

AFRICA RISK CONSULTING

Gabon Monthly Briefing November 2015

Gabon Summary 16 November 2015

The government approves a reduced 2016 draft budget amid falling oil revenues and continuing economic dependence on the petroleum sector. The development of major infrastructure projects will continue but at a slower pace, while political considerations related to the presidential election scheduled for 2016 will place further pressure on the fiscal position. The government announces the start of a new oil licencing round and resolves a dispute with Tullow Oil, to rejuvenate the oil sector. However, the presidency places state-owned Gabon Oil Company (GOC) into administration amid reports of management's lavish spending. In line with the deteriorated fiscal situation, Gabon falls in the World Bank's annual 'Doing Business' rankings.

The government maintains reduced budget

Amid falling oil revenues the government has maintained a reduced budget for 2016. On 9 October the cabinet approved a 2016 draft budget with projected expenditure of CFA 2,626 billion (\$4.3 billion).¹ This is 1% lower than the amended 2015 budget. In May the government reduced the 2015 budget 14% to CFA 2,651 billion (\$4.3 billion) from CFA 3,037 billion (\$5 billion).² The government said that the lowered 2016 draft budget is “in an economic context marked by the oil crisis”.³ This follows a finance ministry report released on 18 September that forecasts that oil production will decrease approximately 9% year-on-year in 2015, due to ageing oil fields and labour action compounding the impact of the lower oil prices.⁴ The oil sector currently accounts for 50% of government revenue and 85% of export revenues.⁵

Despite lower oil revenue, the government aims to pursue the development of major infrastructure projects to boost growth. It has assigned CFA 563 billion (\$922m) in expenditure to fund this.⁶ Notably, the government will continue to roll out its national fibre optic network, and construction of football stadiums in **Port-Gentil** and **Oyem** for the **Coupe d'Afrique des Nations (CAN)** (African Cup of Nations football) tournament scheduled in Gabon in 2017, as well as transport and sanitation projects in **Libreville** and Port-Gentil.⁷ The government will seek to raise as much as 70% of funding from external sources including development finance institutions and capital markets.⁸

“The presidency is very concerned about the low oil prices because it has prevented continuing apace with major works for which the president was elected.”⁹

Spending directly and indirectly related to the presidential election scheduled for 2016 will place further strain on the fiscal position:

“With the recent increase in public sector salaries [see ARC Briefing Gabon July 2015] and the presidential election in 2016 we can expect an increase in government spending.”¹⁰

¹ Jeune Afrique, 12 Oct 2015.

² See ARC Briefing for Gabon, June 2015.

³ Jeune Afrique, 12 Oct 2015.

⁴ See ARC Briefing for Gabon, Oct 2015.

⁵ Jeune Afrique, 12 Oct 2015.

⁶ Jeune Afrique, 12 Oct 2015.

⁷ Jeune Afrique, 12 Oct 2015.

⁸ RFI, 10 Oct 2015.

⁹ Source, journalist, Gabon

¹⁰ Source, journalist, Gabon

The government has stated that Gabon's continued reliance on food imports also has considerable implications for the economy.¹¹ The 2016 budget has provisions to implement the government's 'Graine' (seed) agriculture project to provide support to smallholder farmers.¹² The government hopes to see a significant increase in agriculture production in two to three years but has been slow in implementing the "ambitious" programme launched in December 2014.¹³

*"Graine has been implemented in only four of the nine provinces in Gabon...and it would be delusional to think that this programme alone can fill the void from lower oil revenues in the medium term."*¹⁴

Lower oil revenues have placed pressure on President **Ali Bongo Ondimba** (2009- present) to push through further budget cuts. In 2015 the government implemented several "stabilisation measures" to manage the low oil price environment including balancing the budget on a lower \$45 per barrel oil price and creating an oil stabilisation fund.¹⁵ Political commentators have called for the government to explore further options including abolishing the senate and other state institutions.¹⁶ Abolishing the senate would reportedly save more than CFA 20 billion (\$33m) per year.¹⁷

...and aims to rejuvenate the oil sector

The government has turned to the oil sector to halt the deteriorating fiscal position. At the **Africa Oil Week in Cape Town (South Africa)** on 27 October, petroleum minister **Etienne Dieudonne Ngoubou** officially launched a licensing round for five deep offshore oil fields.¹⁸ Ngoubou highlighted that the government aims to boost exploration.¹⁹ He said the government would finalise bidding by mid-2016.²⁰ Introductory seminars will take place in Libreville and **Paris (France)** in late November 2015.²¹ The government will accept bids between 15 February and 31 March 2016.²² The petroleum ministry has appointed French oil services group **CGG** as the technical consultant for the licensing round.²³

The government is also pinning its hopes of rejuvenating the hydrocarbons sector on **Royal Dutch Shell's Leopard Marin** discovery. At the Africa Oil Week, Shell said the offshore discovery could become Gabon's first commercial multi-TCF (trillion cubic feet) gas field.²⁴ In October 2014, the company announced that the **Leopard-1** well had encountered a "substantial" gas column.²⁵ Shell has an operating 75% share in the Leopold concession; **China National Offshore Oil Corporation** holds the remaining 25% interest.²⁶ Shell is also reportedly considering bidding on the new licensing round (see above).²⁷ However despite these developments, Ngoubou confirmed in April that Shell was one of several oil companies targeted in a sector-wide audit, which may result in demands for back taxes.²⁸

In another sign of the government's immediate focus on increasing oil revenues, on 8 October it brought to a close an 18-month long dispute with **United Kingdom-based Tullow Oil Plc** over the company's stake in the onshore **Onal** oil field.²⁹ The resolution of the dispute means that Tullow regains its 7.5% stake in the field. The government has extended Tullow's licence to operate until

¹¹ Source, journalist, Gabon

¹² Source, journalist, Gabon

¹³ Source, journalist, Gabon

¹⁴ Source, journalist, Gabon

¹⁵ S&P, 31 Jul 2015.

¹⁶ Le Nouveau Gabon, 9 Nov 2015.

¹⁷ Source, journalist, Gabon

¹⁸ Reuters, 27 Oct 2015.

¹⁹ Reuters, 27 Oct 2015.

²⁰ Reuters, 27 Oct 2015.

²¹ Zonebourse.com. 28 Oct 2015.

²² Zonebourse.com. 28 Oct 2015.

²³ Zonebourse.com. 28 Oct 2015.

²⁴ Reuters, 29 Oct 2015.

²⁵ RigZone, 22 Oct 2015.

²⁶ RigZone, 22 Oct 2015.

²⁷ Africa Intelligence, 10 Nov 2015.

²⁸ Wall Street Journal, 9 Apr 2015.

²⁹ Financial Times, 8 Oct 2015.

2034 and also granted the company access to two small oil discoveries it made in the **Enzanga** block in 2014.³⁰ Tullow made a series of increasingly attractive offers to the government to resolve the dispute.³¹ However, in 2014 Ngoubou locked Tullow out of discussions over the ownership of the field. Tullow relinquished all claims on revenue from the field while the negotiations took place and reportedly offered to pay an undisclosed sum of money to the government to let the company back into negotiations.³² Tullow also placed international pressure on the government and enlisted the aid of British prime minister **David Cameron** (2010- present). Cameron wrote to President Bongo directly on Tullow's behalf and reportedly offered aid to the Gabonese government to support the fight against elephant poachers.³³

*"The government did not want to commit the same errors as it did with **Addax Petroleum**, through its intermediary, (state-owned) **Gabon Oil Company (GOC)** (which took control of the **Obangue** field from Addax in 2014 following a dispute with the government)...GOC has found itself in difficult circumstances. The tensions have fallen, but negotiations between Tullow and the government were long and difficult."³⁴*

At the end of September the presidency placed GOC in administration.³⁵ The government established GOC in 2011 as the "symbol of President Ali Bongo's new oil strategy".³⁶ Former GOC CEO **Serge Toulékima**, the petroleum ministry, and the presidency reportedly relied on links with family and friends to manage GOC and engaged in "lavish" spending at the company, which led to its demise.³⁷ During his time at GOC, Toulékima was reportedly close to Ngoubou and Bongo.³⁸

Bongo and the government face increasing criticism over the economy's continuing dependence on the petroleum sector, which is currently in decline. According to **Total Gabon**, the country's leading producer, Gabon produced on average 220,000 barrels per day (bpd) in 2014, compared to over 300,000 bpd in 2000.³⁹

Gabon's Doing Business ranking worsens

The **World Bank's** annual 'Doing Business' report published on 27 October confirmed a further deterioration in the business environment in Gabon.⁴⁰ Gabon fell six places to 162 (out of 189 economies) in the rankings.⁴¹ The report is based on 10 "ease of doing business" topics: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.⁴² According to the report, Gabon dropped to 164th from 121st on the "dealing with construction permits" index and from 144th from 137th on the "starting a business" index.⁴³ It also dropped in rankings on "getting credit", "getting electricity" and "paying taxes" indices.⁴⁴

Gabon still claimed the best position in the unstable **Central Africa** region. **Mauritius** (32), **Rwanda** (62), **Botswana** (72), and **South Africa** (73) were the highest ranked **sub-Saharan Africa** countries.⁴⁵

³⁰ Reuters, 9 Oct 2015.

³¹ Reuters, 9 Oct 2015.

³² Financial Times, 8 Oct 2015.

³³ Financial Times, 8 Oct 2015.

³⁴ Source, advisor in the petroleum ministry, Gabon

³⁵ Africa Energy Intelligence, 10 Nov 2015.

³⁶ Africa Energy Intelligence, 10 Nov 2015.

³⁷ Gabon Review, 12 Nov 2015.

³⁸ Gabon Review, 12 Nov 2015.

³⁹ Agence Ecofin, 9 Nov 2015.

⁴⁰ World Bank, 27 Oct 2015.

⁴¹ World Bank, 27 Oct 2015.

⁴² World Bank, 27 Oct 2015.

⁴³ World Bank, 27 Oct 2015.

⁴⁴ World Bank, 27 Oct 2015.

⁴⁵ World Bank, 27 Oct 2015.

Implications

Economic and political factors related to the draft 2016 budget point to heightened investor risks in Gabon in the coming year. There is an increasing risk of fiscal slippage in the election year in 2016, particularly due to patronage-based politics in Gabon and preparations for Gabon's hosting of the CAN tournament in 2017. This will result in the government turning to investors to raise revenue, increasing the risk of one-off demands and other tax increases, non-payment risks and other hostile actions. Bongo will also lose electoral support due to the slow pace and stalling of key infrastructure projects, which he has pointed to as successes during his first term in office. He will also face increasing local and international criticism for the lack of economic diversification, another key tenet of his reform drive.

Government moves to rejuvenate the oil sector may result in less hostile actions – including audits – towards key investors in the sector in the immediate term. The resolution of the Tullow dispute is an admission of the damage to investor confidence in the sector due to the fallout over the disputes with several key investors including Addax Petroleum and Total Gabon. However, the reports of the management of GOC highlight the politicised nature of the sector.

Gabon's significant fall in the **World Bank's** annual '*Doing Business*' rankings is in line with the economic slowdown. The ranking underscores the increase in investor risks in the country over the last year.

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