

## PPIAF Assistance in Gabon

PPIAF supported the preparation of an infrastructure framework report for the government of Gabon in 2003, with the objective of assessing the legal, regulatory, and institutional framework for private sector participation in infrastructure, and evaluating the potential for private sector investment across the infrastructure sectors. In 2008 PPIAF provided additional support to try to remove bottlenecks to competition in the telecommunications sector through an examination of interconnection issues. PPIAF is currently funding two more activities in Gabon that are ongoing, which are supporting Gabon's new public-private partnership (PPP) program and the regulatory framework in the electricity sector.

### Technical Assistance for Gabon: Infrastructure Framework Report

In the early 2000s Gabon was a relatively wealthy country relative to neighboring countries in Sub-Saharan Africa, with a per capita income of \$3,160 in 2001, compared to a regional average of \$470. However, this relative wealth was not reflected in Gabon's social indicators, particularly with regards to access to infrastructure. The country had made some progress in the telecommunications sector with rapid growth in the number of mobile phone users, but the country suffered from a chronic lack of adequate infrastructure, particularly in the transportation sector.

The country was heavily reliant on the exploitation of dwindling natural resources, particularly oil revenues, which were expected to decline sharply. Therefore, addressing the remaining obstacles to the development of infrastructure services was crucial to improving the social and economic wellbeing of Gabonese citizens. The government believed that private sector participation would lead to increased investment in infrastructure services, which would increase access to basic infrastructure services to the poor, thereby helping to alleviate poverty.

It was in this context that the government of Gabon approached PPIAF in 2003 to provide support for an Infrastructure Framework Report that, in addition to reviewing the legal, regulatory, and institutional framework for private sector investment, would outline opportunities and challenges to help increase private sector participation across infrastructure sectors in Gabon.

The report found that public infrastructure provision in Gabon was inefficient, expensive, and prevented Gabon's economy from competing internationally and attracting foreign direct investment to explore natural resources due to the high cost of doing business in the country. The report also provided an overview of Gabon's efforts to attract private sector participation to improve provision of key infrastructure assets.

In the water and electricity sectors, Gabon's experience with concession contracts is one of the few success stories of this approach in Sub-Saharan Africa. Regulation in the sector is performed by contract, and costs are maintained at a socially acceptable level through cross-subsidization. However, the report noted that the level of cross-subsidization in place was unsustainable, and that households should pay closer to the true cost of service to make Gabon competitive.

Gabon has also had experience of private sector participation, not always successful, in the transport sector, specifically ports and railways. In the railway sector a concession for the Transgabonais railroad was awarded in 1999 but was terminated in 2003 due to the operator not performing to expectations. Following the termination, a two-year management contract was awarded to French firm Eramet. The contract ended successfully in 2005 and the government subsequently awarded Eramet a 30-year concession to operate the railroad. In addition, the government awarded management contracts for the Port D'Owendo and Port Gentil ports in 2004 (both canceled in 2006), and a concession for Libreville airport.

In the telecommunications sector, the government began the privatization process of the sector through the sale of 51% of Gabon Telecom to Morocco Telecom, as part of an effort to resolve the issues of high telephone costs and low access to the Internet. In addition, the government reformed the legal and

regulatory framework by establishing Agence de Régulation des Télécommunications (ARTEL). However, the report noted that ARTEL's performance had been substandard as it did not have the capacity to act as an independent regulator.

On a broader level, the report also reflected on the government's efforts to promote its PPP program in the country. The report stated that the government was unsuccessful in attracting additional private sector interest to its long list of PPP projects due to: insufficient project preparation, with projects advertised that did not have accompanying feasibility studies; no systematic institutional process to take these proposed projects to close; and a lack of clarity on how any of the projects fit into the broader fiscal and development priorities of the government.

Thus the report recommended the establishment of a PPP unit to try to resolve some of these issues and to help create a more systematic approach to PPP promotion and selection, and the development of a comprehensive intersectoral mechanism to provide effective and targeted subsidization support through models such as output-based aid. A final workshop was held on December 3–5 2007 in Libreville to present the findings of the report.

Recommendations from the framework report were not immediately implemented by the government of Gabon. However, as in many countries, the global financial crisis negatively impacted Gabon, and contributed to the reduction of liquidity and available funds for the banking sector, which in combination with pressures on public finance and diminishing assistance funding from development partners, led the government to re-energize its commitment to PPPs. The government produced a white paper, "Gabon Emergent," which prominently promotes PPP projects as an important tool to achieve its economic objectives.

Thus, the government recently approached PPIAF in January 2012 for support to develop and prioritize a PPP pipeline, and a fiscally responsible and sound enabling environment framework in which PPPs can be implemented. The activity will also present options to maximize institutional and human expertise on PPPs, potentially through the creation of a PPP unit, as recommended in the infrastructure framework report.

**Results of PPIAF's Support for Gabon's Infrastructure Framework Report**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Infrastructure Framework Report for Gabon, 2007</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Stakeholder workshop to present the findings of the Infrastructure Framework Report, 2007</li> </ul>

**Technical Assistance for Gabon's Telecommunications Sector**

Beginning in the late 1990s Gabon undertook a thorough reform of its telecommunications sector, pursuing market liberalization policies, privatizing the incumbent operator Gabon Telecom in 2007, and creating an autonomous and independent regulatory body, ARTEL.

Following sector liberalization, three private mobile operators entered the market, and access to mobile telephony grew rapidly as network reach expanded. At the end of 2007 there were approximately 1.2 million telecom subscribers (mobile subscribers accounting for 97% of the total number of subscribers), a teledensity of 79%.

However, the development of the telecommunications sector was adversely affected by long-lasting interconnection disputes (including access to essential facilities) between the various operators, mostly between the fixed and mobile operators. As a result, interconnection disputes pending settlements totaled more than \$50 million. Moreover, mobile tariffs were the highest in Africa. In addition, Gabon Telecom was rationing access to the bandwidth on its international fiber optic link, enabling it to earn monopoly profits on the international link.

As a result, the government of Gabon approached PPIAF in 2008 for assistance to enable a fair, efficient, and sound interconnection regime in Gabon through support to ARTEL. The issues related to the interconnection and fiber-optic link were identified as major bottlenecks in the sector in the PPIAF-sponsored Infrastructure Framework Report. Thus, this activity was designed to ensure open and non-discriminatory access to fixed and mobile infrastructures and unlock further dynamic development of the telecommunications sector.

The PPIAF-funded report indicated that sector-based legislation and the establishment of ARTEL as an independent regulator had been unable to facilitate the effective implementation of the rights and obligations of each operator with respect to interconnection and access to infrastructure. Disagreements between the operators over interconnection fees and access to infrastructure were to the detriment of customers, who were forced to pay higher tariffs. In addition, Gabon Telecom's sole access to the international connection by submarine cable (SAT-3) enabled it to charge monopoly prices and refuse access to other operators and service providers.

Three main bottlenecks limiting the potential of the telecommunications sector in Gabon were identified: 1) lack of market access to submarine cables, to which only Gabon Telecom had access; 2) market access to transmission capacity; and 3) market access to physical infrastructure.

The report analyzed the effects of these bottlenecks on the telecommunications market, particularly on pricing, and how this compares to other telecommunications markets in Africa. It found that high interconnection tariffs allowed operators to maintain their dominant position on competitors. In addition, the report concluded that to resolve these bottlenecks, ARTEL's authority and legitimacy needed to be urgently strengthened to support the development of free and fair market competition.

One of ARTEL's major challenges was the absence of an interconnection regime or cost structure. Interconnection fees occur when a mobile customer subscribed to Network A calls a customer subscribed to Network B. In this situation, Network B will charge Network A an interconnection fee for terminating the call on its network, and Network A will pass this charge onto the customer, resulting in the customer paying a higher tariff. However, with no accurate cost modeling, ARTEL was unable to determine the fair value of interconnection fees, making it almost impossible to arbitrate and resolve interconnection disputes, as each network was charging different interconnection fees. In order to strengthen ARTEL's authority, PPIAF supported the development of a cost model to determine the true costs of interconnection between operators. The model helped ARTEL to identify and allocate relevant costs, and direct and indirect network elements that contributed to the cost of interconnection.

The PPIAF activity concluded by providing some recommendations to improve competition in the telecommunications market. The final report recommended a vertical split between wholesale and retail offerings, to be formalized through an accounting separation between wholesale and retail services, to help identify the true costs of interconnection. In addition, it recommended that ARTEL develop specific regulations to allow open and non-discriminatory access for all operators and providers to physical infrastructure to foster real competition in the retail market, and force operators to compete on services rather than infrastructure. A stakeholders' workshop was held in Libreville in December 2009 to disseminate and present the finds of the report.

At the conclusion of the PPIAF activity, outcomes had already been achieved. ARTEL created a specialized team that was trained in using and implementing the cost model developed under the PPIAF activity.

In September 2009 ARTEL announced that the principles of non-discrimination and cost-oriented fees were not being respected in the interconnection rates being charged between operators, which was resulting in a higher average mobile termination rate in Gabon compared with other Central and West African countries, with resulting higher tariffs for mobile customers. As a result, ARTEL set new interconnection rates for operators. National mobile termination rates were set at XOF40<sup>1</sup> per minute for 2009 (to apply retroactively for the period January-September 2009), falling to XOF38 in 2010. Mobile interconnection for national transit, outgoing international transit and incoming international transit was set at XOF13 per minute for both 2009 and 2010. SMS and MMS interconnection rates were set at XOF10 and XOF20, respectively, for both years. Tariff ceilings for fixed-to-mobile calls were set at the same rates as mobile-to-mobile. The maximum call termination tariff for mobile-to-fixed calls was set at XOF45 per minute in 2009 and XOF43 in 2010, while national transit and international transit rates were set at XOF15 per minute for both years.

All operators agreed to stand behind ARTEL's decisions on the new rates.

### **Results of PPIAF's Activities in Gabon's Telecommunications Sector**

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Overview of the interconnection market in Gabon, 2009</li> <li>• Establishing a telecommunications interconnection regime in Gabon, 2009</li> <li>• Modeling the costs of interconnection in Gabon, 2009</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Stakeholder workshop on a proposed new interconnection regime in Gabon, 2009</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> <li>• Specialist unit created within ARTEL, fully trained on using and implementing the cost model to determine interconnection rates, 2009</li> </ul>
<b>Capacity and awareness building</b>	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> <li>• Consensus was achieved on the importance of determining fair value on interconnection rates to ensure that customers were not being charged higher than cost rates due to the disputes between operators. Using the cost model developed under the PPIAF activity, ARTEL set new interconnection rates that were accepted by all operators, 2009</li> </ul>

<sup>1</sup> XOF500 = \$1. XOF is otherwise known as CFA Franc.