

## AFRICA RISK CONSULTING

### Country briefing – Gabon

August 2014

#### Summary

*The gendarmerie launches an investigation after a state audit reveals widespread irregularities. The audit sends ripples through the civil service hierarchy, part of President Ali Bongo Ondimba's (2009 – present) patronage networks, and frustrates business due to blocked payments for government contracts. Jean Ping, former African Union (AU) chairman and ex-foreign minister, forms a new anti-Bongo opposition coalition to field a single candidate in the 2016 presidential election. However, several key members of the fractured opposition reject the grouping. The oil ministry signs seven offshore oil exploration contracts with six companies following a nine-month contract negotiation process focused on uncertainty over state participation. The African Development Bank (AfDB) approves funding for the Gabon section of a paved road connecting Libreville with Brazzaville (Republic of Congo, ROC).*

#### 1.1 Gendarmerie investigates widespread government corruption

The gendarmerie claims it has launched investigations based on an audit of government departments and agencies as part of President **Ali Bongo Ondimba's** (2009-present) efforts to reduce corruption and government expenditure. On 17 July **Jean-Fidèle Otandault**, head of the **Direction Générale du Contrôle des Ressources et des Charges Publiques (DGCRCP)** established in 2012 to oversee the audit process, announced a summary of the audit findings.<sup>1</sup> Otandault said auditors had uncovered widespread irregularities, stating that “*more than half the state budget [CFA 3,000 billion, \$6.1 billion in 2014] had disappeared.*”<sup>2</sup> The DGCRCP reportedly launched the audit on 1 January and covered the last 10 to 15 years.<sup>3</sup> Otandault said, “*We need a complete break with past practices...we cannot continue to divert public funds.*”<sup>4</sup>

According to Otandault, the audit includes evidence of overbilling, other irregular practices in the procurement process and bad debts owed to state-owned companies. The auditors focused on “*rotating celebrations*” for the country’s independence day (17 August), held in different cities each year, which cost the government CFA 400 billion (\$815m).<sup>5</sup> The audit findings included:<sup>6</sup>

- An annual government investment line of CFA 50 billion (\$102m) assigned to provinces was allegedly diverted, “*Over the decade, more than CFA 400 billion [\$814m] of the CFA 500 billion [\$1 billion] was diverted.*”
- The government awarded CFA 300 billion (\$611m) worth of public works contracts without tender.

<sup>1</sup> AFP, 17 Jul 2014.

<sup>2</sup> Jeune Afrique, 29 Jul 2014.

<sup>3</sup> AFP, 17 Jul 2014.

<sup>4</sup> AFP, 17 Jul 2014.

<sup>5</sup> AFP, 17 Jul 2014.

<sup>6</sup> AFP, 17 Jul 2014; Jeune Afrique 29 Jul 2014.

- The audit also uncovered a “system” whereby officials awarded contracts to businesses registered under the names of relatives of officials in which no work or services were provided.
- In several instances contractors charged the government three to four times the market price for equipment.
- Auditors found fictitious invoices totaling CFA 54 billion (\$110m) in 2013.
- The audit uncovered around CFA 300 billion (\$611m) in bad debts.

On 4 August the gendarmerie’s **Direction Générale des Recherches (DGR)** confirmed that it had opened several investigations based on the audit. The announcement was timed to coincide with Bongo’s visit to **Washington** for the **United States (US)- African Leaders Summit** on 4-6 August, where Bongo hoped to impress foreign investors.

The findings correspond to long held views of widespread corruption, mismanagement and absenteeism in the public sector. Bongo has largely maintained patronage networks which his father, **Omar Bongo Ondimba** (1967-2009), established in the public sector. However, with debt increasing and an ambitious \$12 billion public investment programme to diversify the economy, Bongo is under pressure to cut government expenses.<sup>7</sup> In June the government reduced the 2014 budget to \$6.1 billion from \$6.9 billion. On 23 April budget minister **Christian Magnagna** claimed that the audit had saved the state CFA 654 billion (\$1.3 billion) by cancelling false invoices and bad debts from 2006 to 2013.<sup>8</sup>

In addition to sending ripples through the civil service hierarchy, the audit has frustrated business by blocking payments for government contracts for several months.<sup>9</sup> The increased non-payment risk reportedly resulted in several business closures. During July prime minister **Daniel Ona Onda** met with small-to-medium-sized (SME) business leaders in **Libreville** to assure them that Gabon was not in a state of insolvency.<sup>10</sup> Budget minister Magnagna said the government had set aside CFA 500 billion (\$1 billion) to pay local businesses. The DGCRCP also met with around 400 business leaders who have contracts with the government to ask them to lower the pricing of some contracts. The government has indicated it will form a new authority in 2015 to oversee public procurement and establish stricter budgetary controls.<sup>11</sup>

*“It is very difficult to gauge the economic situation but with this new audit [findings], companies will begin to question the sincerity of the government for fair trade.”<sup>12</sup>*

## 1.2 Pings joins new opposition coalition

**Jean Ping**, the former **African Union (AU)** chairman and ex-foreign minister, has joined with other more established opposition figures to form a new anti-Bongo coalition, **Front de l’Opposition pour l’Alternance (FOPA)**, to contest the 2016 elections. On 19 July Ping and other former ruling **Parti Démocratique Gabonais (PDG)** stalwart **Jacques Adiahénot**, met with former members of the **Union Nationale (UN)**, dissolved in 2011, and other members of opposition parties, including some members of opposition coalition **Union des Forces pour l’Alternance (UFA)**.<sup>13</sup> Following the meeting, Ping claimed the FOPA will unite the fractured opposition around a single candidate to

<sup>7</sup> See ARC Gabon July 2014 Briefing,

<sup>8</sup> AFP, 17 Jul 2014.

<sup>9</sup> AFP, 17 Jul 2014.

<sup>10</sup> Les Afriques, 19 Jul 2014.

<sup>11</sup> AFP, 17 Jul 2014.

<sup>12</sup> Source, foreign correspondent, France.

<sup>13</sup> Cameroon Voice, 21 Jul 2014.

contest the 2016 presidential election against Bongo. However, he failed to confirm if he would be the candidate.<sup>14</sup>

Several opposition figures including members of the UFA, the most prominent opposition coalition, have already dismissed the grouping. **Pierre Claver Maganga Moussavou** called FOPA a “*faux pas*”<sup>15</sup> saying that the lack of unity between the different members of the coalition will lead to its downfall. During a meeting on 22 July, the UFA concluded it would not join FOPA because FOPA did not fit UFA’s vision and was “*ill-disciplined*”.<sup>16</sup> Other UFA members said FOPA was a “*non-event*”.<sup>17</sup>

*“For UFA members, there is no question of joining FOPA... the founders [of UFA] are independent and do not form part of any party. For them, to merge with this union would be as if to dissolve the UFA all together.*

*The leaders of the opposition must make concessions like **Senegal** made two years ago to bring a change in leadership [whereby the opposition united behind a single candidate – President **Macky Sall** (2012-present) – to oust **Abdoulaye Wade** (2000-2012)]. They must give priority to public interest rather than personal interest against a well-organised PDG.”<sup>18</sup>*

During a television interview for *France24* Ping continued his personal attacks on Bongo and his powerful chief of staff **Maixent Acrombessi**. He said Bongo was “*an autocrat, surrounded by what we call a foreign legion led by Acrombessi, who is the real president of Gabon.*”<sup>19</sup>

### 1.3 The government renews focus on the oil sector...raising state revenue

The oil ministry has signed seven offshore oil exploration contracts with six companies, which it says will result in at least \$1.1 billion in investment. **Impact Oil & Gas, Repsol, Woodside, Noble Energy, Marathon** and **Petronas** secured the contracts.<sup>20</sup> The deep water blocks are expensive and difficult to explore but show similar geological structures to oil wells in **Brazil** where oil companies have made significant finds. The contract awards followed the selection of seven companies as part of an offshore licensing round on 21 July<sup>21</sup> and bring to an end a nine-month negotiation process involving several contract revisions.

*“The speed at which the new offshore oil comes to market has been affected by procedural delays in Gabon. The licensing round was delayed many times and the talks took much longer than everyone thought [nine months] and only a fraction of the blocks have been allocated. I think bureaucracy is high, with lots of internal power struggles, despite the dominance of the president’s party [PDG].”<sup>22</sup>*

The negotiation process frustrated several companies with state participation and the uncertain regulatory environment as sticking points.<sup>23</sup> According to the draft oil law **Gabon Oil Company**, a state company formed in 2011, is able to acquire a 15% stake in blocks at market price; the state can take a 20% stake at the start of oil production. On 29 July oil minister **Etienne Dieudonné Ngoubou**

<sup>14</sup> Cameroon Voice, 21 Jul 2014.

<sup>15</sup> Gabon Eco, 29 Jul 2014.

<sup>16</sup> Mediapart, 25 Jul 2014.

<sup>17</sup> Gabon Eco, 25 Jul 2014.

<sup>18</sup> Source, journalist, Libreville

<sup>19</sup> Gabon Review, 29 Jul 2014.

<sup>20</sup> Reuters, 8 Aug 2014.

<sup>21</sup> Reuters, 21 Jul 2014.

<sup>22</sup> Source, foreign correspondent, Senegal

<sup>23</sup> Reuters, 8 Aug 2014.

said that the two houses of parliament would soon review the draft oil law.<sup>24</sup> Ngoubou continued the resource nationalism tone under the Bongo administration, saying:

*"The state needed to restate its sovereignty in order to be in a stronger bargaining position. The reserves belong to Gabon. We seek the services of oil explorers because they have the required know-how, but we should benefit more as the owners."*<sup>25</sup>

The high number of companies involved in the negotiations confirmed ongoing interest in Gabon's oil sector, despite the unresolved dispute between the government and **Total Gabon**. Total rejected the government's claim in January that the company owed \$805 million in unpaid taxes following an audit.<sup>26</sup> Negotiations remain deadlocked.

The government hopes that the new licences will reverse a decline in oil output. Production has decreased to the current 230,000 barrels per day (bpd) from a peak of close to 400,000 (bpd) in the 1990s.<sup>27</sup> **Ophir Energy** brought its exploration campaign in Gabon to an end in June after it confirmed a third dry well at the **Mbeli** block.<sup>28</sup>

*"The chronic decline [in oil production] is to do with Gabon having already extracted most of the 'easy' onshore oil. The offshore oil is mostly hypothetical for now. There is good acreage out there... but so far drilling has not been very successful."*<sup>29</sup>

## 1.4 Government and AfDB target roads to improve regional integration

On 14 July the **African Development Bank (AfDB)** approved CFA 53 billion (\$108m) financing to pave 49 km of the **Ndéndé-Doussala** road, the first phase of a project to connect to the **Ngongo-Dolisie** road (223km) in the **Republic of Congo (ROC)**.<sup>30</sup> The AfDB is expected to provide the rest of its CFA 160 billion (\$326m) financing for the project to fund the ROC section. The ROC government will provide CFA 71 billion (\$145m) and the Gabon government CFA 14 billion (\$29m) for the project.<sup>31</sup> The project forms part of the Libreville (Gabon) - **Brazzaville** (ROC) corridor to facilitate economic opportunities and free movement between the two countries.<sup>32</sup> The AfDB said it aims to complete the project by December 2018.<sup>33</sup> The AfDB has set aside CFA 23m (\$50,000) to compensate an estimated 1,000 Gabonese people whom the project will affect.<sup>34</sup>

The contract forms part of a larger **New Partnership for African Development (NEPAD)** project to connect all **Central African** capitals with properly surfaced roads. So far, **Yaoundé (Cameroon)** and Libreville are the only two cities connected by an asphalt road.<sup>35</sup>

<sup>24</sup> All Africa, 29 Jul 2014.

<sup>25</sup> Reuters, 8 Aug 2014.

<sup>26</sup> See ARC Gabon April 2014 Briefing

<sup>27</sup> Reuters, 8 Aug 2014.

<sup>28</sup> See ARC Gabon July 2014 Briefing

<sup>29</sup> Source, foreign correspondent, Senegal

<sup>30</sup> Gabo News, 14 Jul 2014.

<sup>31</sup> Le Gabon, 2 Feb 2014.

<sup>32</sup> AFBD, Dec 2013.

<sup>33</sup> AFBD, Dec 2013.

<sup>34</sup> AFBD, Dec 2014.

<sup>35</sup> Gabo News, 14 Jul 2014.

## 2 Implications

It is unclear whether the latest audit will result in charges and convictions to curtail the culture of impunity in the civil service. Bongo timed the announcement of the gendarmerie investigations to impress key donors and investors in Washington, following a marked increase in criticism in recent months regarding rising debt and lack of anti-corruption reform. However, while Bongo has previously launched audits during his time in office, the involvement of the security forces indicates that Bongo has taken a personal interest in the audit. Political will to reduce corruption may increase due to the government's deteriorated debt position – due in large part to decreased oil revenues – as well as the growing need to attract foreign investment to diversify the economy and reduce poverty. The findings highlight the prevalence of public sector corruption and urgent need to implement structural reforms.

The audit and investigations are also politically risky for Bongo at a time of renewed opposition activity, albeit from a low base. It risks angering the civil service hierarchy which forms part of his political support network. Ping's new opposition grouping will face significant fractures inherent in the opposition as a whole, but the development places further pressure on Bongo to diversify the economy and reduce poverty before the 2016 election.

The new oil contracts confirm the government's renewed interest in the oil sector. Despite the government's stated aim to diversify the economy away from oil, it is under increasing pressure to improve state finances.

Business opportunities throughout the Central Africa region will improve due to donor attention to regional integration, particularly the focus on linking roads between economic capitals to facilitate trade. The poor road network is an investment barrier throughout the region.