2	3,082.6	5,920.9	3,519.1	5,920.9	3,873.7	5,920.9	4,282.9	5,920.9	4,528.5
Cash flow including export duties	(3,114.0)	4,205.8	(222.7)	(3,413.8)	(77.7)	(2,743.1)	67.3	(1,991.7)	212.3	(1,482.6)
Proceeds from permit fees	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0
Cash flow including export duties and permit fees	(207.0)	(1,298.8)	2,684.3	(506.8)	2,829.3	163.9	2,974.3	915.3	3,119.3	1,424.4

	1982 SEDES Forecast	1982 CTFT Forecast	1986 SEDES Forecast	1986 CTFT Forecast	1990 SEDES Forecast	1990 CTFT Forecast	1994 SEDES Forecast	1994 CTFT Forecast
A. Railway Accounts								
(i) Income Account:								
Revenues from timber traffic	2,855.0	2,643.6	2,855.0	2,673.8	2,855.0	2,673.8	2,537.8	2,673.8
Variable costs	368.6	341.2	368.6	345.2	368.6	345.2	327.6	345.2
Contribution to fixed costs	2,486.4	2,302.6	2,486.4	2,328.6	2,486.5	2,328.6	2,210.2	2,328.6
Fixed costs	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0	1,850.0
Operating income available for debt service and/or depreciation	636.4	452.6	636.4	478.6	636.4	478.6	360.2	478.6
Depreciation	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8
Income before debt service	(1,934.4)	(2,118.2)	(1,934.4)	(2,092.2)	(1,934.4)	(2,092.2)	(2,210.6)	(2,092.2)
(ii) Cash Flow:								
Income before debt service	(1,934.4)	(2,118.2)	(1,934.4)	(2,092.2)	(1,934.4)	(2,092.2)	(2,210.6)	(2,092.2)
Depreciation	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8	2,570.8
Cash flow available for debt service	636.4	452.6	636.4	478.6	636.4	478.6	360.2	478.6
Interest	2,468.0	2,468.0	1,517.0	1,517.0	564.0	564.0	-	-
Repayment of principal	3,732.0	3,732.0	3,399.0	3,399.0	4,028.0	4,028.0	-	-
Total debt service	6,200.0	6,200.0	4,916.0	4,916.0	4,592.0	4,592.0	-	-
Cash flow after debt service	(5,563.6)	(5,747.4)	(4,279.6)	(4,437.4)	(3,955.6)	(4,113.4)	360.2	478.6
B. Cash Generated by Timber-Related Activities								
Railway cash flow after debt service	(5,563.6)	(5,747.4)	(4,279.6)	(4,437.4)	(3,955.6)	(4,113.4)	360.2	478.6
Proceeds from export duties	5,920.9	4,774.0	5,920.9	4,828.5	5,920.9	4,828.5	4,583.0	4,828.5
Cash flow including export duties	357.3	(973.4)	1,641.3	391.1	1,965.3	715.1	4,943.2	5,307.1
Proceeds from permit fees	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0	2,907.0	-	-
Cash flow including export duties and permit fees	3,264.3	1,933.6	4,548.3	3,298.1	4,872.3	3,622.1	4,943.2	5,307.1

1/ SEDES traffic forecast represents a "most likely" estimate.
2/ CTFT traffic forecast represents a "pessimistic" estimate.

December 1970

TABLE 6

TABLE 7

GABON

Booué-Belinga Extension

Investment Base

	(US$ 000's)
Civil Works	24,582
track	13,609
rails	4,751
buildings and miscellaneous	16,057
rolling stock	7,628
equipment	2,565
engineering	4,300
contingencies	6,468
Subtotal	79,960
additional contingency for inflation (8.6%)	7,040
total rail investment	87,000

Source: SEDES, December 1969 Rapport Economique, Page 12.

November, 1970

TABLE 8

GABON

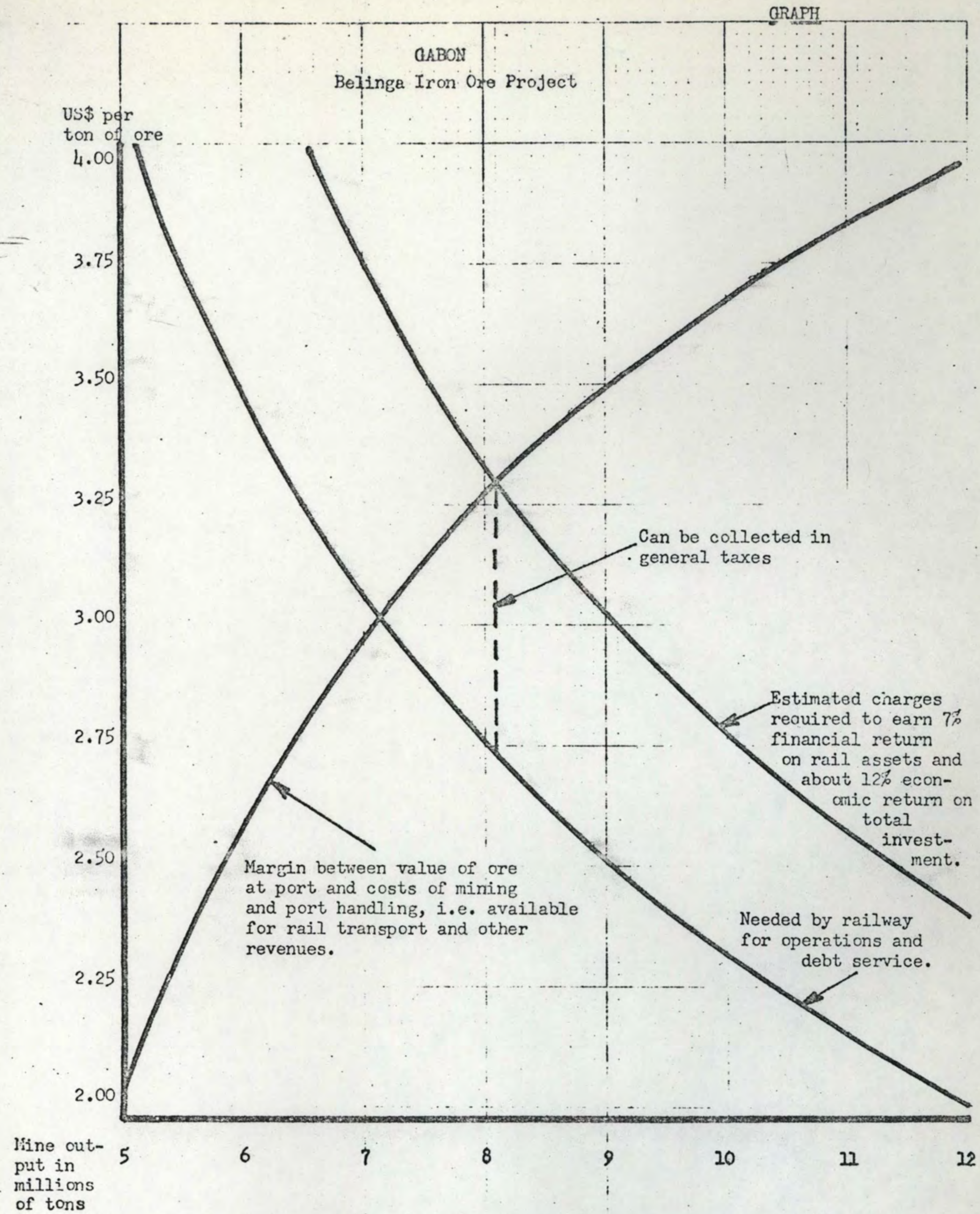
Rail tariffs necessary on iron ore to uncaptivate railway from timber related activities

1986

(US$ 000's)	Tariffs necessary for cash flow equilibrium i.e. to cover operating costs (excluding depreciation) and debt service on entire railway		Tariffs necessary to cover operating costs (excluding depreciation) and debt service on entire railway and provide a 7% return on all fixed assets	
A. Sources and uses of cash:				
1. Uses of cash				
Operating costs:				
variable	5,250		5,250	
fixed	5,250		5,250	
total		10,500		10,500
Debt service:				
Booue-Belinga Line				
interest	3,828		3,828	
repayment of principal	4,350		4,350	
	8,173		8,173	
Owendo-Booue Line				
interest	1,517		1,517	
repayment of principal	3,399		3,399	
	4,916		4,916	
total		13,089		13,089
Additional cash generation needed to provide a return of 7% on net fixed assets		-		4,653
Total uses:		23,589		28,242
2. Sources of cash:				
Cash generated by timber traffic 1/		479		479
Cash necessary from iron ore traffic		23,110		27,763
Total Sources		23,589		28,242
B. Indicated tariffs per ton on iron ore:				
At SEIES forecast of 10.000,000 tons/year		$2.31		$2.78
At pessimistic forecast of 7.000,000 tons/year 2/		$3.08		$3.74
C. Indicated financial rates of return:				
Total cash generated		23,589		28,242
less operating costs as above		10,500		10,500
less depreciation				
Booue-Belinga line	2,851		2,851	
Owendo-Booue line	2,571		2,571	
total		5,422		5,422
income from rail operations before interest charges		7,667		12,320
net fixed assets		176,000		176,000
indicated financial rate of return		4.4%		7.0%

1/ See Table 6.
2/ Variable costs have been reduced by 30% in making this estimate.

December 1970


GRAPH
GABON
Belinga Iron Ore Project
US$ per ton of ore
4.00
3.75
3.50
3.25
3.00
2.75
2.50
2.25
2.00
Can be collected in general taxes
Estimated charges required to earn 7% financial return on rail assets and about 12% economic return on total investment.
Margin between value of ore at port and costs of mining and port handling, i.e. available for rail transport and other revenues.
Needed by railway for operations and debt service.
Mine output in millions of tons
5
6
7
8
9
10
11
12

D R A F T

January 6, 1971

Minutes of Special Loan Meeting to discuss "Gabon - Proposed Owendo-Booue Railway Project" held at 3:00 p.m. on Monday, January 4, 1971 in Conference Room B.

1. Present: Messrs. Knapp (Chairman), Cope, Aldewereld, Broches, Baum, Chadenet, Chaufournier, Gabriel, Cheek, Geolot, Delaume, Jaycox, Thalwitz, MacTaggart, Pouliquen and Pearce (Secretary).

2. Issue: The meeting had been called to review the financial aspects of the proposed Owendo-Booue railway project, comprising the first 330 Km stage of a proposed 560 Km railway between Owendo, the sea port of Libreville, and Mekambo, close to rich iron ore reserves.

3. Discussion: The meeting noted that:

(a) Although the main objective of the proposed railway would be to link the sea port at Owendo to the iron ore reserves at Mekambo, the Gabonese planned to proceed with construction of the Owendo-Booue first stage before mine exploitation at Mekambo was certain. This first stage would open up large forest reserves at Booue to logging exploitation and, in the judgement of the Gabonese, would facilitate and advance the decision of SOMIFER, the concessionnaire, to open the Mekambo mine.

(b) The Bank's original position had been that, without firm mining commitments, the proposed railway was not viable. Moreover, its own analyses of the Owendo-Booue first stage indicated that, if timber only were carried, road/river rather than railway transport would be the optimum mode. However, it was extremely unlikely that the Mekambo reserves would remain unexploited during the next 25 years, i.e. during the economic life of the proposed railway, and the Gabonese proposal to proceed with the first stage, on the assumption that the mine would be operative in the foreseeable future, was therefore probably justified.

(c) Financial analysis of the proposed railway project indicated that logging operations could generate sufficient surpluses to defray its capital and operating costs, subject to substantial increases in the fixed element of logging costs, permit fees and area taxes. Specifically, permit fees should be increased from the present rate of about $4 per hectare to at least $25 per hectare.

(d) The Bank had suggested that logging permits should be let by international competitive bidding or auction, but the Gabonese proposed to let them on a negotiated basis. In any event, Bank field appraisal of the project would be conditional upon the finalization of appropriately priced long-term logging contracts covering ~~4~~500,000 hectares within the railway's zone of influence.

should be 1/4 of 2,000,000 ha or 500,000 ha

(e) The Gabonese proposal to proceed with the railway's first stage now would not affect the negotiated price/tax package for iron ore later, which would have to cover total railway costs at an economic rate of return.

4. Decision: The Chairman agreed that the Bank's present position, including recommendations on conditions for long-term logging contracts and iron ore tariffs, should be conveyed to the President of Gabon along the lines of the draft letter circulated at the meeting.

NOV 1 2 1970
logged

Files November 10, 70

Wilfried P. Thalwitz

GABON - Discussions with President Bongo on Owendo-Belinga railway project

1. On October 14 Mr. Chaufournier and I met President Bongo of Gabon in New York to discuss the proposed Owendo-Booué railway project. The President was accompanied by the Minister of Finance, the Minister of Economic Affairs, and his personal adviser, Mr. Moukambi. The atmosphere during the meeting was cordial; during the discussions the President stressed the points on which the Bank's and Gabon's views coincide.

2. President Bongo emphasized that Gabon continued to be very interested in Bank financing for the proposed railway and related port and road facilities. Although President Bongo understands, as we do, the Owendo-Booué railway as part of a larger project which would later primarily serve iron ore traffic from the Mekambo mine, the discussions centred around measures required to assure early construction of the first section Owendo-Booué, which would have to be justified primarily by benefits from forest exploitation.

3. The President reiterated that international competitive bidding would not be acceptable to Gabon as a method of allocating logging permits, and he expressed his appreciation that the Bank would not insist on it. On his part, he would make sure that our concern, the equitable distribution of permits between interested companies from all countries, would be taken into consideration. He said that he would welcome applications for logging permits from any country, and that his forthcoming visit to Germany should result in a stronger interest by German logging companies.

4. President Bongo confirmed that his government would request the UNDP to finance a modified and extended forestry inventory. He was however very concerned that this inventory would take some two years, and could delay implementation of the railway project. He therefore suggested that long-term logging contracts be conditional upon results of the inventory, and asked that the Bank be satisfied with conditional contracts when making the loan. He told us that research on the reform of forestry taxation is continuing, and he cautioned against a permit price that would scare away potential logging interests. He did not specify figures for what he thought was an appropriate level, but told us that he would communicate to us the results of continuing analysis by his advisers. We asked again whether the Government would favor a forestry taxation study, since we would not be in a position to work out the details of a taxation system, in particular as far as the modulation of tariffs,

taxes and permit prices in relation to distance from the railway and richness of the forest is concerned. We told him that our own preliminary analysis of the financial viability of the project was well underway, and that we would let him know the results by mid-November.

5. The President also told us that he is interested in reducing the risk of the proposed railway project by trying to elicit a commitment from the iron ore companies for the opening of the mine. He told us that he would be willing to bring in companies not now part of SOMIFER if this would speed up the opening of the mine.

6. Finally, the President spoke of the difficulties in exporting manganese ore from Moanda to the port of Pointe-Noire via the Congo (B) railway system. This would lead him to envisage, at a later date, the construction of a rail spur northward from Moanda towards the railhead at Booué.

WPThalwitz:mam

Cl. & cc: Mr. Chaufournier

cc: Messrs. Jaycox
Pouliquen
Sir Gordon Mackay

B. FORESTRY

Approximately 85 percent of Gabon's territory is covered by tropical rain forest. It is measured at 23 million ha, which is equivalent to 11.5 percent of the entire Equatorial forest area of Africa. In Gabon's economy logs and wood products represent about 30 percent of the value of all exports. As the mining industry expands, the relative contribution of forestry to the GDP has declined.

The Industry

For a period of over 50 years, okoumé has been the only tree species harvested in Gabon. In 1950, as shown in Table 1, the production of okoumé logs stood at 500,000 m^3 and in 1960 the annual production had reached 1,228,000 m^3. The production of okoumé remained fairly stable until 1969 when it increased to 1,518,000 m^3. The production of secondary species which started around 1955 has increased steadily to reach 260,000 m^3 in 1968. This volume represents about 16 percent of the total log production (see Table 1).

Until recently, logging operations in Gabon were conducted in rich virgin forests easily accessible by navigable estuaries and rivers. This territory which is adjacent to the coast has been designated as the first forest zone in 1956. In 1967, another area of 6,400,000 hectares was officially designated as the third forest zone for the purpose of forming a temporary reserve. The area contained between the first and third forest zones is referred to as the second forest zone. In 1961, the Government of Gabon initiated various measures to facilitate the installation of European forest companies in the second zone with the intention of leaving the more accessible first zone to Gabonese entrepreneurs. The opening of the second zone was made possible by the construction of heavy forest roads whose construction was financed with the assistance of FAC, FED and the IBRD. Some of the roads which have opened up some 2 million ha of forested land in the second zone are still under construction in the Lalara and Lastourville regions. Part of the third forest zone will become accessible only after the construction of the railway from Owendo to Booué.

At the present time, most Gabonese loggers operate in the first zone, and most European firms conduct their operations in the second zone. Only 15 percent of the forest areas under permits are located in the first zone. As exploitation of timber in the second forest zone requires heavy investments, many European firms have withdrawn or merged. In 1966 there were 36 European firms exploiting timber in Gabon; this number declined to 33 in 1967 and to only 25 in 1968. Gabonese lumbering comprises non-mechanized felling on family concessions (coupeurs familiaux), small enterprises using light equipment, and large companies that use heavy equipment. The number of Gabonese enterprises decreased from 178 in 1966 to 168 in 1967 and to 152 in 1968. They exploit about 8 percent of the total forest area, but they account for about 25 percent of the annual timber production.

Approximately 16 percent of the annual production of okoumé logs are processed in Gabon and 84 percent are exported. In comparison, about 35 percent of the production volume of non-okoumé species are processed locally. Okoumé is used mainly for the production of plywoods, while other species are processed into lumber, sleepers, and veneers. Roughly two-thirds of the marketing of okoumé and ozigo is handled by a semi-public non-profit marketing board, the Office des Bois de l'Afrique Equatoriale (OBAE), which operates in both Gabon and Congo (Brazzaville), and the balance is exported directly by lumbering countries which have their own processing plants in EEC member countries or in other African countries. Processing companies in Gabon may purchase okoumé and ozigo timber either from OBAE or from the lumbering countries, in which case the OBAE must be notified of the terms of the sales contracts. Timber of other species are freely marketed outside OBAE.

France is the largest importer of okoumé, followed by Germany, Israel, and the Netherlands. Gabon's exported okoumé has been facing stiff competition from plastic substitutes and other softwoods which are produced mainly in Nigeria, Ghana, and Indonesia. Export prospect for tropical woods, however, is good.

. Forestry Services

Forestry administration in Gabon is handled by the Ministry of Water and Forests. Its principal function is to control the production of timber in order to ensure that the Government is collecting all taxes due to it. The Ministry is responsible for suggesting amendments in forestry legislation to meet the changing needs of the forest enterprises; it is also supposed to undertake studies for the purpose of developing forestry production in the country.

The Ministry lacks both the funds and the personnel to play an active role in the forestry development of the country. It is ill-equipped to face the increased responsibilities which would be brought about by the construction of the proposed Owendo-Booué railway. The service counts only three Gabonese professional foresters and siz foreigners. As a comparison, 22 professional French foresters were working in the same service some ten years ago. This situation will not improve rapidly because there are no Gabonese at present st dying forestry in foreign countries, and competent foreign experts have left the service because they were not given any administrative responsibilities. This means that any study which may be needed in connection with the proposed railway project, such as the preparation of timber lots for the allocation of permits, will have to be undertaken by foreign experts who will come to Gabon for this specific task.

The reforestation program for the first zone, which started in 1944 and under which 22,000 ha had been replanted by 1968, is administered by a semi-public agency, the Société Technique de la Forêt d'Okoumé (STFO). This program is financed through a special fund that obtains its resources from a reforestation tax levied on the value of timber exports, grants from FAC, and appropriations from the development budget. To accelerate this program, CFAF 285 million were earmarked for this purpose in the 1967 development budget,and CFAF 300 per annum in the two subsequent budgets. Since 1967, STFO has replanted 2,500 - 3,000 ha per annum, at a cost of some CFAF 120,000 per ha. The new plantations are expected to yield 100 tons of okoumé per ha, compared with 4 tons per ha in the natural forest. However, it takes 40 - 60 years for the okoumé tree to reach a size suitable for felling, and no sharp increase in production can be expected in the immediate future.

STFO expects its reforestation program to be self-financing when it starts to sell to a planned cellulose factory the 10-year old okoumé trees which should be felled to thin out the plantations. This cellulose factory is planned on the M'Bei River along the proposed Owendo-Belinga railway. If realized, this industry would employ about 3,000 workers.

Future Prospects

A forest inventory is needed, and for this purpose the UNDP/FAO Forest Development Project in Gabon has been instituted at the request of the Government in order todetermine the extent and compositon of the forest and to prepare a forestry and forest industries development plan. The Special Fund allocation for this project is US$1.4 million, and the Government counterpart contribution in kind is valued at US$752,000. The Bank has very recently made suggestions on this Forest Development Project with the hope that the survey could begin sometime in May 1971.

The major problem connected with the forestry industry now is a reform of the taxation structure which would provide incentives to intensify production per ha and exploit species other than okoumé, and permit the Government to draw larger contributions to general development resources from the forestry industry. These issues have been treated in connection with the Owendo-Booué railway project in Section 9 A.

TABLE 1. — Annual log production in Gabon
($1000\ m^3$)*

Year	Okoumé	Other species	Total
1950	500	..	..
1955	925	47	972
1960	1,228	132	1,360
1961	1,302	131	1,443
1962	1,156	153	1,309
1963	1,268	174	1,442
1964	1,388	138	1,526
1965	1,380	161	1,541
1966	1,310	187	1,497
1967	1,342	188	1,530
1968	1,379	260	1,639
1969	1,518	300**	1,818**

* For okoumé 1 m^3 = 0,612 metric ton

** Mission estimates

Source: Direction des Eaux et Forêts

TABLE 2. Volume and Value of Forest Products Exports from Gabon, 1964 - 1969. (Excluding Logs)

Year	SAWWOOD		SLEEPERS		VENEER		PLYWOOD		TOTAL VALUE
	m^3	mm CFA Fr.	m^3	mm CFA Fr.	m^3	mm CFA Fr.	m^3	mm CFA Fr.	mm CFA Fr.
1964	10650	140	8093	121	24386	545	55673	1914	2720
1965	6298	100	15366	235	19891	535	51151	1835	2595
1966	4215	82	15137	237	26939	585	51296	1537	2441
1967	3310	59	22450	340	20500	397	55500	1672	2468
1968	3526	64	25995	401	9575	123	59875	1805	2393
1969	4211	80	17089	280	4857	38	65845	2083	2481

TABLE 3. Preliminary results of forest inventories in the third zone

(Trees of 70 cm diameter or more)

MAIN SPECIES *	Booué Region (inside okoumé limit)		Makokou Region (Outside okoumé limit)	
	No.of trees per ha	Approximate equivalent in tons	m^3/ha	Approximate equivalent in tons
okoumé	1.5	6.5	0	0
sapelli, dibétou, kosipo (meliacea group)	0.06		0.75	
douka, moabi	0.06	1.5	0.75	3.0
doussié, olon, kevazingo	0.05		1.5	
ilomba	0.45		2.0	
		3.0		2.5
ozigo	0.25		2.0	
movingui, ewougha,	0.95		3.0	2.5
padouk, azobé		2.5	..	..
soro, ekoune	0.88			

* There are numerous other species not known commercially.

C. PORT-GENTIL REFINERY

In 1963, a joint study concluded that the construction of an oil refinery was justified in the UDEAC market of Equatorial Africa, i.e. Gabon, Cameroon, Chad, Central African Republic and Congo (B). Port-Gentil, a sea port in Gabon near the principal production field, was chosen as the best location, although Douala (Cameroon) and Pointe Noire (Congo B) were also considered as adequate. The economic justification for Port-Gentil was based on its accessibility to all five countries.

In 1964 a regional agreement set up the conditions for creating and operating the refinery. It was decided that consideration would be given to the possibility of constructing national refineries only when the internal consumption of the participating states exceeds the capacity of the Port-Gentil refinery by 200,000 tons.

In 1965, the Société Equatoriale de Raffinage (S.E.R.) was created. This Gabonese company had a multinational capital of CFAF 50 million (US$200,000). The capital was divided between the Compagnie Française des Pétroles (37.5 percent), a group of petroleum producers later called the Groupement des Exploitants Pétroliers or GEP (37.5 percent), with the remaining 25 percent being evenly divided between the five UDEAC member states. The responsibility of constructing and operating the refinery was given to the Entreprise de Recherches et d'Activités Pétrolières (ERAP), the most prominent partner in GEP.

Total investment was CFAF 4.9 billion (US$19.8 million), of which CFAF 3 billion was used to pay for the refinery complex. Installations include the refin ry's physical plant and storage facilities for crude petroleum, finished products, and butane gas. Works were completed in 1968. To assure the objective of providing the UDEAC states with adequate supplies, the refinery is currently producing at its full annual capacity of 625,000 tons, composed of the following: fuel oil, 235,000 tons; diesel oil, 161,000 tons; gasoline, 117,000 tons; lamp oil, 44,000 tons; petroleum gas, 37,000 tons; and butane gas, 3,000 tons. The remaining 28,000 tons are accounted for by internal consumption and wastage. Although Gabonization of the 240 positions in the company is underway, there are still many Europeans present, and they run the installation.

Even if oil exploration in Gabon stops, which is an unlikely prospect at this point, the existing known reserves would be sufficient to sustain the refinery production at current levels for the next twenty years. Unfortunately,the lack of coordinated economic development among the UDEAC member states has resulted in Congo's decision to build a refinery at Pointe Noire. This refinery will have an annual capacity of more than half a million tons, and is also intended to supply the UDEAC countries. Consequently, total output of the Port-Gentil refinery should decline within four or five years, unless the demand for its products inside Gabon and outside the UDEAC countries is sufficient to replace sales lost to the Pointe Noire refinery.

D. Manganese Production - COMILOG

During the 1951-57 period, the Bureau Minier de la France d'Outre Mer (BMFOM) and U. S. Steel Corporation identified and assayed important reserves of manganese at Moanda, in the Southeast corner of Gabon. In September 1953 the Compagnie Minière de l'Ogooué (COMILOG) was founded for the purpose of operating a manganese mine having an annual capacity of 500,000 tons. The ownership of COMILOG was distributed as follows:

U. S. Steel	2.94%
Navios Corp. (U. S. Steel subsidiary)	46.06
BMFOM (French Government agency)	22.00
Société Auxiliaire de Manganese de Franceville (French-private)	15.00
Compagnie des Minerais de Fer Magnetique de Mokta (French-private)	14.00
	100.00%

The original capital of $600,000 was subsequently increased to $10.1 million. Total project costs were $95.6 million and were covered by funds supplied from the following sources: $35.0 million from the Bank (FR-230), $36.4 million from the shareholders, $7.1 million from the French Caisse Centrale de Coopération Economique, additions in share capital, and cash generated during initial operations.

Although located in Gabon, the manganese ore has to be transported through neighboring Congo-Brazzaville. In Gabon the project consists of an open pit mine, a washing plant and a 73 kilometer long cableway from the mine to the Congolese town of M'Binda. In Congolese territory, facilities built to service the mine include a 280 kilometer railway from M'Binda to

Mont Bello and port facilities at Pointe Noire. From Mont Bello to Pointe Noire the ore is carried over the Congo-Ocean Railway, which runs between Pointe Noire and Brazzaville. The Company operates its own rolling stock and locomotives. Construction of the project was completed in 1962.

The project is operating successfully. Production exceeded 1 million tons in 1965, but since 1966, due to the decline in market demand and increased competition from South Africa and Australia, COMILOG did not expand production significantly. In 1969, however, due to a large increase in world steel production, output increased to more than 1.5 million tons. The mine's production is sold mainly to the U.S. and France. The financial condition of the Company is good, and COMILOG has in fact prepaid a significant portion of its Bank loan.

The major constraint on increasing production in the future is the congestion along the Congo-Ocean Railway. Inadequate maintenance of track and equipment and the inefficient operation of telecommunications cause delays; consequently, a number of trains are either not on schedule or even have to be canceled. These conditions delay the delivery of ore in accordance with commitments of the Company and prevent any significant increase in production. As a partial remedy to this situation COMILOG has acquired extra equipment and rolling stock and has had to reduce by half its stockpile of ore at Pointe Noire.

The political situation in Congo-B, which is socialist, also worries COMILOG management. In 1969 ATEC, a regional agency which operates the Congo-Ocean Railway, was nationalized and replaced by a Congolese agency. A transport agreement has subsequently been signed between Congo and Gabon covering traffic between the countries. However, use of the Congo-Ocean Railway by COMILOG now depends for the most part on the goodwill of the Congolese Government and its overall relations with Gabon and the Company. In addition to this political factor, social conflicts have occurred at the COMILOG facilities located in Congo-B.

Both the Government of Gabon and COMILOG prefer that the ore be transported to the sea entirely within Gabonese territory. The long-run alternative to using the Congo-Ocean Railway would be for Gabon to join Moanda by rail to Booué and the proposed trans-Gabon railway. In his October 1970 visit to the U. S, President Bongo mentioned the possibility of this additional railway project. This subject is not yet openly discussed, however, because of the sensitive political and economic issues it raises.

E. THE DEEP-WATER PORT OF OWENDO

The lighterage port of Owendo is located on the estuary of the Gabon river, 16 kilometers south-east of Libreville. A channel 11 meters deep and 25 kilometers long connects the lighterage port to the open sea. In the past Owendo was used for loading timber, and for many years was considered as the ideal location for siting Ga on's major port. During the 1960's, the Government decided to construct a port complex at Owendo which would also be the terminal of the Trans-Gabon railway and a major industrial center. Studies for this project were undertaken by a Dutch consulting firm and financed both by FED (CFAF 250 million or US$900,000), and by the Government (CFAF 50 million or US$180,000).

The project consists of:

- 506 meters of berting space, extended by a 240 meter jetty with a total capacity of seven ships;
- a 150 meter berth for coastal vessels;
- a timber storage area covering 3.5 hectares;
- a mineral port 200 1,000-ton cargo ships;
- enclosures and service buildings built on a 15 hectare area of land;
- roadways;
- 300 housing units.

Total cost of the project will be CFAF 3 billion (US$10.8 million), and it is being financed by a grant from FED.

Additional investments relatdd to the project include the construction of a highway financed by FED at a cost of CFAF 451 million (US$1.6 million); a water-supply pipeline from Libreville to Owendo and a reservoir at Owendo, financed by a 6 billion DM loan from Kreditanstalt and a contribution from the Gabon Government of CFAF 200 million. This construction should be completed by August 1971.

The main problem of the project is the confirmed impossibility of further increasing the present depth of the channel, due to the unforeseen rapidity of sedimentation. Experiments in trying to solve this problem and difficulties encountered in dredging have caused cost overruns and delayed the completion of construction by one year, i.e. to September 1972. The mineral port, which would require the channel to be nearly twice as deep as it is now, will probably be cancelled out of the project and, as a substitute, an 8 kilometer long wharf will be built at an entirely different location 20 kilometers north-east of Libreville. Studies financed by the mining concessionaire, SOMIFER, are underway, and a decision on the site of the future mineral port is expected by May 1971.

F. EMPLOYMENT, EDUCATION, AND VOCATIONAL TRAINING

In 1968 the labor force, excluding Government employees, was estimated at 57,000, or one wage earner for eight inhabitants. This is one of the highest rates in Africa. More than 25 percent of wage and salary earners were employed in the forestry and wood industries, 20 percent in construction and public works, and about 10 percent in mining and petroleum industries. In spite of the high employment rate, the labor force is poorly skilled and educated, with only 29 percent of wage earners being qualified for skilled jobs. As a result, foreigners still occupy many middle- and high-level posts.

In the past, the Government has tried to solve these manpower problems by using Europeans and Africans from outside Gabon, and by developing or even enforcing on-the-job training of workers by private companies. These measures are supposed to promote the Government's strategy of industrialization. In 1980, the total labor force required will be 100,000, but this figure will not be met. The present Government's restriction of African immigration and the demographic limitations of the small population base will perpetuate the shortage of skilled workers in the coming years. As a result, Gabon's economic development will have to rely heavily on foreign, mostly European, labor, and for the longer run, on improvement in the education system.

Gabon's education system is modelled on the French and comprises a primary school course of six years, after which selected students proceed for a two-year general secondary course in the colleges and lycées. Upon completion of Grade 8, students either continue in the general secondary schools for a two-year or five-year course, or go to technical schools for a three-, four-, or five-year course. Some primary school graduates also enter apprenticeship or home economics centers.

The education system has expanded rapidly since 1960. By 1969, 82 percent of the school age population was enrolled with 93,000 and 7,000 students in the primary and secondary schools respectively. Private schools alone account for 44 percent of primary and 31 percent of secondary enrollment. Since the country does not provide adequate facilities for higher education, a significant number of students have to go abroad for university level courses. This expansion of the educational system has been made possible by foreign aid which amounted to $5.5 million by 1966. France, FED and the United States contributed 60 percent, 20 percent and 10 percent of this total, respectively. In 1968, the Bank made a contribution of $1.8 million (Credit 540 GA), of which about $200,000 had been disbursed by November 30, 1970. The disbursements have been delayed by the initial inexperience and inefficiency of the Project Unit which was responsible for project implementation. In addition, the authorities were unaware of the Bank regulations and of their obligations with respect to the project. Following the Projects Department missions of March and September 1970 and our letter of December 1, 1970, the rate of our disbursements should now increase in the coming months.

The Government has emphasized teacher training, revision of curricula, and extension of vocational training. However, the education system is still inadequate to meet the manpower needs of an expanding and potentially rich economy. This system is traditional in content, costly, and inefficient. The drop-out and repetition rates are high, and the graduates of the secondary, general, and technical schools are often unqualified. Reforms should focus on the middle and high grades of the secondary system. These reforms should institute technical, agricultural, forestry, and commercial education, and should expand facilities at craft, technician and professional levels. Laboratories, workshops, special subject rooms, and libraries should be added in existing general schools.

Since most of public savings will continue to be invested in infrastructure development, completion of this educational program will depend on the availability of foreign aid. As a complementary measure, the Government should explore ways of having the private sector develop and train Gabonese wage-earners.

10

List of Cabinet Members

Albert-Bernard Bongo	President of the Gabonese Republic, Head of the Government, Minister of National Defense, Information, Planning, Development and Mining
Leon Mebiame	Vice-President of the Government, Keeper of the Seals, and Minister in charge of Justice and Coordination
Jean-Stanislas Migolet	Deputy Vice-President of the Government, Minister of State in charge of Labor, Social Welfare, and Relations with the National Assemblies
Jean-Baptiste Obiang-Ekomie	Minister Delegated to the Presidency, in charge of Mining
Paul Malekou	Minister of State, in charge of Public Works, Town Planning and Urban Housing
François N'Guema N'Dong	Minister of State, in charge of Agriculture, Livestock, Rural Economy, Hydraulic Resources and Power
Jean-Remy Ayoune	Minister of Foreign Affairs and Cooperation
Augustin Boumah	Minister of Finance and Budget
Edouard-Alexis M'Bouy-Boutzit	Minister of Economic Affairs, Commerce and Industry
Raphael Mamiaka	Minister of Interior
Benjamin Ngoubou	Minister of Public Health and Population
Jérome Okinda	Minister of Education and Culture
Samuel Minko	Minister of Civil Service and Administrative Reform
Rigolet Landji	Minister of Water Supply and Forestry
Emile Bibalou Abybouka	Minister of Post Offices and Telecommunications, in charge of Veterans

Jean Félix Nze Engouré	Minister of Youth, Sports and Arts
Bonjean François Ondo	Minister of Transport and Aircraft, in charge of Tourism
Simon Essimengane	Minister Delegated to the Presidency, in charge of Information
Jacques Igoho	State Secretary for Social Affairs
Martin Bongo	State Secretary to the Presidency, in charge of Missions

ALBERT-BERNARD BONGO
President of the Gabonese Republic

A member of the small Batéké tribe, President Bongo was born in 1935. He spent part of his youth in Congo-Brazzaville where he received primary and secondary education. Later he joined the Air Force and served in Brazzaville, Bangui (CAR) and Fort-Lamy (Chad). When Gabon became independent, he was appointed Gabonese Permanent Representative in Bangui and then joined the Ministry of Foreign Affairs. His other important assignments have been the following:

Oct. 1962 - Nov. 1965	Head of President Mba's Private Council
1965-66	Minister Delegate to the Presidency in charge of National Defense and Coordination
1966	Minister of Information and Tourism
Nov. 1966 - May 1967	Vice-President of the Government
May 1967 - Dec. 1967	Vice-President of the Republic
Dec. 1967 -	President of the Republic

LEON MEBIAME
Vice-President of the Government,
Keeper of the Seals, and Minister in Charge of Justice and Coordination

Mr. Mebiame was born in September 1934 in Libreville, where he received primary and secondary education. He graduated in Administrative and Police Affairs and served from 1957 to 1959 in Chad. From 1959 to 1962 he worked in Gabon and followed post-graduate courses in Administration and Police Affairs in France. The most important assignments during his career have been the following:

March 1962 - Oct. 1963	Deputy Director then Director of the National Gabonese Security Agency
Jan. 1967 - April 1967	Under-Secretary of State for the Interior
April 1967 - Sept. 1967	Minister of the Interior
Sept. 1967 - Jan. 1968	Minister of Labor, Social Affairs and National Organization of Gabonese Women
Jan. 1968 -	Vice-President of the Government, Keeper of the Seals and Minister in charge of Justice
July 1968 -	Vice-President of the Government in charge of Coordination
Feb. 1969 -	Mayor of Libreville
Dec. 1970 -	Vice-President of the Government, Keeper of the Seals, and Minister in Charge of Justice and Coordination

JEAN-STANISLAS MIGOLET
Deputy Vice-President of the Government, Minister of State, in charge of Labor, Social Welfare, and Relations with the National Assemblies

Mr. Migolet was born in August 1920 and received primary and secondary education in a Gabonese catholic school. In 1941 he joined the Civil Service as "Administrateur Civil," a high rank in the French civil service hierarchy. From 1947 to 1957 he had a political career on a regional scale. The most important assignments during his career have been the following:

May 1957 - Dec. 1957	Minister of the Interior of the first autonomous Gabonese Government
Jan. 1958 - Feb. 1960	Minister of Labor, Social Affairs, Housing and Tourism
Feb. 1960 - Feb. 1961	Minister of the Interior and National Security
Feb. 1961 - Jan. 1964	Vice-President of the National Assembly
April 1964 - August 1966	Minister of the Interior
August 1966 - Jan. 1968	Minister of Public Health and Population; since Jan. 1967 also in charge of relations with the National Assembly
Jan. 1968 - July 1968	Minister of State in charge of Public Works, Transport, Telecommunications, Relations with the Assembly and Deputy Vice-President of the Government
July 1968 -	Minister of State, in charge of Interior and Relations with the National Assembly, and Deputy Vice-President of the Government
Dec. 1970 -	Deputy Vice-President of the Government, Minister of State, in charge of Labor, Social Welfare, and Relations with the National Assemblies

JEAN-BAPTISTE OBIANG-EKOMIE
Minister Delegated to the Presidency, in charge of Mining

Mr. Obiang-Ekomie was born in March 1938 and received primary and secondary education in catholic schools and state colleges. From 1960 to 1964, he studied and then graduated in humanities at the University of Clermont-Ferrand (France). From September 1965 to August 1966 he was professor of humanities at the Oyem College, and from August 1966 to 1967 he was Director of Education. The most important assignments during his career have been the following:

November 1967 -	Secretary of State for Education
Feb. 1969 - Dec. 1970	Minister of Youth, Sports and Culture and Art
Dec. 1970 -	Minister Delegated to the Presidency, in charge of Mining

PAUL MALEKOU
Minister of State, in charge of Public Works,
Town Planning and Urban Housing

Mr. Malekou was born in November 1938. He received primary and secondary education in Libreville. From 1959 to 1963 he studied at the University of Lille and the University of Paris. In Paris, he also graduated from the Institut des Hautes Etudes d'Outre-Mer, the former French School for Colonial Service. The most important assignments during his career have been the following:

April 1964 - March 1966	Minister of Labor and Social Welfare
March 1966 - Aug. 1966	Minister of the National Education, Youth and Sports
Jan. 1968 -	Minister attached to the Presidency, in charge of Coordination and Foreign Affairs
July 1968 -	Minister of Public Works and Transports
Dec. 1970 -	Minister of State, in charge of Public Works, Town Planning and Urban Housing

FRANCOIS N'GUEMA N'DONG
Minister of State, in charge of Agriculture, Livestock, Rural Economy, Hydraulic Resources and Power

Mr. N'Guema N'Dong was born in 1934 and received primary education in a protestant school in Gabon. He followed secondary school in France, and graduated from the Faculty of Sciences of Clermont-Ferrand, where he received a BA degree and prepared a doctorate in Sciences. He also attended and graduated from the National School for Mining in Paris. He received in-service training in several European industries. The most important assignments during his career have been the following:

Sept. 1963 - Jan. 1964	Deputy Director of the Mining Sector
Jan. 1964 - Jan. 1968	Director of the Mining Sector
Jan. 1964 -	President of SOGAREM (Société Gabonaise de Recherches et d'Exploitations Minières)
Jan. 1966 -	In charge of relations with the International Agency for Atomic Energy
Jan. 1968 - Feb. 1969	Secretary of State for the Mining Sector
Feb. 1969 - Dec. 1970	Minister of Mining
Dec. 1970 -	Minister of State, in charge of Agriculture, Livestock, Rural Economy, Hydraulic Resources and Power

JEAN-REMY AYOUNE
Minister of Foreign Affairs and Cooperation

Mr. Ayoune was born in June 1914 and received primary and secondary education in Gabon. In 1934 he joined the French colonial administration. Since July 1937 he held positions of responsibility in the Council of the French General Governor. In December 1956 he was member of the French Equatorial Africa Delegation in Paris. In 1960, after following courses at the French Foreign Service and National School of Administration, he was appointed Second Attaché to the French Embassy in Germany. The most important assignments during his career have been the following:

March 1961 -	Gabonese Ambassador in Germany
March 1964 - Dec. 1966	Secretary General of the Gabonese Government
Dec. 1966 - July 1968	Minister of Civil Service and Technical Educative Cooperation
July 1968 - Feb. 1969	Minister of Foreign Affairs and Tourism
Feb. 1969 -	Minister of Foreign Affairs
Dec. 1970 -	Minister of Foreign Affairs and Cooperation

AUGUSTIN BOUMAH
Minister of Finance and Budget

Mr. Boumah was born in November 1927 and received primary and secondary education in Libreville and Brazzaville. In 1949 he joined the judicial services and had assignments in CAR and Chad. In 1959 he joined the Institut des Hautes Etudes d'Outre-Mer and graduated as Inspector for Labor. From 1961 to 1965, he had regional responsibilities in the Labor and Manpower Sectors. His other important assignments during his career have been the following:

1965 - Jan. 1967	Director of the Gabonese School for Administration
Jan. 1967 - April 1967	Minister of Youth, Sports and Arts
April 1967 - Sept. 1967	Minister of Justice and Keeper of the Seals
Sept. 1967 - Jan. 1968	Minister of Interior and Justice
Jan. 1968 - July 1968	Minister of Interior
July 1968 - Dec. 1970	Minister of Finance and Justice
Dec. 1970 -	Minister of Finance and Budget

EDOUARD-ALEXIS M'BOUY-BOUTZIT
Minister of Economic Affairs, Commerce and Industry

Mr. M'Bouy-Boutzit was born in October 1933 and received primary and secondary education in catholic schools and the state college of Libreville. He graduated from the University of Caen and Poitiers (France). Afterwards, he held several positions in the Gabonese Planning Services. From August 1968 to December 1969 he was Deputy Director of the Malagasy and African Organization for Industrial Property. He was appointed successively Deputy Secretary General and Secretary General to the President of the Republic. In the reshuffle of the government on December 7, 1970, he lost the Development and Rural Economy portfolio.