

AFRICA RISK CONSULTING

Country briefing – Gabon

July 2014

Summary

The government reduces the budget due to its deteriorating debt position but President Ali Bongo Ondimba (2009-present) maintains the public sector wage bill at current levels. Government debts owed to investors are increasing and thus weaken the business climate. State mining company Société Equatoriale des Mines (SEM) signs a joint venture agreement with Dubai, United Arab Emirates (UAE)- based Navodaya Trading DMCC (NTDMCC) to explore and develop the Okondja manganese deposit. A joint United States (US) military exercise in Gabon improves the security outlook and underlines Gabon's stability in the Gulf of Guinea region.

1.1 The government reduces the budget

The deteriorating debt position has forced the government to reduce the 2014 budget. On 27 June the **Council of Ministers** reduced the budget to CFA 2,955 billion (\$6.1 billion) from CFA 3,336 billion (\$6.9 billion). The government communiqué failed to provide further details or the reason for the spending cuts. The move followed a warning from **Fitch Ratings** on 6 June that the government will post a fiscal deficit from 2015 unless it reduces public investment. President **Ali Bongo Ondimba** (2009-present) has committed to an ambitious \$12 billion public investment programme in an effort to diversify the economy away from oil as part of the **Gabon Emergent** policy platform.¹ In April and May, Bongo also committed to increasing social spending, promising to allocate CFA250 billion (\$530m) of the budget over the next three years to reduce the 30% poverty rate.² At the same time, oil revenues – which support 60-70% of the budget – are on a downward trend. On 26 June **Ophir Energy's** announcement that it would end its exploration campaign in Gabon after it confirmed a third dry well at the **Mbeli** block brought further uncertainty to the oil sector outlook and government revenues.

1.2 ...but fails to rein in the public sector wage bill

¹ See ARC Gabon Briefings for February, May, and June 2014

² See ARC Gabon May 2014 Briefing

The high public sector wage bill remains the main component of recurrent government expenditure. Former president **Omar Bongo Ondimba** (1967-2009) used the bloated civil service to bolster his and the ruling **Parti Démocratique Gabonais (PDG)**'s patronage networks. His son, current president Ali Bongo, has maintained these networks despite promising to fight corruption and streamline the state as key tenets of his reform drive after coming to power. A month after taking power, Bongo launched an audit of civil servants in November 2009 to remove "*ghost employees*" and reduce the wage bill, reportedly expelling 800 fraudulent workers.³ The government launched another crackdown in September 2013 after state prosecutors claimed that the government had identified 3,000 "*fake*" civil servants who received monthly salaries but held no official positions.⁴ The government estimated there were around 10,000 fraudulent employees, costing the state \$50m each year.⁵ However, Bongo backtracked on this reform agenda and the number of civil servants has increased from 59,000 in 2006⁶ to the current 70,000.⁷ On 7 July the government announced the payment of a new bonus incentive scheme, **Prime d'Incitation à la Performance (PIP)**, and said that it would expand it to cover 30,000 state employees from the current 9,000.⁸

*"For Bongo the civil service is a necessary evil. There was some effort to rein in the wage bill with some success but recently it seems to be going the other way."*⁹

The opposition has sought to capitalise on the deteriorating debt situation and rising inequality. **Jean Ping**, the former **African Union (AU)** chairman and ex-foreign minister who moved into the opposition in February 2014, told the press, "*We are indebted everywhere – ask the oil companies and private companies – international or national*" (see below).¹⁰ Opposition and civil servants voiced criticism of the "*luxurious lifestyles of public officials, Bongo and his entourage*" on show during the **New York Forum Africa**, an annual investment promotion conference held in **Libreville** from 23 - 25 May.¹¹ **Marc Ona Essangui**, head of non-government organisation **Brainforest**, said the government should focus on education and low-cost housing rather than "*expensive forums*".

1.3 Investors face non-payment risks

The deteriorating government debt position has weakened the business climate. A foreign correspondent who attended the New York Forum Africa described the investor appetite in **Libreville** as subdued, "*It was nowhere near as big as previous years.*" The source said that relations between the government and the **French** business community "*were at an all time low*", notably due to the contract

³ Al Jazeera, 5 Sep 2013.

⁴ Al Jazeera, 5 Sep 2013.

⁵ Al Jazeera, 5 Sep 2013.

⁶ SAPA, 25 Nov 2009.

⁷ Reuters, 18 Jun 2014.

⁸ RFI, 11 Jul 2014.

⁹ Source, foreign correspondent, Gabon

¹⁰ Reuters, 18 Jun 2014.

¹¹ Reuters, 18 Jun 2014.

audits in the oil sector.¹² The source said the French business community believed the ongoing tax dispute between the government and French multinational oil and gas company **Total S.A.** was “politically motivated”.

Government debts owed to investors are increasing. A diplomat told the press that the government owed over \$400m in value-added tax (VAT) reimbursements to investors accumulated over nearly two years.¹³ In September 2012 the government announced a suspension of 18% VAT for exporters to stimulate trade.¹⁴ It pledged to reimburse the VAT to investors monthly. However, investors in various sectors including timber and oil have not received any reimbursements.¹⁵ “The government claims the investors will have to wait until it completes an internal audit.”¹⁶

The economic downturn is most evident in the construction sector. A **Reuters** report noted a government building in **Bessieux**, Libreville with a notice saying, “Construction stopped for non-payment of bills.”¹⁷ The **Omar Bongo Stadium** – planned for the 2012 football Africa Cup of Nations – also remains unfinished.

Several investors complain of increasing non-payment risks involving the **Agence Nationale des Grands Travaux (ANGT)**, major works agency). A foreign correspondent in Libreville says, “there are reports of problems as soon as they [ANGT] get involved”. A construction sector contractor for a key project also claimed that ANGT was “behind on payment”.¹⁸

The ANGT, established in 2010, falls under the direct control of the presidency. It identifies and plans major infrastructure programmes classified as priorities. The ANGT does not fit the organisational and administrative status of other state institutions, and is attached to the presidency for “political” reasons due to Bongo’s direct interests.¹⁹ **United States (US)** construction and engineering group **Bechtel Corporation** manages the ANGT. Bechtel is referred to as the “technical arm” of the ANGT.²⁰

1.4 SEM signs joint venture agreement to develop manganese deposit

¹² See previous briefings

¹³ Reuters, 18 Jun 2014.

¹⁴ Xinhua, 13 September 2012

¹⁵ Source, foreign correspondent, Gabon

¹⁶ Source, foreign correspondent, Gabon

¹⁷ Reuters, 18 Jun 2014.

¹⁸ Reuters, 18 Jun 2014.

¹⁹ Multiple sources: www.koaci.com; www.jeuneafrique.com.

²⁰ Source, mining expert

State mining company **Société Equatoriale des Mines (SEM)** continues to pursue large deals with **Gulf** or North African investors. On 27 June SEM and **Dubai, United Arab Emirates (UAE)**-based **Navodaya Trading DMCC (NTDMCC)** announced a joint venture to explore and develop the **Okondja** manganese deposit. NTDMCC will have an 85% stake and SEM 15% in the joint venture company **Gabon Manganese & Ferroalloys**.²¹ The agreement includes ore processing, conditioning, storage and marketing activities and thus addresses Bongo's economic diversification drive focused on promoting processing activities. SEM business and strategy manager **Bareja Youmssi** says the project partners will fund exploration based on their ownership share.

The project is the second significant SEM agreement signed in 2014. In March SEM and **Morocco's** state-owned phosphate group **Office Chérien des Phosphates (OCP Group)** signed a \$2.3 billion agreement in which OCP Group will provide technical assistance to develop a fertiliser plant in **Port-Gentil**.²²

1.5 US military improve security outlook

Ongoing US military cooperation with Gabon improves the security outlook and underlines Gabon's position as a stable partner in the **Gulf of Guinea** region stretching across West and Central Africa. On 28 June US marines from the **Special Purpose Marine Air-Ground Task Force Africa 14 (SP-MAGTF)** held joint exercises with counterparts from the Gabonese military, the **Gendarmerie** and the **Agence Nationale des Parcs Nationaux**. The exercises included "*tactics that could then be applied to combat all types of illicit activities, including narcotics trafficking*".²³ According to the US military this involved "*marksmanship, combat life saver and casualty evacuation, tactical site exploitations, mission planning, basic infantry skills, and patrolling tactics*".

The SP-MAGTF is a 500-strong force established at **Morón Air Base** near **Seville (Spain)** in April 2013. It reports to the **United States Africa Command (AFRICOM)**, founded in 2008 and headquartered at **Kelley Barracks** in **Stuttgart (Germany)**. Since the start of its operations, the SP-MAGTF has also carried out exercises in **Senegal** and **Uganda**. In September 2009 AFRICOM held its annual **Africa Endeavor** exercise in Gabon, lasting ten days and including the militaries of 30 African states, "*to improve command and control between forces for possible peacekeeping or anti-terrorism missions*".²⁴ Improving security in the Gulf of Guinea region is a focus of AFRICOM.

²¹ Mining Weekly, 27 Jun 2014.

²² Mining Weekly, 11 Jul 2014.

²³ U.S. Marine Corps Forces Africa, 7 Jul 2014.

²⁴ Geopolitical Monitor, Oct 2009.

2 Implications

The investor and diplomatic community welcomed the government's action to reduce the budget deficit amid several recent warning signs that the debt position is deteriorating. However, Bongo's lack of commitment to reform the state apparatus and reduce the public sector wage bill increases business risk. It highlights the ongoing high levels of corruption in the civil service and patronage politics in Gabon. The bloated civil service also continues to distort the local labour market and increases labour risks for investors.

While the opposition remains fragmented and has failed to significantly capitalise on the economic downturn domestically, Jean Ping has made inroads undermining Bongo's image internationally in the investor community. The debt position is expected to result in increasing non-payment risks for investors, particularly those involved in large infrastructure projects. SEM's agreements in 2014 signal Bongo's intent to shift the source of foreign investment from traditional partner France to the Gulf, Asia and developing economies. Despite the business downturn, the joint US military exercises demonstrate Gabon's stability in the Gulf of Guinea region.