

CÔTE D'IVOIRE UPDATE [REV]

Significance of the continuing unrest

While one's initial assessment that the wave of mutinies that erupted on Jan. 6th posed no significant threat has been largely borne out by the mutineers' prompt return to barracks, an update is clearly in order.

The haste with which defence minister Alain-Richard Donwahi was dispatched to negotiate with aggrieved soldiers in Bouaké¹, and the speed with which the government accepted their pecuniary demands have triggered a series of copy-cat actions by other groups within the armed services. This situation has potentially far-reaching implications.

2) The agreement negotiated by Donwahi provided for a gratuity² consisting of an immediate disbursement of CFA 5 million followed by 12 monthly payments of CFA 1 million, for a **cumulative total of CFA 144.5 billion (i.e. approx. USD 19,700) each.**

3) Inexplicably, however, this **dispensation turns out to apply to no more than 8,500 individuals**³. This is out of the total of approximately 14,600 former *Forces Nouvelles* soldiers who had played a significant role⁴ in helping to dislodge the recalcitrant Laurent Gbagbo, then refusing to relinquish power after losing the 2010 election to Alassane Ouattara.

4) As such, the disbursement of the first installment on Mon. 16th was almost **guaranteed to provoke a reaction from those not covered by the agreement.**

- On the morning of Tuesday 17th, a group of 50 soldiers seized weapons from the armoury at the **Zambakro armed forces academy** and then, having commandeered dozen or so SUVs, drove the 12 km to the capital Yamoussoukro to protest at having been excluded from the settlement.

- At the same time, **members of the gendarmerie took to the streets** in the northern towns of **Man** and **Daloa** as well as in **Dimbokro** (50 miles south east of Yamoussoukro), firing their weapons into the air and demanding that they too receive payment.

- Protests continued this morning, when **members of the gendarmerie** assigned to the port of Abidjan **blockaded the country's largest cargo hub**. Significantly, however, this group does not appear to have included former *Forces Nouvelles* soldiers, since its demands have made no mention of the 'selective' award⁵.

- Meanwhile, the **police force is emerging as yet another foyer of potential unrest**, amid reports of demands for a salary increase and the settlement of arrears in the payment of certain allowances.

¹ I.e. less than 24 hours after the soldiers there had occupied the town centre.

² The award is to make good on a promise made to induce their demobilization from the *Forces Nouvelles* army and their incorporation into the regular armed forces of the Côte d'Ivoire.

³ Several reports have suggested that the award was made in favour only of rebel soldiers incorporated into one of the three branches of the armed forces (i.e. army, navy and air force), thus excluding their former comrades-in-arms recruited into such uniformed services as the gendarmerie, the police force and the customs departments.

⁴ In 2010, the armed forces of the *Forces Nouvelles* had rebranded themselves the *Forces Républicaines*, pledged allegiance to Alassane Ouattara who, as leader of the had just defeated

⁵ Instead, these gendarmes are demanding, inter alia, the reinstatement of a monthly food allowance of CFA 50,000 (USD 82) and a per diem mission allowance of CFA 8,400 (USD 13.75), discontinued in 2011.

5) The indications are that the Ouattara government will quickly accede⁶ to the bulk of the foregoing demands in the hope of restoring order to the armed services where the chain of command has essentially broken down⁷.

But such accommodation will simply encourage mutinies by other units within the armed forces, giving rise to two sets of adverse consequences.

6) In the first place, the steady erosion of discipline within the armed forces will increase Côte d'Ivoire's vulnerability to external aggression at a time of increasing terrorist activity across the Malian border by the Islamist movements Al Murabithoun and Ansar Dine.

7) The second set of ramifications are budgetary.

■ If the settlement negotiated by the defence minister were extended to cover all 14,600 former rebel soldiers currently enrolled in the armed forces, the total cost would rise to CFA 248.2 billion⁸ (USD 406.9 million), equivalent to 1.18% of GDP⁹.

■ If the government felt compelled to make an equivalent payment to all 22,000 members of the armed forces, this would raise the cumulative total to CFA 374 billion (USD 618.5 million), equivalent to 1.77% of GDP.

8) At the same time, it should be noted that Ivorian civil servants have been on strike since Jan. 9th, demanding action on a series of issues, including:

- the reversal of pension reforms that have seen the retirement age raised from 55 to 60 years; pension contributions increased from 6% to 8.33% and the defined benefit raised from 50% to 30% of compensation;
- the settlement of salary adjustment arrears on the order of CFA 243 billion (USD 398 million), equivalent to 1.15% of GDP.

9) Amounting to a potential 4-5% of GDP, the cumulative fiscal burden implied by the various demands summarized above would represent a significant drag on Côte d'Ivoire's economy.

As such, there is an awful lot hanging on how Ouattara chooses to respond to the continuing unrest in the armed forces and civil service.

⁶ This afternoon's statement by Interior minister Hamed Bakayoko exhibited no more resolve in the face of rampant indiscipline than the government's previous concessions, viz.: "The situation is alarming, but Ivorians should place their trust in us. The government will come up with solutions, but not amid such chaos." [*"La situation est alarmante mais que les Ivoiriens nous fassent confiance. Le gouvernement trouvera des solutions, mais pas dans le chaos"*].

⁷ This situation has persisted even though President Ouattara replaced the Army chief of staff, the commandant of the Gendarmerie and the Police chief three days after the first wave of mutinies.

⁸ I.e. from CFA 144.5 billion (USD 236.9 million), equivalent to 0.68% of GDP.

⁹ N.B. all GDP references are to the provisional 2016 estimate of CFA 22,102 billion (USD 34.6 billion).

This Report has been prepared purely for the purposes of information and neither constitutes, nor is intended to constitute an offer to sell or the solicitation of an offer to purchase securities. Although the statements of fact in this Report have been obtained from, and are based upon sources that Rhombus Advisors LLC believes to be reliable, the Firm does not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and forecasts included in this Report represent the Firm's judgement as of the date of the Report and are subject to change without notice.