

AFRICA RISK CONSULTING

Gabon Monthly Briefing March 2015

Gabon Summary 26 March 2015

The six-week long public sector strike continues, increasing political instability risks. Unions reject government concessions and students start street protests over class disruptions. An International Monetary Fund (IMF) economic review confirms increasing fiscal concerns due to declining oil revenues and urges the government to review the 2015 budget, and reduce spending and diversify away from oil. A strike at Gabon Telecom leads to major disruptions to the telecommunications network.

Public sector strike continues

A six-week long public sector strike significantly increases political instability risks in Gabon. The strike has closed schools since the beginning of February. Hospitals maintain minimum service. The strike has also slowed other state services and government administration.¹ However, the strike has not affected the oil sector. In December 2014 a strike in the oil sector slowed production.

Dynamique Unitaire, an umbrella public sector body representing some 50 unions, has refused to make concessions in negotiations with the government.² It demands the government increase the minimum wage from CFA 80,000 (\$129) to CFA 300,000 (\$484) and reform pensions. Teachers' unions have threatened to cancel the current academic year unless the demands are met.³

Unions rejected a government announcement on 12 March claiming that it would introduce a new pay scale in July and August. The government did not specify the amount of the pay increase but said the minimum wage would remain unchanged.⁴ On 18 March unions also rejected a temporary 18% pay rise until a new remuneration system started in July.⁵ Relations between the government and unions remain strained since the government cut wages for the striking workers.

The strike has started to trigger street unrest. During a **Council of Ministers** meeting on 20 March the government called for teachers to return to classes on 23 March and threatened to take disciplinary action against the strikers. In response, on 23 March “hundreds” of students from several high schools and **Université Omar Bongo** held a protest outside the **Assemblée Nationale** in **Libreville**.⁶ An education ministry official claimed that police charged at students and dispersed them using tear gas. The police arrested two demonstrators and wounded at least one demonstrator.⁷

The political opposition has sought to capitalise on the strike action to heighten grievances against President **Ali Bongo Ondimba** (2009-present). Opposition leaders including former **African Union (AU)** commission president **Jean Ping** supported and briefly joined the 23 March protest.

“The government faces an unprecedented social front. The strike is a time bomb for the Bongo regime, which is blamed for the decline in purchasing power of Gabonese since 2009. The government will be forced to make concessions and to find enough money for wage increases and improve living conditions for Gabonese workers.”⁸

¹ AFP, 18 Mar 2015.

² AFP, 17 Mar 2015.

³ AFP, 17 Mar 2015.

⁴ Reuters, 12 Mar 2015.

⁵ AFP, 18 Mar 2015.

⁶ Voice of America, 25 Mar 2015.

⁷ Voice of America, 25 Mar 2015.

⁸ Source, journalist, Gabon

The strike comes in the context of increasing concerns over government finances, primarily due to the decrease in oil revenues following the fall in oil prices (see below). The government claims that the increase in the minimum wage would result in an expenditure increase of CFA 680 billion (\$1 billion) to CFA 2,500 billion (\$4 billion).⁹ Analysts also said that the minimum wage was already one of the highest in Africa, and would undermine the government's attempts to rein in spending.¹⁰ The public sector wage bill increased from CFA 300 billion (\$501m) in 2009 to a projected CFA 700 billion (\$1.2 billion) in 2014.¹¹

IMF review calls for budget review and economic diversification

An **International Monetary Fund (IMF)** review of the Gabonese economy confirmed increasing “*fiscal pressure*”.¹² On 18 February the executive board of the IMF concluded the **Article IV** consultation with Gabon. It concluded that economic growth had remained strong, the external current account is in surplus and inflation is in the low single digits. However, it said that the decline in oil prices had weakened the medium-term growth outlook. The government claims it is committed to controlling debt:

*“The government is aiming to keep public debt below its target of 35% of GDP in the medium term by broadening the non-oil tax base, controlling growth in current spending, and moderating public investment growth after significantly cutting it in 2014.”*¹³

The IMF urged the government to adjust its fiscal policy to reduce spending. It confirmed the government is planning to revise its 2015 budget based on the new lower oil price environment. The IMF recommended reducing the wage bill and phasing out oil subsidies, but “*safeguarding priority infrastructure and social spending*”.¹⁴ Prime minister **Daniel Ona Ondo** consulted the cabinet on an amendment to the 2015 budget on 12 February,¹⁵ however the government has to present an amendment to parliament. In a press interview Onda claims the economy is “*strong enough to resist the oil shock*”.¹⁶

The Assemblée Nationale passed the 2015 budget in December 2014 with total expenditure of CFA 3,073 billion (\$5.1 billion). The budget was based on oil prices averaging \$80 per barrel in 2015.

The decline in oil prices and revenues has led the budget ministry to revise downwards forecasted government revenue based on \$40 per barrel to CFA 1,739 billion (\$2.9 billion), down from CFA 2,973 billion (\$5 billion) in the revised 2014 budget. Oil revenue is forecast to reduce from CFA 1,322 billion (\$2.2 billion) in 2014 to CFA 541 billion (\$903m) in 2015, a 59% reduction. Non-oil revenue is forecast to reduce from CFA 1,351 billion (\$2.3 billion) in 2014 to CFA 1,198 billion (\$2 billion) in 2015, an 11% decline.

*“The budget ministry recognises the magnitude of the external shock that our country is facing and concedes that Gabon cannot avoid an economic recession in 2015.”*¹⁷

The IMF has said the oil price fall since mid-2014 has added increased emphasis on the government’s **Gabon Emergent** economic plan to diversify away from dependence on the oil sector.¹⁸ It recommended the government “*expand the non-oil tax base, notably by reducing tax exemptions and improving tax administration*”.¹⁹ It also advocated structural reforms to facilitate non-oil growth. This includes implementing the main pillars of Gabon Emergent, improving infrastructure and human capital. However it warned against the “*widespread use of tax exemptions*”, which “*erodes the tax base and significantly*

⁹ AFP, 17 Mar 2015.

¹⁰ AFP, 17 Mar 2015.

¹¹ Source, budget ministry, Gabon

¹² IMF, 18 Feb 2015.

¹³ IMF, 18 Feb 2015.

¹⁴ IMF, 18 Feb 2015.

¹⁵ L’Union, 12 Feb 2015.

¹⁶ Jeune Afrique, 5 Mar 2015.

¹⁷ Source, journalist, Gabon

¹⁸ IMF, 18 Feb 2015.

¹⁹ IMF, 18 Feb 2015.

weakens fiscal sustainability".²⁰ Onda claims the government's priorities for 2015 include developing transport and energy infrastructure and promoting small and medium-sized enterprises (SMEs).²¹

Strike leads to communications blackout

Gabon Telecom claimed an "*act of sabotage*" in Libreville resulted in a blackout of internet and international telephone calls on 9-10 March.²² It claims that unknown assailants damaged a fibre optic cable in an unnamed Libreville suburb, which caused the disruption.

Gabon Telecom has suggested that continuing strike action is related to the incident.²³ Prior to this incident Gabon Telecom secured a court ruling ordering striking members of telecommunications sector union **Syndicat National des Télécommunications (SYNATEL)** to stay away from the company's premises and refrain from acts of intimidation, harassment or violence.²⁴ The strike action also resulted in an internet outage from 24 to 26 February. Following that incident president Bongo spoke with union officials in an attempt to resolve the dispute.²⁵ Workers have demanded wage increases and bonuses since the privatisation of the company in 2007, when **Maroc Telecom** acquired a 51% share. Strike action has sometimes turned violent.

Despite the strike action and network disruptions in the past year Gabon Telecom achieved revenue of CFA 108 billion (\$200m) in 2014, a 21% increase on 2013.²⁶ Growth was centred around its mobile services through its subsidiary **Libertis**, which increased revenue 38% in 2014.²⁷ Gabon Telecom had 1.18m mobile users as at 31 December 2014, with internet users increasing 8.5% in 2014.²⁸

Implications

The continuing public sector strike increases Gabon's political risk profile. The political opposition will seek to foment further street unrest and link the strike to its anti-Bongo movement, creating greater tension in relations with the government. The unions' demands place Bongo in a difficult position. The unions will force him to make some concessions, which will further increase the high public sector wage bill.

Through 2015 the government's fiscal position will deteriorate and economic activity will decline. Bongo will be forced into increasing salaries and maintaining most subsidies. Thus, government will reduce expenditure on large infrastructure projects and the development of a number of key projects will slow further. These decisions will fracture the government's relations with key donors such as the IMF, and significantly undermine the investment climate.

The strike at Gabon Telecom demonstrates again that labour issues and industrial action remain a key business risk in Gabon. Union activity will continue at a high level – spurred on through political opposition involvement – in the lead up to the 2016 presidential election.

²⁰ IMF, 18 Feb 2015.

²¹ Jeune Afrique, 5 Mar 2015.

²² Jeune Afrique, 10 Mar 2015.

²³ Jeune Afrique, 10 Mar 2015.

²⁴ BizTech Africa, 9 Mar 2015.

²⁵ BizTech Africa, 9 Mar 2015.

²⁶ BizTech Africa, 8 Mar 2015.

²⁷ Afrique IT News, 5 Mar 2015.

²⁸ BizTech Africa, 8 Mar 2015.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)