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Currency Unit =
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Weight and Measures

Metric System

Abbreviations and Acronyms

AECID	Spanish Agency for International Cooperation for Development
AfDB	African Development Bank
ARIs	Acute Respiratory Infections
BD	Budget Directorate
B/d	Barrels per day
BEAC	Banks of Central Africa States (Banque des Etats de l’Afrique Centrale)
CDE	Center for the Development of Education (Centro de Desarrollo de la Educación)
CEMAC	Economic and Monetary Community of Central Africa
COFOG	Classification of the Functions of the Government
COU	University Orientation Course (Curso de Orientación Universitaria)
EEH	National Household Survey (Encuesta Estatal de Hogares)
EFA- FTI	Education for All – Fast Track Initiative
EIA	Energy Information Administration of the U.S. Department of Energy
EITI	Extractive Industries Transparency Initiative
ENPIGE	National Enterprise for Housing Promotion of Equatorial Guinea (Empresa Nacional de Promoción Inmobiliaria de Guinea Ecuatorial)
EQG	Equatorial Guinea
ESBA	Basic Secondary Education
EU	European Union
FCD	Financial Control Directorate
FCFA	Franc of the African Financial Community (Franc de la Communauté Financière Africaine)
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSB	General State Budget
GNP	Gross National Product
GoEQG	Government of Equatorial Guinea
HDP	Health Development Plan
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IDA	International Development Association
IGF	General Inspection of Finances (Inspección General de Finanzas)
IMF	International Monetary Fund
INE	National Statistical Institute
INSESO	National Social Security Institute (Instituto Nacional de Seguridad Social)

LSMS	Living Standards Measurement Study
MCDI	Medical Care Development International
MDGs	Millennium Development Goals
MECD	Ministry of Education, Science, and Sport
MoFB	Ministry of Finance and Budget
MoE	Ministry of Education
MoIU	Ministry of Infrastructure and Urban
MoPA	Ministry of the Public Function and Administrative Reform
MoPD	Ministry of Planning and Development
MSBES	Ministry of Health and Social Welfare
OECD/DAC	Organisation for Economic Co-operation and Development/Development Assistance Committee
NDP	National Development Plan
OHADA	Organization for the Harmonization of Business Law in Africa
ORTEL	Regulatory Agency for Telecommunications (Órgano Regulador de las Telecomunicaciones)
PCMIB	Malaria Control Project (Proyecto de Control de Malaria de la Isla de Bioko)
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Finance Management
PIH	Permanent Income Hypothesis
PIP	Public Investment Program
PRODEGE	Program for Educational Development of Equatorial Guinea
SFERE	French Agency for Exporting Education Resources (Société française d'exportation des ressources éducatives)
SNS	Health sector's information system
SOE	State Owned Enterprise
SONAPESCA	National Society of Fishing (Sociedad Nacional de Pesca)
SSSP	Social Sector Support Project
STIs	Sexually Transmitted Infections
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNED	National Distance Education University (Universidad Nacional de Educación a Distancia)
UNGE	National University of Equatorial Guinea (Universidad Nacional de Guinea Ecuatorial)
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
VAT	Value Added Tax
WHO	World Health Organization

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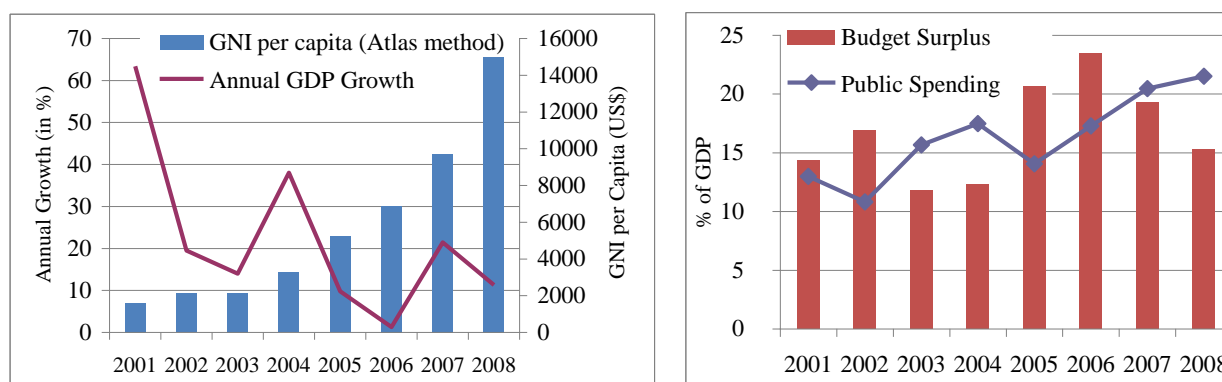
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EXECUTIVE SUMMARY ¹

Context

1. **Rapidly rising oil income since 1991 has made Equatorial Guinea comparatively wealthy, although poverty reduction has lagged behind.** Part of the reason for this paradox can be traced to how far the country has had to climb since the period after independence in 1968, which was marked by severe economic contraction and weak institutional capacity. Political turmoil led to population decline, economic stagnation, falling social indicators, growing impoverishment, and a truncated private sector. When Equatorial Guinea (EQG) began exporting oil in 1991, yearly gross domestic product (GDP) was merely US\$132 million, or US\$330 dollars per person. However, mounting government oil revenues during the 1990s (estimated at US\$1.3 billion) and an inflow of foreign direct investment (FDI) signaled that the chronic stringency and dependence on aid that had characterized the country's economy for nearly a quarter century was over. Indeed after 2000 the stream of income grew to a torrent as rising hydrocarbon production and soaring global prices brought the state an estimated US\$25 billion in revenues during the next eight years. GDP growth averaged 22 percent annually between 2000 and 2008, with GDP per capita today among the highest in Africa. Meanwhile the current account and fiscal balance remain in surplus (Figure ES 1:) even though public spending has vastly expanded. The oil boom has spilled over to the non-oil economy, especially through public investment in infrastructure and private construction, with the average yearly growth rate of consumption running around 20 percent since 2000. Yet indicators of social and human development as well as governance remain low, and Equatorial Guinea ranks 127th out of the 177 countries in the 2007/08 United Nations Development Programme (UNDP) Human Development Index. Despite the considerable public outlays, the budget structure does not favor social investment, with recurrent education and health expenditures in 2008 accounting for only 11 percent of total current expenditure (0.2 percent of GDP) and 6.4 percent of total current expenditure (0.1 percent of GDP), respectively.

Figure ES 1: Real and Fiscal Data



Source: World Bank

2. **Thus despite nearly two decades of oil-fueled growth, very serious challenges remain, with a looming threat that the present pace will falter and fade without new sources of wealth generation:**

- **Unsustainable economic policies.** Petroleum production will start to tail off by 2013 and is expected to run dry by 2035. Current economic policies based on high public sector expenditure

¹ The data in this report is based on the available information at the time of preparation (2008 and 2009).

cannot be maintained unless the private sector develops and the economy diversifies. While efforts to discover and exploit new hydrocarbon resources, if successful, will allow the government to maintain current policies longer, the reserves are finite and EQG must start now to prepare its economy for the post-oil era.

- **High levels of poverty.** Despite abundant petroleum revenues, the standard of living of most of the population has not significantly budged and poverty is widespread. Indications show that nearly three of four people live on less than two dollars per day; and about half the population lacks access to safe drinking water or sewage facilities. Furthermore, the contrast between high per capita income and high poverty rates and the widening gap in income distribution pose a serious menace to social stability in the medium term unless addressed adequately and quickly.
- **High unemployment among the fast-growing urban youth population.** Structural change in the economy has been accelerated by low agricultural productivity and heavy migration from rural areas that, with growing immigration, expand the need for urban employment opportunities and social services. The demand for jobs is exacerbated by a large cohort of youth funneling into the labor force, with 244,000 to 491,000 new workers projected during 2010–20. New jobs will have to be created in the non-oil economy since the petroleum industry is capital intensive and employs relatively few highly skilled workers, who are often from other countries.
- **Weak governance.** Rising incomes have not been matched by better overall governance or stronger institutional capacity in the public sector, which continues to function in many respects as it did before petroleum was discovered. This hinders private sector participation in the non-oil economy, which is reflected in the country's low rank in the Doing Business Index (167 out of 181 countries). The public sector, financed by high oil revenues, continues to be the main economic agent, often operating ineffectively while distorting market incentives and not fulfilling its redistribution responsibilities.

3. **To respond to these challenges, Equatorial Guinea has adopted a National Development Plan to diversify its economy out of petroleum production and broaden the foundation of its wealth by developing the skills and well-being of its people.** While the government for some time has invested heavily in upgrading the country's ailing infrastructure, it has started to take additional measures to prepare the economy for the transition ahead. A National Development Plan (NDP) was adopted in 2007 to set a strategy for economic diversification and poverty reduction (Box ES1). Early on, the authorities have emphasized large investment programs to implement the NDP and meet public needs. Two complementary steps also are under way to ensure that petroleum resources are used to create a more positive long-term framework for the economy: (a) a campaign to obtain validation from the Extractive Industries Transparency Initiative (EITI) to improve petroleum sector transparency; and (b) a push for more sustainable macroeconomic policies, for example by adhering to the Permanent Income Hypothesis (PIH) to ensure that the return on petroleum is adequately conserved for future generations.

Box ES 1: The National Development Strategy of Equatorial Guinea

The National Development Plan (NDP) *Guinea Ecuatorial 2020* was adopted in 2007 at an international conference in Bata. This plan reflects the government's view that the recently favorable growth performance belies the fragility of present foundations for future expansion since the economy is overdependent on oil production expected to run dry circa 2030. The NDP lays out an economic and social vision through 2020 for meeting these challenges. This strategy highlights two objectives: (a) transition from an oil to a diversified economy, and (b) the reduction of poverty and enhancement of social cohesion. To do so, the NDP emphasizes job creation and labor productivity so that the future growth path is inclusive and cuts poverty.

NDP implementation began with approval of Decree Law 2/2008, which officially adopts the plan and creates the institutional framework for its implementation. This framework includes (a) the governing Council "Equatorial Guinea–Horizon 2020," which is formed by the President and other government officials and holds quarterly meetings; (b) the National Commission for Monitoring and Evaluation of the National Economic and Social Development "Equatorial Guinea–Horizon 2020," headed by the prime minister and comprising other members of government and representatives of the sponsor board, workers and civil society, which oversees the creation and operation of sector technical committees; and (c) a National Agency "Equatorial Guinea–Horizon 2020," for the management, coordination, monitoring and evaluation of the National Economic and Social Development "Equatorial Guinea–Horizon 2020." Some of the agencies in charge of implementing various policies adopted in the NDP have also been created, such as the National Enterprise for Housing Promotion (ENPIGE) and the National Society of Fishing (SONAPESCA).

The NDP identifies potential growth-enhancing sectors: energy, fishing, agriculture, tourism, financial services, manufacturing and mining. It also lays out the need to improve several critical areas such as governance and corruption, as well as the need to improve the business environment. The latter is perceived to be a major constraint in attracting resources and know-how from international investors to the nonpetroleum economy. As a remedy, the NDP proposes a broad set of reforms to simplify business regulations, strengthen property rights, increase credit access and reduce trading costs.

The NDP does not provide an overall cost of either its implementation, or its distribution among sectors. Nonetheless, it proposes two implementation phases. During the first phase (2008–12) the government will launch critical reforms in the areas mentioned above, create the institutions and public companies responsible for implementing the NDP, and substantially increase public investments for achieving NDP objectives. During the second phase (2012–20), the government will continue the reform process, building up institutional capacity at all levels of public administration to ensure sustainability of the reforms.

The Government of Equatorial Guinea signed a Services Agreement with the World Bank in 2007 to prepare a Public Expenditure Review. This report will provide recommendations to raise public sector efficiency and improve public financial management to ensure that the policy objectives laid out in the NDP are translated into annual budgets and implemented quickly yet efficiently to achieve results on the ground.

4. **However NDP implementation has been seriously hampered by weak governance, limited information and low institutional capacity, yielding few results thus far.** It is therefore critical at this juncture for the government to increase transparency and engage fully with partners (including the Bank and the EITI) to address the low public sector efficiency and poor business environment and broaden participation in oil sector income to get the plan on track and moving forward.

5. **The government is eager to accelerate implementation of the NDP by improving economic governance in the public sector.** While improving the business environment is key for successful private- sector-led growth to achieve sustainable economic diversification, the government has decided to begin the transformation process by accelerating public sector reforms to improve economic governance so that current resource flows can be managed more efficiently for long-term impact. To that end, it signed a Services Agreement with the World Bank in 2007 for improving compilation of the national accounts and carrying out this Public Expenditure Review (PER) to propose measures for more efficient

public spending that raises non-oil sector productivity, facilitates economic diversification and generates employment to reduce poverty and improve income distribution in the medium term.

6. **Indeed, sustainable economic growth, job creation and poverty reduction can only be achieved through productivity increases in the non-oil economy.** The recent decline in world oil prices has tempered the sense of abundance that oil revenues had generated up to 2008, and highlighted the need to accelerate reforms toward economic diversification. Chapter 2 of the PER shows that the contribution of oil revenue expenditure to diversification depends on an efficient budget allocation process, based on clear priorities. Chapter 3 shows how this, in turn, requires changes in the institutions and procedures that govern budget implementation (notably the investment program that represents 80 percent of the public budget). With the first wave of investment spending in large infrastructure projects coming to an end, the next wave of budget investment must be implemented not only quickly but efficiently and be oriented toward NDP priorities. Thus Chapter 4 reviews expenditure trends in education to understand if the public resource flow is sufficient for meeting Millennium Development Goals (MDGs) by achieving a 100 percent primary completion rate, and fulfilling the need to increase labor productivity in the medium term. Finally, Chapter 5 reviews whether health sector spending meets the pressing challenges confronting the country of reducing the prevalence of communicable diseases such as HIV/AIDS and malaria, and extending adequate primary health care coverage to the entire population.

7. **Economic diversification cannot be leveraged simply through investment; it requires implementation of macroeconomic policies that counteract the negative short-term effects of high petroleum revenues.** While oil production has fueled economic growth and lifted key financial constraints, it has also distorted economic incentives and worsened overall governance. Equatorial Guinea has not been spared the economic problems common to petroleum exporting countries, including limited absorption capacity, oil revenue volatility, and fluctuations of the real exchange rate. These call for decisive implementation of prudent macroeconomic policies and of structural reforms that reconcile the goals of raising petroleum revenues and development of the non-oil economy while promoting governance conducive to private sector development.

Three Critical Needs

8. This analysis of public spending and fiscal management highlights three critical weaknesses that hinder economic governance in the public sector:

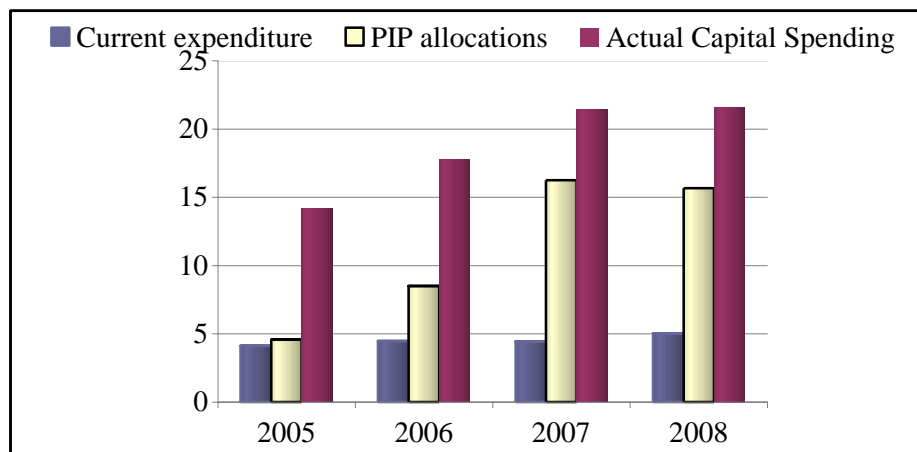
- Lack of adequate information to facilitate effective policy making and implementation
- Weak procedures for public finance management, notably for administration of the investment program
- Insufficient social sector spending and an inadequate balance between capital and recurrent expenditures.

9. **The scarcity of reliable fiscal and general socioeconomic information constrains authorities from designing and implementing adequate policies.** First, the dearth of household and enterprise surveys limits preparation of the national accounts, poverty assessments, and knowledge about the labor market. Second, the large and longstanding difference between national and international sources for population estimates has not been resolved. While national sources project 1.6 million inhabitants in 2010, United Nations (UN) sources report only around 700,000. Third, budget implementation data do not conform to budget classification, making adequate budget supervision impossible. Filling these data gaps require immediate action by the authorities, who could use the recently created National Agency 2020 to take the lead as part of its effort to increase institutional capacity for planning and improve coordination among different agencies and ministries to better supervise implementation of the NDP.

10. **Incomplete and poor quality economic data has also hindered preparation of this report.** Often information about a key matter was unavailable, or when available, its coverage, quality and usefulness were limited. This was particularly evident for social indicators and population. The government has started addressing this problem. As part of the Services Agreement signed with the World Bank, upgrading of the statistical system is expected, notably with preparation of National Accounts consistent with international standards. Efforts are also under way to initiate a new household survey and a census that would settle the population data discrepancies. (Steps to remedy data gaps are discussed in further detail in Section C of this summary.)

11. **Even if better data were available, current budget management practices undermine the ability to guide allocation expenditure in support of public goals.** The 2003 law that regulates public finances is not implemented, and customary practices reduce transparency and make the process prone to irregularities. Long and centralized budget procedures severely delay budget implementation and lead agencies to bypass regular channels, which not only results in poor reporting but in inadequate budgetary supervision. Particular attention is needed in the Public Investment Program (PIP), which represents 80 percent of the total budget but follows ad-hoc budgetary procedures, involves too many actors and diffuses accountability. Further complicating the process, extra budgetary spending occurs throughout the fiscal year (Figure ES2). This not only circumvents controls, it weakens the capacity of the authorities to manage the macroeconomy and achieve longer-term economic and social goals. (Steps to improve financial management are discussed in further detail in section D).

Figure ES 2: Budget Composition and Capital Overruns



Sources: EQG authorities and World Bank

12. **Finally, the insufficiency of social sector public expenditures is inconsistent with the NDP's stated goals for economic diversification and poverty reduction.** Budget spending has focused on improving the country's outmoded infrastructure, mostly roads, ports and airports. However, NDP goals require a radical shift of public resources toward pro-poor and productivity-enhancing social sectors to boost efficiency in the non-oil economy and cut poverty. Current allocations do not adequately reflect NDP priorities, and the authorities need to strengthen the link between public policy prioritization and the budget process. A first step would be to increase participation by social sector ministries in budget preparation (including the investment program) and implementation. (Reorienting allocation by priorities is explored in further detail in section E.)

Addressing Information Shortcomings

13. **Given the importance of reliable population data to setting priorities and measuring progress toward meeting them, the authorities should strengthen technical cooperation with international organizations to reconcile the current disparity in population estimates.** The large discrepancies described in section B (with national population projections more than doubling UN projections) make it impossible to set credible targets for social services, employment and other areas of concern; undermine budget allocation decisions; and hinder policy formulation to achieve NDP objectives and the MDGs. The authorities should coordinate with international organizations as soon as possible to prepare a new population census that follows international standards and resolves lingering uncertainty.

14. **A poverty assessment is required to better understand the impact of economic growth in income distribution and the best policies to reduce poverty.** The national accounting system is at an early stage of development, and estimates of GDP sector composition contain weaknesses, which hinders the development of policies to diversify out of petroleum production. Furthermore, limited household and firm surveys are available, and social sector information is generally scarce and unreliable since it does not conform to internationally accepted methodologies, which also makes international comparisons difficult. This information vacuum makes it difficult to design effective efforts to remediate poverty when its distribution and characteristics are not known with much precision.

15. **Improvements in the classification and recording of public spending are needed to ensure adequate implementation and reporting of disbursements.** A pervasive deficiency in the existing classification of public expenditures deeply undermines the value of information for various spending categories. Actual disbursements cannot be compared with the budgeted appropriations because of differences in the reporting formats. There are large extrabudgetary expenditures, and large parts of public expenditures are implemented outside of regular budget procedures and are never adequately recorded. The authorities need to further improve the quality and consistency of budget reporting so that both the government and public can better understand what is actually being spent, without which the much needed increases in effective financial planning and budget implementation cannot occur.

Improving Public Finance Management

16. **Improving institutional capacity to increase collection of non-oil taxes is essential to ensure adequate public sector financing in the medium term.** Since 2002, hydrocarbon income has generated almost 90 percent of public revenues, while nonhydrocarbon sources have been neglected, with customs and value added taxes declining in relative importance. This calls for additional efforts to build capacity in the Customs and Tax Directorates to improve collection, reduce evasion and ensure equal treatment of taxpayers. The current complex system of fees should also be simplified since it constitutes a serious handicap for private sector development in the non-oil economy.

17. **Streamlining budget procedures and improving budget classification are prerequisites to increasing much needed budget discipline.** Information about the legal framework governing public finance management is limited, and when it does exist (as with the 2003 Public Finance Law) it is not applied. Mandated procedures are time consuming and often circumvented, which reduces transparency and accountability. Consequently only an economic classification of budget execution is prepared, with no reliable administrative or functional information about spending. This seriously inhibits the government's ability to adequately supervise implementation of disbursements and assess public policy impacts. The government should review budget administration to cut red tape, preserving adequate controls on the most relevant steps while limiting the use of exceptional procedures and reducing payment delays. It should also ensure that the same economic and administrative classifications are used for the approved and executed budgets and that an additional administrative classification is introduced in the

investment program to differentiate between infrastructure and other types of investment that should be classified as current expenditures.

18. **External oversight and transparency of the public sector—notably for petroleum revenues— should be strengthened.** Information about the national budget and public sector performance is not accessible to the general public. There are no external audit reports, and contract awards are not published, which reduces the government’s accountability to Parliament and citizens and increases opportunities for misappropriation. Petroleum revenues are not formally audited. Rapid implementation of the EITI would provide timely and relevant information on the sector. Finally, there is an urgent need to raise institutional capacity to oversee the array of decentralized public sector institutions and present a consolidated budget. The government should make use of modern technologies and publish budget reports and procurement contract information on the Internet to inform the public.

19. **Sector ministries need to participate further in budget preparation and implementation.** By 2008 it was clear that the current project selection and implementation system was reaching its limits, and the 1,400 projects in the PIP could not possibly be implemented simultaneously given existing capacity constraints. The bottleneck can only grow since the NDP calls for additional financing to be directed toward sector ministries to get quick results in poverty reduction. Clearly an adjustment is required. The number of projects in the PIP will have to shrink while additional responsibility is delegated to sector ministries for selecting sector projects within sector envelopes allocated by the Ministry of Finance and Budget (MoFB). This change will also allow better planning for future project maintenance and operating costs. In that vein, sector ministry participation should be ensured throughout project implementation to ensure adequate planning for transfer of the social infrastructure into service and ensure its sustainability after operations begin.

20. **The National Agency 2020 provides a good opportunity to improve coordination across key government agencies and improve budget reporting and evaluation.** The current dual budget system needs improved coordination between the MoFB (which implements the current budget and sets the investment ceiling) and the Ministry of Planning (which implements the PIP). This could be achieved by setting sector ceilings for current and investment allocations, making use of the same classification during budget implementation, and making both budgets more consistent with the NDP goals. There is also an overlap in authority and responsibility within the investment program that creates confusion. Insufficient coordination between Geproyectos (which is in charge of investment implementation), the MoFB, the Ministry of Planning, and the sector ministries results in poor reporting on actual execution of the PIP. Geproyectos does not use the Public Investment Program as a tool for investment prioritization and selection; and that, coupled with implementation of non-PIP projects, renders the PIP useless as a tool for raising spending efficiency. The recently created National Agency 2020 is an opportunity to overhaul the institutional setting and ensure adequate coordination and accountability of all stakeholders, making the PIP a relevant policy tool. Creation of a database with updated project information from all participating ministries (including sector ministries) would strengthen the process, allowing the National Agency 2020 to annually report and evaluate implementation of the PIP.

21. **Investment efficiency would benefit greatly from outsourcing critical analysis while building up institutional capacity.** At present, project appraisals are seldom conducted because quick implementation is at a premium given the dire needs of the country. However, expansion of the investment budget without project appraisals results in arbitrary selection that cannot ensure acceptable returns on outlays. Outsourcing appraisals would ensure adequate technical review of project proposals and would raise institutional capacity in the government by training government staff at the same time. Also considering the limited capacity in Geproyectos and the Ministry of Infrastructure, further outsourcing of project supervision should be considered while resources for upgrading internal public sector capacity are focused on better overall supervision of the investment program. Lastly, a public

procurement regulatory framework needs to be developed and implemented to raise efficiency in investment planning and budgeting through the preparation and use of unit cost databases to assess bidding proposals, and institution of adequate controls to avoid conflicts of interest.

Expanding Social Sector Expenditures and Changing the Budget Allocation Structure

22. **Current social sector expenditures need to be expanded to meet growing social needs.** Current expenditures represent 20 percent of total public expenditures in Equatorial Guinea, well below the average of about 66 percent in other countries of the Economic and Monetary Community of Central Africa (CEMAC). Outlays are also insufficient given the low level of social indicators they are meant to change and the looming challenges of job creation and poverty reduction. The first priority is to ensure that current expenditures in the public investment program (about one-third of the total) are appropriately reclassified and implemented through regular budget procedures. The second priority is to reallocate expenditures from public administration and defense, which represent 57 percent of current spending in 2008, toward social sectors that represent only 17 percent.

23. **Subsidies and transfers need to be targeted better, and public employment needs to be more responsive to the most critical social needs.** While there is scope to increase the wage bill, the authorities should ensure that it is done as part of the ongoing reform of public administration so that salary increases align with productivity gains and public employment concentrates in the most needed social sectors. Transfers and subsidies, which represent almost a third of current expenditure, also need to be better targeted and overseen. The MoFB currently lacks the resources to adequately monitor the autonomous institutions that receive transfers from the public budget, making it difficult to ensure that they comply with their social role. Also, large subsidies that disproportionately benefit the better-off, such as those for fuel, should be overhauled.

24. **Implementation of social sector projects needs to be more efficient.** With the completion of many large transport projects, the NDP foresees a shift in investment toward infrastructure in social sectors (education, health, water and sanitation, and housing) that are undersupplied given the dire needs of the population. Initial attempts to increase such investments in 2008 had limited success, with only 3 percent of GDP actually implemented. Parallel attempts to expand social sector investment, such as the Social Development Fund established in 2005 with support of USAID, also have yet to succeed. Attaining noticeable results in social indicators will require decisive political commitment to accelerate project implementation, increased recurrent spending for more qualified staff, and adequate funding of operational and maintenance costs. Quick wins, such as implementation of projects already identified by the Social Development Fund, are achievable in the short run. In the medium run, reform of investment procedures will be required to allow additional participation by social sector ministries in the preparation and implementation of the PIP.

Addressing Macroeconomic Challenges

25. **To avoid spending oil wealth too quickly while ensuring proper management of oil savings, public expenditures should be brought in line with recommendations from the permanent income hypothesis.** The PIH model, although fully endorsed by the authorities, has never been strictly enforced, and the non-oil deficit has actually increased since 2007. Despite the country's economic needs, excess public expenditures like these entail serious risks of not being adequately absorbed, generating inefficiencies in resource utilization. Furthermore, excess spending reduces savings that can earn an additional return to be tapped in the future if falling prices or supply diminish the resource flow. Thus, efforts to restrain public expenditure should be complemented by adoption of a strategy to increase

returns on EQG's sovereign financial assets. Such an instrument should be modeled on well-established sovereign funds that have successfully outsourced management of their financial assets. Establishment of an Equatorial Guinean sovereign fund will require a broad consensus on the institutional setting for supervision of its assets and the risk/return mix that should be pursued.

26. Policies to reduce the impact of oil revenue volatility on the economy need to be implemented across the business cycle. The large share of the oil sector in GDP makes the economy particularly vulnerable to large and quick swings in international hydrocarbon prices. The government must continue its practice of using conservative projections for these prices during budget preparation to avoid sharply slashing spending throughout the year if oil prices fall. A better strategy still would be to stick to the recommendations of the permanent income hypothesis discussed above, so that windfall petroleum revenues are put aside and put to work earning additional funds to counteract future revenue declines. Finally, both these measures should be accompanied by efforts to raise public sector efficiency to ensure that public expenditures seed growth potential in addition to aggregate demand.

27. Better public sector governance is needed to limit rent-seeking behavior around petroleum revenues and promote private sector development. Equatorial Guinea needs radical institutional reform to raise the level of economic governance. The current business environment is unfavorable to private sector development (ranking 167th out of 181 countries in the 2008 Doing Business Index as previously noted), and the authorities must ensure an adequate system of checks and balances that limits opportunities for rent seeking (EQG ranks 171st out of 180 countries in Transparency International's 2009 Corruption Perceptions Index).² The authorities need to raise overall transparency in governance, particularly in management of public resources, and should accelerate implementation of the Extractive Industries Transparency Initiative (EITI). Achieving greater transparency will not succeed unless institutional checks and balances are built up conflicts of interest are eliminated; tools are introduced and enforced for implementing good governance practices, such as modern public financial management arrangements; and most importantly, political commitment is ensured.

Public Spending in Education

28. Current education policies and institutions hinder economic growth. Equatorial Guinea's educational system is highly inefficient and only one of every two students completes primary school. Coupling this performance with the relatively low gross primary education enrollment rate (80 percent of the corresponding school-age population) and the high repetition rate (24 percent of students) casts grave doubt on the country's capacity to reach the MDG of universal primary education by 2015. Furthermore, educational quality is poor and requires significant efforts to increase the number and quality of teachers. It should be noted that educational achievements are critical not only for reducing illiteracy but also to creating the human resources needed to diversify the economy. Beyond improving the quality of instruction, efforts to improve primary education also will require parallel measures such as a scholarship system and the introduction of school meals to boost attendance of children from low-income households.

29. The educational reform agenda requires better public financial management and an effective monitoring and evaluation system with adequate sector data recording. The review of public spending patterns and outcomes in the sector revealed important weaknesses. The system to monitor and evaluate public expenditure outcomes in education is ineffective, hindering the analysis and formulation of sector policy decisions. The volume of budget information is low (for example, some critical data were obtainable only through international organizations); and consistent with what is happening in the rest of the public sector, the reporting system for the education budget needs to be strengthened to achieve meaningful results.

² See http://www.transparency.org/policy_research/surveys_indices/cpi/2009/cpi_2009_table.

30. **Equatorial Guinea needs to increase educational budget allocations, with a focus on improving quality and completion of primary education.** Public financing of the sector is insufficient, given the dire needs, which are particularly acute at the primary level. Shortfalls in public funding have been partially compensated by contributions from parents and funding from external donors (that finance 40 percent of teachers), but the authorities need to increase recurrent expenditures to the sector (rather than capital spending) to ensure a stable source of financing to train and hire more teachers and increase salaries in line with teacher qualifications and performance. Furthermore, the wage bill is heavily skewed toward administrative overhead instead of teaching staff and needs to be adjusted. In addition, public spending is geared toward higher education (with expenditure per student 50 times greater than at the primary level) and needs to be rebalanced to ensure that a greater share of the population acquires literacy, numeracy and basic skills, and gains access to secondary education. This is particularly salient for girls, who are much more likely than boys to drop out upon completion of primary education. Recommendations from the EFA-FTI framework for development of a sustainable sector plan and allocation of resources (increasing the percentage of allocated expenditure and funneling it toward primary education) seem appropriate despite Equatorial Guinea's status as a middle-income country.

31. **Regional inequalities call for additional financial resources to rural education and for more decentralized management.** Overall, Malabo and Bata have better infrastructure and trained staff than do rural areas, which further encourages migration to urban centers. The disparity is particularly evident in vocational training since the only available facilities are in Malabo and Bata. This training needs to be expanded, including extension to students older than 18 and to areas outside the main cities. Finally, it is essential to decentralize educational administration, management and oversight, providing resources and delegating responsibilities to district and local levels, including the transfer of funds directly to schools for administration by school management committees that include parents.

Public Spending in Health

32. **Additional resources for the health sector must be directed toward primary health care.** Increasing budget allocations will not have the desired impact if it follows preexisting patterns of distribution, which are unsuitable to meeting the needs of a young and fertile population severely affected by communicable diseases. Currently technical criteria are not used to assess budget allocations or policies, which results in an inequitable and inefficient distribution of resources that favors delivery of curative services in urban hospitals rather than preventive primary care, especially in rural areas. In keeping with WHO recommendations, resources must be reassigned to health promotion and disease prevention through primary care coverage of the entire population.

33. **Better use of the limited existing resources is essential for greater health system efficiency and equity in the short term.** Infrastructure investment in the health sector must be complemented by a large increase in human capital. This is particularly challenging considering the shortfall in adequately trained professionals, and will require better linkage of salary scales to qualifications and productivity to hire and retain staff. Staff skills must be enhanced for physicians, nurses and other health professionals, either through professional training programs to qualify new staff or advanced and refresher courses for those already working in the system. Better coordination between the Social Security and the National Health Systems would increase efficiency by pooling existing resources to avoid duplication and underutilization and make access to health services more equitable. Finally, allocations for administrative overhead of the system should be pared, with savings redirected to the direct provision of health services.

34. **Achieving the MDGs for health will require development of a detailed sector strategy that incorporates an effective monitoring and evaluation system.** A new health strategy that updates the one drafted in 2002 must be implemented, clarifying the sector's mission and needs. More importantly, any additional spending should be guided by establishment of an effective monitoring and evaluation

system. Ongoing successful pilot activities, such as the Malaria Control Project, provide valuable lessons to the authorities in designing such a system and compiling health databases for national replication.

35. **More-decentralized financial management will better link budget allocation to health needs.** Progressive decentralization of budget execution toward health care providers will create incentives to better allocate resources to the most pressing local needs, foster savings and accelerate budget execution. This will require simultaneous strengthening of the financial unit of the Ministry of Health and Social Welfare to ensure adequate recording and reporting of collection and use of funds for the sector. The decentralization process also will require improvements in how cost recovery is used to finance health services. The present system generates inefficiencies in the system and inequities in access, requiring the definition of exemption rules for vulnerable groups, better control systems for handling co-payments, and a transition away from co-payments toward health insurance programs for treating illnesses.

Box E1: Cross-Cutting Policy Actions and Recommended Policy Action	Expected Impact on Public Finance Management and Economic Diversification	Degree of Priority and Expected Outcome
Resolve discrepancies in population data and improve the statistical system	(a) Promotes economic diversification (b) Builds capacity to set policy goals and manage for results	High, short term Expected Outcomes: Capacity to define improved poverty policies Ability to monitor public sector efficiency
Reduce public expenditures in line with PIH recommendations and improve management of public financial assets	(a) Increases public savings for future generations (b) Increases fiscal space to manage petroleum price volatility (c) Raises returns on public financial assets	Medium-term action; politically feasible Expected Outcomes: Sustainable macroeconomic policy, higher returns and more transparent management of oil savings
Use the same classification for current and investment expenditures while developing a functional classification of the budget	(a) Bridges the gap between the budget and the public investment plan (b) Builds capacity for multiyear planning and budgeting (c) Creates capacity to track pro-poor spending	High, short term Expected Outcome: Ability to assess sector allocation impact on NDP and MDG goals All public spending recorded
Streamline budget procedures as a first step to increase budget discipline	(a) Reduces off-budget spending (b) Accelerates budget payments	High, short term Expected Outcomes: Improved budgeting Increased efficiency of public spending
Strengthen coordination within the government to adequately use the PIP to manage the investment program	(a) Improves oversight and transparency of public spending (b) Creation of a project database with unique project identifiers	High, short term Expected Outcomes: Greater accountability More efficient public

Box E1: Cross-Cutting Policy Actions and Recommended Policy Action	Expected Impact on Public Finance Management and Economic Diversification	Degree of Priority and Expected Outcome
		spending
Outsource project appraisal while building up institutional capacity in all ministries and Geproyectos to carry out project appraisal	(a) Transparent and uniform preparation of project studies (cost-benefit analysis) (b) Builds capacity for multiyear planning and budgeting (c) Discourages the practice of launching unscreened projects	High, short term Expected Outcomes: More efficient public spending
Strengthen the audit system and ex post evaluation	(a) Production of monitoring and evaluation reports (b) Extends budget coverage to the autonomous institutions (c) Builds capacity to manage by results	High, short term Expected Outcomes: Combat of corruption Improved reporting and transparency
Better balance capital and recurrent spending	(a) Increases absorption capacity of public expenditure (b) Reduces poverty	High, short term Expected Outcomes: Increased efficiency of public spending Improved project sustainability
Scale up spending for social sectors and agriculture	(a) Promotes economic diversification (b) Reduces poverty (c) Accelerates implementation of MDGs	Medium-term action; politically feasible Expected Outcomes: Improved service delivery Efficient economic diversification
Allocate more resources to primary education and to vocational training in secondary education	(a) Expands the educational base (b) Increases productivity	High, short term Expected Outcomes: Poverty reduction Economic diversification
Increase resource allocation to primary health facilities	(a) Reduces incidence of diseases (b) Increases productivity	High, short term Expected Outcomes: Poverty reduction Increased productivity

CHAPTER 1: MACROECONOMIC AND FISCAL CHALLENGES

1.1 The Government of Equatorial Guinea seeks to diversify the national economy beyond petroleum production and improve the living standard of the general population. Several steps have been taken to meet these goals. The National Development Plan (NDP) was adopted in 2007, followed by the launch of large investment programs in 2008 and 2009. To facilitate realization of the NDP, the authorities also signed a services agreement with the World Bank in 2007 to support capacity building for an analysis of public expenditure, implementation of the Extractive Industries Transparency Initiative (EITI), and development of national accounts. This report presents the main conclusions of the public expenditure analysis.

1.2 Lack of reliable data, however, constrains the analysis and impedes policy formulation to reach NDP targets in a timely fashion. Reliable information on budget execution is unavailable since weaknesses in the public financial management system preclude adequate data recording. As a result, budget information used throughout this review will refer to the approved budget although actual expenditure often differs. Similarly, sector indicators are rare or do not conform to international standards, which translates into large discrepancies depending on the sources being consulted. The lack of household surveys precludes poverty impact analysis of public expenditure and makes it difficult to assess whether progress toward achieving Millennium Development Goals (MDGs) is on course. The government urgently needs to fill these gaps by implementing an action plan that builds up institutional capacity to gather, analyze, and disseminate key statistical information.

1.3 Uncertain population data blur definition of clear public policies. According to the 2001 Demographic Census, the national population was 1.015 million, with 47.3 percent under 15 years of age. However demographic projections by the United Nations³ put total population in 2000 at 530,000 people, with 44.2 percent under the age of 15. Although both sources concur the population structure is weighted toward youth, the overall estimates are radically different and have yet to be reconciled, which blinds policy making to the size of problems and how resources should be assigned to solve them. For instance, using official data drastically reduces GDP per capita, increases the numbers of youth and immigrants, and throws into doubt the country's capacity to meet MDGs on child mortality and universal primary education (see Annex I for a detailed analysis of alternative population estimates).

1.4 What is not in doubt is that the large cadre of youth makes job creation an urgent priority. Around sixty percent of the population is under 25 years old, and the structure of the economy does not create enough jobs to absorb new additions to the work force and raise productivity and incomes to reduce poverty. The oil sector generates most of the wealth but is capital rather than labor intensive, and employment in the remainder of the economy is concentrated in public administration (17 percent of the labor force), construction, and agriculture. The authorities are therefore concerned about how to channel investment and develop the non-oil economy to employ the influx of new workers. Before looking more deeply at how that might be done, it is useful to step back and see how Equatorial Guinea's economy arrived where it is today.

A. National Independence and Attempts at Recovery from a Postcolonial Poverty Trap, 1968–89

1.5 The colonial economy was organized as an enclave around the production of cocoa, coffee, and timber that accounted for 90 percent of the value of exports in 1967 (around 40,000 tons). Agriculture,

³ World Population Prospects, <http://esa.un.org/unpp/>, June 8, 2009.

fishing and forestry generated 50 percent of GDP and employed 80 percent of the population. Little had been done to promote education, create a civil service, or develop civil society, so that when independence came in 1968, the country had low human capital, a weak public administration, and a shortage of trained labor. GDP per capita was US\$230, and the new country ranked 67th among the 121 included in the national classification⁴ system current at the time, roughly comparable to other Sub-Saharan countries such as Senegal.

1.6 Soon after independence the overall economy collapsed when foreign plantation owners and workers departed and cocoa exports fell by half. To restore production, the government nationalized most plantations, introduced mandatory labor, and brought large numbers of people from the countryside to work on the state-owned estates. However, poor public sector management, inadequate and unmotivated labor, and low use of insecticides and fungicides led to further declines in acreage and yields. Exports fell to a record bottom of 5,200 tons in 1980.⁵ When the government started seizing harvests without payment, cash crops were almost completely abandoned and barter became the dominant form of exchange. Basic services in health, education, and water and electrical utilities could not be maintained; foreign investment literally dried up; and the external trading system, operated by state enterprises, broke down. As a consequence, the population declined by about one-third, the education system closed down, and public finances fell into complete disarray. The decade of the 1970s was marked by tragic decline, with GDP per capita contracting to about US\$170 by 1979.

1.7 Reconstruction efforts during the first half of the 1980s met little success. In 1980 a stabilization program supported by the IMF was launched to promote exports and food production and rebuild public administration, and the first formal budget was approved since 1974. However, private sector involvement was limited, given the shortage of local entrepreneurs and the weakness and inconvertibility of the currency. Most economic activities remained under government control, which was unable to provide adequate incentives to rehabilitate the cocoa sector, the main source of foreign exchange. To attract foreign assistance, the government presented a reconstruction program to the international donor community in 1982 to develop agriculture and infrastructure. To overcome institutional capacity constraints and minimize coordination problems in key development sectors (that is, petroleum and forestry), the President centralized government decision making within the office of the Presidency. Despite these efforts, the economic program achieved little and the private sector remained dormant, with GDP per capita totaling US\$254 and the country placing 138th out of 156 ranked countries in 1985.

1.8 New efforts to rebuild the economy followed in the second half of the decade. In 1985, EQG became a member of the Economic and Monetary Community of Central Africa (CEMAC), adopted the Franc de la Communauté Financière Africaine (FCFA) as a currency, and with it a fixed exchange rate system to provide a more stable macroeconomic framework conducive to foreign direct investment (FDI) and private sector development. This was accompanied by a medium-term adjustment program for 1988–91, which quickly ran into difficulties because of limited administrative capacity and a decline in world market prices for cocoa and coffee. By 1990, as a broad consensus would later agree, it seemed that a decade of reform programs had come to naught, bringing minimal economic growth and failing to diversify the economy out of traditional agriculture exports or vitalize private sector participation. Per capita income was merely US\$374, and Equatorial Guinea ranked 150th out of 178 countries in the classification system. In the beginning of the new decade, two World Bank investment projects were undertaken to (a) put reform back on track by diversifying agriculture in favor of food crops and nontraditional exports and developing forestry production and exports; and (b) assist the authorities in the

⁴ See www.nationmaster.com.

⁵ Timber production meanwhile declined from 360,000 cubic meters in 1968 to an annual average of 6,000 cubic meters in the late 1970s, and coffee and palm-oil production virtually disappeared. See World Bank, “Technical Assistance Project—Republic of Equatorial Guinea,” May 1984.

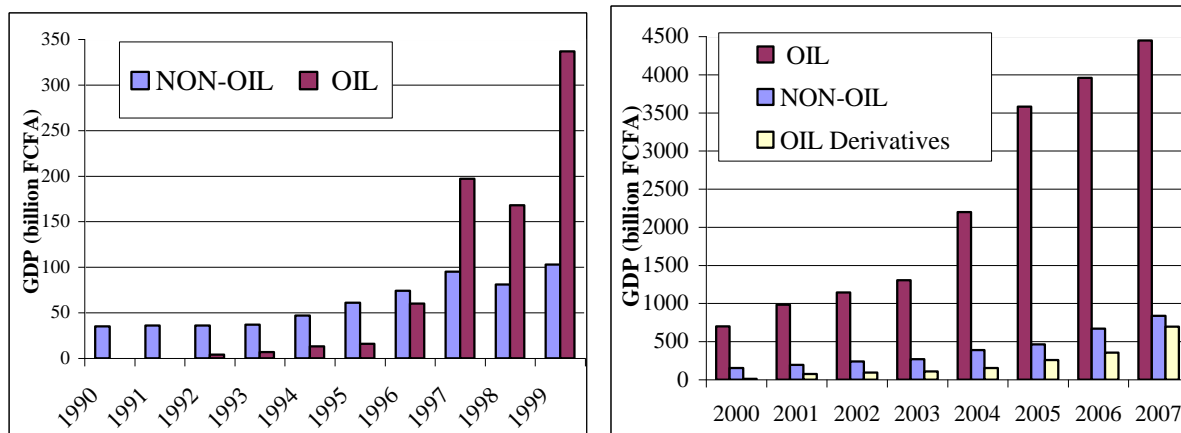
nascent petroleum sector. A skeptic could think it was more of the same. But in 1991, a contract was signed to start tapping the country’s petroleum reserves, and the stage was set for change.

1.9 Equatorial Guinea had been caught in a poverty trap that petroleum production would offer a way out of. The lack of infrastructure and human capital, a weak political system, limited institutional capacity and low domestic savings that could not be offset by sufficient FDI inflows when the colonial power left had formed a vicious circle. EQG was unable to create the minimum income level to raise savings and sustain much needed investment, which limited growth, further destabilized the political system, and deepened poverty. The arrival of petroleum revenues in the 1990s brought new income and domestic savings and the opportunity to transform the economy.

B. The Rise of an Oil Economy, 1990–2008

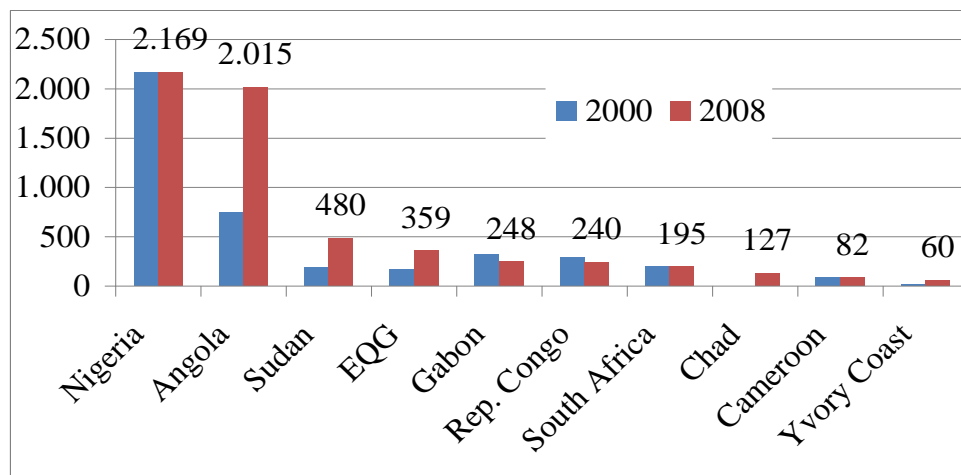
1.10 Equatorial Guinea’s economy in the 1990s was dominated by important oil fields coming on stream that boosted national income. Production began in 1992, and by early 1997 the value of extracted oil was matching the value being produced by the rest of the economy (Figure 1.1). Oil field development was very rapid, and by 1999 GDP value from oil was three times larger than from non-oil activities, transforming the structure of the economy from one dominated by agriculture (coffee and cocoa) and intensive forestry exploitation. The hydrocarbon boom that took off with opening of the large Zafiro Field in August 1996 reached a milestone of pumping 400,000 barrels a day in 2005, making EQG the fourth largest petroleum producer in Sub-Saharan Africa after Nigeria, Angola, and Sudan (Figure 1.2). Rising world prices greatly increased the value of extracted oil and gas. Real GDP growth that averaged 15 percent a year associated to intensive forest exploitation between 1990 and 1995, accelerated to 33 percent a year between 1996–2000 due to increasing hydrocarbon production and prices and substantial foreign direct investments in the petroleum sector. This growth in the petroleum sector also fueled non-oil GDP growth which accelerated from 7 percent on average in 1990–95 to 18 percent on average in 1996–2000, mostly through the public administration (Table 1.1). GDP soared after 2000 when petroleum prices spiked (Figure 1.11).

Figure 1. 1: GDP Values for the Oil and Non-Oil Economies



Source: World Bank

Figure 1. 2: Sub-Saharan Crude Oil Production, 2000–2008 (Thousand barrels per day)



Source: Energy Information Administration, USA Government

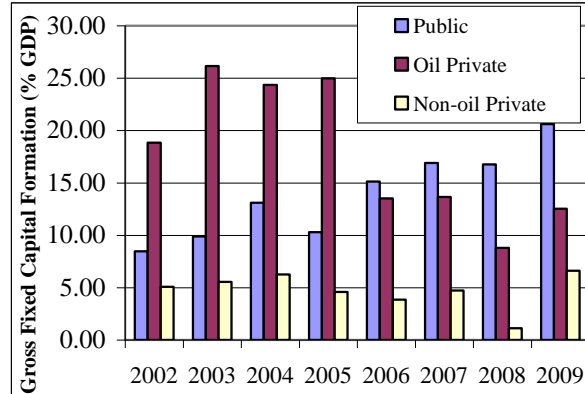
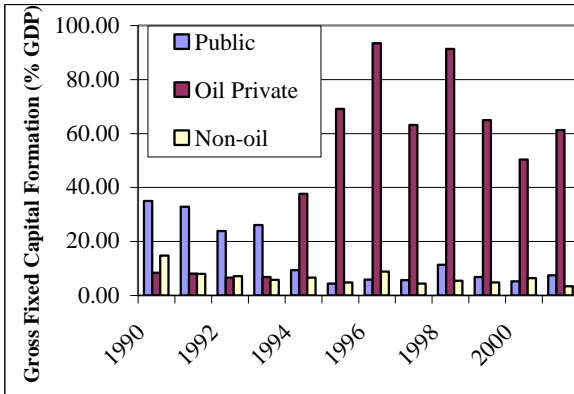
Table 1. 1 GDP by Sector, 1990–99 (Percentage of non-oil GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture	41.4	41	40	39.2	34.1	39.8	35.5	26.9	35.6	29.1
Forestry	17.6	15.3	14.8	15.5	28.8	30	35.6	47.9	29.1	38.5
Fishing	2.9	2.5	1.1	0.9	0.5	0.5	0.4	0.4	1.9	0.5
Manufacturing	1.6	1.7	1.8	1.8	1.5	1.2	1	0.8	1	0.8
Utilities	4.2	4.3	4.3	4.7	3.9	3.2	2.7	1.8	3	2.7
Construction	4.7	6.3	6.5	6.6	5.8	4.9	4.3	3.7	4.8	4.2
Trade and commerce	10.5	12	12.8	12.7	10.7	8.3	7.6	6.4	8	6.6
Transport and communications	2.7	2.8	2.8	2.8	2.3	1.7	1.5	1.2	1.5	1.2
Finance and housing	2.8	2.9	2.9	2.9	2.3	1.8	1.5	1.2	1.5	1.2
Public administration	7.8	7	8.7	8.6	6.5	5.9	7.6	7.8	11.3	12.2
Other services	3.8	4.3	4.3	4.2	3.5	2.7	2.3	1.9	2.3	2.9
Total NON-OIL GDP	100	100	100	100	100	100	100	100	100	100
<i>Memorandum items</i>										
NON-OIL	35	36	36	37	47	61	74	95	81	103
OIL Derivatives	--	--	--	--	--	--	--	--	--	--
OIL	0	0	4	7	13	16	60	197	168	337
Total GDP(FCFA billion)	35	36	41	44	61	77	134	292	248	440

Source: World Bank

1.11 Private foreign direct investment to the petroleum sector lifted national income that in turn has fueled higher capital spending by the government. In the early 1990s, the government was able to secure external financing to carry out its investment program, but this effort could not be sustained, and investment did not pick up until 1994 when FDI to the petroleum sector lifted gross fixed capital formation even above GDP values (Figure 1.3). However, domestic non-oil private sector investment did not develop to keep pace, averaging a scant 4.3 percent of GDP between 2001 and 2008. With the retrenchment of petroleum sector FDI after 2001 and the limited role of the private sector, the government has taken the lead in filling the gap, transforming its high savings from petroleum revenues (on average 28 percent of GDP between 2001 and 2008) into public investments (12 percent of GDP for the same period and rising).

Figure 1. 3: Public and Private Investment in Equatorial Guinea, 1990–2009



Source: World Bank

1.12 **EQG's current account has been in surplus since petroleum production started due to high exports from and foreign direct investment to the sector.** Rising oil production and prices pushed petroleum exports to more than US\$14 billion by 2008, representing more than 99 percent of total export value (Figure 1.4). Imports have also been rising, at first for capital goods to the petroleum sector and more recently for public investment, reaching a total of around US\$4 billion in 2008. Despite high service payments on insurance and freight for petroleum exports (US\$1.8 billion in 2008) and sizeable income payments on petroleum investments (US\$6.5 billion in 2008) since 2005, current accounts have remained in surplus. The current account balance also has benefited from a high FDI to the petroleum sector, particularly after 2001 (reaching US\$1.8 billion in 2007).⁶ The joint increase in exports and FDI led to an accumulation of US\$7 billion in foreign exchange reserves by the end of 2008, equivalent to more than 21 months of imports.

1.13 **Changes in the structure of the economy accelerated in 2000, with agriculture and forestry exploitation shrinking and the construction sector rising in importance.** During the second half of the 1990s public administration expanded significantly in the wake of increasing petroleum revenues. At the same time, two long-term economic trends already under way gathered speed: (a) agricultural production declined from 40 percent of non-oil GDP in 1990 to 13 percent of non-oil GDP in 2007; and (b) the forestry sector, which had experienced a temporary boomlet (increasing from 18 percent of non-oil GDP in 1990 to 39 percent in 1999) following unsustainable logging concessions awarded to foreign companies, contracted quickly to 6 percent of non-oil GDP by 2007. New sectors started to grow substantially, such as construction that boomed from 4.2 percent of non-oil GDP in 1999 (Table 1.1) to nearly 57 percent in 2007 (Table 1.2), reflecting the government's intense effort to develop basic infrastructure. Other sectors (such as manufacturing, utilities, transport and finance) have not been affected by petroleum production and continue to represent small shares of non-oil GDP (Table 1.2).

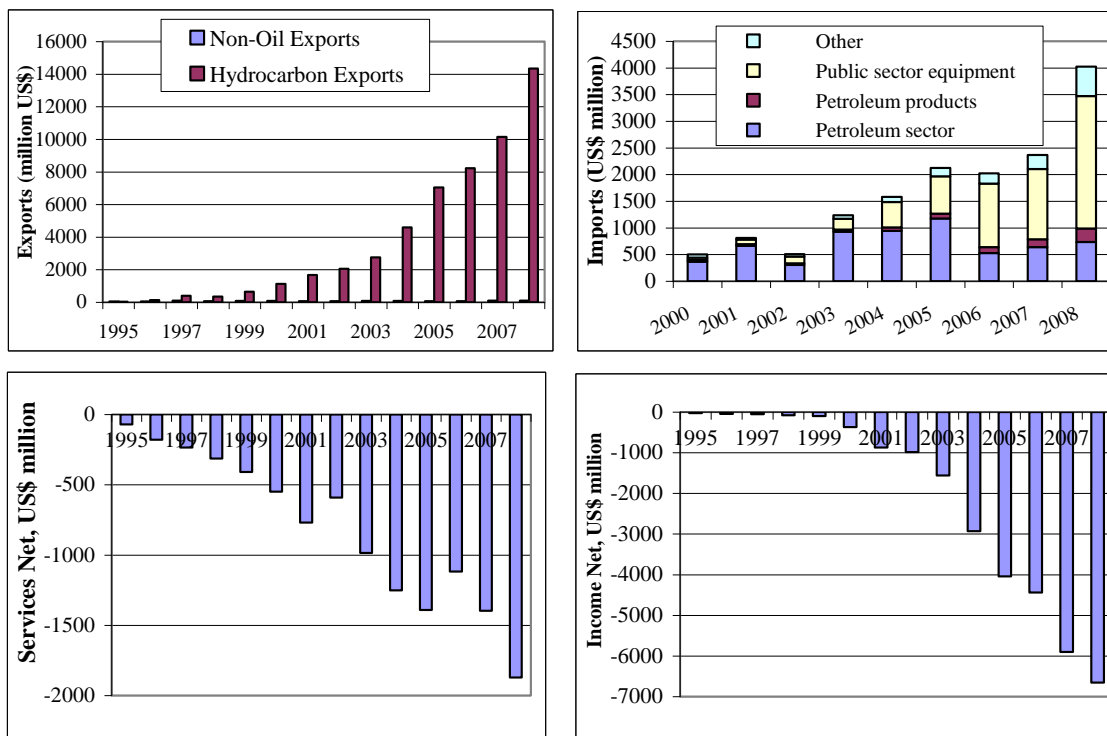
⁶ In 2008, net FDI was negative due to the government's purchase of the assets of Devon.

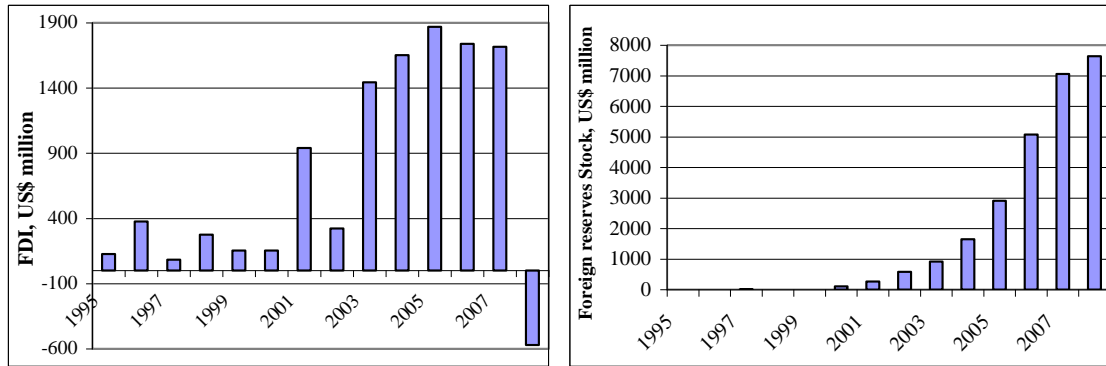
Table 1. 2: GDP by Sector, 2000–2007 (Percentage of non-oil GDP)

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture	31.9	28.5	23.8	26	19.4	18.8	14.5	12.6
Forestry	24.1	17.3	14.5	7.6	8.7	4.8	5.7	6.1
Fishing	0.6	0.7	0.9	0.9	0.7	0.6	0.5	0.4
Manufacturing	1.4	1.3	1.2	1.4	1.2	1.2	1	1
Utilities	2.6	3	3	3.1	3.2	3.6	3.6	3.7
Construction	15.2	21.7	26.3	27.7	39.9	43.4	53.4	56.5
Trade and commerce	8.7	9.7	10	11	10	9.7	7.6	6.6
Transport and communications	1.3	1.4	1.7	1.8	1.4	1.3	1	0.9
Finance and housing	1.6	1.9	1.8	2	2.2	3.2	2.5	2.5
Public administration	9	10	12.6	12.8	9	9.2	7	6.9
Other services	3.7	4.4	4.2	5.6	4.2	4.1	3.2	2.9
Total NON-OIL GDP	100	100	100	100	100	100	100	100
<i>Memorandum items</i>								
NON-OIL	153	194	239	269	388	463	668	837
OIL Derivatives	13	75	92	110	152	259	355	694
OIL	700	982	1,142	1,306	2,197	3,582	3,959	4,448
Total GDP (FCFA billion)	866	1,251	1,473	1,685	2,738	4,304	4,982	5,979

Source: World Bank

Figure 1. 4: Balance of Payments Structural Changes





Source: World Bank

1.14 New activities related to the petroleum sector—such as manufacturing oil derivatives—have expanded significantly, but likely impermanent. Oil derivatives are a primary spillover of hydrocarbon production, and although it technically is accounted for as part of the non-oil economy, the government will face long odds maintaining the industry’s viability once the country’s petroleum supply runs out. Therefore, this PER treats oil derivatives as part of the hydrocarbon sector.

1.15 Rapid economic changes such as declining agricultural output and rural-to-urban migration may significantly impact poverty. Construction and agriculture (Figure 1.5) provide direct livelihood to a large number of people, and are key to understanding the impact that growth may have on incomes and job opportunities among the less-favored segments of the population. The sharp drop in agricultural production relative to non-oil GDP is partially explained by strong growth in other sectors, such as construction, but the relative fall of traditional exports (Figure 1.6) suggests the low level of agricultural productivity, which has stagnated for many years.⁷ Although 60 percent of people still eke out a living from agriculture, the disparate economic growth rates between towns (with most of the construction) and countryside (where agriculture is concentrated) is driving the widespread migration under way of people to cities. The authorities will need to confront how these changes impact poverty in rural and urban areas, respectively. Low productivity will forestall sustained improvement in rural poverty rates unless significant investment and adequate agricultural programs are implemented. Meanwhile, the urban population, which is much younger (28.6 years old in Malabo, for instance) than the overall population (32.6 years old)⁸ and growing at a faster pace, has large numbers of poor, unemployed, and potentially disaffected youth. Urban employment opportunities and better social services are urgently needed. Not adequately responding to the pressures/needs for rural development and for urban employment and social services may breed social tensions. Thus far, manufacturing, transport, utilities, trade and other sectors have not created enough jobs to compensate for the decline in agriculture, and significant reforms must be made to bridge the gap.

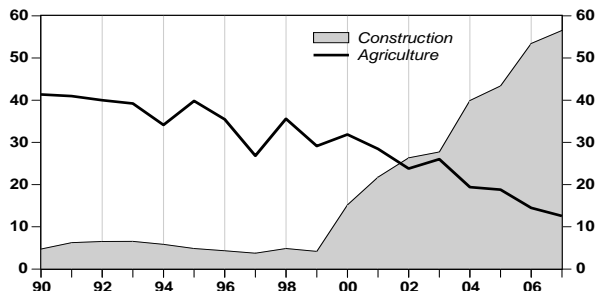
1.16 Prudent monetary policy by the Banks of Central African States (BEAC) has helped contain inflationary pressure despite the oil boom, although questions about the data make it hard to weigh. Figures show the inflation rate declined from 5.1 percent in 2004 to 3.7 percent in 2007. However, inflation data have not been collected since 2007, making it difficult to know the actual trend line and how it compares with other CEMAC countries. IMF estimates point out that strong domestic demand in 2007 and 2008, coupled with rising international food and oil prices, exacerbated inflationary

⁷ NEPAD, FAO. 2005. Gobierno de la República de Guinea Ecuatorial. Apoyo a la implementación del NEPAD–CAADP CP/EQG/2904 (i). Perfil de Proyecto de Inversión Bancable. Programa de Implementación del “Plan Nacional de Inversión a Medio Plazo en Agricultura y Desarrollo Rural” 2005. [ftp://ftp.fao.org/docrep/fao/007/ae612s/ae612s00.pdf](http://ftp.fao.org/docrep/fao/007/ae612s/ae612s00.pdf)

⁸ “Estudio de Perfil de Pobreza en Guinea Ecuatorial,” EEH (2006).

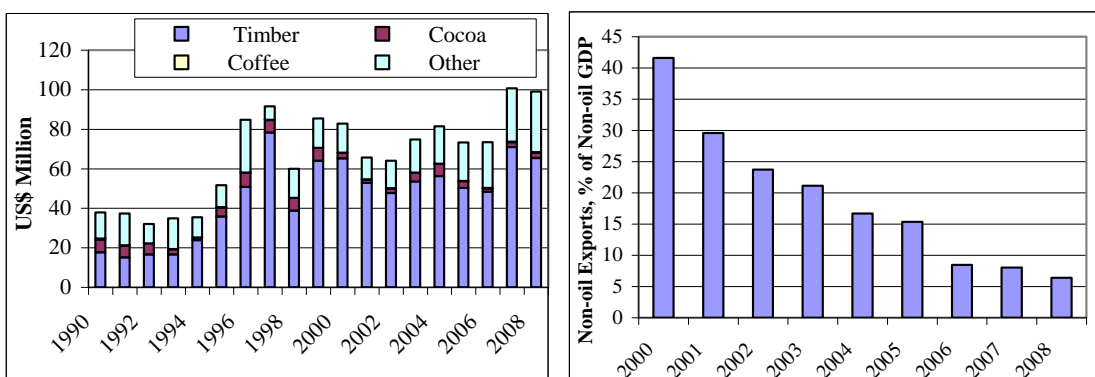
pressure and were only partially counteracted by tighter monetary conditions, raising the inflation rate to 6.0 percent in 2008.

Figure 1. 5: Construction and Agricultural Shares of Non-Oil GDP, 1990–2006



Source: World Bank

Figure 1. 6: Performance of Non-Oil Exports, 1990–2008



Source: World Bank

1.17 Public expenditure has not fully translated into non-oil GDP growth, hindering efforts to diversify the economy. Hydrocarbon exports between 2000 and 2008 totaled US\$52 billion, with oil companies receiving US\$27 billion and the government US\$25 billion. About 30 percent (US\$7.6 billion) of government intake was kept as gross official reserves, including offshore bank deposits; while the remainder of the oil rent for this period has already been consumed or invested. Meanwhile the GDP output generated by the nonhydrocarbon sector during 2000–2008 was only US\$8.2 billion, half of the public expenditure.

1.18 Oil sector rents seem to finance capital intensive goods in the non-oil sector that may not generate the employment EQG requires. Investment grew at an average rate of 36 percent per year between 2000 and 2008, and its public component at an even faster rate, 46 percent. Consequently the ratio of public to private investment increased from 0.8 in 2000 to 6 in 2008, crowding out private investment. This increase in public investment has a large import component,⁹ with imports into the

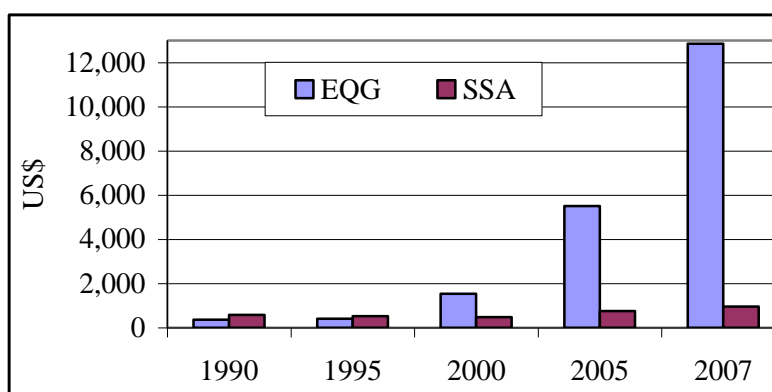
⁹ Empirical analysis of oil windfall use in Algeria, Ecuador, Indonesia, Nigeria, Trinidad and Tobago, and Venezuela from the 1960s to early 1980s is provided by A. Gelb, “Adjustment to Windfall Gains: A Comparative Analysis of Oil-Exporting Countries,” in P. J. Neary and S. van Wijnbergen (eds.), *Natural Resources and the Macroeconomy* (Cambridge, MA, MIT Press, 1986): Chapter 2. The main conclusions might apply to Equatorial Guinea. About modernization, the author says: “[T]he oil exporters would probably have seen a larger benefit from their windfall had they saved a higher proportion abroad and limited

nonhydrocarbon sector increasing by a factor of 24 between 2000 and 2008, notably imported equipment, which increased by a factor of 55. The magnitude of this increase in the value of imported capital goods suggests that the chosen pattern of growth for the nonhydrocarbon sector is capital intensive and may generate little employment. Employment generation, though, is a basic requirement growth that reduces poverty in Equatorial Guinea, given the age structure of the population and rapid urbanization.

1.19 The most striking example of wasteful oil rent use is the huge expansion of public and private consumption during recent years. The average rate of growth for consumption in real terms has been 20 percent annually since 2000, rising from FCFA 89 billion in 2000 to FCFA 536 billion in 2008. Most of the increase was financed from the oil rent, which will not leave any trace unless it stimulates the accumulation of physical and human capital in the nonhydrocarbon sector to compensate for the depletion of petroleum reserves. Poverty reduction depends upon rising consumption, but its distribution should be across the population, while indications are that the recent increase in consumption has not been widely shared and that poverty reduction is not yet significant.

1.20 Equatorial Guinea now faces the challenge of transforming the enormous resources derived from the petroleum sector into a permanent improvement in the living conditions of most of its people. Although GNI per capita rose from US\$410 in 1995 to US\$14,980 in 2008 (Figure 1.7), 77 percent of people still live on less than FCFA 1,020 (US\$2) a day, and the 2007/08 UNDP Human Development Index placed the country 127th out of 177 ranked countries. Social needs are daunting across all sectors: housing and access to water and sanitation is limited (43 percent of the population lack potable water), education and health indicators are still below other Sub-Saharan countries (thus, the primary completion rate stands at 58 percent, and infant mortality is about 124 per 1,000 live births). Although measuring for Millennium Development Goals is hampered by a weak statistical system, growing evidence suggests targets will not be achieved without rapid action by the authorities (see Box 1.1).

Figure 1. 7: Per Capita Gross National Income, Atlas Method (Current US\$)



Source: World Bank

domestic investments through applying market criteria more rigorously [p. 90].” About reducing dependence from oil as the source of foreign exchange, Gelb adds, “Events in 1982–84 confirm that the goal of self-sustaining non-oil development is far from being attained [p. 90].” The recent bubble and collapse of world oil prices are an extreme form of the 1982–84 episode. The issue of how to allocate oil rent to the accumulation of foreign exchange reserves, consumption, and investment is still debated. For a recent survey and proposals, see P. Collier et al., “Managing Resource Revenues in Developing Economies” (January 2009): <http://users.ox.ac.uk/~econpco/research/pdfs/ManagingResourceRevenuesinDevelopingEconomies.pdf>.

Box 1. 1: National Progress toward the Millennium Development Goals

Equatorial Guinea is a middle-income country that does not need to prepare a Poverty Reduction Strategy Paper to access concessional resources. Nonetheless, the authorities adopted in 2007 a National Development Plan that seeks to reduce poverty in line with the Millennium Development Goals (MDGs) adopted in 2000. Unlike many other Sub-Saharan African countries, EQG can tap its oil boom for adequate financial resources to rapidly move toward alleviating poverty and achieving the MDGs. However, uncertain statistics remain a cause of concern since appropriate and reliable social indicators and sector data are lacking to monitor progress toward those ends. The government has carried out some social sector surveys and a household survey in 2007, but the results are seldom made public. When they are, the social sector indicators do not conform to internationally recognized methodologies, and domestic and international sources often diverge.

Tentative estimates suggest that the country has made some strides in poverty reduction, but that if no rapid measures are taken, achieving the MDGs on time will be difficult. The proportion of the population below the poverty line has fallen from 64 percent in 1990 to 60 percent in 2000, and is projected by the United Nations Development Programme to fall further to 32 percent in 2015.

Net primary enrollment has decreased from 91 percent in 2000 to 87 percent in 2007, reflecting high repetition. The infant mortality rate reached 124 per 1,000 live births in 2007, and measles immunization has kept stable between 2000 and 2007 at 51 percent of the population under one-year-old. According to the Joint United Nations Programme on HIV/AIDS, incidence of the infection in the population between 15 and 49 years old has decreased to an estimated 3.4 percent in 2007. However data for the estimates is not solid, and other sources report a much higher HIV/AIDS rate. Tuberculosis cases have decreased to 74 percent of people under the directly observed treatment strategy (DTOS) in 2007 compared with 83 percent in 2000.

Limited information is available on gender and poverty. Enrollment of girls in primary education is high but decreases in higher education due to early marriages and precocious pregnancies, social pressure, and lack of opportunities in rural areas. Maternal mortality is high, with 680 deaths per 100,000 live births in 2007.

Social infrastructure has not kept pace with population growth, and the proportion of people with access to a sustainable source of water and to improved sanitation has remained constant since 1990 at 43 percent and 51 percent, respectively. Productive infrastructure such as telecommunication services has improved in the last decade as a byproduct of the oil boom. Mobile phone subscribers increased to 43.3 per cent of the population in 2007 compared with 1.2 per cent in 2000; and Internet users increased to 1.6 per cent of the population in 2007 compared with 0.2 percent in 2000. Status of the MDGs is presented in Annex V.

C. Meeting the Macroeconomic Challenges in Equatorial Guinea

1.21 **Government authorities face two different policy objectives when managing the oil and non-oil economies.** On the one hand, the oil economy is characterized by high monopoly rents, limited domestic employment, and projected exhaustion of reserves by 2035. Accordingly, policies for the sector are geared toward retaining as high a fraction of the revenues being generated as possible, using three tools: (a) a system of exploration permits and royalties/fees to increase proven oil reserves, (b) a rate of extraction that makes the present value of proven reserves as large as possible, and (c) production sharing arrangements with oil companies to distribute benefits from the hydrocarbon sector. The non-oil economy on the other hand employs most of the population and will remain after petroleum runs out. Policy for the non-oil sector is geared toward achievement of the MDGs and the programs for growth diversification, rural development, and poverty reduction stated in the NDP. The public budget is the main policy instrument to translate oil revenues into the non-oil economy to foster the objectives stated in the MDGs and the NDP. In short, the objective is to transform oil wealth into non-oil assets, particularly human capital.

D. Avoiding Pitfalls in Petroleum Revenue Management

1.22 **Sufficient institutional capacity is needed to supervise rising public expenditure to reduce waste of resources.** Government expenditure tripled between 2005 and 2008, which in the context of very limited institutional capacity to manage the petroleum wealth, may easily lead to overinvestment and resource waste. Such explosive growth in public expenditure is difficult to plan and manage following a sound spending program that appropriately balances current and investment expenditure for a positive and sustainable impact on poverty and infrastructure. Thus stronger expenditure management is needed to keep an adequate level of investment, while enhancing public efficiency and effectiveness (see Chapter 3).

1.23 **Prudent management of petroleum income is critical since the oil sector contributes around 90 percent of GDP and its revenue stream is characterized by volatility, uncertainty, and exhaustibility.** Hydrocarbon price volatility has been the norm in recent years, with drastic swings that make it difficult for the government to prepare a realistic macroeconomic framework. Uncertainty about potential oil production and prices also make it hard to adequately plan for implementation of the NDP and the MDGs. Oil production data, in particular are disturbing. The Ministry of Mining indicates that oil reserves, will be completely depleted in 2035, leaving future generations with only the assets and savings accrued during the petroleum era as well as the income generated by the non-oil economic sectors. A similar dilemma has confronted other countries, and has become known as the “Paradox of Plenty.” This paradox has four components: (a) the so-called Dutch disease, in which appreciation of the real exchange rate reduces the competitiveness of non-oil exports; (b) oil income volatility that affects revenue predictability and aggregate expenditure, creating real exchange rate volatility; (c) weak governance, reflecting rent-seeking politics; and (d) lack of institutional capacity to manage the petroleum wealth that often leads to overinvestment and resource waste.

1.24 **Early effects of the Dutch disease are noticeable in Equatorial Guinea.**¹⁰ Income from petroleum exports has spurred imports since the limited domestic supply of nontradable goods cannot meet the demand. As a consequence, a real exchange rate appreciation occurs that cannot be compensated for by adjustments in the nominal exchange rate since the country is part of CEMAC, a dilemma that is evident in EQG’s inflation differentials with the other CEMAC countries. Such imports will become unsustainable in the medium term as petroleum exports decline and the current account deficit grows. However, in the meantime, the import surge negatively affects the domestic tradable sectors. This is noticeable in the flood of food imports, which in 2007 accounted for half of domestic food consumption, harming local agricultural production and rural income. It is therefore essential to develop industries to foster domestic supply, including food and export-oriented agriculture, as well as other export activities that sustain growth once exploitation of natural resources runs out.

1.25 **Ineffective implementation of policies to reduce the impact of oil revenue volatility on the economy exacerbates the business cycle.** Because the public sector is the main economic agent in EQG, large cuts in public expenditure following declines in petroleum prices intensify downturns in the business cycle. The authorities have nominally committed to several policies to ensure that price volatility does not affect public expenditure disproportionately. First, they endeavor to use prudent projections of hydrocarbon prices when preparing the public budget. Second, they follow a permanent income hypothesis to save most of the extraordinary revenues to build up a trust fund for the future. Third, they are committed to finance current expenditure with non-oil taxes, which ensures a flexible budget that can be adjusted to the needs of the business cycle without cutting essential services. However actual

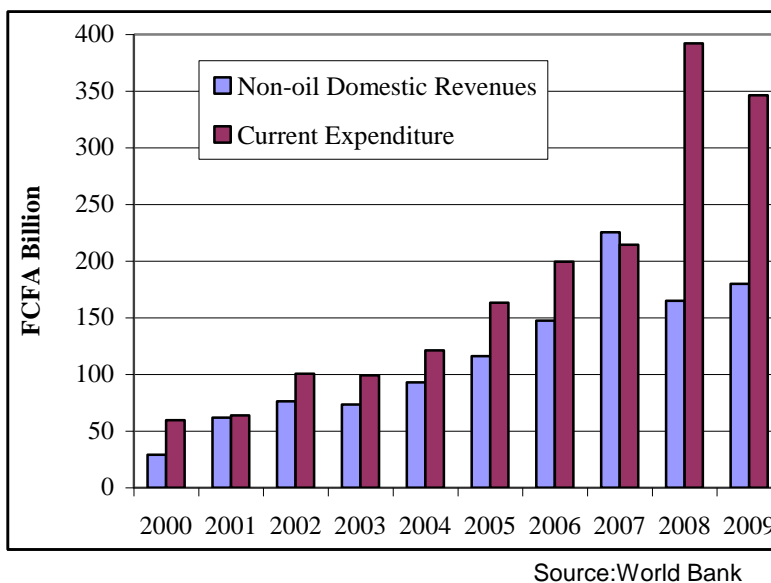
¹⁰ In many countries, growth in natural resource exports leads to a loss of competitiveness in other export products. Expanded natural resource exports increase income and domestic demand that domestic suppliers of nontradable goods lack the capacity to satisfy in the short run. As a result the prices of nontradables rise relative to tradables, and resources (capital and labor) shift from tradable toward nontradable sectors that are protected from foreign competition.

implementation of these policies is very limited, and when a huge swing in petroleum prices took place in 2009, the authorities needed to approve a revised public budget that slashed public investment (from FCFA 2 trillion to FCFA 0.9 trillion), further exacerbating the business cycle and reducing 2009 non-oil GDP growth projections. It is therefore essential that the authorities commit to and implement the prudent, anticyclical policies mentioned above to smooth petroleum expenditure over the business cycle.

E. Investing in Future Generations: The Permanent Income Hypothesis Model

1.26 **The authorities nominally have established a “golden rule” that limits recurrent expenditures to non-oil revenues while financing capital expenditures with oil income.** Under this rule current expenditures, which benefit the present generation, must be financed over the business cycle by today’s taxpayers, while investments that benefit present and future generations may be financed by debt, or in the case of EQG, by using petroleum proceeds. This simple imperative ensures that petroleum reserves are transformed into physical investment but does not provide an adequate macroeconomic framework for petroleum producers such as EQG, as it may lead to over- or pro-cyclical investment, not taking adequately into account the long-term exhaustibility of the petroleum proceeds. Thus far, the rule has not taken effect, and since 2008, current expenditure has been twice as high as non-oil domestic revenue (Figure 1.8).

Figure 1. 8: Non-Oil Revenue and Current Public Expenditure, 2000–2009



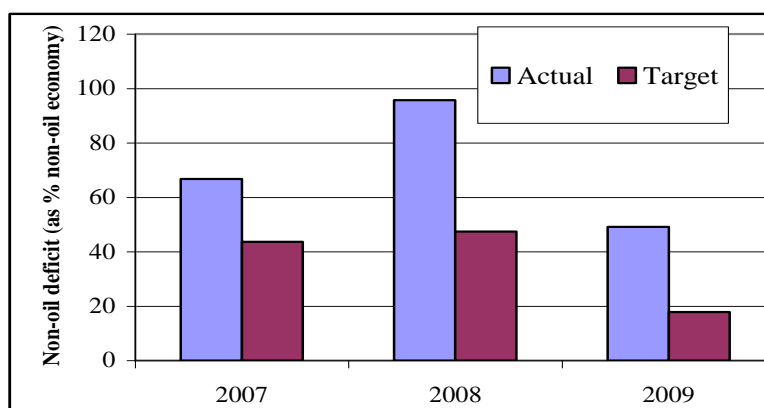
1.27 **The authorities are attempting to use a Permanent Income Hypothesis (PIH) model to devise a stable medium-term macroeconomic framework.** The central idea of the PIH is to ensure that a fairly constant standard of living is maintained despite petroleum price volatility and after reserves run out. The government only spends a portion of the petroleum revenues generated during the oil booms, and saves the extra revenues as financial assets to generate returns that can be used to maintain a sustainable stream of public spending in the future when petroleum revenues diminishes or run out. Such a prudent fiscal policy will help isolate the level of government spending from price volatility and share income across generations.¹¹ Three scenarios are considered to analyze the impact of alternative petroleum prices on public expenditure between 2009 and 2020 (see the assumptions in Table 1.3). With oil priced at

¹¹ Sweder van Wijnbergen, “The Permanent Income Approach in Practice,” mimeographed document, University of Amsterdam (March 2008).

US\$67.8 a barrel (best-case scenario), the PIH recommends a 12 percent increase in annual public expenditure (FCFA 128 billion more per year on average or 1.5 percent of GDP). With oil priced at US\$40.69 per barrel (worst-case scenario), public expenditure should decline 13 percent to maintain a permanent income (equivalent to a yearly reduction of FCFA 132 billion or 1.5 percent of GDP). The results also confirm that public spending and GDP are highly correlated since both petroleum revenues and GDP increase at a similar rate. See Annex IV for a more detailed presentation of the assumptions and results of the PIH modeling for Equatorial Guinea.

1.28 **Commitment to the PIH model now needs to be translated into action.** The non-oil deficit since 2007 more than doubles the target recommended by the PIH model (Figure 1.9). Previous discrepancies have been attributed to the dire economic needs for social services and infrastructure that call for immediate public expenditure; but excesses that become routine weaken the process of setting priorities and controlling expenditure to conserve petroleum proceeds for later use. Projections show that continued public expenditure at the current pace will lead to fiscal deficits starting in 2014, with petroleum savings completely used up by 2029. However, enforcement of a PIH-consistent spending level will postpone foreseeable fiscal deficit until 2032.

Figure 1. 9: PIH Non-Oil Deficit Recommendations and Actual Deficits, 2007–09



Source: World Bank and IMF

Table 1. 3: Assumed Variables for Three Permanent Income Hypothesis Scenarios, 2009–50

	Worst-case scenario	Baseline scenario	Best-case scenario
Oil prices	-25% or US\$41	US\$54.25	+25% or US\$68
Discount rate	1.5% (years 2009–12), and 2% (years 2013–50)	1.5% (years 2009–12), and 2% (years 2013–50)	1.5% (years 2009–12), and 2% (years 2013–50)
Real return ^a	1.5% (years 2009–12), and 2% (years 2013–50)	1.5% (years 2009–12), and 2% (years 2013–50)	1.5% (years 2009–12), and 2% (years 2013–50)

Source: World Bank

^a Real return rate on the stock of oil reserve savings can rise or fall by 1 percentage point in an additional sensitivity test based on the same basic assumptions used for the baseline scenario.

1.29 **The fiscal envelope requires tightening to ensure sustainability under alternative scenarios of the PIH model.** A permanent income-consistent spending level would sustain a positive overall balance that would not be expected to yield a deficit until 2032 at the earliest for all three scenarios under consideration. In addition, if nothing is done, the 2035 budget deficit, according to government budget projections, would reach the level of approximately 11 percent of GDP, while the projected deficit in all three scenarios would be modest at about 1–2 percent of GDP until 2050. Although high expenditures are necessary to develop non-oil economic sectors, careful targeting and management is needed to avoid undue waste and inefficiency, particularly when the country’s absorptive capacity is weak.

1.30 **In 2009, the authorities set an adjustment path in line with recommendations of the PIH model, but additional decisive steps must be taken for fiscal sustainability to take hold.** The PIH model recommends FCFA 0.6 trillion in public expenditure for 2009, FCFA 1 trillion in 2013, and FCFA 1.3 trillion in 2020. This path sharply contrasts with recent experience and with the budget originally proposed for 2009 that envisioned public expenditure beyond FCFA 2 trillion. However, in response to the plunge in hydrocarbon prices that occurred in 2009 the government revised its budget to substantially curtail expenditures (Figure 1.10). Although still far from PIH recommendations, particularly for 2010 (Figure 1. 10:), this is a positive step that needs to be accompanied by substantially higher public investment efficiency to avoid abrupt disruption in future provision of productive and social services needed to diversify the economy.

1.31 **The government needs to develop an appropriate strategy for improving financial returns on EQG’s sovereign financial assets.** The rate of return to investing petroleum savings is a critical determinant of the permanent income approach. For instance, an increase in the rate of return of just 1 percentage point compared to the return considered in the base-case scenario of the PIH model would allow the government to increase public expenditure by 3.4 percentage points of GDP (or FCFA 178 billion more per year). However, currently the country has no strategy for investing its financial assets, undermining its ability to maximize the potential return on its wealth. This source of added income is a low-hanging fruit ready to be picked and could be achieved by creating a sovereign fund. Establishing such a sovereign fund will require developing an adequate institutional setting for supervision of fund management and obtaining a broad political consensus on the most favorable risk/return ratio to pursue. The best practice is to outsource management of oil savings to the private sector on a competitive basis, and other well-established sovereign funds such as the Norwegian Government Pension Fund – Global¹² may provide useful guidance on the institutional setting required.

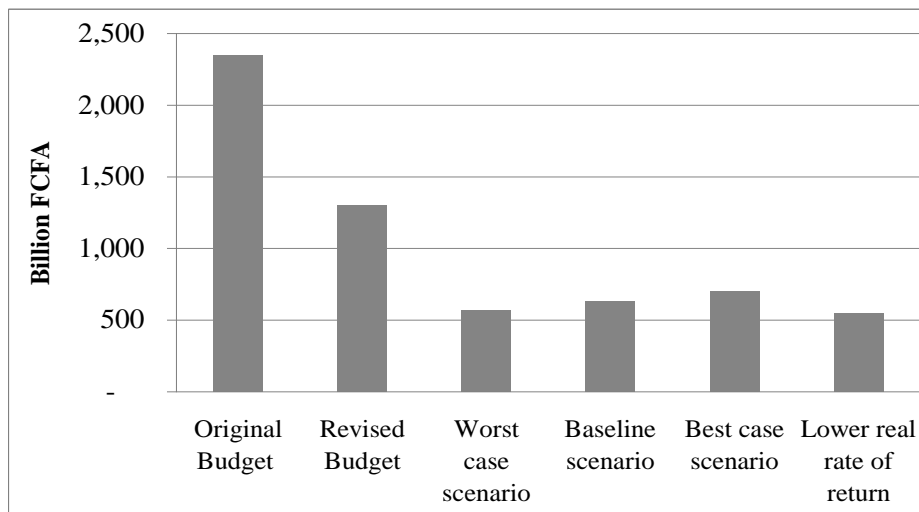
1.32 **Given the extreme contrast between PIH projections and the recent pattern of capital expenditures, building an efficient public finance management system should rely on a two-pronged strategy: enhancing presently limited institutional capacity to formulate and monitor expenditure programs and increasing both petroleum savings and its productivity.** Public finance management in EQG is very weak and must be strengthened if macroeconomic management of petroleum revenues is to be improved. Strong political will is also needed to stick to the expenditure recommendations from the PIH. To get the best returns on its wealth, greater transparency in petroleum revenue management is needed, along with a strategy for management of the sovereign fund described above that searches for high returns, broad consensus, and prudent management.

1.33 **While the PIH is helpful in sketching the path toward fiscal sustainability there are several caveats to the proposed criterion that may weaken its use to guide macro policy.** First, while it is fairly straightforward to estimate the net present value of the stream of oil receipts, uncertainty about the future path of oil revenues affects the reliability of such projections. Second, strong institutions are

¹²See <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html?id=1441> and http://www.norges-bank.no/templates/article_69365.aspx.

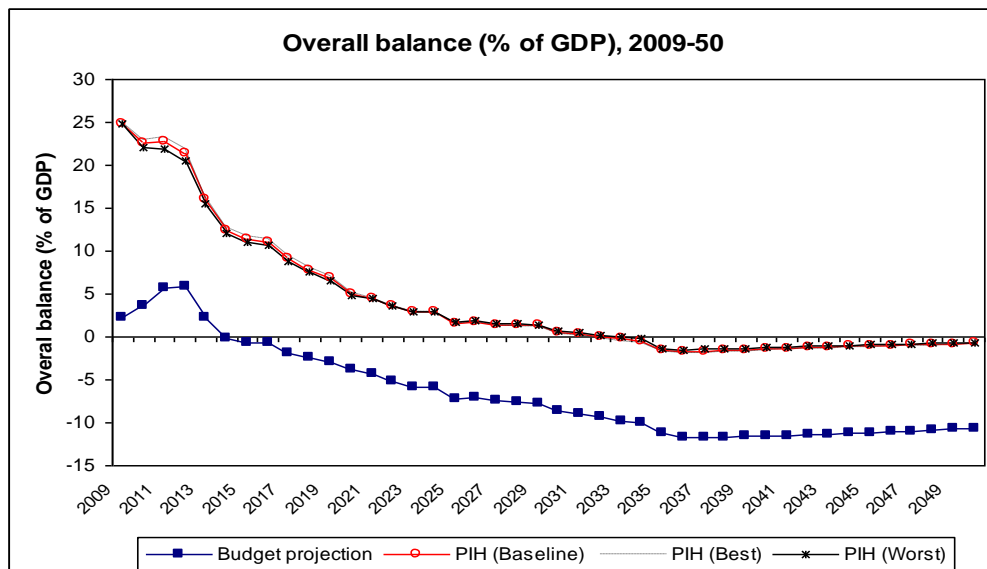
required to enforce the fiscal discipline called for in the PIH model. Third, while the PIH specifies spending limits, with some margin of error, it says nothing about the quality of spending and provides no benchmark for setting expenditure priorities. Finally, it does not ensure stable public expenditure levels since it allows large swells and declines in annual public investments in tandem with expanding or contracting annual inflows of oil revenue. Despite these caveats, the criterion can help the government face the reality of past unsustainable expenditures and the fiscal pressure from the recent drop in oil prices. While the model is particularly helpful in providing guidance for general public spending over the medium term, it clearly cannot operate autonomously from the overall Public Finance Management (PFM) system, nor does it ensure that spending within the PIH limit is free of waste and countercyclical.

Figure 1. 10: PIH Recommendations under Different Scenarios and in the 2009 Budget



Source: World Bank

Figure 1. 11: Overall Balance as Percentage of GDP, 2009–50

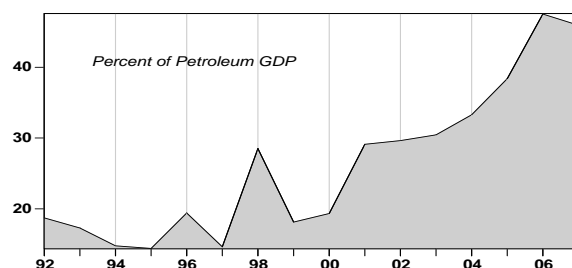


Source: World Bank

F. Improving Institutional Governance to Lift Public Sector Constraints to Growth

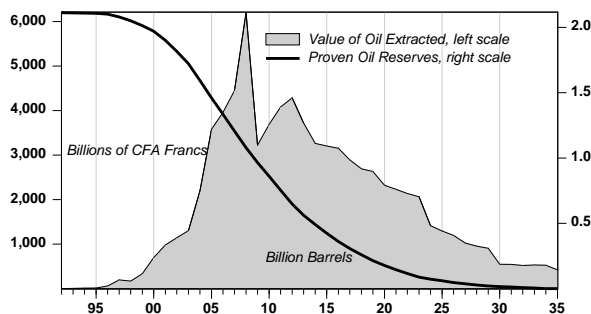
1.34 The increased government take from oil production¹³ will not be sustainable without a stable and predictable legal framework for petroleum activities that brings in qualified petroleum companies to develop new fields and raise the amount of proven reserves. While difficult to evaluate,¹⁴ the share of government revenue from the petroleum sector relative to the value of extracted oil and gas has increased from about 20 percent before 2000 to about 50 percent in 2007 (Figure 1.12). EQG has already exhausted half of its proven oil reserves, and the value of extracted hydrocarbons is on a declining trend (Figure 1.13). Therefore, hydrocarbon policy will become more important as efforts are made to raise proven reserves and new oil contracts are entered into. The government adopted in 2006 a new Hydrocarbon Law¹⁵ and a new production-sharing model contract, which increase state participation in new petroleum projects to a minimum of 35 percent, via participation by the national oil company (GEPetrol) and the national gas company (Sonagas). They also raise local content in the sector through promotion of employment and technical capacity for Equatorial Guineans. Taxation of petroleum exploration and production activities was also amended in 2004,¹⁶ and implementation of the provisions is being discussed with petroleum companies holding contracts predating the legislation. While the new legal regime has increased the government intake, it has yet to prove adequate in attracting international companies with the financial and technical capacity to find and exploit new petroleum reserves.

Figure 1. 12: Government Oil Revenues, 1992–2007 (Percentage of GDP)



Source: World Bank

Figure 1. 13: Value of Oil Output and Reserves, 1995–2035 (FCFA billion)



Source: World Bank

¹³ The government's take represents its share of economic profits, including all income sources (such as sales, bonuses, royalties, taxes, and government participation, among others).

¹⁴ Petroleum contracts are not public.

¹⁵ Decree Law No. 8/2006 of November 3, 2006.

¹⁶ Decree Law No. 4/2004 amended Decree Law No. 1/1986.

1.35 **Petroleum revenues need to be shielded from rent-seeking behavior and used to promote private sector development instead.** The state’s monopolistic position as the owner of petroleum reserves and the high proportion of revenues they generate compared to the non-oil economy attract elites to rent seeking, that is, to lobbying the government for access to the income stream. This is further exacerbated by the limited need of government at present for private sector financing of the public budget since most of its revenues are collected through petroleum taxes and royalties. Although this rent-seeking model is transitory (given the finite nature of an extractive industry), it thwarts development of a sustainable private sector and distorts the political incentives, which focus more on getting access to petroleum income than on long-term wealth creation and the well-being of the general population. A key to curtailing rent-seeking behavior is greater transparency in public resource management. To that end, EQG joined the Extractive Industries Transparency Initiative (EITI) in 2008 to make petroleum sector operations more open, although results have yet to be achieved (Box 1.2). Moreover, this initiative alone will not be enough; other factors must be addressed (see Table 1.4). The institutional system must be strengthened to ensure separation of functions between Gepetrol (operator on the petroleum market) and the Ministry of Mining (regulator) to avoid conflict of interest. Counterbalance institutions must be strengthened to limit the capacity of the government to generate rents. It is also very important to carry out reforms in public finance management to ensure that Geproyectos, the main contracting authority in infrastructure projects, does not accumulate undue discretionary power. Financial administration should be streamlined and better documented, and civil servants and public companies should be held accountable with regular external audits. Equatorial Guinea is still far from these standards and must move quickly to ensure that potential benefits from EITI are not undermined by an underperforming institutional setting.

Box 1. 2: Petroleum Transparency Initiatives in Equatorial Guinea

The Extractive Industries Transparency Initiative (EITI) is a coalition of governments, companies, civil society groups, investors and international organizations, including the World Bank, that supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining.

The EITI was launched in 2003 and Equatorial Guinea asked to join in 2004. A National Commission comprised of representatives of government, petroleum companies, and civil society was formed in May 2005 to take charge of implementing the EITI. Upon creation of the National Commission, the appointment of the national coordinator and her deputy, and the adoption of a working plan, EQG was admitted as a “Candidate Country” by the EITI Board in February 2008. The National Commission adopted a Memorandum of Understanding in February 2009 that establishes its commitment to a decision-making process based on consensus of the parties that form its membership. The commission has hired an audit company to aggregate information provided by the government and the petroleum companies on hydrocarbon payments. The report is being prepared and is expected to be available before the end of 2009, with the final EITI validation process programmed to start in January 2010.

Despite these steps, EITI implementation has been hampered by limited institutional capacity, notably by a civil society that is not well organized and lacks technical capacity to fully participate in the National Committee. To help overcome these constraints, donor and private sector assistance has been provided such as the Civil Society Support Project financed by the European Development Fund, training from the Revenue Watch Institute, technical seminars by the oil companies, and technical assistance from the World Bank financed by a Multi-Donor Trust Fund and the Government of Equatorial Guinea. The World Bank has also encouraged the government to conduct training workshops for civil society groups and other government agencies. Thanks to these all efforts, civil society is stepping up to play an increasingly important role in the tripartite dialogue, although its capacity still needs strengthening.

Notwithstanding this progress and the political will of the authorities, implementation has still lagged, primarily due to coordination snags within the government, as well as the gradual evolution of civil society participation described above. As the March 2010 deadline for validation as a “Compliant Country” looms, the National Committee, and particularly its government members, will need to take significant and resolute steps to ensure that the audit report is completed, the validation launched, and endorsement by the International EITI Board secured.

Table 1. 4: Conditions Favoring Rent-Seeking Behavior

Condition Favoring Rent Seeking and Corruption	Explanation
Excessive concentration of discretionary authority in the hands of individual civil servants	This is especially likely where procurement activities are carried out without acceptable contracting frameworks in place.
Complex financial administration with multiple layers of bureaucracy	When many people share responsibility for revenue or expenditure controls, no one feels responsible. Multiple decision points slow approvals and create an environment for rent-seeking behavior to accelerate a slowly moving approval process.
Weaknesses in organizational and administrative systems	Weak budgeting systems can result in allocations that steer resources away from priority areas and prevent effective spending of funds. Extrabudgetary entities and national oil companies operating outside the budget that are overseen by weak, low-capacity government entities offer the opportunity for detection-free diversion of revenues away from the state.
Excessive organizational concentration or centralization of authority	Separation of functions should be mandatory between those involved in operating an oil-producing company and those involved in administration or regulation of the country’s natural resource base. If necessary, specific new entities should be established to manage the state’s oil and gas resources.
Lack of transparency in PFM and inadequate reporting	Public accountability of government generally, and for oil revenues in particular, demands the highest standard of transparency and reporting on the sources and disposition of oil revenues by the government and the national oil company. The latter should be held to the highest standards of transparency and regular reporting to the government and the public on all aspects of its oil and gas production activities.
Inadequate external audit mechanisms	Weak auditor courts are unable to properly perform their audits to detect noncompliance, fraud, and corruption. This is particularly damaging if there is no an effective internal control. National oil companies that are not subject to annual external audits by internationally certified auditing firms are more able to conceal revenue diversions, side-payments, export volume/quality mis-measurements, and other fraudulent activities.

Sources: INTOSAI workshop on Supreme Audit Institutions and corruption (undated); MacDonald (2006).¹⁷

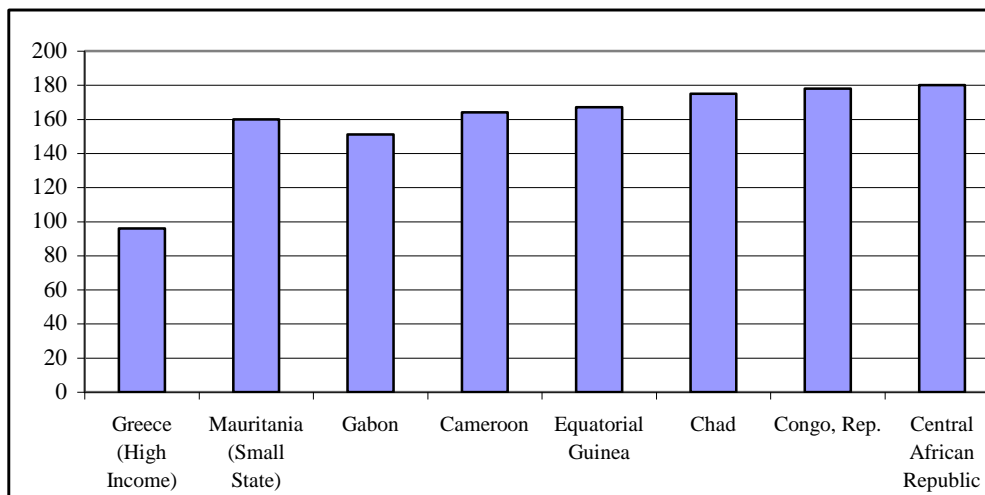
1.36 The poor business environment needs to be radically reformed to facilitate development of the non-oil economy to create jobs and a floor for long-term wealth creation. Equatorial Guinea has adopted the common business legislation promulgated by the Organization for the Harmonization of Business Law in Africa (OHADA) but lacks the capacity to implement it. The business environment has been assessed as very unfavorable.¹⁸ EQG’s Doing Business ranking even suggests the situation is deteriorating rather than improving, falling from 161 in 2006 to 167 in 2008 (Figure 1.14), well below the performance of countries with similar income per capita. EQG’s business environment suffers from the small size of its economy, which tends to hamper the formation and application of equitable business regulation, as well as the poor business environment of the CEMAC region as a whole. The number of procedures and duration to start a business in EQG are double the regional average, and starting a business takes more than three times the world average of 43 days. Lack of transparency and uneven

¹⁷ MacDonald, A. 2006. “Fiscal Policy and Revenue Transparency: Public Financial Management Strategy for African Oil and Gas Producers.” Mimeographed document, World Bank, Washington, D.C.

¹⁸ According to the *2008 Index of Economic Freedom* (Heritage Foundation) the overall freedom to start, operate, and close a business is considerably restricted by Equatorial Guinea’s national regulatory environment.

application of commercial regulations are still major problems, and modern bankruptcy procedures have not been developed. Although the Investment Law¹⁹ offers fiscal incentives, they may be of limited value given other aspects of the business environment, and need consideration within the overall tax policy.

Figure 1. 14: 2008 Ease of Doing Business Ranking for Equatorial Guinea and Select Peers (Out of 181 countries)



Source: World Bank

G. Conclusion and Recommendations

1.37 **EQG has become an oil exporting country with limited production in its non-oil economy that combined to generate large imports, severely affecting employment creation and poverty reduction.** Increasing petroleum revenues from high prices and production and better contract terms have fueled most of the consumption, investment, and imports in the nonhydrocarbon sector. They have created a sense of abundance that has only recently been tempered with the sharp decline in petroleum prices in 2008. The authorities must realize that continued economic growth along the previous path becomes unsustainable as petroleum revenues begin to run dry, and that employment creation and poverty reduction depend on productivity gains in the non-oil economy. The good news is that petroleum revenues have generated enough savings to implement much needed investment programs that can ease constraints on the non-oil economy, raising domestic productive capacity and creating employment. However this will require strict fiscal discipline and adequate budget allocation to ensure that public expenditure focuses on country priorities, an issue that is analyzed in Chapter 2.

¹⁹The Investment Law as revised on June 6, 1994.

Recommendations

Short Term	
Issues to Address	Action to Take
Overall expenditure is too high, inconsistent with the PIH targets, and will deplete petroleum savings too quickly for future generations.	<ul style="list-style-type: none"> • Adjust the overall public expenditure envelope to targets proposed by the PIH rule.
Management of petroleum revenues lacks transparency.	<ul style="list-style-type: none"> • Expedite implementation of the EITI and across the oil sector value chain. • Strengthen public finance management to better control budget expenditure.
A complex system of fees and public payments hinders private investment.	<ul style="list-style-type: none"> • Streamline the current system of fees and public payments in line with the Doing Business recommendations.
Ensure an adequate rate of return on savings from petroleum revenues.	<ul style="list-style-type: none"> • Appoint a committee to effectively design and supervise investment strategies to raise financial returns of petroleum savings, following best international practices.
Non-oil domestic production is negatively affected by real exchange rate appreciation.	<ul style="list-style-type: none"> • Invest in non-oil domestic sectors (i.e., agriculture) to mitigate Dutch disease effects and foster employment and income. • Make sure that investment increases productivity in the non-oil sectors.
Medium Term	
Issues to Address	Action to Take
Widespread poverty and high inequality may lead to tensions.	<ul style="list-style-type: none"> • Reallocate public expenditures to increase funds for social protection. • Develop domestic employment and target social protection systems to lowest quintiles of the population.
Limited domestic private investment.	<ul style="list-style-type: none"> • Improve the business environment. Set up a committee for an in-depth review of hindrances to business development and prepare a 3-year action plan.

CHAPTER 2: BUDGET ALLOCATION EFFICIENCY

2.1 Significant hydrocarbon production in Equatorial Guinea has fed a huge and rapid influx of government revenues and parallel increases in public expenditure. Hydrocarbon production rose from 250,000 barrels per day (b/d) in 2002 to 366,900 b/d in 2008, while international oil prices jumped from US\$34 per barrel in 2004 to US\$93 in 2008. New petroleum legislation in 2006 further boosted the government's intake. This revenue boom has fueled growth in public expenditure, notably capital expenditures that expanded tenfold between 2004 and 2008. Recurrent expenditure has not kept pace, however, raising doubts that the balance in allocation between capital and recurrent spending is ideal given the country's challenges.

2.2 Despite increased public spending, the public sector still runs a surplus. The overall 2002 fiscal surplus of 16.8 percent of GDP remained high in 2008 (15.3 percent of GDP). Gross official reserves for 2008 are estimated at US\$7.6 billion (21.2 months of imports or 41.3 percent of the GDP), up from US\$1.6 billion in 2004 (5.5 months of imports). The savings are mostly explained by the magnitude of oil revenues flowing in and the country's limited absorptive capacity. Part of the reserves, representing 19 percent of GDP in 2008, is held in government's accounts in private banks abroad.

2.3 The rapid and significant leap in public revenues and expenditures and Equatorial Guinea's limited institutional capacity call for thorough review of the budget allocation process to avoid inefficiencies. This chapter reviews allocations between 2002 and 2008 to highlight major trends and where potential gains in efficiency can be found.²⁰ It first analyzes the structure and trends of government revenues. It then reviews the economic and functional composition of public expenditures, focusing on sectoral allocations of public investment that represent over 80 percent of the national budget. It concludes with recommendations for improvement.

A. Public Revenues

2.4 Total public revenues doubled between 2002 and 2008, driven by higher prices and volumes of hydrocarbon exports and better contract terms with petroleum companies for sharing returns. Oil revenues have been expanding 34 percent yearly on average. By 2008 they accounted for 89 percent of total public revenues and 47 percent of GDP (Table 2.1).

²⁰ The main challenge of this analysis has been the poor quality of budget data. Available information on budget implementation does not allow for a proper comparison with budget approval data, so that data used in this chapter will mostly refer to what was allocated rather than what was spent. Data on budget allocations are from the Budget Directorate of the Ministry of Finance and Budget, and data on budget execution are from the Treasury. These data have been cross-checked for consistency with data provided by an IMF technical assistance team working at the Treasury. This IMF technical team has also worked with the authorities to estimate Public Investment Program execution by sector, invaluable information that is extensively used throughout this PER.

Table 2. 1: Public Revenues, 2002–08 (Percent of GDP)

	2002	2003	2004	2005	2006	2007	2008	Average
Total revenue	27.5	27.3	31.9	37.9	45.7	48.8	46.9	38.0
Oil revenue	22.4	23.1	28.3	34.7	42.0	44.1	41.6	33.7
Corporate income tax	8.3	6.9	5.8	7.2	9.1	6.6	6.6	7.2
Royalties	11.4	13.9	14.7	11.7	21.7	12.4	12.5	14.1
Profit Sharing	2.7	2.2	7.5	14.5	11.2	24.9	22.2	12.2
Bonus and rents	0.0	0.0	0.2	1.3	0.1	0.2	0.4	0.3
Non-oil revenue	5.0	4.3	3.6	3.2	3.7	4.7	5.3	4.3
Income taxes	2.6	1.4	1.5	1.3	1.3	1.4	1.4	1.6
Corporate Income	0.0	0.4	0.5	0.5	0.6	0.6	0.6	0.4
Personal Income tax	1.6	1.0	1.0	0.8	0.8	0.8	0.8	1.0
Other Income tax	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Taxes on goods and services	0.9	1.1	0.9	0.6	0.6	0.7	0.7	0.8
Taxes on trade	0.6	0.7	0.3	0.2	0.2	0.1	0.2	0.3
Other taxes	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Nontax Revenue	0.8	0.9	0.6	1.1	1.4	2.4	3.0	1.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items								
Oil Production (Thousand Barrels per Day)	--	--	368.2	375.5	362.9	368.5	359.2	366.9
Adjusted Crude Oil price (\$US/bbl)	--	--	34	49	60	67	93	61

Sources: EQG authorities, EIA, IMF

2.5 The primary driver of rising oil revenues has been the renegotiation with private companies of better petroleum contract terms for the state. The 2006 revision of the Petroleum Law boosted the state's share of profits, raising the royalty tax rate from 10 percent to a minimum of 13 percent and fixing the state's minimum ownership stake in oil and gas operations at 20 percent. Royalties (levied on total petroleum production) and profit sharing accounted for 83 per cent of the state's oil income in 2008. The corporate income tax levies 25 percent of final profits from petroleum operations,²¹ and has increased in line with GDP. Finally, bonuses and rents, which are mostly lump-sum payments for exploration and production contracts, remain relatively low and are not a major source of budget financing.

2.6 The only other state revenue stream on the rise comes from oil derivative operations, which reached 4.2 percent of GDP in 2008. However since these operations are closely linked to oil and gas extraction, generate little employment, and mirror the oil economy in their affect on growth and poverty reduction, this analysis treats them as part of the hydrocarbon economy.

2.7 EQG is neglecting non-oil taxes, which have not kept pace with the growth of the non-oil economy. Non-oil tax revenues declined to 2.3 percent of GDP in 2008 from 4.2 percent of GDP in 2002. While the non-oil economy increased an average of 33 percent annually in nominal terms between 2002 and 2008, non-oil tax revenues only increased by 25 percent yearly, representing a take of only 7.3 percent of non-oil GDP in 2008 compared to 17.8 percent in 2002. The declining trend derives mainly from a significant fall in the personal income tax and in taxes on goods and services. Income taxes fell to 1.4 percent of GDP in 2008, compared to 2.6 percent in 2002. Although income and corporate taxes have grown 13 percent per year on average to FCFA 73.2 billion in 2008 (compared with FCFA 38.9 billion in 2002) due to the buoyancy in non-oil activities, mainly construction and public works led by the oil boom, the increase is well below economic growth both in the overall and the non-oil economy.

²¹ A withholding tax of 1 percent of the turnover of the preceding fiscal year is levied at the beginning of each fiscal year as an advance payment of corporate taxes. In case of losses, a tax credit is carried forward. The duration of the loss carry-forward depends on contractual provisions and on the applicable fiscal law.

2.8 **Despite growing trade, collection of custom taxes has not kept pace since 2002.** They declined from 0.6 percent of GDP in 2002 to 0.2 percent of GDP in 2008, even though imports jumped from US\$500 million to US\$4 billion during the period.²² This is well below customs collection in other CEMAC countries (for instance, 2 percent of GDP in the Central African Republic and 5 percent of GDP in Gabon) and is explained by the many tax exemptions for the public sector (government, public enterprises and other public institutions) as well as poor administrative practices. Also, export duties on timber and cocoa were eliminated in 2007 to boost profitability in these industries.²³

2.9 **Reforms to improve tax revenues are being carried out in line with the CEMAC but with limited success.** The new tax code that took effect in 2005 replaced the domestic turnover tax with a value added tax (VAT), raised the corporate income tax, and made the personal income tax more progressive.²⁴ In addition, the Tax Administration Directorate was reorganized and its capacity strengthened to better monitor taxpayers by expanding the system of taxpayer identification numbering. Nonetheless, the private sector's limited capacity to implement the VAT and the public sector's to enforce it caused collection to drop to 0.7 percent of GDP in 2008, compared to 0.9 percent of GDP in 2002 when the tax was introduced.

2.10 **Strengthening tax administration and a determined effort to reform customs administration are essential to improving non-oil tax revenues.** The tax administration has very limited skilled personnel and an unclear institutional setting, with several bodies participating in revenue administration (the Tax Directorate, the Customs Directorate, and the Ministry of Mining). The Tax Directorate's enforcement role is largely confined to the non-oil sector, with limited involvement in petroleum revenues. Weaknesses reported in the collection of customs duties include extensive ad hoc exemptions, tax evasion and mismanagement. The government aims to strengthen tax and customs administration to monitor oil production and related tax payments. Notable among the measures already taken to reform the customs regime is the outsourcing of management at ports to an international company that will automate customs administration and carry out preshipment inspections. Implementation of these measures should be accelerated to expedite trade procedures and raise customs revenues in line with neighboring countries.

2.11 **Increased savings from petroleum revenues are boosting interest income,** which earned 2.2 percent of GDP in 2008 compared to 0.3 percent of GDP in 2002 when they started to accrue. Other nontax revenue comes from rising sales or rental of government properties due to the oil boom. These trends pushed total non-oil nontax revenues to FCFA 155.6 billion (3 percent of GDP) in 2008, up from FCFA 12.7 billion (0.8 percent of GDP) in 2002.

B. Public Expenditures

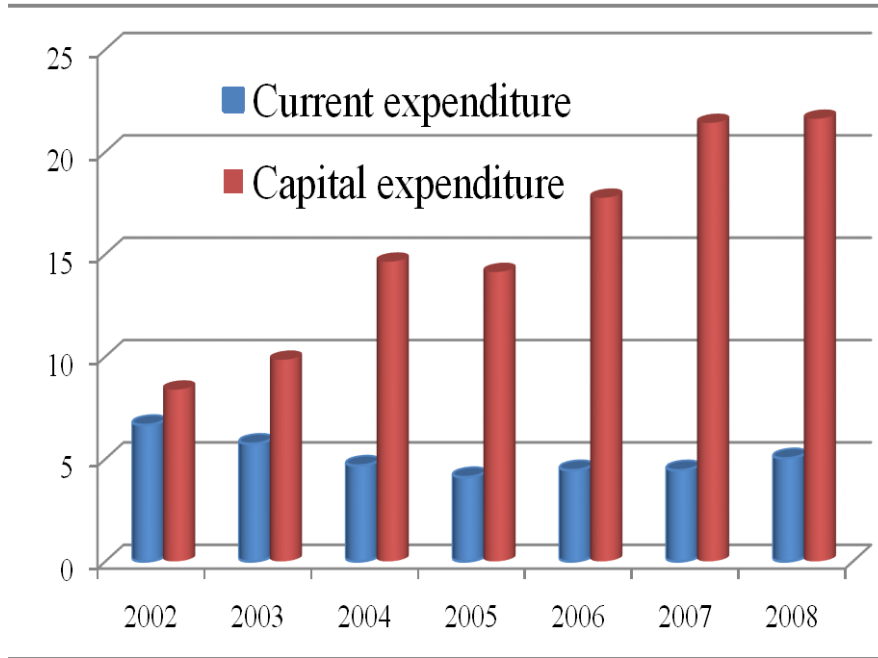
2.12 **The public budget follows a dual management system with separate current and capital expenditures and is dominated by capital spending (81 percent of the total budget in 2008).** Current expenditures are presented following an economic classification by salaries, goods and services, interest payments, and transfers and subsidies. Capital expenditures are recorded in a single budget item, which is then apportioned in the Public Investment Program. The oil boom has led to a tenfold increase in capital expenditures between 2002 and 2008. Current expenditures have, however, remained stagnant at less than 5 percent of GDP during the period (Figure 2.1).

²² Customs tax rates are set in line with the CEMAC common external tariff, which assigns rates of 5, 10, 20, or 30 percent of the import's value, depending on the category of the goods.

²³ Producer profits had recently been adversely affected by the nominal appreciation of the CFA franc vis-à-vis the U.S. dollar.

²⁴ It also raised the tax on gross income for nonresidents, and reduced the withholding tax for nonresidents on dividends paid and interest earned in EQG.

Figure 2. 1: Public Expenditure Structure (Percent of GDP)



Source: EQG authorities

C. Current Expenditures

2.13 **Current expenditures are insufficient to provide meaningful public social services.** EQG's current expenditures only represent 19 percent of total spending and 5 percent of GDP in 2008, which are the lowest among CEMAC countries, where 2007 current expenditures represented around 66 percent of total expenditure and over 10 percent of GDP (Table 2.2). Although current expenditure has increased 18 percent yearly it has not kept pace with overall or non-oil GDP growth and declined to 5 percent of GDP in 2008 from 6.7 percent of GDP (or 44 percent of total public spending) in 2002. This low level cannot sustain adequate public social services.

Table 2. 2: Government Expenditure in the CEMAC Region, 2007

	CAR	Chad	Cameroon	Congo	Gabon	EQG
	(in percentage of GDP)					
Total expenditure	12.7	21.1	15.6	32.0	21.0	26.1
Current expenditure	8.0	13.8	11.6	21.4	15.1	4.5
Wages and salaries	4.4	4.6	4.2	3.9	5.4	1.1
Goods and services	1.8	2.4	4.4	5.9	3.4	2.0
Transfers and subsidies	1.1	3.1	2.3	8.2	4.1	1.3
Interest	1.2	0.4	0.5	2.8	2.1	0.0
Capital expenditure	3.6	7.3	3.9	10.6	4.5	21.4
	(in percentage of total public expenditure)					
Total expenditure	100	100	100	100	100	100
Current expenditure	62.7	65.4	74.6	67.0	71.9	18.8
Wages and salaries	34.8	21.6	27.2	12.1	25.9	4.1
Goods and services	13.8	11.6	28.3	18.4	16.3	9.0
Transfers and subsidies	8.4	14.7	14.9	25.8	19.5	5.6
Interest	9.1	1.8	3.2	8.6	10.2	0.0
Capital expenditure	28.2	34.6	25.2	33.1	21.2	81.2

Source: IMF and World Bank

D. Economic Structure of Current Expenditures

2.14 **The economic classification of recurrent expenditures consists of (a) goods and services, (b) salaries, (c) subsidies and transfers, and (d) interest payments.** While goods and services represent, on average, the largest share of current expenditures, subsidies and transfers have become the second expenditure group among current expenditures, expanding at the same rate as overall GDP (Table 2.3).

Table 2. 3: Economic Composition of Public Expenditure, 2002–08 (Percent of GDP)

	2002	2003	2004	2005	2006	2007	2008
Total expenditure	15.2	15.7	19.4	18.6	22.3	26.1	26.6
Current expenditure	6.7	5.7	4.7	4.1	4.5	4.5	5.0
Wages and salaries	1.7	1.6	1.2	0.9	0.9	1.1	1.1
Goods and services	3.4	2.9	1.9	2.1	2.0	2.0	2.4
Interest payments	0.3	0.1	0.1	0.0	0.0	0.0	0.0
Transfers and subsidies	1.3	1.2	1.5	1.1	1.6	1.3	1.5
Capital expenditure	8.4	9.8	14.6	14.1	17.8	21.4	21.6

Sources: EQG authorities, World Bank, IMF

2.15 **Efforts to improve public administration are insufficient and the wage bill does not finance key public services.** Despite the increase in the wage bill to FCFA 56 billion in 2008 (1.1 percent of GDP) from FCFA 26 billion in 2004 (notably for civil servants, who represent 80 percent of public employment), the wage bill still remains well below the CEMAC regional average (4 percent of GDP in 2007). Most importantly, the increase has not always been related to improved staffing in key social sectors; for instance, salaries of staff working abroad doubled from FCFA 3.7 billion in 2004 to FCFA 8.9 billion in 2008 following the opening of new embassies and consulates. Public administration is weak both in personnel numbers and skills, and the government will need to accelerate efforts to ensure that higher budget allocations to wages and salaries foster productivity and increased human capital in the social sectors (see Box 2.1). To that end, the strategy for administrative reform prepared with assistance from the UNDP should be quickly endorsed and implemented by the government.

Box 2. 1: Public Administration in Equatorial Guinea

The Ministry of Public Function and Administrative Reform (MoPA) manages EQG's public administration, including civil servants and contract staff. Law 2/2005 divides public employment into five grades from A (requiring a university degree) to E (requiring primary education). In 2008 there were 515 A-grade staff out of 8,464 civil servants, with most of the latter (48 percent) classified as C-grade.^a The Ministry of Education and the Ministry of Health are the main employers with 40 percent and 21 percent of total public employees, respectively.

Law 2/2005 envisions two hiring processes in public service—through a public exam or by merit. Taking into account the limited capacity in the civil administration and in the country in general, the government seeks to attract highly educated staff and has decided to select all A-levels based on merit. Entry public exams are not specific to vacancies and do not refer to a specific professional body but instead evaluate general competencies. The absence of professional career paths (such as for lawyers, economists, or engineers) within the public administration makes it difficult to know what constitutes adequate education and training and to assess the overall staff needs of the government by skill category. Public personnel training is provided at the national university but is often not well tailored to public administration needs. Increased public expenditure has been accompanied by a large number of short-term contractual staff being hired at the sector level. In fact, these hires have turned out to be longer term, extending beyond the one-year limits in worker contracts.

Payment is not linked to productivity gains but to job scales within each grade that increase with seniority. That is, every six years the employee is promoted to a higher scale, with promotion accelerated for outstanding work during three consecutive years or adequate training. In addition to salaries, civil servants receive several benefits associated with their position. Some are post benefits, or *complemento de destino*, such as water and electricity subsidies. Others are assignment benefits (*complemento de puesto*). Still others derive from seniority (a three-year bonus, or *trienios*, for civil servants and a four-year bonus, or *cuatrienios*, for the military) or are rewards for productivity (*complemento de productividad*). Law 2/2005 specifies that an A-grade salary cannot exceed three times the salary earned at C-grade, but the overall scale is not linked to a minimum or average wage. Salaries are revised every several years to compensate for accumulated inflation, with the latest revision in 2006. In the view of many external specialists, public sector salary scales and levels could merit upward adjustments.

There is limited control over actual work by public employees. Salaries are paid, net of taxes and Social Security contributions, into staff bank accounts; but no payment stub is issued, making it difficult to adequately reconcile benefits and final payments. Also there are delays in reconciling employment information between sector ministries and the Treasury. In the view of the authorities, some workers may continue to receive a salary without actually working, but their number is negligible.

The government has committed to public administration reform to raise efficiency and improve service delivery.^b Its broad aims are to improve the sector's human capital, upgrade overall management of its work force, and introduce more appropriate and agile administrative procedures. Key specific proposals call for the complete outsourcing of D- and E-grade staff positions, and an estimated 20 percent reduction in C-grade slots that will be offset by a similar increase in A-grade staff. A proposed Public Administration Training Institute will tailor instruction to the duties and skill needs of public employees.

^a National Security and Defense are not included.

^b A report for administrative reform that followed recommendations spelled out in the National Development Plan was prepared in 2008 with assistance by UNDP. The report was validated at a workshop in November 2008 and is now pending adoption by the Council of Ministers before implementation.

2.16 Goods and services remain the main recurrent expenditure, averaging 15 percent annual growth between 2002 and 2008. Due to the lag relative to expansion of gross domestic product, its share declined to 2.4 percent of GDP in 2008 compared to 3.4 percent in 2002.

2.17 Interest payments have dropped significantly since no new debt has been incurred. With the rapid rise of gross domestic product, outstanding external debt has fallen to 0.6 per cent of GDP in 2008 compared to 21 per cent in 2002. As a consequence interest payments have declined, representing less than 0.1 percent of GDP in 2008.

2.18 **Transfers and subsidies have climbed quickly since 2002, reflecting the large state role in the economy through diverse autonomous institutions and the rising costs of the fuel subsidy program.** This segment represented 1.5 percent of GDP or 30 percent of total current expenditures in 2008, up from 19 percent of current expenditures in 2002. The Budget Law distinguishes nine categories of transfers and subsidies: to families, local municipalities, public corporations, autonomous institutions, social security, or financial institutions, as well as transfers to nonprofit institutions, transfers to subregional organizations and various grants (see Annex VI for a description of the different entities receiving transfers and subsidies, and Table 2.4 for a distribution of funds since 2002). Transfers to autonomous institutions increased to 63 percent of total transfers in 2008 following the decision to further expand the government’s role in the economy. To this end, the government bought foreign equity shares in a local oil exploitation company through the National Oil Company Gepetrol, a purchase that will require additional public disbursements to defray the company’s operational costs in the future. Other autonomous institutions have also been created such as the telecommunications regulatory body ORTEL, and ENPIGE, a real estate investment company in charge of managing social housing.

2.19 **Reform of the current institutional framework is needed for the Ministry of Finance and Budget to effectively monitor the autonomous institutions.** Assessing the operational efficiency of autonomous institutions (accounting for more than 36 percent of the current budget) is difficult because some do not transmit their budgets and implementation reports to the MoFB and Parliament for review and supervision, even though they are required to do so by the 1995 Decree defining the regulation of autonomous institutions and state-owned enterprises. Unclear and overlapping responsibilities between technical and financial ministries overseeing these autonomous institutions creates conflicting data on their financial and operational performance, adding to the confusion. Oversight staffing is also inadequate. The General Directorate of Autonomous Institutions and Public Enterprises in the MoFB responsible for supervision of autonomous institutions has just two staff members to supervise ten government agencies, nine public enterprises, all local governments and two chambers of commerce. The institutional system should be reformed to ensure that autonomous institutions report to a single directorate that is adequately resourced to properly supervise their budgets. The experience of other countries suggests that strengthening the MoFB enhances fiscal discipline and leads to better use of funds at decentralized levels.

Table 2. 4: Transfers and Subsidies as Shares of GDP, 2002–07

	2002	2003	2004	2005	2006	2007
To Families	0.1	0.1	0.1	0.1	0.0	0.1
To Municipalities	0.0	0.0	0.0	0.0	0.0	0.0
To Public Corporations	0.0	0.0	0.0	0.1	0.0	0.1
To Autonomous Institutions	0.5	0.4	0.7	0.4	0.8	0.7
To Social Security	0.1	0.1	0.1	0.1	0.0	0.1
To Financial Institutions	0.0	0.0	0.0	0.0	0.0	0.0
To Non profitable Organizations	0.4	0.4	0.3	0.3	0.3	0.1
To Sub regional Organizations	0.2	0.2	0.2	0.0	0.1	0.2
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Total Subsidies and Transfers	1.3	1.2	1.4	1.0	1.3	1.3

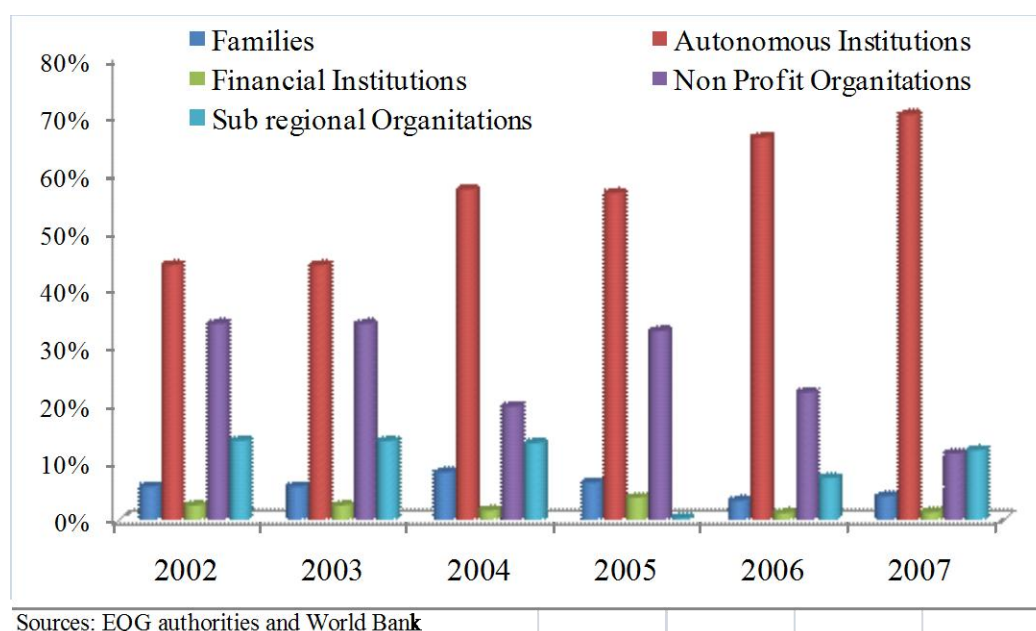
Sources: EQG authorities and World Bank

2.20 **The largest share of transfers and subsidies (averaging 36 percent over 2004–07) is allocated to fuel subsidies** to protect domestic consumers against upward spikes in international oil prices. The subsidy, recorded as transfers to autonomous institutions, is paid directly to Total Company as compensation between taxes dues by the company and the difference between the retail domestic price

fixed by the government and the international market price. The subsidy is not targeted and all consumers (rich and poor households, enterprises and public entities) benefit alike. Furthermore, gasoline consumption is likely to be higher in rich households and the formal sector therefore making the gas subsidy regressive. The government also plans to set up a US\$20 million Food Security Fund to subsidize prices of basic food products in 2009. The fund will compensate the difference between the cost of food and a fixed food price for consumers.

2.21 The efficiency of the transfers and subsidy system is questionable, with subsidies not well targeted to the needs of the population. Subsidies to families, the details of which have yet to be collected, merely represent 0.1 percent of GDP in 2007 (or 4 percent of total subsidies) well below subsidies to nonprofit organizations (mostly sport federations and political parties) that represented 12 percent of total subsidies in 2007 (see Figure 2. 2:). In addition, some of the subsidy systems, notably the fuel price subsidy, are not well targeted and benefit mostly the better off. In this context, the subsidy to families which represent 4 percent of total transfers and subsidies in 2007 seems insufficient to face the high poverty still prevalent in EQG.

Figure 2. 2: Recipient Transfers and Subsidies as Shares of Total Transfers and Subsidies, 2002–07



E. Administrative Composition of Current Expenditures

2.22 The budget does not follow a functional classification, hamstringing the ability of authorities to link budget allocations to development objectives and sector policies. The government’s budget follows an administrative classification by sector ministries, departments, and agencies. To analyze sectoral budget allocation, ministries have been grouped by governmental function as defined in the international standard classification of functions of the government (COFOG) from the International Monetary Fund’s Government Financial Statistics (see Annex VII for a description).²⁵

2.23 Current spending does not reflect the development priorities of EQG since 57 percent of total current expenditure in 2008 is allocated to security and administrative services. Allocations to

²⁵ Some expenditure is not allocated to sector ministries such as debt service and special funds allocated to the Caja Autónoma y Amortización de Deuda Pública and *obligaciones diversas* that include capital expenditure.

public administration represent 42 percent of total allocated recurrent budget (Figure 2.3), rising to FCFA 56 billion in 2008 from FCFA 19 billion in 2005. Allocations for defense and security, which represent around 15 percent of total current expenditure, are probably underestimated since the budget does not include salaries of military staff. When considered together, public administration (0.7 percent of GDP) and defense and security (0.3 percent of GDP) represent almost two-thirds of all current expenditure (Table 2.5).

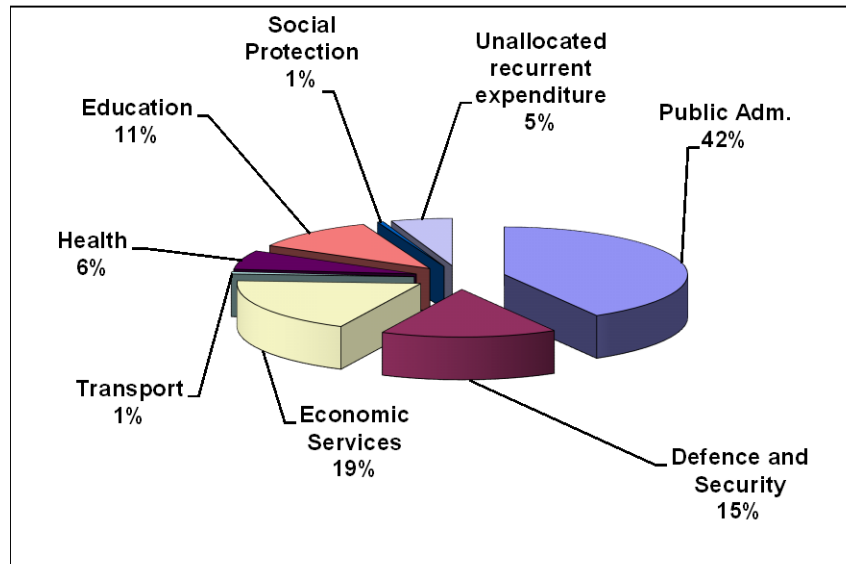
2.24 Social sector spending is too low to address the needs of the country’s poor population, representing only 23 percent of 2008 total current expenditure. Education and health current expenditures have increased nominally (to FCFA 15 billion and FCFA 8.7 billion for education and health respectively in 2008), in line with the National Development Plan to improve social services and reduce poverty. However their relative shares of current expenditure have actually declined. Education spending fell to 11 percent of total current expenditure in 2008 compared to a share of 13.5 percent in 2003, and the share of health allocations declined to 6.4 percent in 2008 from 8.2 percent in 2003. Despite increased efforts to develop the education and health systems, allocations have trailed other sectors such as public administration and defense. Social protection would seem to run even farther behind, accounting for 0.1 percent of total current expenditures in 2008. However social protection allocations do not include transfers and subsidies to protect consumers against rising international oil and food prices. If fuel and food subsidies managed by the MoFB are included, overall social expenditures can reach an average of 10 percent of total current expenditures between 2003 and 2008.

Table 2. 5: Administrative Composition of Public Expenditure, 2005–08 (Percent of GDP)

	2005	2006	2007	2008
Public Administration	0.4	1.0	0.9	0.7
Defence and Security	0.3	0.3	0.3	0.3
Economic Services	0.3	0.4	0.4	0.3
Transport	0.0	0.0	0.0	0.0
Health	0.1	0.1	0.1	0.1
Education	0.2	0.2	0.2	0.2
Social Protection	0.0	0.0	0.0	0.0
Unallocated recurrent expenditure	0.6	0.8	0.1	0.1
Total	2.1	2.9	2.2	1.6

Source: EQG authorities

**Figure 2. 3: Administrative Composition of Current Expenditure, 2008
(Percent of total current expenditure)**



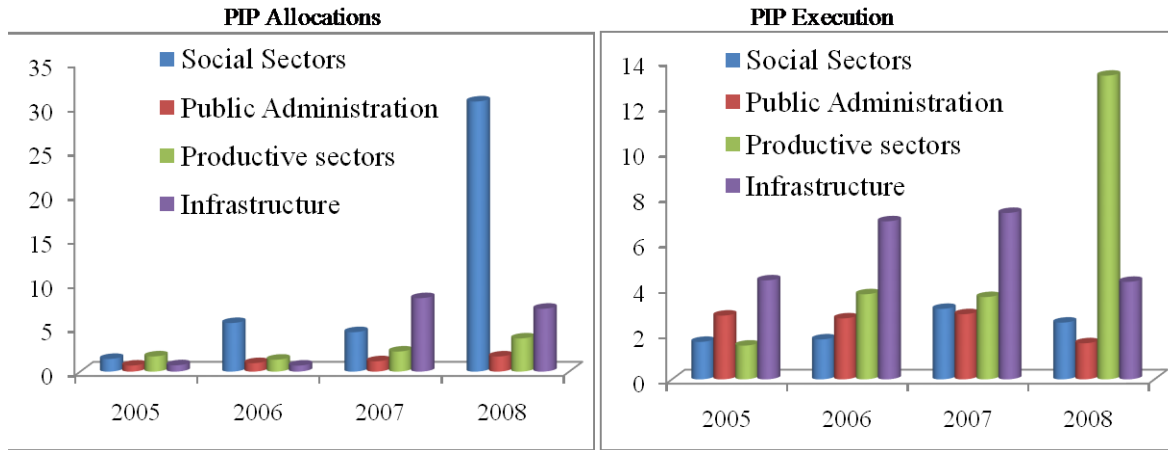
Sources: EQG authorities and World Bank

F. Capital Expenditures

2.25 Capital expenditure is poorly planned, executed, and reported, which limits adequate investment monitoring and weakens investment effectiveness. The Public Investment Program has numerous preparation and implementation shortfalls that severely affect the quality of investment data. The public budget contains only an overall envelope for capital expenditures without specific breakdown. Many PIP investment construction expenditures currently classified as infrastructure are actually social spending, such as for hospitals or schools. Also, it is possible to execute a project not included in the PIP, and some projects in the PIP are never implemented. Management of the investment program is under the Office of the President without financial accountability from the MoFB. This fosters duplicate spending, wasted resources, and insufficient monitoring of PIP implementation—a heavy toll given that the PIP represents about 80 percent of the total public budget.

2.26 Government’s tenfold increase in public investment since 2004 has focused on improving infrastructure. In 2008 capital expenditures reached 21.8 percent of GDP (Table 2.6), up from 8.4 percent of GDP in 2002. Using data from the PIP, projects have been bundled together to analyze allocations in the social, infrastructure, economic and productive sectors. Data confirm the results visible on the ground, which show improved infrastructure such as roads, airports, and ports alongside less successful construction of social infrastructure such as housing, schools, and hospitals. Approval of the NDP signals the government’s aim to shift resources toward investment in social sectors although limited implementation capacity in these social sectors has limited past spending there to a mere 2.5 percent of GDP (Figure 2.4).

**Figure 2. 4: Public Investment Program, 2005–08
(Percent of GDP)**



Sources: EQG authorities, IMF and World Bank

Table 2. 6: Public Investment Program, 2005–08

Allocation by Purpose (Percent of GDP)

	2005	2006	2007	2008
Social sectors	1.4	5.5	4.5	3.1
Public administration	0.7	1.0	1.2	1.7
Productive sectors	1.7	1.4	2.3	3.8
Infrastructure	0.7	0.7	8.3	7.1
Total	4.5	8.6	16.3	15.7

*Capital Budget Execution
(Percent of GDP)*

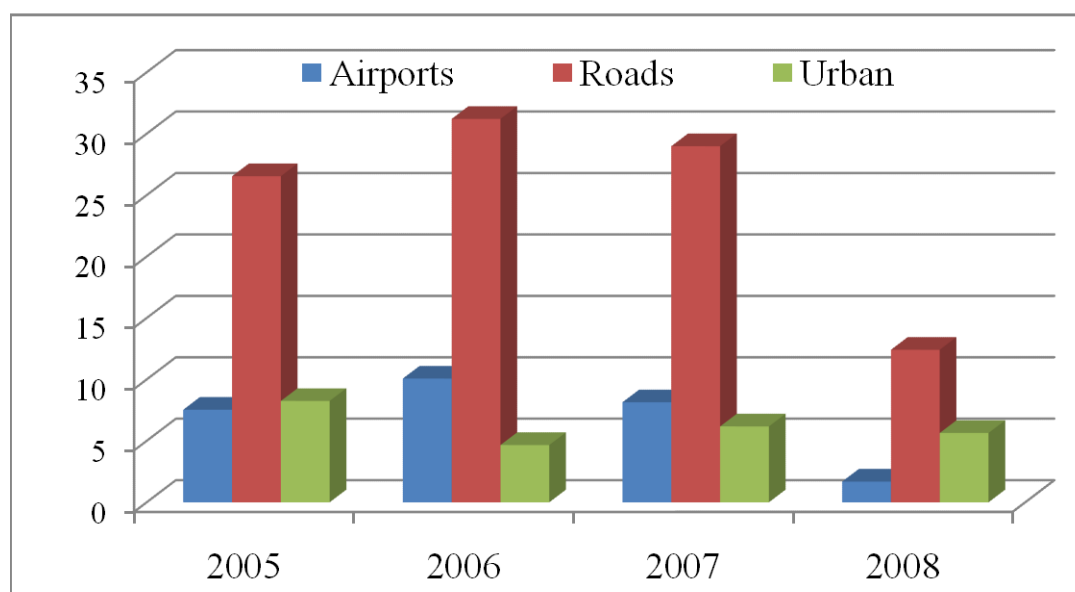
	2005	2006	2007	2008
Social sectors	1.6	1.8	3.1	2.5
Public administration	2.8	2.7	2.9	1.6
Productive sectors	1.5	3.7	3.6	13.4
Infrastructure	4.4	7.0	7.3	4.3
Total	10.3	15.2	16.9	21.8

*Execution Rate
(Percent of allocated investment)*

	2005	2006	2007	2008
Social	115	32	69	81
Public administration	409	279	245	92
Productive sectors	86	277	159	355
Infrastructure	606	1,022	88	60
Total	225	178	104	139

2.27 The high infrastructure investment (notably roads) will not be sustainable when large projects are completed. Infrastructure represents half of the investment carried out, two-thirds of which was in roads (around 4.1 percent of GDP between 2005 and 2007). Capital expenditure in airports and urban facilities represented around 1.2 percent and 1 percent of GDP, respectively (8.5 and 6.3 percent of total infrastructure expenditure between 2005 and 2007, respectively, as indicated in Figure 2. 5:). This investment, which has significantly upgraded the deteriorated road system and the main airports, can be expected to slow in coming years as the bulk of transport infrastructure improvements are completed, and resources will likely shift toward investments in the sectors using the newly installed infrastructure (that is, in the productive and social sectors).

**Figure 2. 5: Infrastructure in the Executed PIP, 2005-08
(Percentage of total investment implemented)**



Sources: EQG authorities, IMF and World Bank

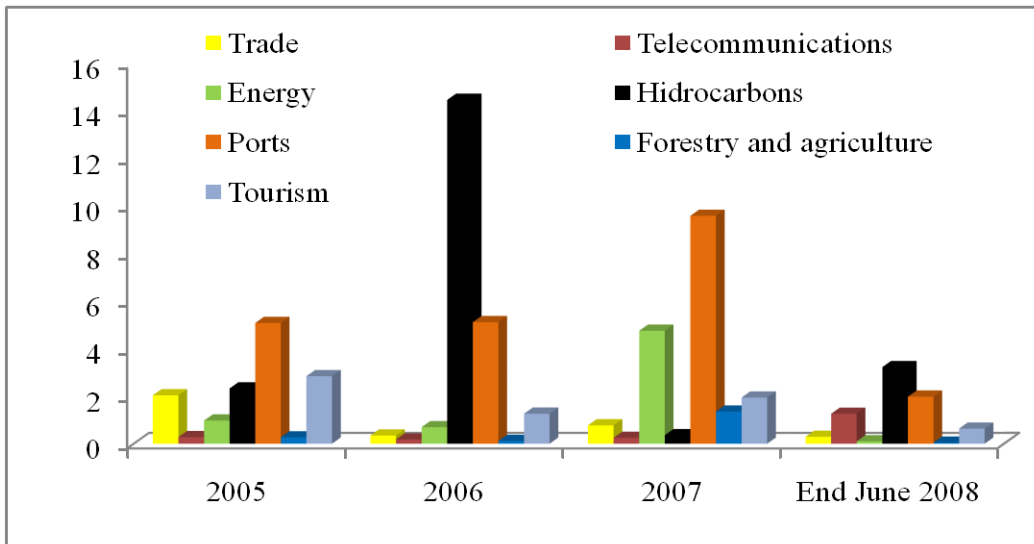
2.28 Investment allocations to productive sectors are too low to raise productivity substantially in the non-oil economy. Investment in the productive sectors equaled 3.7 percent of GDP in 2007, mostly focused in ports (see Figure 2.6).²⁶ As upgrades to the ports of Malabo and Bata reach their final stages, a significant shift in public investment is expected to increase productivity in the non-oil economy. Given the size of the rural population and the importance of agricultural activity for their livelihood, the authorities should prioritize agricultural investment. Currently, agriculture is not considered a priority for investment and accounts for less than 0.5 percent of total outlays.

2.29 Investment in social sectors will need to increase to improve the living conditions of the general population. Investment in social sectors has hovered around 2.5 percent of GDP in recent years (about 16 percent of capital expenditures implemented between 2005 and 2008, see Figure 2.7). Despite NDP recommendations, budget allocations for social sector investments has remained constant in absolute terms since 2006, and merely around 2.5 percent of GDP has actually been implemented.

²⁶ The large investment in productive sectors in 2008 is explained by greater state participation in petroleum exploitation blocks though the purchase of Devon's shares. While the authorities accounted this as an investment in productive sectors, it is more properly accounted as an acquisition of financial assets rather than an investment. Furthermore, even when considered as an investment it poses a problem since sinking resources in petroleum exploitation contradicts the NDP recommendation to diversify the economy toward greater non-oil production.

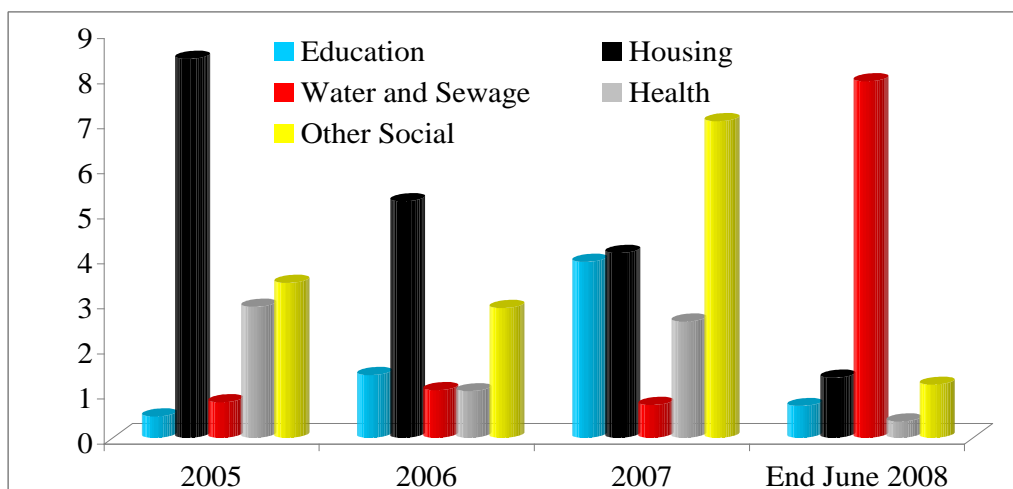
However, this low amount may be misleading since a portion of social infrastructure such as schools or hospitals is often accounted as infrastructure. In any case, social sector investment is far too low given the importance of education, health, water and sanitation, and housing for poverty reduction, and needs to increase significantly in size to improve the overall social and economic conditions of the population.

**Figure 2. 6: Executed Investment in Productive Sectors, 2005–08
(Percent of total investment executed)**



Sources: EQG authorities, IMF and World Bank

**Figure 2. 7: Executed Investment in Social Sectors, 2005–08
(Percent of total investment executed)**



Sources: Equatorial Guinean authorities, IMF and World Bank

2.30 The current institutional setting for investment management is reaching its limits. Execution of the PIP has exceeded investment allocations each year; and the government has spent twice the amount budgeted between 2004 and 2007, with overruns of US\$385 million in 2004, US\$460 million in 2005, and US\$600 million in 2006. This overexecution, mostly concentrated on physical infrastructure and

public administration, is due mainly to the government's will to carry out investments urgently. However there is serious risk that the current lack of discipline in committing public funds may lead the country to repeat the experience of Nigeria, where similar bursts in public spending from oil revenues achieved little in the long term (see Box 2.2). Moreover, the large size of the 2007 capital budget of around US\$2 billion and the limited overrun of US\$37 million seems to mark the ceiling for the government's investment capacity. Since the bulk of infrastructure investment (characterized by large contracts) has been completed and given the NDP's calls for greater productive investment to develop the non-oil economy and social investment to fight poverty, the government must begin to redefine its institutional investment arrangements to handle smaller contracts. This requires improved supervisory capacity of sector ministries expected to take more of the investment lead in the years ahead. The next chapter will analyze the current institutional setting for public investment and propose recommendations to facilitate project implementation, safeguard public funds, and raise efficiency.

Box 2. 2: Nigeria's Petroleum Management Experience

Nigeria's experience with petroleum management is among the most studied cases by scholars and development practitioners. Their unanimous conclusion is that the country's development performance has been disappointing despite enormous revenues accruing to the government since mid-1960, estimated on a cumulative basis at more than US\$400 billion by 2007. Nigeria remains among the 15 poorest nations in the world, with 54 percent of its population living below the poverty line (2003–04 National LSMS).

The two primary lessons for Equatorial Guinea from Nigeria's lackluster performance highlight the importance of strong macroeconomic management and efficient expenditure policies. Prior to the early years of this decade, successive Nigerian governments did not save oil windfalls, with the scale of public spending fluctuating in line with the international price of oil. This caused extreme exchange rate volatility harmful to private sector development. When oil prices were low, the government lacked public savings to draw on and tried to preserve its inflated level of spending through heavy borrowing, which led to a massive accumulation of debt (72 percent of GDP at the end of 2004). Moreover, the windfall of the 1980s and 1990s was spent on costly but inefficient public investments in infrastructure and industries that were poorly managed, had low completion rates, and suffered from rampant corruption. Once state-owned enterprises were put into operation, insufficient maintenance and weak governance made them quite inefficient. The attention of those in power was focused on rent seeking, which led to neglect of private sector development in the non-oil sector economy (particularly in agriculture and manufacturing), fuelling unemployment and exacerbating poverty and conflict, particularly when petroleum prices were low.

Equatorial Guinea should also examine Nigeria's more recent experience in attempting to break deeply engrained but unsustainable practices. In 2004, Nigeria started to implement a new development strategy that more responsibly managed its oil wealth. The authorities have adopted a more disciplined fiscal policy that unlinks the size of the annual budget from current oil prices, saving a significant portion of the oil windfall when oil prices are high to ride out times when they are not. Nigeria has also made good progress in improving governance and fighting corruption. First, the government budget has become more transparent; and allocations are widely published so that citizens can better hold officials accountable. Second, a separate unit in the Presidency ensures that public money cannot be disbursed for investment unless proper procurement procedures have been respected. Third, the government has initiated implementation of the Extractive Industries Transparency Initiative (EITI) to improve accountability of government oil revenues. Fourth, an effort was made to improve budget planning and implementation at the sector level through development of sector expenditure strategies. Despite these notable improvements, more needs to be done to improve the quality of spending since inefficiency and leakages in both the current and capital budgets continue. Nigeria still has significant room for greater spending efficiency, but at last the country has put itself on the path toward more sustainable natural resource wealth management.

G. Conclusions and Recommendations

2.31 For years the Government of Equatorial Guinea has spared no efforts to increase the level of capital spending, with added urgency since 2008 on implementing the National Development Plan focus on productive and social sectors. Results are noticeable on the ground—infrastructure has been upgraded, infrastructure and construction projects are ongoing. Nevertheless budget management and sector

allocations need a major overhaul to (a) increase transparency in revenue management and allocation of budget resources, (b) better respond to NDP priorities (notably in education and health), (c) ensure expenditure sustainability and adequate maintenance of investment, and (d) raise the impact of public expenditure on poverty.

2.32 **Transparency.** Transparency in petroleum revenue management is the yardstick that will measure the commitment of authorities to overall fiscal transparency. EQG joined the ranks of the EITI as a candidate country in 2008, but decisive steps need to be taken to produce a report affirmed by all parties participating in the initiative and to improve public financial management for better supervision of the public budget. Greater transparency of expenditure requires rethinking the current administrative classification, which does not allow allocation assessment by sector and makes it very difficult to oversee NDP implementation. The latter is further complicated by the fact that many NDP objectives are being served by autonomous institutions that provide limited information about their activities and budgets, raising doubts about the government's capacity to supervise their results. To improve investment transparency, an effective system is needed to execute and monitor implementation of the PIP so that both the investment and recurrent budgets can be reconciled and an execution report that includes all budget expenditures can be prepared and presented to the Parliament and the public.

2.33 **Budget allocation.** The NDP sets an ambitious agenda for poverty reduction and economic diversification and spotlights the importance of targeting petroleum revenues properly to foster employment and growth. However, the public budget today does not adequately support the NDP. Budget allocations are too skewed toward infrastructure and administrative services and provide insufficient support to social sectors that are key to higher labor productivity and that raise the return on infrastructure. Similarly, important sectors for domestic growth and employment such as agriculture are underserved. Finally, social protection is being provided mostly through transfers and subsidies that are not appropriately targeted, which undermines their benefit.

2.34 **Expenditure sustainability.** The investment and recurrent budgets are prepared and executed in parallel. This raises the risk that the infrastructure in certain sectors (notably education and health) may underperform because there is too little recurrent expenditure allocated after the investment has occurred. Similarly, if maintenance costs are not foreseen in the recurrent budget, infrastructure faces a serious risk of rapid deterioration or obsolescence.

2.35 **Greater impact of public expenditure on poverty.** Lack of data prevents poverty incidence analysis of public expenditure. The last household survey is unavailable, and budget data are confined to allocations without providing information on what is actually spent. Inconsistencies about population and other sector indicators further limit the analysis. Chapter 4 on education and chapter 5 on health will elaborate about the potential impact of public expenditure on different segments of the population (rural and urban, for instance), but will not be able to assess the impact on the lowest income quintiles that are in dire need of public support. The investment in infrastructure will undoubtedly have an overall positive impact for the population at large. Roads will better connect the countryside to cities, improving access to social services and enlarging the market for agricultural products. However, the road strategy of the government is unknown, making it difficult to assess the actual impact many new roads will have on the poorest segment of the population. Other large investments such as airports positively impact the overall economy but do not directly address the needs of the poor. In the short run, the government will need to shift investment priorities toward education, health, housing, water and sanitation and agriculture, areas that will benefit a larger share of those who are poor.

Recommendations

Short Term	
Issues to Address	Action to Take
Budget data do not permit an adequate supervision of budget implementation and limit budget analysis and control.	<ul style="list-style-type: none"> • Expedite reforms in public finance management to ensure budget execution is adequately recorded by the Ministry of Finance and Budget.
Too little allocation goes to current expenditures in the social sectors, reducing the return on infrastructure investment.	<ul style="list-style-type: none"> • Increase public employment in social sectors and better link public salaries to productivity. • Implement the recommendations from the 2008 report for administrative reform prepared with assistance by the UNDP.
Investment allocations are too skewed toward infrastructure (roads, ports, airports) instead of productive and social investment.	<ul style="list-style-type: none"> • Increase allocations to productive sectors (notably agriculture) to raise productivity in the non-oil economy and to social sectors (notably health and education) to reduce poverty, in line with the NDP recommendations.
Widespread poverty and high inequality may lead to discontent.	<ul style="list-style-type: none"> • Focus public expenditure on programs to develop domestic employment and better target social protection systems to lowest quintiles of the population. This can start with an increase of subsidies to poor families.
Current institutional setting is not able to fully implement the PIP.	<ul style="list-style-type: none"> • Reform the current institutional setting to deal with smaller contracts and shift more authority to sector ministries.
Medium Term	
Issues to Address	Action to Take
Small collection of non-oil tax revenues will not be enough to sustain public expenditure when petroleum taxes dwindle.	<ul style="list-style-type: none"> • Expedite reforms in the Tax and Customs Directorates to raise institutional capacity and reduce ad hoc exemptions to improve non-oil tax collection.
Insufficient oversight is exercised over transfers to autonomous institutions.	<ul style="list-style-type: none"> • Approve a legal framework that develops the 1995 Decree regulating relationships between the MoFB and the sectors to ensure that the autonomous institutions report to a single directorate and the MoFB has more resources for adequate supervision.
The current administrative classification of the budget does not allow assessment of sector allocation with regard to NDP and MDG priorities.	<ul style="list-style-type: none"> • Develop a functional classification of the budget to better reflect the government's strategic resource allocation and the operational efficiency of the budget.

CHAPTER 3: PUBLIC FINANCE MANAGEMENT IN THE INFRASTRUCTURE SECTOR

3.1 This chapter assesses and provides recommendations for public finance management (PFM) in Equatorial Guinea, with a special emphasis on the infrastructure sector. Indeed, the country's public spending is characterized by a high proportion of capital expenditure (according to available official data, around 80 per cent of total public expenditure²⁷). The analysis in this chapter focuses on the budget and its institutional framework, and its recommendations are geared to a better strategic allocation of resources, more efficient service provision, and compliance with fiscal constraints to facilitate implementation of the National Development Plan (NDP). The Public Expenditure and Financial Accountability (PEFA) framework²⁸ has been used as a reference for this report, although a proper PEFA scoring has not been carried out. Had it been, Equatorial Guinea would have performed poorly. Yet our findings suggest that much progress can be made in the short to medium term, and this report focuses on essential and realistic recommendations for how the government can improve its PFM framework.

3.2 The analysis concentrates on central government expenditure. The budget is not consolidated, and limited information from decentralized public sector institutions is available. The emphasis is also on public expenditure since public revenues were examined in chapter 2.

3.3 Our analysis is hampered by limited availability of information about legal requirements and whether they are being met and by extensive informality in PFM procedures. Even when a regulatory framework exists, its terms are not widely available. Critical legal documents such as the 2003 law regulating state public finances²⁹ are not made public, which limit the capacity of public officials to implement critical PFM procedures. Previous analysis by international institutions also has been limited, confined mainly to two reports by the International Monetary Fund (IMF) in 2005.³⁰ The lack of a legal framework for public finance management is especially obvious in the infrastructure sector where there are neither legal rules for executing expenditure and procurement nor guidelines for project appraisal and selection.

3.4 Efficiency of infrastructure public expenditures is severely impeded by the existing institutional setting and incomplete legal framework. The PFM analysis has focused on infrastructure spending because the authorities' determination to implement projects quickly exacerbates already loose budget constraint. However no up-to-date list of ongoing or finished infrastructure projects in the last five years exists, which limits the capacity to identify newly built infrastructure or the cost of ongoing projects. To overcome these limitations, some investment projects were reviewed together with engineers and technicians to assess current procedures and make concrete recommendations for improvement.

²⁷ This percentage is overestimated since a significant proportion of the PIP is in fact current expenditure.

²⁸ PEFA is a multiagency partnership program that has established a Performance Measurement Framework for Public Financial Management (June 2005). It is integral to a coordinated effort for supporting PFM reform, which emphasizes a country-led approach, donor harmonization and alignment around the country strategy, and a focus on monitoring and results. The goal is to mainstream best international practices. The framework is available in English, Spanish, and French at www.pefa.org.

²⁹ Law 9 of November 13, 2003.

³⁰ International Monetary Fund, "Republic of Equatorial Guinea: Report on the Observance of Standards and Codes—Fiscal Transparency Module," April 2005; and IMF, "Equatorial Guinea, Modernization of Public Expenditure Management Processes: Steps for Reforming the System," November 2005.

A. Challenges to Effective Public Finance Management

Budget Comprehensiveness and Transparency

3.5 **The public budget does not record all public spending and the amount of extra-budgetary spending is difficult to evaluate.** The budget covers ministries and legislative and judicial institutions, but many other public agencies fall outside its purview. First, only state subsidies and transfers to some autonomous entities are recorded, while the entity budgets are neither included nor consolidated in the National Budget. Second, some donor-financed spending is not recorded in the budget. Third, the budget does not provide an accurate picture of state revenues. In this context, the government's firm decision to join the EITI is very positive and should allow more transparency and better knowledge of total oil revenues.

3.6 **Inadequate budget classification and recording reduces government accountability and transparency.** There is a lack of widely available norms;³¹ and formulation, execution, and reporting of the central government's budget use different classifications, leading to information gaps that prevent the government and Parliament from monitoring compliance with initial budgetary authorizations. Indeed, the initial and revised budgets are presented using an economic (by nature of expenditure)³² and an administrative (by organizational unit, including ministries) classification, but data on budget execution are reported using only the economic classification. The Treasury has partial information on current expenditure by ministry from 2007,³³ but it is neither provided to sector ministries nor recorded in budget execution documents. Thus, the Parliament approves spending allocation by ministry and by economic category but does not receive information about actual expenditure by ministry. As a consequence, poor and unreliable information on budget execution translates into weak budgetary preparation in subsequent years.

The current budget classification provides hardly any information on investment expenditure, although it represents 80 percent of the budget. Only two categories of investment expenditure are recorded in the State Budget: (a) financing of miscellaneous projects (Budget Code 5310) and (b) cofinancing of miscellaneous projects (Budget Code 5380). Moreover, all investment expenditure is recorded in a single administrative unit ("Diverse obligations"), regardless of the administrative unit benefitting from the investment.³⁴ Also, around 30 percent of budgeted investment in the PIP—such as training programs, pharmaceutical purchases, studies, the design of development plans—should in fact be considered as current expenditure.³⁵ If from an economic standpoint some of this expenditure can be considered as future investment (for example, in human capital), from an accounting point of view they do not increase public assets and therefore should be recorded as current expenditure. The government should introduce more categories in the budget classification to allow for a better monitoring of investment expenditure (see Table 3.1 and Table 3.2 for current and proposed budget classification). It would also be useful to introduce accrual elements into the public accounts to facilitate audits (see paragraph 90 below).

³¹ Laws and decrees are not widely available, and access to some legislation is denied for reasons of confidentiality. The 2003 law on public finances is not available in any ministry.

³² Wages, goods and services, interests, current debt interests, transfers and subsidies, investment expenditure, debt amortizations, special funds.

³³ Data by ministry are only available from January to November 2007 (December data are unrecoverable) for Malabo but not for Bata. Proxies for December 2007 and Bata have to be calculated using data on total expenditure by economic classification.

³⁴ For comparison, current expenditure distinguishes 26 administrative units.

³⁵ World Bank estimations are based on the 2008–10 Public Investment Program Budget. Current spending represents about 34 percent of programmed investment for the Ministry of Education and 26 percent for the Ministry of Health in 2008.

Table 3. 1: Current Budget Classification for Investment Expenditure

Economic classification \ Administrative classif.	Section 7: Diverse obligations
5310 – financing of miscellaneous projects	
5380 – cofinancing of miscellaneous projects	

Table 3. 2: Proposed Budget Classification for Investment Expenditure

Econ. Classification \ Admin. classif.	Section 1: Chief of State	Section 2: Parliament	Section 3: Judicial power	(...)	Section 31: Ministry of economy	Section 32: Ministry of national security
5310 – financing of miscellaneous infrastructure projects						
5311 – financing of miscellaneous projects (other than infrastructure)						
5380 – cofinancing of miscellaneous infrastructure projects						
5381 – cofinancing of miscellaneous projects (other than infrastructure)						

3.7 **Public access to key fiscal information is limited.** Information on the public budget and government performance is inaccessible to the general public. Annual budget documentation, which is the most widely available information in the ministries, exists only in printed form and in a limited number of copies. The information is not obtainable through the press, a Web site, or sale or notice boards. In-year budget execution reports are unavailable in sector ministries. There are no external audit reports and contract awards are not published.³⁶ The current lack of transparency reduces agency accountability and increases opportunities for misappropriation. To increase transparency, the government could publish fiscal information and contract awards on the Internet, on boards outside the Ministry of Infrastructure, as well as in magazines published in the country. Given the lack of access to published material and to the Internet, only a small percentage of the population could access such information, but this would still represent an improvement over current practice.

3.8 **The priority should be to improve budget classification.** In the short run the government should ensure that the same economic and administrative classifications are used for the approved and executed budgets and that an additional administrative classification is introduced in the investment program. This should also be complemented by a better distinction between infrastructure investment (fixed assets) and other investment types that should be classified as current expenditure. The final goal should be to introduce functional or programmatic classifications to better identify poverty-reducing and other priority expenditures.

Budget Preparation

3.9 **Current and capital expenditures follow different budget rules and procedures.** The Ministry of Finance and Budget (MoFB) is responsible for preparing and supervising the execution of current expenditures, and its only role in the investment budget is to set the global ceiling. The Ministry

³⁶ The only public information on contract awards is at the construction site, where signs are posted with the name of the company in charge of the project, the government agencies involved, and the total cost.

of Planning and Development (MoPD) is responsible for the investment budget. This raises inconsistencies³⁷ and makes it difficult for sector ministries to decide on adequate distribution of capital and current expenditures in their respective sectors. Current expenditure in social sectors, for instance, might be shortchanged even though it yields a higher rate of return than some infrastructure investment. Unifying budgetary responsibilities would allow sector ministries to redress that imbalance by allocating current and capital spending resources to each project more effectively. While having a single ministry responsible for preparing and following the execution of the whole budget would be a solution, this chapter will present several alternatives to improve the current institutional framework without such a merger of responsibilities.

3.10 Budget preparation of current expenditures does not reflect national priorities and maintenance costs. Under current procedures sector ministries submit a first budget proposal without receiving any guidance from the MoFB, which can lead to overspending in nonpriority ministries that have been particularly ambitious in their initial request. Another problem is that operational costs of many construction projects (such as schools or hospitals) are not factored into project budgeting even though they can be expected to represent a higher proportion of the recurrent budget as more investment projects are finished. The MoFB needs to address these issues by (a) communicating their budget ceiling to the sector ministries at the beginning of the budgetary process so that NDP priorities receive due consideration in the overall budget; and (b) setting some form of multiannual planning that takes into account the cost of operating and maintaining infrastructure once it has been installed. This could be done through a project technical card that indicates, among other things, investment and maintenance costs, planned operational expenses, and an investment timeline to properly plan annual budgeting. This project technical card would be updated regularly during construction and with relevant additional information as needed (potential contents of the technical cards are further detailed in paragraph 153 later in this chapter).

3.11 Planning of capital investment needs to be improved to ensure that projects correspond to NDP priorities and to facilitate their follow-up. The PIP in the 2008 and 2009 budgets shows the authorities' determination to increase the amount budgeted for capital expenditures. However the current institutional setting does not provide adequate information to monitor implementation and adjust budgets throughout the year.³⁸ It is therefore essential to improve investment planning and provide better easily accessible information about the list of ongoing projects. Suggestions for improvement are made later in this chapter.

Budget Execution

3.12 Procedures for budget execution are frequently bypassed, reducing budget control and information quality. The official procedure for expenditure execution is described in Decree 52/2005, but it is actually used for a very small percentage of public spending. The procedure separates the administrative phase (payment-authorizing officer³⁹), the payment phase (public accountant), and the disbursement after the delivery of goods, works or services (Treasury). Figure 3.1 details the current budget implementation system. It is a long procedure that is very centralized at the MoFB, with none of the credit administrators at the sector ministries acting as payment-authorizing officers.⁴⁰ To expedite

³⁷ Under the current system for example, inconsistencies can arise if the demands for current and investment expenditure evolve differently during budgetary negotiations with the MoFB and the MoPD.

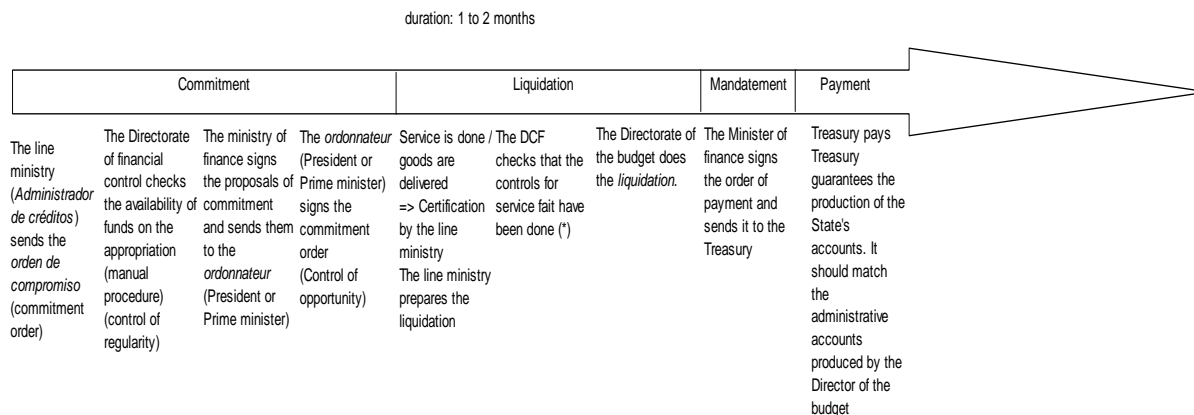
³⁸ An example of this was the preparation of the amended budget for 2009. This amended budget sought to decrease investment in line with lower revenues from lower-than-projected oil prices. The law presenting this amended budget states that "the lack of information on priorities, the degree and rhythm of execution of the projects currently being implemented, as well as on the exact evaluation of the annual cost of each of them, has not allowed us to do a complete analysis of the portfolio of projects."

³⁹ The President is the main payment-authorizing officer; the Prime Minister and the Minister of Finance are second-order payment-authorizing officers.

⁴⁰ An expense can take one to two months to get paid since the sector ministry initiates the procedure.

commitment and payment and avoid some of the controls applicable to the administrative phase, direct payments are made for civil servant salaries (representing 25 percent of the current budget in 2008). Also to accelerate budget implementation, sector ministries send payment requests directly to the MoFB or the President, bypassing the system. This limits the capacity of the MoFB to produce reliable and timely reports on budget execution, a gap that is only partially bridged by quarterly Treasury reports (approximately two months after the end of a given term) since the Treasury has incomplete information to carry out an adequate classification. Furthermore most of the procedures are manual, which increases risks of mistakes.

Figure 3. 1: Normal Procedures for Executing Current Expenditure



Source: Decree No. 52/2005 that establishes norms on public accounts and “Proyecto de instrucción relativa a los procedimientos de los gastos públicos,” Ministry of Finance and Budget, and interviews.

(*) This step does not appear in the decree.

3.13 There is a risk that goods are paid before being delivered. Most of the control is concentrated on the purchase commitment, with rather loose control on goods delivered,⁴¹ opening the possibility of paying for a good/service that is never provided. Some improvement has been made recently, with the Treasury now requesting confirmation of delivery before payment. This is a positive evolution, and these payment controls should be systematically carried out, notably by the MoFB.

3.14 Three other budget execution procedures exist although they are not formally regulated: (a) an emergency procedure that allows payments before goods or services are delivered, (b) cash advances (not including petty cash), and (c) payment of infrastructure expenditure (further detailed in Figure 3.3, later in this chapter).

The emergency procedure bypasses certain budget execution steps. Sector ministries send the commitment request directly to the payment-authorizing officer who then transmits it to the Treasury for payment without the Budget Directorate (BD) or the Financial Control Directorate (FCD) intervening. The payment title is sometimes sent for ex post regularization to the BD or the FCD, but this is not always the case. This procedure presents several problems. First, execution is not properly recorded by the administrative services. The FCD and the BD, which are mandated to follow budget implementation, are unaware of these expenditures and therefore underestimate budget execution. Second, there is no guarantee that the service was rendered or the good delivered, which increases the risk of misuse or corruption. Third, accounting quality is poor since administrative controls for adequately recording the

⁴¹ Sector ministries are responsible for ensuring that the service has been rendered or the goods delivered. The general directorate for financial control of the MoFB is supposed to check they have done so before the mandate of payment is sent, but in practice it does not.

expense into the budget appropriation item are lacking. In sum, even when budget execution data are available, they are of poor quality and do not adequately reflect the real destination of the expenditure.

3.15 The cash advance procedure lacks appropriate controls and cannot be assimilated with petty cash procedures.⁴² In the Equatorial Guinean system there is no need to provide documents to account for and record past expenditure. Also, advances are made to a bank account of the minister or of the ministry, and they are considered final budgetary expenditure without need to provide further justifications. The Treasury does not know what the money will eventually be used for and cannot classify the disbursement against the appropriate budgetary appropriation. A similar system of monthly advances is used to buy office supplies (one-twelfth of the annual budget for the line item is paid every month to each ministry and no documentation is requested). This procedure is highly problematic since it is impossible to know the final use of the funds. It not only raises the risk of misuse but limits Treasury control on sector accounts since no record of all existing bank accounts and their amounts is kept (even in the economic services of the sector ministries).

3.16 The government needs to address weaknesses in budget execution quickly. All existing procedures should be formalized and developed on the basis of the 2005 Decree, providing clear instructions for application. This should be reinforced by a review of budget implementation procedure to make it swifter and to establish adequate controls on the most relevant steps (availability of credits, control of goods provision) to reduce the use of exceptional procedures and reduce payment delays so that suppliers willingly deliver goods before being paid. This could eventually entail delegating part of the budget procedure to sector ministries as credit managers.⁴³ Adequate procedures should be introduced for management of small budget amounts to replace the current cash advance system, notably concentrating payments to sector ministries into a single account per ministry. Finally, regularly reconciling information on budget execution from the BD or the FCD and payments made by the Treasury should ensure that expenditure is properly monitored by the payment-authorizing officer. An integrated information system would certainly be useful, but it is not necessary to quickly improve the situation. Only if the current organization and procedures are modified will an integrated information system be productive.

Accounting

3.17 The current accounting system does not allow registration of assets and liabilities and makes it difficult to account for actual infrastructure spending. The only financial statements are budget execution reports that do not contain accrual information. Therefore the chart of accounts is the same as the budget classification, which does not permit the registration of assets and liabilities.⁴⁴ Since the pace of infrastructure construction is raising the complexity of accounting operations, it is very important to develop asset registration that in a first step could introduce some additional and simple accrual aspects to the current cash-basis accounting system. This improved classification would provide a distinction between investment in fixed assets and other public investments, providing the basic elements for preparing a balance sheet of public sector assets with assets registered at their acquisition cost.

⁴² Petty cash is funding advanced by the Treasury to sector ministries to carry out budget expenditures. Documents to account for the expenditure are submitted retrospectively from the sector ministry to the Treasury for recording. With petty cash management, expenditure is not recorded when the cash advance is made but when the justifications are provided and have been verified by the accountant. The accountant is then able to determine the nature of the expenditure and apply the correct classification.

⁴³ Arguments against budget decentralization are often based on the incapacity of sector ministries to apply the rules properly. Given the current situation in which there is no control by the MoFB on considerable parts of the budget that are controlled de facto by sector ministries, the proposed evolution could only lead to an improved control of public funds.

⁴⁴ According to the 2005 decree, there are three types of accounting systems: *contabilidad presupuestaria*, *contabilidad general*, and *contabilidad nacional*. Equatorial Guinea's *contabilidad general* has no accrual aspects and is very similar to the *contabilidad presupuestaria*.

External Scrutiny and Audit

3.18 **Internal and external oversight, although formally present, provide very weak results.** According to the 2005 decree that defines norms in public accounting,⁴⁵ the control of budget execution is carried out at five levels: within each ministry, by public accountants, by the competent authorities within the MoFB, by the jurisdiction in charge of controlling accounts, and by Parliament.

3.19 **There is no internal audit within each ministry and the role of Inspector General of Finances (IGF) should be strengthened to ensure adequate internal audits to reduce the risk of misappropriation of public goods.** The Inspector General of Finances (Inspección General de Finanzas) has broad powers and a mandate across entities of the central government to carry out internal audits.⁴⁶ In particular, IGF can act as a control for any institution that uses public funds—including ministries, public companies, and autonomous institutions—and evaluate public policies following an annual program of control. However, the IGF does not use recognized professional auditing norms and in practice does not act as a control for the Treasury and review public accounts. Audits and inspections held in ministries entail a significant risk of not detecting frauds and irregularities since they do not foster audits of expenditure procedures and do not allow close analysis of the reliability and integrity of financial information. Strengthening the role and professionalism of IGF is crucial to identify problems, provide recommendations in public finance management, and ensure that procedures are defined and adequately enforced. A risk-based approach to audit planning also should be developed to focus attention on the most relevant issues.

3.20 **External independent control is lacking.** There is no national audit office with jurisdictional authority for certifying public accounts on a regular basis.⁴⁷ An external independent auditing office is essential to ensure transparency and accountability in public fund management by publishing audit findings to the public. To carry out its role adequately, it is essential that this office be endowed with organizational independence, enjoy free and unlimited access to information, and be adequately staffed and funded to operate.

B. Management of Public Investments in Infrastructure⁴⁸

Investment Guidance and Preliminary Screening

3.21 **Formal guidance from the NDP cannot be translated into the investment program given the plan's wide development priorities and long time frame (12 years).** To facilitate planning of investment projects, the National Development Plan should be complemented with sector strategies and action plans that present detailed sectoral priorities in the medium term (that is, until 2015). These sectoral investment strategies could be prepared by each sector ministry, with impetus and cross-ministry coordination from the MoPD or the National Agency 2020.

3.22 **The 2008 PIP, with projects to be implemented between 2008 and 2010, does not reflect strategic investment allocations.**⁴⁹ The PIP continues the government's ambitious investment effort, which has seen public investment in infrastructure increase sixfold between 2004 and 2008, when it

⁴⁵ Decree No. 52/2005 of March 17, 2005, establishes public accounting norms, Articles 119 to 127.

⁴⁶ As of January 2009 there were 11 Inspectors and 1 General Inspector.

⁴⁷ The IGF represents Equatorial Guinea at the International Organization of Supreme Audit Institutions (INTOSAI).

⁴⁸ Analysis in this section follows the methodology developed in Anand Rajaram, Tuan Minh Le, Nataliya Biletska, and Jim Brumby, "A Diagnostic Framework for Assessing Public Investment Management," mimeographed document, PREM Department, World Bank, Washington, D.C.

⁴⁹ Budgets prior to 2008 did not include a detailed list of the projects included in the PIP. They only mentioned the total amount budgeted for investment.

represented approximately 80 percent of the budget. Close to 1,400 projects have been identified by the government for implementation during 2008–10 compared to just 159 projects executed in 2004. The increase has been particularly rapid in 2008 and 2009 in response to NDP priorities for investing oil revenues in infrastructure to create the conditions for sustained economic growth after petroleum reserves are depleted. However, the PIP is not regularly updated and cannot be used to monitor investment implementation or assess strategic investment decisions. Furthermore, not only is the PIP not an instrument for yearly budget allocations, it is not being used for strategic medium-term budget allocations as described in the section on Project Selection and Budgeting below.

3.23 Public investment decisions are concentrated in the Presidency. Ultimate investment allocation is decided by the Presidency, without the need to record the investment project into the Budget being implemented, bypassing any formal screening and budgetary system in place.

3.24 Attempts to improve investment in social sectors have not succeeded. The authorities established a Social Development Fund in 2005 with support from USAID to improve social service delivery by enhancing the administrative and technical capacity of selected ministries and raising budget allocation to social sectors (health, education, gender, and sanitation). The Social Development Fund helps the ministries to prepare projects, participates in project selection, and will assist in project implementation and monitoring. Although a first set of projects have been prepared, their implementation has been significantly delayed, which seriously undermines the government's credibility for rapid social service improvement.

C. Formal Project Appraisal

3.25 Projects are seldom appraised, raising the risk of inappropriate project selection. There is no formal guidance about project presentation and assessment; and although some large projects (in the mining sector for instance) go through a study phase before being implemented, this is not the norm for most projects. Sector ministries propose projects for inclusion in the PIP, but only after the project has been included do they send the proposed terms of reference (often with little detail) to the Ministry of Infrastructure and Urban (MoIU) and Geproyectos for technical review. Therefore, project proposals do not include cost-benefit or cost-effectiveness analyses, which make difficult to choose the most efficient. The socioeconomic value of projects (that is, an assessment of the number of potential beneficiaries, the potential project impact, and project feasibility) should be included by sector ministries when presenting proposals for inclusion into the PIP. A more thorough analysis could be performed before implementation with the help of the project manager (Geproyectos). This would require clear formal guidelines about project preparation and appraisal and increased capacity in staff and skills at Geproyectos.

3.26 Priority is given to expedite investment implementation, with efficiency and effectiveness of less concern. High petroleum revenues have loosened budget constraints; and given the country's dire needs, the government considers that all new infrastructures is useful so there is not much need to prioritize. However since institutional capacity is limited, the government will not be able to implement the 1,400 projects envisioned in the 2008 PIP, which means that formal project appraisal is required to select which are the most relevant. Ensuring that adequate time and resources are committed to project identification and formulation is therefore critical for the design and effective implementation of relevant and feasible projects. Maintenance and operating costs of infrastructure also should be evaluated prior to project selection. Furthermore, it is unclear whether environmental assessments of infrastructure projects are carried out. Cost-benefit analysis and pricing environmental costs are always difficult exercises, but the authorities need to integrate them into the project assessment process to limit the negative impact that a large investment program may have on the environment.

3.27 Limited technical capacity of ministry staffs hinders investment efforts, and outsourcing project appraisal should be considered. The number of civil servants working on public investment management is low and their capacity is limited.⁵⁰ The government needs to review staffing numbers by skill type and functions in each ministry and prepare a precise analysis of missing skill sets to define a much needed human resources policy, a training strategy, and a hiring policy. Given limited staff pools some skill sets might be difficult to find for each ministry, but technical personnel could assist several sector ministries at a time. While this capacity is built up, the authorities should consider outsourcing project appraisals to an international contractor. Not only could this raise overall investment efficiency by carrying out project appraisals that are currently not properly done, but it would also help build institutional capacity by training local staff in internationally accepted appraisal methodologies.

3.28 Guidance on project appraisal is essential to ensure better investment allocation and facilitate implementation. The government preference to expedite investment implementation does not require neglecting the appraisal phase, as is the case today. The aim, after all, is to make sure that Equatorial Guinea raises investment efficiency by implementing projects that work. The key assessments required include the following: (a) confirmation that the investment is consistent with the NDP and policy; (b) stakeholder analysis, including evaluation of institutional capacity; (c) complementarities with other ongoing and planned initiatives, incorporating lessons learned; (d) an objective hierarchy assessment (objective, purpose, results, and indicative activities); (e) assessment of resource and cost requirements; (f) assessment of management, monitoring, coordination, and financing arrangements (including financial management and internal control/reporting); and (g) environmental analysis. The formal guidance should describe which techniques and tools for economic evaluation are more appropriate to the scale and scope of the project—with larger projects requiring more-rigorous tests of financial and economic feasibility and sustainability. It is particularly important to assess whether the project is relevant (does it meet demonstrated and high-priority needs) and feasible (is it well designed and will it provide sustainable benefits to target groups). The project appraisal process should consider project proposals of different scales and take into account the key macro, sectoral, and project-specific uncertainties, such as inflation, cost overrun, and change in output and key input prices over the project's life. The appraisal of each project according to these criteria should be reflected in key documents, such as project technical cards.

D. Independent Appraisal Review

3.29 No independent project review is being performed. The MoIU is responsible for its own investment projects in roads, social housing, and urban infrastructure and also for all infrastructure projects presented by the sector ministries in which it intervenes as a technical ministry. Sector ministries often identify a project and rely on the MoIU for project designing and feasibility assessment as well as implementation. These designs however are not reviewed by any other independent institution and sometimes are only prepared after the project has been incorporated into the PIP.

3.30 Geproyectos, a national agency with technical capacity and expertise in public investment, participates throughout the investment project cycle and can hardly be expected to carry out an independent review of project appraisals. Geproyectos is independent from other ministries and accountable only to the Presidency, although three ministries—MoPD, MoIU, and MoFB—are members of its board of directors.⁵¹ Its objectives are broad and cover the entire investment process, from (a) planning, design, supervision, execution, monitoring, evaluation, and control of all public infrastructure

⁵⁰ For example, Geproyectos has only around twenty technical staff, the Roads Directorate at the MoIU has only four engineers, and the Directorate of Construction and Housing at the MoIU has six engineers, together with one architect and four technical architects (*delineantes*).

⁵¹ The National Office of Planning, Evaluation and Project Monitoring in Equatorial Guinea (Geproyectos) was created by Decree No. 106/2004 of Aug. 18, 2004, modifying Decree No. 37/2003, but its internal regulation has not been yet approved.

projects, constructions that involve civil engineering, as well as those projects that are earmark funded either by the Treasury or donors; to (b) elaborating and publishing calls for tender and assessing the bids; (c) periodically informing the government on its activity and the progress of works and projects being implemented in the country; and (d) any other attribution that may be decided.

3.31 New structures stemming from the National Development Plan could carry out independent technical reviews. Three new institutions have been created to realize the NDP. The Consejo Superior Guinea Ecuatorial 2020, chaired by the President, is in charge of providing strategic leadership, validating the priorities for implementation of the NDP and evaluating its progress.⁵² The National Agency 2020 (Agencia Nacional Guinea Ecuatorial 2020) is a technical institution in charge of coordinating and making the NDP operational.⁵³ Its final role will, however, depend on the place assigned to it within the current institutional setting in which informal arrangements are prevalent. Two main roles might be delegated to the National Agency 2020: (a) carrying out independent reviews of project proposals that have been adequately appraised by Geproyectos or the MoIU; and (b) devising an NDP action plan and budget with new reporting tools that allow for monitoring and evaluation of NDP implementation.⁵⁴

E. Project Selection and Budgeting

3.32 Many institutions intervene in the decision-making process with unclear roles that vary according to the sector of the project. The project selection procedure is not formalized and it is not clear who formally authorizes project implementation, which dilutes responsibilities and transparency. There are three main actors: the Ministry of Planning, the Ministry of Infrastructure, and Geproyectos. Sector ministries also intervene but to a lesser extent and with varying intensity according to the sector. The MoFB's role consists of setting the overall investment ceiling. The three new structures stemming from the NDP are getting on their feet, but their role is unclear in the absence of better coordination and formalization of procedures. There is substantial institutional overlap in the current institutional setting. Geproyectos shares with the MoPD and other sector ministries the authority for planning public investments and with the MoIU for assessing infrastructure projects. Geproyectos and the MoIU both intervene in the implementation of investment projects, and they prepare the tendering process, choose the contractor, cosign contracts, and are co-responsible for project monitoring. There is also overlap between the National Agency 2020 and Geproyectos since both report to the Presidency on infrastructure projects that are part of the NDP.

3.33 The PIP is prepared by the Ministry of Planning and Development (MoPD), based on limited information provided by sector ministries. Sector ministries are not requested to justify their investment proposals, and there is no minimum screening requirement for projects (Figure 3.2 shows the steps of PIP preparation). Ministries provide a list of projects for implementation, sometimes with their estimated total cost and duration.⁵⁵ Further information is sometimes provided on the content and justification of projects and their cost, but mostly for projects that should be classified as current expenditure. For infrastructure projects there is very little information, and sector ministries may only indicate a project's name and costs without a justification. No explanations are provided on the methodology used for cost evaluation, and the timetable is not justified. No distinction is made between projects that were approved in previous years but not yet begun and ongoing projects, sometimes because projects are implemented by a different institution (that is, Geproyectos) and the ministry does not have the information. For ongoing projects, there is no information on the amount already executed and the amount that remains. The MoPD does not have information on project implementation and cannot

⁵² Decree No. 63/2008 of Nov. 20, 2008, created the Superior Council of Equatorial Guinea 2020.

⁵³ Decree No. 61/2008 of Nov. 20, 2008, created the National Agency of Equatorial Guinea 2020.

⁵⁴ The NDP also creates the Comité Nacional de Concertación "Guinea Ecuatorial 2020" for further coordination with stakeholders not included in the Consejo Superior Guinea Ecuatorial 2020.

⁵⁵ There is no breakdown between years according to the calendar of implementation.

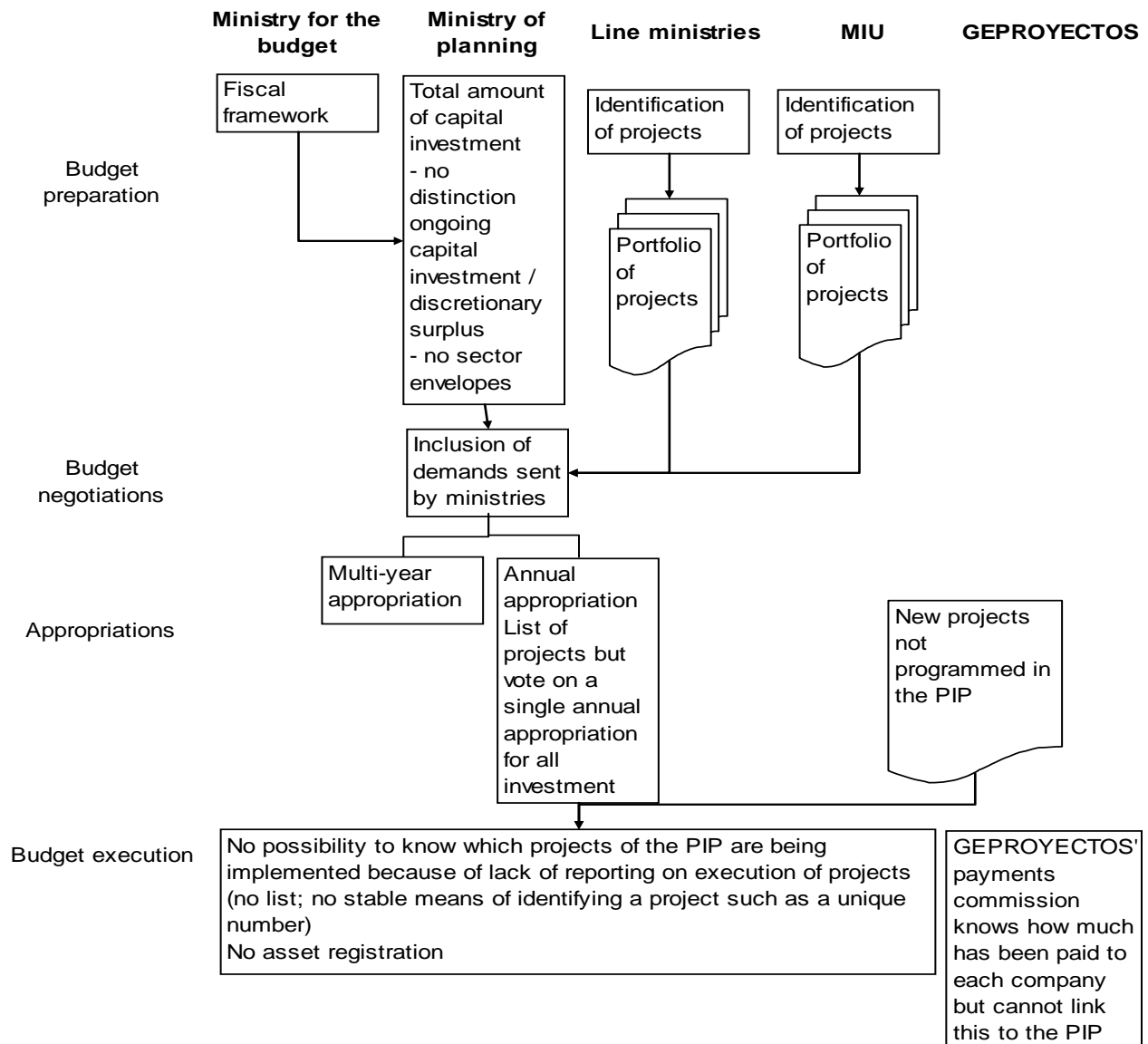
correctly budget ongoing investment to identify the surplus for new projects. This could soon become an overwhelming problem as the portfolio of ongoing projects grows and the fiscal constraint tightens.

3.34 The PIP does not reflect NDP priorities. There is no ceiling per ministry, and ministries do not spell out their priorities but provide an aggregate investment program for implementation. To build the PIP, the MoPD adds all the ministerial demands. If the total estimated cost of the projects is under the investment ceiling set by the MoFB, then all the projects are approved. However if they exceed this amount, the MoPD has limited information to decide which projects to reject. The informal rule applied for the initial 2009 budget was to accept all projects presented by social ministries and reduce the budgeted amount of the remaining projects for 2009 by scheduling more costs in 2010 or 2011, taking into account possible delays in implementation.⁵⁶ Thus, final budgetary envelopes by sector depend mostly on the capacity of a ministry to come up with projects rather than on strategic importance. In spite of a small number of projects being labeled “Priority Projects Horizon 2020” it is uncertain whether these or other projects in the PIP are consistent with the strategic goals of the government. Furthermore, approximately 30 percent of projects included in the PIP should not be considered as investment but as recurrent expenditure.

3.35 The PIP has no connection with the budget process. There is a quasi-total disconnect between the investment program and executed investments (see Annex VIII for an example from the education sector). Few projects in the PIP are actually implemented, but no accurate report tracks PIP implementation. There is no gatekeeping process to prevent unscreened or new projects from being included in the PIP during the course of the year. The decision to start a project lacks transparency. Also, since only one appropriation for capital investment is made annually and there are no sector envelopes in the PIP, the Treasury does not refuse payment of any investment project as long as the total investment budget is not exhausted.

⁵⁶ However, this in practice has little importance since there is only one budgetary appropriation for all public investment in Equatorial Guinea.

Figure 3. 2: Preparation of the Public Investment Program



Source: World Bank

3.36 Infrastructure maintenance and operating costs are not taken into account when selecting projects. They are not considered when assessing a project nor in choosing between contractor bids and are only estimated once the work is finished.⁵⁷ A ministry’s capacity (in both financial and human resources) to operate and maintain a particular infrastructure are not criteria for project selection even though differences in operational and maintenance costs between projects in the medium to long run, can be substantial and taking them into account could lead to different projects and contractors being chosen. There is today a high premium for contractors proposing projects cheap to build, even if they turn out to be costly to maintain.

⁵⁷ The company that carries out a project construction guarantees to pay maintenance costs for two years.

3.37 The decision-making process requires improved and more-transparent procedures. After coordination and agreement among the different institutions have been reached, procedures should be written down and codified. Legislation should be developed, and a clearly designated institution should be authorized to select projects in the PIP and the procedure to start projects that are not included in the PIP. Sector ministries should act as clients of Geproyectos, presenting their project requests for technical review and ensuring that the findings are taken into account during project preparation and implementation. In this new framework, Geproyectos would be the project manager for all infrastructure projects, and the National Agency 2020 could concentrate on interministerial coordination, independent project evaluations, and reporting. Increasing transparency and availability of information for all the relevant actors will also be crucial for improving public finance management in infrastructure.

3.38 Although the current system is very ineffective, a few quick measures can significantly increase investment efficiency. First, sector ministries need to identify the cost of ongoing projects so that the MoPD can calculate the surplus that can be allocated to new projects. Second, the available investment budget should be divided into sector envelopes that reflect national priorities. Third, the PIP should provide a good picture of projects with a reasonable chance of implementation in the medium term, particularly with regard to next year's projects since many on the list have slim probabilities of getting off the ground then due to the limited capacity of some sector ministries to implement many projects simultaneously. Fourth, project costs need more frequent updating. Presently they are often rough estimates provided by ministries at an early stage that do not get revised during implementation, even when the cost agreed on contractually turns out to be very different from what had been anticipated.⁵⁸ Fifth, multiyear planning can be improved. Currently it is not done on the basis of a careful analysis of project features but rather as a way to adjust high investment requests to annual budgetary constraints by spreading the overall funding for a project over three years. Sector ministries should provide better information on the expected calendar of projects so that the MoPD can improve both multiyear planning and annual budgeting and provide the government and Parliament with more realistic figures. Sixth, the PIP includes a large amount of current spending that should not be counted as investment. Better screening by sector ministries and the MoPD and new budget classification to identify infrastructure projects would help ensure that only investment projects are included in the PIP.

F. Project Implementation

3.39 There is no procurement regulatory framework, which raises the risks of corruption and the selection of nonoptimal proposals and contractors. The lack of procurement regulations gives Geproyectos and the MoIU the freedom to opt for a bidding process or a direct award of contract. And if bidding is chosen, there are no rules on tendering so that decisions on publicity requirements, criteria of choice, and obligatory timelines are made ad hoc. Finally, no process exists for resolving complaints involving the procurement process. This lack of formal procedures raises the risks of collusion and corruption, increases the probability that suboptimal projects or contractors will be chosen, and in general negatively affects the final price and quality of the project. The authorities are aware of these risks, and the NDP highlights the need for building a procurement regulatory framework to enhance public investment efficiency. The plan also calls for establishing databases on standard prices and unit costs of construction. Following these recommendations, the government should expedite preparation and adoption of a system that is in line with the OECD/DAC⁵⁹ recommendations and create databases with unit costs for crosschecking with contract costs.

3.40 Financial execution of infrastructure projects is concentrated at the Treasury and at Geproyectos, with limited involvement of other ministries. The procedure is not formally documented

⁵⁸ For two projects reviewed, only 32 per cent and 60 per cent of the costs were actually budgeted.

⁵⁹ Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD)

and an informal procedure has filled the legal vacuum (see Figure 3.3). The Treasury has all the information on financial execution. It records infrastructure payments in a single section (Section 7—Other expenditure) and keeps track of payments per company as approved in the payments’ commission documentation.⁶⁰ However the information available makes it impossible to compare this execution report with the PIP because (a) many of the projects implemented are not included in the PIP or (b) when they are, they have different names and do not share the same budget code (see Annex VIII for an illustration). Furthermore, this information on budget implementation is not transmitted to sector ministries or the MoPD, which therefore cannot monitor execution of the PIP. The current system could be majorly improved by rationalizing the financial execution system in the infrastructure sector. This could be done by (a) identifying projects by a unique number (as used in the PIP) in contracts and payments and (b) sharing the payment information available at the Treasury with sector ministries and the MoPD.

3.41 Given the limited number of staff, the government is unable to monitor all projects throughout the country and must rely mostly on external inputs from private supervision contractors. Up to four entities are responsible for monitoring projects: Geproyectos, the MoIU, specialized private companies, and sometimes sector ministries. For the most complex projects, supervision and control of the work is outsourced to private contractors that act as monitoring agencies. Construction contractors are required to submit progress reports to these monitoring agencies, which audit both financial and physical implementation and send periodic reports to Geproyectos and the MoIU. In addition at least one engineer from Geproyectos and a technician from the MoIU are assigned to monitor each project. They are expected to certify work progress through field visits, a mission similar to what the private monitoring agencies do. However, given the limited number of public engineers and the abundance of projects, only sporadic visits are possible,⁶¹ and the technical team must rely mostly on information provided by the private contractors to assess work progress and risk management.⁶² Sector ministries are usually not associated with project implementation, except for a few such as the Ministry of Mines that implement their own projects.

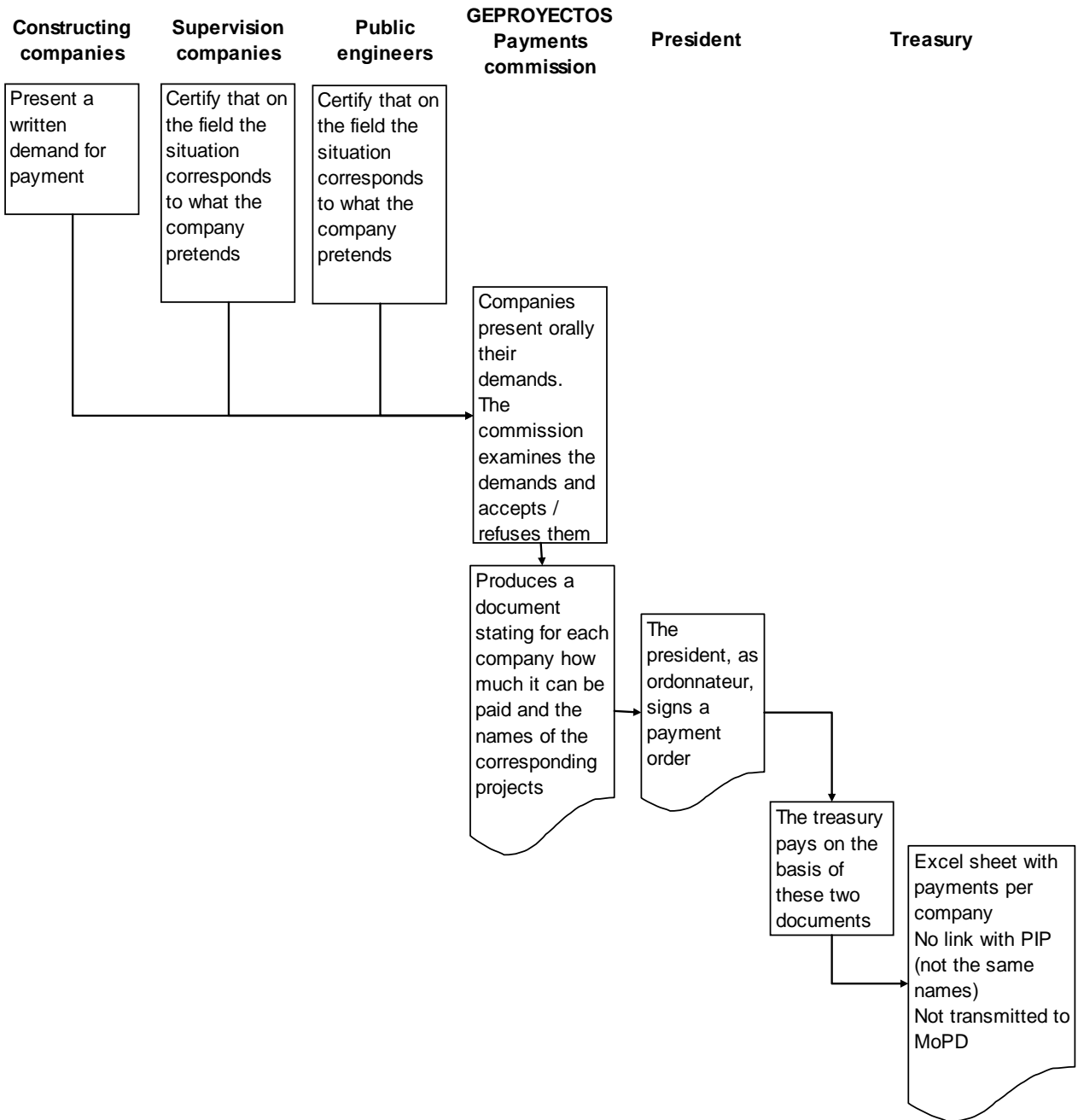
3.42 A “risk-based” monitoring system at Geproyectos and the MoIU should be developed. Monitoring tasks by public officials should be redefined and written down. Monitoring by both Geproyectos and MoIU should vary according to the risks or the importance of the project. A public engineer from Geproyectos or the MoIU would still be in charge of monitoring each infrastructure project. Projects with high risk would be closely monitored, while projects with lower or smaller risks would receive less systematic monitoring. Outsourcing project monitoring to a private company seems an adequate procedure and can lead to substantial reduction in the risk of noncompliance while also providing added technical advice. Nonetheless, this work must still be supervised by public engineers and will require streamlined procedures to ensure that public employees have all project documentation and updated information. Under the proposed system public engineers would carry out fewer tasks and carry out more internal controls to ensure monitoring agencies are correctly performing their work. Geproyectos and the MoIU should submit progress reports to sector ministries to facilitate a more effective control on project implementation and ensure that infrastructure is adapted to the needs of the administration that will operate it.

⁶⁰ Geproyectos also has information on payments per contractor, but they are not aggregated by project.

⁶¹ For example, engineers from Geproyectos inspect projects in a given area through missions that last two to three weeks, every three months approximately.

⁶² Contracts are often not available at government dependencies even when the agencies are charged with monitoring contract terms, and they can only be found at the supervision agencies managed by private contractors.

Figure 3. 3: Procedure for Execution of Infrastructure Expenditure



Staying on Track during Implementation

3.43 **Adapting to changed circumstances in project implementation is difficult because available information is too segmented, hindering adequate project monitoring and control.** There is no single and centralized information system, and project documents are scattered among different public institutions and private monitoring agencies. Some information does not exist at all: for instance, there is no updated list of projects (see Table 3.3 for a summary of available information). When adequate reports exist, such as those prepared by engineers from Geproyectos after field trips,⁶³ they are not framed to meet decision makers' needs. The current "reporting" system cannot be relied on to be timely, thorough, and accurate, and a new system is needed to adequately inform managers on the physical and financial progress of their projects. This system will need to provide information about the pace of project implementation, constraints encountered, significant remedial or supportive actions required, and document changes in forward plans, including budgetary requirements and reallocations. Finally, it will need to be flexible enough to adapt information requirements to the different decision levels, that is, it will require a hierarchy of data collection and reporting formats to meet information needs of different levels of management (see an example in Figure 3.4).

⁶³ Field trip reports by Geproyectos engineers are well structured and provide useful information such as project name, location, contractor, private monitoring agency, contract amount, implementation delay, project starting date, date of inspection, comments, execution quality (five possible grades), percentage of execution at the date of the last mission, and current percentage of execution. However, some information such as delays is not systematically reported.

Table 3. 3: Available Information for Infrastructure Projects

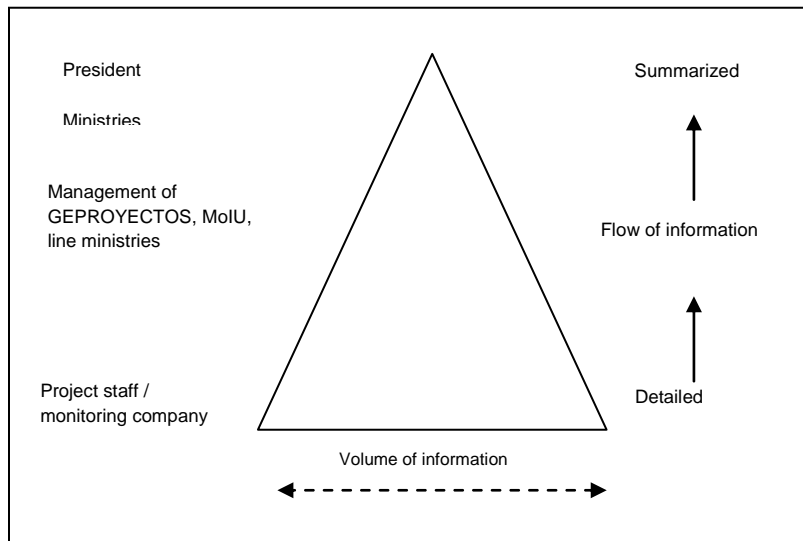
Nature of the information	Availability	Organization where it can be found	Comments
List of budgeted projects	Available	MoPD	This list does not reflect the reality of infrastructure projects in EQG (i.e., number of projects, nature, and costs).
Updated list of infrastructure projects under implementation	Not Available	Not Available	This list is not available per sector. There is a list of payments to contractors, but it cannot be used for project monitoring.
First year the project was budgeted and amount budgeted	Available (if the project was budgeted)	MoPD	This is irrelevant if the project was not budgeted.
Initial contract cost estimate	Available	MoIU or Geproyectos	This cost can differ from the one recorded in the budget. It does not include operation and maintenance costs, which are not evaluated until the project is finished.
Revised cost estimates	Not Available	Geproyectos	It could be retrieved from the minutes of the payments commission.
Delays	Partially Available	Monitoring Agency / Geproyectos / MoIU	Information that should be available at the project manager level is not systematically reported and available at a glance.
Execution to date	Partially Available	Treasury and Geproyectos	There is a list of payments made to contractors (which can be part of a project or several projects at a time). This list does not correspond to the PIP. It is not possible to reconcile both lists and know implementation by project.
Rate of return of the project (initial or revised)	Partially Available	Not Available	Not calculated.

Source: World Bank

Note: This table does not apply to noninfrastructure investment expenditure.

3.44 **A project database with relevant information and updated indicators should be created.** Project technical cards should be designed to provide this information, containing at least the project's (a) name and budget code, (b) objective and description, (c) outcome indicators, (d) initial and revised cost estimates, (e) initial and revised timeline, (f) responsible sector ministry, and (g) person in charge of monitoring. The centralization of infrastructure management in Geproyectos makes it easier to gather this information. With these project technical cards, Geproyectos could create a database geared to different phases of the project cycle, in particular at the implementation stage. One key need will be to identify projects using the same single budget number attributed in the PIP. Examples of reporting tools are provided in Annex IX.

Figure 3. 4: Reporting Needs by Level of Management



Source: European Commission, “Project Cycle Management Guidelines” (2004)

3.45 Information on physical and financial execution and project changes needs to be made available to ministries outside Geproyectos. Given the lack of appropriate information, the MoPD has started to place staff in sector ministries to obtain updated knowledge of project execution and build up capacity for project preparation and monitoring. This activity should be encouraged, and accompanied by a clarification of roles between Geproyectos, the MoPD, and the upcoming National Agency 2020 since all will have a reporting task. Coordination will be essential to avoid duplications, improve information, and raise efficiency. This also requires that sector ministries receive updated information on project implementation.

3.46 Geproyectos’ Payments Commission makes strategic decisions on project changes with limited technical information. The Payments Commission is formed by high-level representatives that include the Director of Geproyectos; the Minister of Infrastructure; the Minister of Planning, Economic Development, and Public Investments; and the Treasurer. Sector ministries do not attend the commission’s meetings, but contractors often do. The main purpose of the Payments Commission, after all, is to approve contractors’ payment requests; although these meetings also consider and decide on modifications in project funding or planning. Thus projects are not necessarily reviewed and revised on a regular basis, but are taken up intermittently when contractors have asked for a meeting to resolve payment requests. Therefore, despite the fact that the budget process for investment projects diverges from formal budget procedures it does not improve the system to know, among other things, if there are payment delays.

3.47 Technical committees need to be created to complement the Geproyectos Payments Commission. These technical committees, operating at a lower level of responsibility, would help to prepare the Payments Commission meetings and could specialize by sector, including all relevant sector ministries. They would be formed by staff at the administrative level (general directors, general secretaries and/or directors) and would review project progress and performance periodically, taking technical decisions to ensure adequate project implementation. Decisions implying changes in funding or payments would still be reserved to the payments commission.

G. Facility Operation

3.48 There is no asset registration. There is no accrual accounting and all investment is recorded under a single budget line, making it difficult to differentiate fixed assets from the rest of public investment (including around 30 percent of PIP projects that actually are current expenditures). A first step toward clarifying the situation is to create a new budget line for recording all fixed-asset investments to inventory new physical infrastructure.

3.49 Operational costs are not considered until the infrastructure is transferred to the sector ministry, which weakens project sustainability. Sector ministries seldom carry out a thorough project appraisal before implementation and often do not participate during the construction phase. Operational and maintenance costs therefore go unassessed until the infrastructure is finished and handed over to the sector ministry responsible for its functioning. Sector ministries must be involved in the implementation to adequately prepare for the transfer to operational status, budget recurrent costs, and hire qualified personnel in advance.

H. Evaluation

3.50 The National Agency 2020 could conduct project evaluations to ensure that key lessons learnt from ongoing projects feed into future projects. Such evaluations would be particularly useful in Equatorial Guinea because many infrastructure projects in the PIP are of similar type and will be built in the future. The ability to judge how effectively government resources have been spent would be very useful in helping successor projects avoid past mistakes and build on proven good practices. The National Agency 2020 (Agencia Nacional Guinea Ecuatorial 2020) may be the best-placed institution at this time to carry out such investment program evaluations and prepare investment implementation reports. New programming and project identification should draw on the results of such monitoring and evaluation.

I. Conclusions

3.51 Current budget expenditure is penalized by cumbersome administrative procedures that encourage informal short cuts that render the formally adopted Budget irrelevant. This leads to incomplete and unreliable budget data, insufficient monitoring of budget disbursement, risk of corruption, and the proliferation of ministerial bank accounts whose balances are not adequately monitored. More importantly, it prevents the authorized Budget from being used as a tool for resource allocation and implementation control. The highest priority should be given to ensuring that simpler and quicker procedures are enforced to encourage ministries to use the official channels so that information from the executed budget is systematically reported and can be compared to the voted budget. Transparency and audits are also very weak and need to improve in the medium term to improve budget quality.

3.52 Public investment decisions are centralized at Geproyectos, which does not use the PIP as a tool for investment allocation or control. Geproyectos reports directly to the Presidency and is not constrained by the PIP. Project appraisal is seldom carried out, and the public investment cycle has no clear connection with the budget process. No procedure prevents unscreened projects from being implemented, even if they have not been included in the PIP. Moreover, reporting does not allow reconciliation of investment implementation data with data stemming from the PIP formally adopted, which makes the PIP an irrelevant tool for making investment decisions. Furthermore, internal controls for project supervision are weak and rely on limited technical staff, private monitoring agencies, and contractors. The overall poor governance of infrastructure investment raises the risks of corruption and reduces public investment efficiency at a time when the government needs improved and streamlined budget procedures to implement the large investment program set in the NDP.

3.53 **Although the budget system underperforms, a few measures could be taken to make the budget a relevant tool for management and resource allocation.** Implementation of the recurrent budget requires streamlined procedures that allow for more delegation from the payment-authorizing officer (currently the President of EQG) to lower administrative levels. This selective delegation would ensure larger responsibility of the MoFB in budget implementation and would help to reinforce the budget system—with improved disbursement reporting better aligned with enacted budget appropriations and strengthened internal controls. On the investment side, PIP’s project quality needs to be raised by carrying out project appraisals and allocating resources on the basis of NDP’s strategic guidance. This should be complemented by greater transparency in the decision-making process, eliminating the possibility of implementing unscreened projects not included in the PIP, and by a better reporting system that allows comparing projects implemented with the PIP formally adopted. This will require a clearer definition of responsibilities among all institutions participating in the investment cycle, including more involvement of sector ministries during the preparation and implementation phase. Finally, internal controls should be strengthened to better supervise private monitoring agencies and focus on the most relevant or risky projects.

Recommendations

Short Term	
Issues to Address	Action to Take
Budget and PIP preparation does not reflect national priorities.	<ul style="list-style-type: none"> Define sector envelopes during the budget preparation phase.
Budget and PIP preparation does not take into account maintenance and operational costs.	<ul style="list-style-type: none"> Improve multiannual planning by taking into account the operational and maintenance costs of infrastructure projects.
Inadequate budget classification and recording reduces government’s accountability and transparency.	<ul style="list-style-type: none"> Use the same economic and administrative classification for current and investment expenditure in the initial budgets and in reports on budget execution.
Procedures for budget execution are frequently bypassed, reducing budget control and quality of information.	<ul style="list-style-type: none"> Streamline and formalize budget procedures to ensure allocations are used for their intended purpose, expenses are properly recorded, and budget execution is monitored.
Many institutions intervene in the decision-making process with roles that vary according to the sector of the project, and no independent review of projects is carried out.	<ul style="list-style-type: none"> Increase transparency in the decision-making process, clarifying the role of the different actors in infrastructure project management and appointing one institution to carry out independent reviews of project appraisals.
Technical capacity of staff in all ministries, notably sector ministries, is very limited and hinders investment efforts.	<ul style="list-style-type: none"> Define a human resources policy for hiring, retaining, and training enough qualified staff to effectively assess and implement investment projects. Accelerate the MoPD institutional capacity building program in sector ministries.
Projects are seldom appraised, raising the risk of inadequate project selection.	<ul style="list-style-type: none"> Approve a formal and well-publicized guidance for project appraisal, tailored to the technical capacity of ministries and to the nature and size of projects. Outsource project appraisals to raise investment efficiency and enhance institutional capacity
The PIP has no connection with the budget	<ul style="list-style-type: none"> Reduce the current practice of launching often

process.	unscreened projects that are not in the PIP, and ensure appropriate procedures are followed for projects included during the year.
Available information on project execution is too segmented and hinders adequate project monitoring and control.	<ul style="list-style-type: none"> Design a new reporting system based on project technical cards with all relevant information (including the same project number used in the PIP), with regular updating by Geproyectos and information on project implementation disseminated to the MoPD and sector ministries.
The government cannot effectively monitor all projects throughout the country and relies on external inputs from private monitoring agencies.	<ul style="list-style-type: none"> Set up a monitoring system with various degrees of monitoring according to the risk of each project. Make supervision personnel accountable for progress of projects under their jurisdiction, and involve sector ministries in the monitoring and regular review of projects by requiring Geproyectos and the MoIU to submit progress reports to them.
Geproyectos' Payments Commission makes strategic decisions on project changes with limited technical information.	<ul style="list-style-type: none"> Create technical steering committees at the senior level to review progress and performance of projects in a given sector. They will periodically meet and follow up on project implementation using improved reporting tools.
Operational costs are not considered until the infrastructure is transferred to the sector ministry which negatively affects project sustainability.	<ul style="list-style-type: none"> Operational and maintenance costs should be assessed at project preparation and the sector ministry should participate in project implementation to ensure that maintenance plans are in place, recurrent cost requirements are reflected in future budgets and adequate human resources hired.
Medium Term	
Issues to Address	Action to Take
The current accounting system does not allow for registration of assets and liabilities and does not account for actual infrastructure investment.	<ul style="list-style-type: none"> Create a new budget line in the economic classification to differentiate between infrastructure investment and other investments and provide some basic information on assets accumulation.
Internal control is very weak and raises the risk of corruption.	<ul style="list-style-type: none"> Professionalize the internal audit function to obtain an accurate analysis of the reliability and integrity of financial information and reduce the possibility of corruption.
External oversight does not exist.	<ul style="list-style-type: none"> Create a national audit office with jurisdictional power and adequate means, and ensure broad dissemination of its audit reports.
There is no procurement regulatory framework, which raises the risks of corruption and selection of nonoptimal bids and contractors.	<ul style="list-style-type: none"> Elaborate a procurement regulatory framework and a unit cost database for comparison with contractor proposals.
No project evaluation is conducted, neglecting key lesson learning that would raise the efficiency of future investment projects.	<ul style="list-style-type: none"> Develop ex post evaluation, in particular for "standardized" projects to learn from past experiences.

CHAPTER 4: PUBLIC EXPENDITURE ON EDUCATION

4.1 **Information on the education sector is woefully inadequate.** It offers a very low level of disaggregation, is often inconsistent, and in many cases is either nonexistent or unavailable. These problems are more pronounced for the preschool and secondary levels. For the first time, the Ministry of Education, Science, and Sport (MECD) prepared the Primary Education Yearbook for the 2007/08 academic year, which apart from the errors typically found in any first census, provides a wealth of data.⁶⁴

4.2 **Serious discrepancies exist in the population data from the statistical source consulted, thereby hindering analysis of the education sector.** Official data from the 2001 census indicate that Equatorial Guinea had a population of 1,014,999 inhabitants in 2001, while UN estimates put the figure at 530,000 in 2000. These discrepancies in the total number and its distribution by age group and district hinder identification of the demand for education, especially with respect to the primary school-age population. In order to compensate for this lack of information, a school-age population projection based on both statistical sources was prepared (see Annex X).

A. Organization of the Education System

4.3 **Organization of the educational system in Equatorial Guinea is based on General Education Law No. 5/2007, which amends Education Law No. 14/1995.** The new law extends primary education from five to six years and shortens secondary education from seven to six years. The levels and types of educational offerings in Equatorial Guinea are as follows:

- *Preschool education*, which is free, has recently been declared compulsory, and is divided into two phases—nursery school for one- to three-year-olds, and kindergarten for four- to six-year-olds. This level has a Basic Curriculum Structure and a corresponding textbook has been published, although data is lacking on the quantity and distribution of the textbooks.
- *Primary education*, which is free and compulsory, covers six years of study divided into two cycles: the first, from ages seven to nine and the second, from ages ten to twelve. The Primary Studies Certificate (Certificado de Estudios Primarios) is awarded upon completion of the second cycle; and under the law, students who fail the examination for this certificate have the option of pursuing occupational vocational training. Primary education is offered at one-teacher schools (Grades 1 and 2), *escuelas graduadas* (Grades 1–3), and *colegios nacionales* (Grades 1–6).
- *General secondary education* is divided into two parts: a four-year cycle known as the Basic Secondary Education (ESBA) program, with a new approved curriculum; followed by a two-year cycle, the *bachillerato*, which covers science, the humanities, technology, and the arts, with each discipline offering its own specific compulsory and optional subjects, although the curriculum is being revised. The General Secondary Education Certificate (Graduado de Educación Secundaria General) is awarded upon completion of the *bachillerato* and allows students to pursue college preparatory courses (Curso de Orientación Universitaria, COU). The General Education Law does not explicitly indicate whether secondary education, irrespective of the type, or postsecondary education is free. The ESBA is offered at national secondary education institutes.

⁶⁴ Other reports used in this chapter are as follows: Paula Razquin, “Informe de situación del sector educación y lineamientos para fortalecer la política educativa” (Report on the Situation in the Education Sector and Guidelines for Strengthening Education Policy), mimeographed document (2006); Academy for Educational Development (AED) in coordination with the Ministry of Education, Science, and Sport of Equatorial Guinea, “Desarrollo Educativo en Guinea Ecuatorial,” or Educational Development in Equatorial Guinea, (2006); and the “Plan de Acción Nacional para el Desarrollo de la Educación para Todos (EPT),” or the National Action Plan for the Development of Education for All (2002).

- *Vocational secondary education* requires completion of the ESBA program. This program has two two-year cycles: a middle cycle leading to qualification as an Assistant Technician (Auxiliar Técnico), and an upper cycle leading to qualification as a Certified Technician (Oficial Técnico). The program is offered at national vocational training institutes.
- *Higher education* admission requires successful completion of the COU or the upper cycle for vocational training. Courses are provided at the faculties and university colleges. The faculties offer Bachelor's degrees in Medical Sciences, Arts and Social Sciences, and Environmental Studies (all six semesters in length); a Master's degree (four semesters); and a Ph.D (at least three years). The university colleges have a three-year cycle and offer training in Administration; Agriculture, Fisheries, and Forestry; Health and Environment; and Technical Engineering and Teacher Training. There is currently one center, the National University of Equatorial Guinea (Universidad Nacional de Guinea Ecuatorial, UNGE).⁶⁵
- *Other types* include continuing training, distance education, and special education.

4.4 **The Ministry of Education, Science, and Sport is responsible for managing the education system.** MECD's main responsibilities are to propose general educational policy guidelines to the government; approve study plans; establish public centers and authorize the establishment of private centers; promote, guide, and coordinate contributions from social and economic groups for the sector's development; and issue and accredit qualifications. The sport portfolio was incorporated into the ministry in 2005. MECD's organizational chart is characterized by its centralization and includes the following:

- **Civil service**—Minister; Deputy Minister; General Secretary; State Secretary responsible for University Education; Regional Education Office (ministry office in the continental region)
- **Technical Implementation Units**—General Directorates for Nursery and Preschool Education (recently established); Primary Education and Literacy; Secondary Education and Vocational Training; Planning and Educational Programming; Universities and Research; Youth; Physical Education and Sports; as well as the Inspectorate General of Education (Inspección General de Servicios Educativos)⁶⁶
- **Administrative Services Units**—General Secretariat; Personnel Office; Administrative Coordination Section; International Relations and Scholarships Section; Economic Section; Registration and Archives Section
- **Coordination Advisory Units**—Administrative Council
- **Autonomous entities**—National Commission for Cooperation; National Commission for the Accreditation of Certificates, Diplomas, and Degrees; and the Universidad Nacional de Guinea Ecuatorial.

⁶⁵ Spain's Universidad Nacional de Educación a Distancia (UNED), or the National Distance Education University, which is funded by the International Spanish Agency for International Cooperation for Development (AECID), also offers higher education in Equatorial Guinea.

⁶⁶ There is one Inspector General and 18 district inspectors, whose responsibilities include technical assistance in program design, oversight of class timetables, student and teacher attendance, level of enrollment, and generally speaking, collection of information on demand and supply problems. Although municipal and zone inspectors have been appointed to work with the district inspectors in recent years, they are insufficiently qualified and have limited resources to perform their duties.

B. An Underperforming System

4.5 No reliable data on literacy rates exist, but they are believed to be high and in line with rates observed in the region. On one hand, the 2001 census recorded 50,644 illiterate persons among the population over the age of 15 years (9.2 percent of the total population above this age), which fell to 17,623 illiterate persons over the age of 15 in the information survey conducted by the Inspectorate General of the MECD in 2008. This sharp decrease, coupled with the low level recorded, raises serious doubts about the quality of the data, especially in relation to the low primary enrollment rate. Using the 2007 information survey, the illiteracy rate is 2.2 percent of the population over the age of 15, according to the official population source, and 4.7 percent according to the UN. However, these rates would appear to be considerably at variance with the actual situation⁶⁷ since a primary completion rate of 43 percent indicates the level of illiteracy should be much higher, and closer to illiteracy rates in the region.⁶⁸

4.6 A campaign to reduce illiteracy was recently launched. The starting point for the strategy to reduce illiteracy devised by the General Directorate for Primary Education and Literacy was the launch of the “Yes, I can” program by Cuban experts. This program revolves around a “facilitator,” using games, manuals, and television programs. However, the use of television is proving problematic since 80 percent of illiterate persons live in rural areas where access to electricity is very limited. However, it bears noting that the MECD is mulling the installation of solar panels and generators to overcome this obstacle.⁶⁹

4.7 With the exception of the preschool level, enrollment rates have not improved in recent years and remain dismally low. Gross enrollment rates for preschool, primary, and secondary levels for the 2007/08 academic year were 83 percent, 80 percent, and 40 percent, respectively, of the corresponding school-age population⁷⁰ (Figure 4.1). Although there has been a significant increase in preschool enrollment, primary and secondary enrollment barely grew between the 2000/2001 and 2007/08 academic years (Table 4.1). Furthermore, growth at the primary level is primarily attributed to the incorporation of an additional grade (Grade 6).⁷¹ Thus the gross enrollment rate declined as the population increased (Figure 4.2) and, with the exception of preschool enrollment, is lower than that of the other countries in the region.⁷² Despite higher preschool enrollment rates in Equatorial Guinea than in most countries in the region,⁷³ the main problem pertains to the primary enrollment rate, which is considerably lower than most others in the region.⁷⁴ The secondary enrollment rate in Equatorial Guinea also compares unfavorably to that of other regional countries.⁷⁵

⁶⁷ Countries with illiteracy rates of between 2 and 5 percent are Greece, Portugal, Argentina, Chile, and Costa Rica.

⁶⁸ Burundi (41 percent), Cameroon (32 percent), Congo (52 percent), Côte d’Ivoire (51 percent), Gabon (29 percent), Ghana (42 percent), Kenya (26 percent), Mali (81 percent), Nigeria (33 percent), Rwanda (35 percent), Tanzania (31 percent), Chad (74 percent), and Uganda (37 percent), according to data from the Pôle de Dakar (UNESCO) for 2003/04 and 2004/05.

⁶⁹ Although the pedagogical approach seems appropriate, the installation cost of generators and panels is very high in relation to other priority actions.

⁷⁰ United Nations population estimates, the highest of the international sources cited, are used in this document. Rates from official national population sources would be considerably lower.

⁷¹ Data included in the 2000/2001 National Action Plan for the Development of Education for All are compared with MECD data for 2007/08.

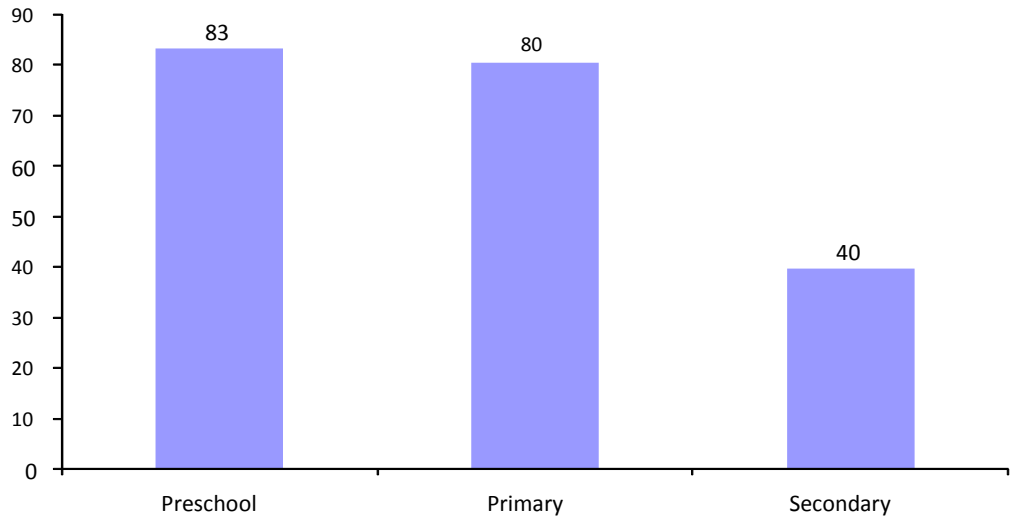
⁷² See Pôle de Dakar (UNESCO) for 2003/04 and 2004/05.

⁷³ The preschool enrollment rate in Burundi, Côte d’Ivoire, Mali, Mauritania, Rwanda, and Chad is less than 3 percent, and is approximately 15 percent in Gabon and Nigeria. Ghana (42 percent) and Kenya (54 percent) have higher rates than Equatorial Guinea.

⁷⁴ The gross primary enrollment rate in Mali and Côte d’Ivoire is 70 percent, and between 80 and 90 percent in Burundi, Ghana, and Chad; the rate exceeds 100 percent in other countries such as Cameroon, Congo, Gabon, and Kenya.

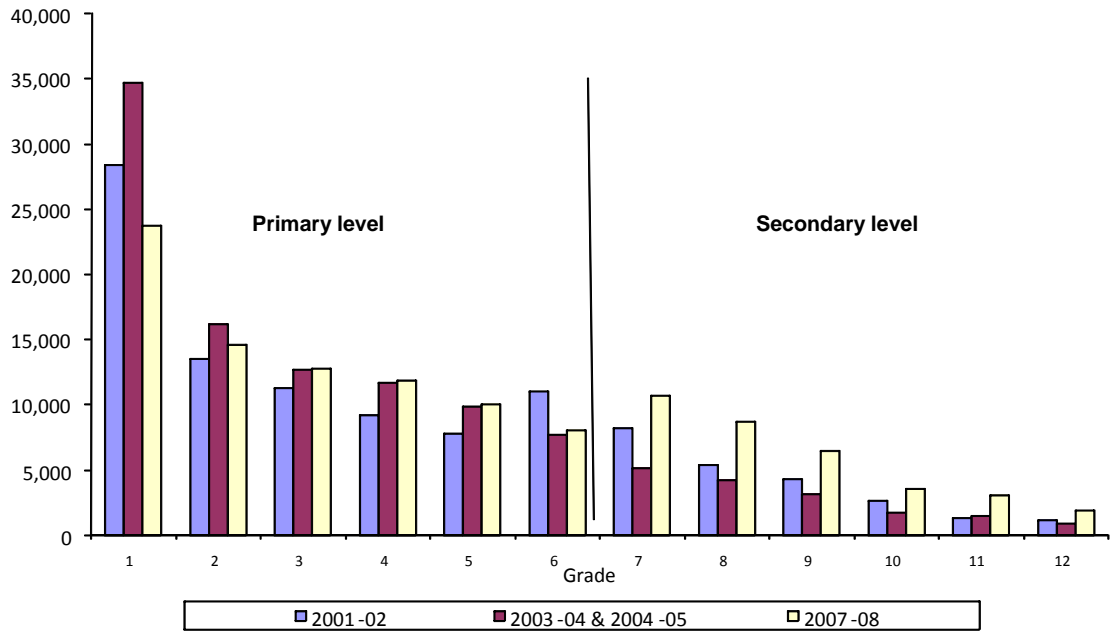
⁷⁵ Data for the two cycles at this level are disaggregated. The gross enrollment rate for both levels of secondary education is 62 percent and 16 percent in Congo, 61 percent and 25 percent in Gabon, 64 percent and 21 percent in Ghana, and 91 percent and 28 percent in Kenya. Equatorial Guinea has slightly better results than Burundi (17 percent and 6 percent), Tanzania (14 percent and 2 percent), and Uganda (23 percent and 9 percent).

**Figure 4. 1: Gross Enrollment Rate
(Percentage of the corresponding school-age group)**



Source: World Bank

**Figure 4. 2: Primary and Secondary Enrollment by Grade
(Thousands of persons)**



Source: MECD, World Bank

Table 4. 1: Enrollment Trends

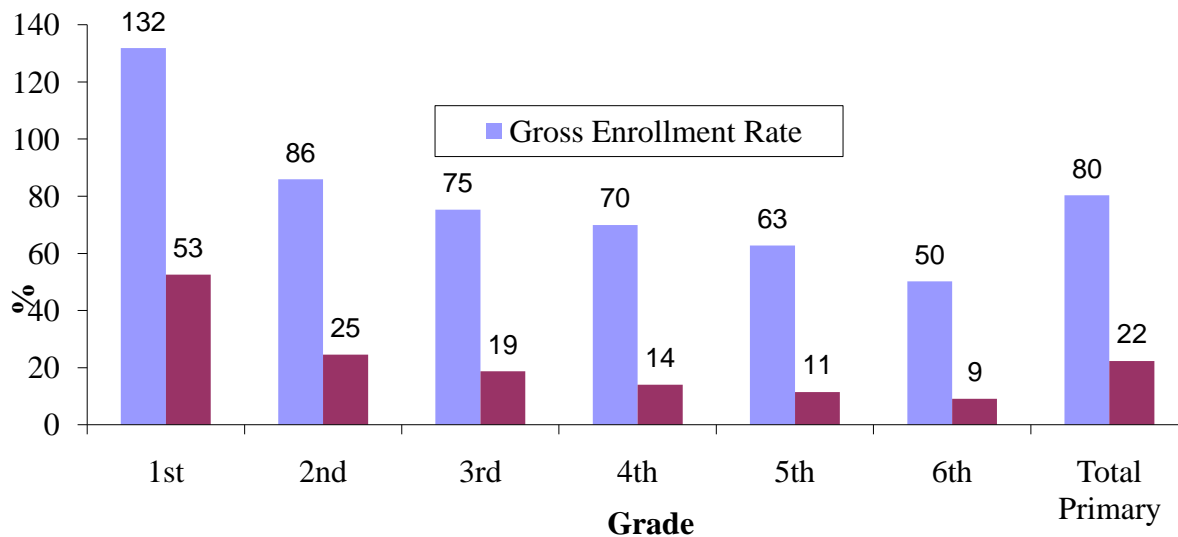
Level	2000/2001	%	2007/08	%	Variation
Preschool	20,039	15.0	46,538	28.7	132.2
Primary	79,878	59.6	81,099	50.0	1.5
Secondary	34,116	25.5	34,441	21.2	1.0
Total	134,033	100	162,078	100	20.9

Source: EPT and MECD Directorates

Note: Level percentages are rounded, with the total equaling 100 percent.

4.8 As Figure 4. 3: shows, there is a low net primary enrollment rate, with a sharp decline between the first and second grades owing to the high number of overage students (by one year and by two or more years). Some 72.3 percent of primary students are overage relative to the theoretical age for each grade (44,754 of 81,099 students in primary school are two or more years overage, as shown in Table 4.2), owing either to late entry into the education system or repetition. According to the United Nations, gross and net access rates to the first grade stood at 93.4 percent and 47.3 percent of the corresponding school-age population,⁷⁶ well below the average in the region where the gross rate approaches 100 percent.

**Figure 4. 3: Gross and Net Primary Enrollment Rates by Grade
(Percent of school-age population by grade)**



Source: MECD, World Bank, United Nations population data

4.9 **The high rate of repetition at the primary level (24.3 percent of students) is very costly to the system.** The highest rate of repetition is in the first grade (Table 4.3),⁷⁷ and is significant because of the far-reaching consequences of the cost overrun for the education system and the impact of failure on the self-esteem of new students and their teachers. Reasons for this phenomenon include the following:

⁷⁶ The MECD Yearbook indicates that a total of 16,808 new students were enrolled in the first grade for the 2007/08 academic year, of which 8,512 were seven years old or younger.

⁷⁷ Unlike countries such as Ghana, Kenya, Nigeria, and Tanzania, whose repetition rates hover around 5 percent, the rate in Equatorial Guinea is similar to those in countries such as Cameroon, Congo, Chad, and Burundi.

- Just 30 percent of the 1,036 primary school teachers meet the legal training requirements, and those that fall short demonstrate a low level of preparation.⁷⁸
- Classroom age heterogeneity from high numbers of overage students results in varying learning rates, which makes the teaching process more difficult.
- Fewer than half of students have a textbook.
- Linguistic differences hinder learning, given limitations in the use of Spanish.
- Rigid teaching methods, with little student participation.

Table 4. 2: Gross and Net Primary Enrollment Rates

Enrollment	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Underage	3,521	1,768	1,330	907	679	486	8,691
Theoretical	5,946	2,404	1,851	1,475	1,146	963	13,785
Overage (+ 1 year)	4,640	2,432	2,173	1,921	1,451	1,252	13,869
Overage (≥ 2 years)	9,626	7,997	7,447	7,581	6,768	5,335	44,754
Total	23,733	14,601	12,801	11,884	10,044	8,036	81,099
Gross Rate (Official)	55.2	34.8	32.0	31.3	27.1	22.3	34.4
Gross Rate (UN)	131.9	85.9	75.3	69.9	62.8	50.2	80.6
Net Rate(Official)	22.0	9.9	8.0	6.3	4.9	4.0	9.5
Net Rate (UN)	52.6	24.5	18.7	14.0	11.4	9.1	22.3

Source: MECD, World Bank

Note: Rates are in percent; the net rate includes students in the underage and theoretical age groups.

Table 4. 3: Repetition Rates (2007/08)

Heading	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Repeaters	8,337	3,450	2,603	2,256	1,835	1,200	19,681
Enrollment	23,733	14,601	12,801	11,884	10,044	8,036	81,099
Repetition rate	35.1 %	23.6 %	20.3 %	19.0 %	18.3 %	14.9 %	24.3 %

Source: MECD, World Bank

4.10 It is necessary to develop and implement a strategy to reduce repetition rates. To provide an initial response, the Program for Educational Development of Equatorial Guinea (PRODEGE) is working with a number of schools (46 currently) to introduce a new teaching model to improve the quality of education through increased student class participation. Another option would be to eliminate repetition between two-year cycles (Grades 1 and 2, Grades 3 and 4, Grades 5 and 6), and introduce support classes.

4.11 The system is highly inefficient and only one in every two students completes primary education. The official population source places the completion rate at 19 percent of the total student population, while population data from the United Nations puts the figure at 43 percent, well below rates in the neighboring countries of Gabon (66 percent) and Congo Brazzaville (73 percent).⁷⁹ These high dropout levels are also affected by the high rates of repetition and overage, a vicious circle that encourages further dropout. Besides, the limited options at the secondary level, the poor sister of the system, and particularly of opportunities of vocational training, do not encourage families and youth to

⁷⁸ According to the 2008 report “Situación actual y características básicas de los docentes de la Educación Primaria en Guinea Ecuatorial” (Current Situation and Basic Characteristics of Primary Education Teachers in Equatorial Guinea), a survey on teachers lacking appropriate qualifications showed a high ratio had problems with written expression, spelling, and penmanship.

⁷⁹ According to Pôle de Dakar (UNESCO) data from the 2002/03, 2003/04, and 2004/05 academic years, completion rates in other countries in the region are Burundi (36 percent), Cameroon (62 percent), Congo (73 percent), Côte d’Ivoire (48 percent), Gabon (66 percent), Ghana (72 percent), Kenya (95 percent), Mali (43 percent), Mauritania (45 percent), Nigeria (76 percent), Rwanda (38 percent), Tanzania (55 percent), and Chad (35 percent).

finalize primary education. As shown in Figure 4.3 and Table 4.2, the highest dropout happens in the first grade, where almost half of the children abandon schooling (and the repetition rate is the highest).

4.12 The Millennium Development Goals are far from being achieved. The National Action Plan for the Development of the Education for All (EFA) initiative developed in 2002 was designed to be the first systematic education policy program, facilitated in large measure by the robust economic growth from oil production. EFA objectives for 2015 are generally consistent with the MDGs and include expansion of school coverage, improvements in teaching quality at all levels, reformulation of secondary school curricula for both the *bachillerato* and vocational training programs, special attention to girls with poor academic performance, decentralization and deconcentration of education sector administration and management, adult literacy, and institutionalization of the sector’s technical management within the MECD organization chart. However EFA has not yielded the expected results to date, and Equatorial Guinea is far off track from achieving the education MDGs by 2015. There is a dearth of adequate basic information, qualified professionals, and appropriate funding (the state currently pays the salaries of only about 60 percent of teachers). In terms of coverage, the primary completion rate hovers around 43 percent, less than half the 100 percent rate in the MDGs. Although no tests assess quality, it is presumably low, given the level of teacher training.

C. Limited Progress in the Various Levels of Education

4.13 While the number of students, centers, and teachers increased at the preschool level, resources are still inadequate to meet demand. Based on the assessment of the 2002 EFA plan, preschool education was being provided at three types of centers: state formal education centers, with 12 classrooms attached to the *colegios nacionales* in Malabo and Bata; state nonformal education centers, with 300 located in rural areas; and private centers, with 45 classrooms located in urban areas and managed primarily by faith-based groups. Since then, the average annual growth rate of the centers has been 14 percent, and 15 percent for teachers (Table 4.4). This increase in human and physical resources is nonetheless insufficient to handle the increase in preschool enrollment, which doubled between 2001/02 and 2007/08, leading to overcrowded classrooms, with 54 students in each center and 32 students per teacher during the 2007/08 academic year. Most of the 739 preschool centers (72 percent) are public, although the private centers are mainly located in Malabo and Bata.

Table 4. 4: Trends for Preschool Enrollment, Centers, and Teachers (1999–2007)

Year	Students	Centers	Teachers
1999/00	19,320	258	463
2000/01	20,039	350	732
2003/04	25,938	566	968
2004/05	21,568	450	955
2005/06	32,017	533	1,776
2006/07	39,651	739	1,655
2007/08	46,538	739	1,492

Sources: The report “Situation Analysis of Nursery and Preschool Education in Equatorial Guinea” (Análisis de situación de la educación infantil y preescolar de Guinea Ecuatorial) (2006/07), and data from the General Directorate for Nursery and Preschool Education.⁸⁰

4.14 Preschool teachers have limited training. Current legislation requires that teachers obtain a Degree in Primary Education (Maestro Diplomado en Enseñanza Primaria), which is awarded after three years of study at a College of Education. However, data for the 2006/07 academic year indicate that none

⁸⁰ There are several discrepancies in the information. According to data from the 2007/08 academic year, there were 1,492 teachers, which would imply a significant decline from the figure of 1,655 for the 2006/07 academic year.

of the teachers met the legal requirements, a problem exacerbated by the fact that 1,126 of 1,655 teachers were volunteers financed by students' families.⁸¹ In any case, the best-trained teachers work in the districts of Malabo and Bata. To improve training of preschool teachers, UNICEF has been conducting summer courses since 1990, which have been reinforced with the "Modular Training Project for Nursery and Preschool Teachers." This three-year project awards a qualification that improves the wages of teachers contracted by the state.

4.15 Enrollment in primary education has not increased despite improved human and physical resources. During the 2000/2001 academic year and in accordance with the EFA plan, the primary level had 79,878 students, 1,709 teachers, and 884 schools. During the 2007/08 school year,⁸² enrollment only inched up to 81,099 students, while the number of teachers jumped to 2,900 (Table 4.5). A large concentration of students was observed in the districts of Malabo and Bata (61 percent of the total), where the institutions are larger; and the country's student-teacher ratio of 28:1 is below the regional average.⁸³ There are, however, differences between urban areas, with a 32:1 student-teacher ratio, and rural areas, with a 20:1 ratio. The number of schools fell to 813,⁸⁴ owing to the increase in the number of *colegios nacionales* (which offer all six grades) from 74 in 2000/2001 to 395 in 2007/08. The primary level has 2,339 classrooms, of which 81 percent were constructed with permanent materials and 56 percent are in urban areas. The student-classroom ratio is 29:1 (it is estimated that approximately 450 classrooms distributed among 73 institutions are used for a double-shift system), although the ratio increases to 35:1 in urban areas and falls to 18:1 in rural areas. This difference raises questions about the possibility of expanding the double-shift system in urban areas to minimize expenditure on infrastructure (without this system, there would presently be 48 students in each urban classroom).

4.16 The lack of educational offerings by the public sector has enabled the private sector to enroll half of all primary school students. Facilitated by the expansion of offerings covered in the EFA plan, 43 percent of all enrollments were in private schools receiving state support and 7 percent at private schools not receiving support, a significant increase from the 2000/2001 academic year when private institutions accounted for only about 20 percent of enrollments. Furthermore, this percentage is high compared to other countries in the region.⁸⁵ There is no major difference in the student-teacher ratio between public and private institutions— 27:1 on average at state schools, which reflects their almost exclusive presence in rural areas, 31:1 at private schools receiving state support, and 23:1 at private schools not receiving support.

4.17 Primary school teacher training is deficient and is not improving at a sufficiently rapid pace. During the 2007/08 academic year, there were 2,900 primary education teachers, of which 66 percent were men and 20 percent were over the age of 55. The majority (55 percent) worked at public centers and nearly 80 percent taught at *colegios nacionales* that offered all six grades. Although a Diploma in Primary Education is required, fewer than half of teachers (47 percent) currently possess this qualification (Figure 4.4). Considering that only 664 students are registered at the Colleges of Education, the dearth of trained teachers shows no sign of abating in the short term. Among teachers with fewer than five years' seniority, the relative share of those who *do not* meet the legal requirements falls to 44 percent, and to 36 percent for those with one year seniority. In other words, "the demand for teachers cannot be

⁸¹ In 2007/08, of the 1,492 teachers registered, 521 were appointed and 971 were hired. We were unable to ascertain whether "volunteer" and "recruited" are strict synonyms, or, which is more important, whether these teachers were paid by the state or by families.

⁸² Data from the *Primary Education Yearbook* prepared in the context of PRODEGE.

⁸³ The student-teacher ratio is 83:1 in Congo, 63:1 in Chad, 62:1 in Rwanda, 49:1 in Burundi, and 48:1 in Cameroon.

⁸⁴ Of these, 184 have no water facilities and 533 lack electricity.

⁸⁵ The rate is higher than that of Chad (31 percent), Gabon (29 percent), and Ghana (21 percent), and markedly higher than that of Burundi, Rwanda, and Tanzania (1 percent), and Kenya (4 percent).

met by the graduates from university colleges, and the system is obliged to include persons who lack the preparation required for the teaching profession.”⁸⁶

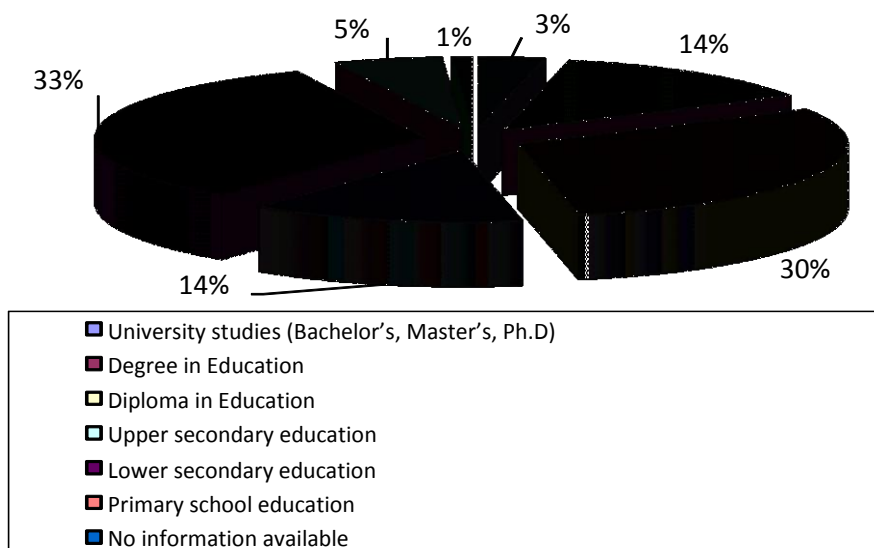
Table 4. 5: Regional Distribution of Primary Education Enrollment, Teachers, and Schools (2007/08)

Region / District	Enrollment (E)	Teachers (T)	Schools (S)	E/T	E/S
Insular Region	24,390	734	117	33	208
Malabo	21,011	613	77	34	273
Baney	1,388	53	17	26	82
Luba	1,294	45	16	29	81
Riaba	181	9	5	20	36
Annobón	516	14	2	37	258
Continental Region	56,709	2,166	696	26	81
Bata	29,010	898	150	32	193
Mbini	1,401	57	33	25	42
Kogo	1,404	57	32	25	44
Evinayong	2,689	150	48	18	56
Niefang	3,023	110	59	27	51
Acurenám	1,453	88	31	17	47
Mongomo	3,319	142	57	23	58
Añigok	2,674	132	60	20	45
Akomibe	1,005	62	25	16	40
Nsork	778	48	22	16	35
Ebibeyín	5,461	207	80	26	68
Mícomeseng	2,955	122	51	24	58
Nsok Nsomo	1,537	93	48	17	32
Total	81,099	2,900	813	28	100

Source: Primary Education Yearbook, MECD

⁸⁶ “Situación actual y características básicas de los docentes de la Educación Primaria en Guinea Ecuatorial,” a 2008 report prepared in the context of PRODEGE.

Figure 4. 4: Primary School Teachers by Qualification (Percentage of all primary school teachers)



Source: MECD

4.18 Secondary school enrollment fell owing to the shortening of the education cycle, while human and physical resources have been increasing, especially in the private sector. During the 2000/2001 academic year, 34,116 students were enrolled in the ESBA program (78 percent in Malabo and Bata), which had 1,071 teachers distributed among 28 public and 29 private institutions, with a student-teacher ratio of 32:1. During the 2007/08 academic year, enrollments fell to 33,177 students (80 percent in Malabo and Bata), largely because of the shortening of the cycle from seven to six years. The number of teachers grew by 44 percent, climbing to 1,540, while the number of institutions grew by 63 percent, especially in the private sector, where it increased by 97 percent, pushing the number of centers from 29 to 57 (61 percent of secondary schools are private). Despite the legal requirement that teachers must hold a university diploma to teach classes in the ESBA program and a bachelor's degree to teach the *bachillerato* program, 89 percent of secondary school teachers in the 2000/2001 academic year held a university diploma from either a university college, the defunct Center for the Development of Education (Centro de Desarrollo de la Educación, CDE), or a special program executed by the MECD during 1994–97, and only 8 percent had a bachelor's or doctoral degree.⁸⁷

4.19 Few opportunities for vocational training exist and they are concentrated in Malabo and Bata. As was the case with the 2000–2001 academic year, only two centers currently provide vocational training: one in Malabo (12 de Octubre), which offers a single cycle, and another in Bata (Modesto Roig Gené), which offers two cycles. In both cases, no significant changes in enrollment rates were observed. The number of students at the first center grew from 433 to 448, while the number fell at the second from 906 to 816. Just about 4 percent of secondary school students pursue vocational studies, which is below the regional average.⁸⁸ A two-phase reform process is now under way. First, the Spanish Agency for International Cooperation for Development (AECID) will assess labor market needs to design a new

⁸⁷ Assessment of the National Action Plan for the Development of Education for All. No information is available for the 2007/08 academic year.

⁸⁸ A number of countries, such as Kenya (1 percent) and Ghana (2 percent), have fewer students relative to the total number of secondary school students; however, most countries, such as Cameroon (32 percent), Mali (12 percent), and Congo (16 percent), easily exceed this rate.

curriculum, and second, the Société française d'exportation des ressources éducatives (SFERE) will conduct a study in order to identify demand for education and construct four centers.

4.20 Enrollment at the higher education level has increased significantly but is still inadequate to meet the country's needs. Higher education is offered at the National University of Equatorial Guinea (Universidad Nacional de Guinea Ecuatorial, UNGE), and average annual enrollment increased by 28 percent over the last five years, jumping from 1,116 students during the 2004/05 academic year to 3,011 students during 2008/09, distributed among various faculties as shown in Table 4.6.

Table 4. 6: Higher Education Enrollment and Teachers (2008/09)

CENTERS	Enrollment	Teachers
Faculties	963	161
Medical Sciences	239	54
Arts and Social Sciences	640	87
Environment	84	20
University Colleges	2,048	257
Malabo College of Education	262	36
Bata College of Education	402	49
Administration	359	42
Agriculture, Fisheries, and Forestry	509	64
Health and Environment	354	41
Technical Engineering	162	25
Total	3,011	418

Source: Universidad Nacional de Guinea Ecuatorial

D. Limited Equity in the Education System

4.21 Equity means equal access to quality education by all, regardless of socioeconomic level, gender, ethnic group, geographic location, or any other distinguishing factor. Therefore, evaluation of equity levels in an education system allows for myriad approaches to capture the range of diversity. The behavior of variables related to problems of equity will thus be analyzed from various perspectives and, when necessary, will be compared by district.

4.22 Gender parity exists in access to primary education but begins to decline at the secondary level. During the 2007/08 academic year, enrollment distribution by gender at the preschool and primary levels was virtually proportional. However, at the secondary level, the number of girls declined to 42 percent of all students in the *bachillerato* program and to 37 percent in the vocational training program. The number of girls pursuing higher education accounted for 39 percent of all students, with 29 percent enrolled in faculties and 43 percent in university colleges. From a gender standpoint, it should be noted that the lack of nursery schools for one- to three-year-olds may play a role by hampering the ability of mothers to access both the education system and the labor market.

4.23 Efforts to provide physical resources for preschool education in Malabo and Bata are still falling short. While 60 percent of all preschool students are concentrated in Malabo and Bata, owing in all likelihood to rural migration, these areas only account for 42 percent of all teachers assigned to

preschools and 50 percent of permanent constructions (Table 4.7)⁸⁹ As a result, preschools in insular region districts and Bata have a higher-than-average student-teacher ratio, which is estimated to be 24:1.

Table 4. 7: Preschool Student-Teacher Ratios by District (2006/07)

Region/District	Students	Teachers	Student/Teacher
Insular Region	9,753	276	35
Malabo	8,451	241	35
Baney	521	16	33
Luba	555	13	43
Riaba	35	1	35
Annobón	191	5	38
Continental Region	29,798	1,369	22
Bata	14,860	444	33
Mbini	898	62	14
Kogo	842	46	18
Evinayong	1,211	81	15
Niefang	1,490	90	17
Acurenám	750	42	18
Mongomo	2,076	108	19
Añigok	1,219	69	18
Akomibe	561	59	10
Nsork	565	50	11
Ebibeyín	2,788	159	18
Micomeseng	1,207	72	17
Nsok Nsomo	1,331	87	15
Total	39,551	1,645	24

Source: “Analysis of Nursery and Preschool Education in Equatorial Guinea” (Análisis de la educación infantil y preescolar de Guinea Ecuatorial), 2006/07.

4.24 **There is high regional inequity in primary school repetition rates, which is linked to lower-quality teaching staff.** Annobón, Akomibe, and Nsork have a repetition rate of approximately 39 percent of all students, which is higher than the average of 24 percent (Table 4.8).⁹⁰ These districts also have a higher percentage of volunteer teachers and a lower share of legally qualified teachers, thus requiring a greater effort by families for the financing of education. However, Bata and Malabo are the districts with the best results, with a repetition rate slightly below average and a higher percentage of trained teachers. Another aspect of inequity is revealed in the fact that only 37 percent of teachers in public institutions possess the legal training requirements, while 61 percent do in private institutions that receive state support and 48 percent do in private institutions receiving no support.

4.25 **Malabo and Bata have better primary school infrastructure, an advantage over rural areas.** These cities have the highest number of classrooms constructed with permanent materials, while Nsok Nsomo, Niefang, Micomeseng, and Ebibeyín are among the districts with fewer permanent constructions. Luba, Bata, and Malabo also have the highest percentage of students enrolled in *colegios nacionales* (Grades 1-6), which offer the best opportunities to complete and continue studies at the same center. This means that a significant percentage of the rural population, especially in Mbini, Kogo, Nsok Nsomo, Evinayong, and Akomibe, lacks opportunities to pursue studies beyond the second grade because they

⁸⁹ Infrastructure quality at the preschool level is extremely poor across the board, as only 31 percent of preschool centers were built with permanent materials and are located primarily in the insular region.

⁹⁰ Momgomo and Riaba also have a higher repetition rate (30 percent) and fewer qualified teachers.

attend one-teacher schools in which the same teacher is responsible for the first and second grades. This encourages migration from rural areas to big cities, resulting in approximately 50 students per classroom in Malabo and Bata, which is considerably higher than the national average of 35 students per classroom. Lastly, Annobón's poor education indicators in all categories bear noting.

Table 4. 8: Equity Indicator Performance by District, 2007/08 (Percent)

District	Repetition	Volunteers	Legally Qualified Teachers
Acurenám	26.9	22.7	28.4
Akomibe	39.7	29.0	30.6
Annobón	39.5	21.4	35.7
Añigok	22.0	20.6	34.8
Baney	26.3	11.3	43.4
Bata	23.5	11.0	62.4
Ebibeyín	28.5	14.0	34.8
Evinayong	20.4	30.3	20.7
Kogo	21.4	10.5	36.8
Luba	25.8	11.1	40.0
Malabo	22.5	8.3	54.2
Mbini	28.0	12.3	38.6
Micomeseng	18.6	23.8	41.8
Mongomo	32.1	16.0	34.5
Niefang	23.3	21.8	45.5
Nsok Nsomo	25.2	11.8	22.6
Nsork	39.8	17.4	37.5
Riaba	29.8	22.2	22.2
Total	24.3	14.2	47.1

Source: *Primary School Yearbook*, MECD

4.26 **Secondary school educational and vocational training offerings are concentrated in Malabo and Bata, which encourages rural-to-urban migration.** This is reflected in the student-classroom ratio of 64:1 in the insular region (72:1 in Malabo), which is far higher than the national average of 42:1. The high concentration of educational offerings in urban areas, primarily at private institutions, prevents rural populations from accessing this level or compels them to migrate to urban areas. Similarly vocational training offerings are limited to Malabo (albeit incomplete) and Bata. These offerings are not available in the other districts, thus forcing students who want to pursue vocational studies to migrate to these cities.

E. Inadequate Financing of the Education System

4.27 **The extremely poor quality of budget information hinders analysis and the ability to make sector policy decisions.** It is difficult to distribute expenditure by level, especially personnel and capital expenditure. Expenditure data on preschool and primary education are not always presented separately, and transfers are not always disaggregated. In an effort to resolve this problem, a number of assumptions have been made throughout this chapter.⁹¹ Significant discrepancies exist between the approved and

⁹¹ Budget items that cannot be clearly assigned to a level of education are distributed on the basis of the relative share of enrollment in the state sector (excluding higher education). Given that complete enrollment data were available only for 2007/08, this distribution pattern was used for all years; the negative effects of this assumption become evident when per student expenditure is estimated, which was done only for 2008. Furthermore, the number of institutions per sector is used to disaggregate enrollment figures for the preschool and secondary levels. However this distribution of enrollment (32 percent, 56

executed budget, and a number of the programs implemented, such as the “English Language Training Program” of the Hydrocarbon Technological Institute of Equatorial Guinea (Instituto Tecnológico de Hidrocarburos de Guinea Ecuatorial), are not included in the budget. Similarly, there are major shortcomings in budget planning, preparation, and execution, as evidenced by the considerable volatility in budget execution that ranged from 37 percent in 2007 to 95 percent in 2008, which is explained primarily by the variability in capital expenditure execution.

4.28 Public financing of the education sector is insufficient and well below the expenditure of countries in the region. State financing in 2001 as part of the preparation of the National Action Plan for the EFA was 0.5 percent of GDP (4 percent of total public expenditure), which was inadequate. Despite the ambitious goals of the EFA plan, which are in line with the MDGs, public expenditure on education hovered around 1 percent on average over the last five years. This is far lower than expenditure in other middle-income countries (of which Equatorial Guinea is one) that allocate 4.3 percent of GDP, and the average in sub-Saharan Africa of 3.9 percent of GDP.⁹² Similarly, public expenditure on education over the last five years accounted for only around 7 percent of total public expenditure, significantly below the percentage allocated by countries such as Uganda and Tanzania (30 percent), Ghana (25 percent), or Cameroon, Congo, and Gabon (16 percent).

4.29 State shortfalls in education funding are covered by private contributions and external donors. Other sources of financing such as the payment of enrollment fees at private centers and contributions from Parent Teacher Associations at public centers (no data on these sources exists to gauge their size), as well as international assistance, are used to ensure functioning of the education system. In terms of volume, the AECID is worthy of special mention, having contributed €6.9 million in 2008 (which is approximately 31 percent of all current expenditure on education), particularly for primary schooling. A significant share of this sum (€4.1 million) was allocated to education centers managed by the Spanish Federation of Religious Schools (Federación de Escuelas Religiosas de España) and the Association of Catholic Education Centers of Equatorial Guinea (Asociación de Centros Católicos de Enseñanza de Guinea Ecuatorial), which have a student population of around 16,500 primary and 5,200 secondary level students. Support was also provided to the Colegio Español de Malabo (€1 million) to cover 500 students, and Colegio Español de Bata (€0.56 million) for 300 students.⁹³ For its part, UNICEF contributed €0.28 million to expand and improve public school infrastructure and teacher training in collaboration with UNESCO. Lastly, the Amerada Hess Foundation is financing a portion of PRODEGE.

4.30 Per student expenditure for higher education is 50 times greater than for primary education, among the most unequal ratios in the region.⁹⁴ There is a significant difference between expenditure per student in primary schools (US\$232) and in universities (US\$11,435) as Table 4.9 shows. This is explained by the high proportion of university expenditure in relation to total expenditure (around 33 percent) and the limited number of university students (about 2,275 in 2008) benefiting from these studies. However, only about 40 percent of total education expenditure is allocated to primary and preschool education despite the fact that it benefits approximately 92,000 students (Table 4.10). Compared to other countries, the low percentage of expenditure earmarked for secondary education and the high percentage earmarked for higher education bears noting (Table 4.11). This situation represents an

percent, and 12 percent for preschool, primary, and secondary schools, respectively) was adjusted to mitigate the impact of volunteer preschool teachers and the wage difference with the secondary level, producing the following distribution parameters: 20 percent, 56 percent, and 24 percent the preschool, primary, and secondary levels, respectively.

⁹² World Bank and UNESCO Institute of Statistics (2006), data for 2000–2002.

⁹³ Other programs include €0.6 million for the UNED of Malabo and Bata, with approximately 500 students, €0.25 million for primary and secondary curriculum reform (*bachillerato* and vocational training) and the development and adaptation of textbooks; and €0.38 million for teacher training.

⁹⁴ To estimate per student expenditure based on level of education, 2008 budget data and enrollment data in the state sector for 2007/08 were used, and the relative share of educational institutions is estimated in order to disaggregate information on the preschool and secondary levels.

enormous inequity since very few people are being served by an important segment of public resources. Furthermore, public allocation to the sector is highly unpredictable because capital expenditure accounts for 60 percent of total expenditure and fluctuates significantly on an annual basis.

Table 4. 9: Per Student Expenditure by Level of Education and Per Capita GDP, 2007/08

Level	Enrollment	Total per Student Expenditure (CFAF) (1)	Per Student Expenditure (US\$)	(1)/Official per Capita GDP (%)	(1)/UN per Capita GDP (%)
Preschool	33,611	103,984	232	2.0	0.9
Primary	59,250	183,713	410	3.5	1.5
Secondary	13,332	722,022	1,610	13.8	6.0
Higher Education	2,275	5,128,791	11,435	98.0	42.8
Total	108,468	328,890	733	6.3	2.7

Source: MECD, World Bank, UNESCO, and IMF

Table 4. 10: Education Expenditure by Level of Education, 2007/08 (Percentage of total)

Level	2004	2005	2006	2007	2008
Primary and Literacy	37	42	44	25	40
Secondary	22	30	30	11	27
Higher Education	41	29	27	63	33
Total	100	100	100	100	100

Source: MECD, World Bank

Table 4. 11: Education Expenditure by Education Level in Neighboring Countries (Percent of national total)

Country	Primary	Secondary	Higher Education
Burundi	46	28	25
Cameroon	40	45	15
Chad	50	29	21
Congo	29	42	30
Côte d'Ivoire	47	37	16
Gabon	36	39	26
Mali	35	48	16
Mauritania	44	39	17
Nigeria	29	51	20
Rwanda	43	20	37

Source: World Bank and Pôle de Dakar (UNESCO)

4.31 **When inflation is excluded, recurrent expenditure in the education sector has increased slightly in recent years.** The state slightly increased budget allocations for recurrent expenditure to FCFA 14.786 billion in 2008, compared to FCFA 13.867 billion in 2004 at 2008 constant prices once inflation is considered (or FCFA 9.083 billion in 2004 current prices). This sum fails to meet the needs of the Equatorial Guinean education system, whose main objectives include expansion of educational coverage with the resulting increase in wage expenditure.

4.32 **The functional distribution of current expenditure does not reflect the education sector's priorities.** A significant increase in transfers has come at the expense of personnel costs. This expansion

is essentially explained by the higher outlay for studies abroad, which climbed from FCFA 200 million in 2004 to FCFA 2.5 billion in 2008; subsidies to sports federations amounting to FCFA 3 billion in 2008; and subsidies to the UNGE amounting to FCFA 3 billion in 2008 (Table 4.12). These budget items exacerbate inequity in the system since all scholarships target university students. Furthermore, execution of these budget items often leads to a doubling of the original appropriation, a reflection of poor budgetary planning and limited control over current expenditure.

Table 4. 12: Current Expenditure by Category, 2008 (FCFA million)

Category	2004		2005		2006		2007		2008	
Personnel	4,967	54.7%	4,892	50.5%	5,662	52.1%	7,032	49.3%	6,338	42.9%
Goods and Services	1,179	13.0%	796	8.2%	971	8.9%	1,292	9.1%	1,448	9.8%
Transfers	2,937	32.3%	4,007	41.3%	4,227	38.9%	5,927	41.6%	7	47.3%
Total	9,083	100%	9,695	100%	10,860	100%	14,251	100%	14,786	100%

Source: General state budget and the World Bank

4.33 **Current expenditure is overgeared toward higher education.** Approximately 47 percent of recurrent expenditure is allocated to the preschool and primary levels, 16 percent to the secondary level, and 38 percent to higher education. This distribution is disproportionate based on the relative share of enrollment at each level (28 percent at the preschool, 49 percent at the primary, 21 percent at the secondary, and 2 percent at the higher education levels), and is well below the recommendation of the Education for All – Fast Track Initiative (EFA-FTI) to allocate 50 percent of education expenditure to primary education and a maximum of 20 percent to higher education (Table 4.13).

Table 4. 13: Current Expenditure by Level of Education, 2008 (FCFA million)

Level	2004	2005	2006	2007	2008
Preschool	No data	No data	No data	No data	1,783
Primary and Literacy	4,466	4,769	5,700	7,133	5,155
Secondary	1,631	1,643	1,926	2,379	2,299
Higher Education	2,986	3,284	3,234	4,739	5,550
Total	9,083	9,695	10,860	14,251	14,786

Source: General state budgets, World Bank.

4.34 **The state only finances around 60 percent of the entire teaching staff.** Just 59 percent of 6,038 teachers are paid by the state. All others are paid as volunteers by private institutions or families, with roughly 970 volunteer teachers at the preschool level and 400 at the primary level. Wages in state pay grades A (bachelor’s degree), B (diploma), and C (secondary level education) were increased to US\$296, US\$232, and US\$175, per month respectively. According to population data from the United Nations, the median wage for teachers as a percentage of per capita GDP is 13 percent, well below the regional average, in which median wages are four times as large as per capita GDP.⁹⁵ Although this fact does not take into account the large number of volunteer teachers who only receive payment from parents, the indicator reveals the low level of resources earmarked for the sector. Similarly, there is a huge disparity in the system as managerial staff earns seven times more than teachers. Finally, it bears noting that if the entire primary school teaching staff were to meet the legal requirements for qualification (which would involve inclusion at least under pay grade B, the wage bill for primary school teachers would grow by 36 percent.

⁹⁵ For example, average wages for teachers are seven times as large as per capita GDP in Burundi, four times larger in Cameroon, and five times larger in Côte d’Ivoire, Kenya, and Nigeria.

4.35 **Capital expenditure in the sector is low and is concentrated in higher education.** Education accounted only for about 1.6 percent of all investments projected for 2008, and has fluctuated considerably during 2004–08 because of major programs that usually have been concentrated at the higher-education level (Table 4.14).

Table 4. 14: Capital Expenditure by Level of Education, 2008 (FCFA million)

Level	2004	2005	2006	2007	2008
Preschool	2,187	639	639	7,745	1,712
Primary and Literacy	14,006	2,297	2,187	15,706	5,730
Secondary	10,617	3,839	3,839	11,469	7,327
Higher Education	20,138	2,016	2,016	72,401	6,118
Total	46,948	8,791	8,681	107,322	20,886

Source: General state budgets, World Bank

F. Conclusions and Recommendations

4.36 **Significant strides have been made in the education sector in recent years.** A strategy to reduce illiteracy was initiated. Preschool education was declared compulsory, and its basic curriculum structure and the publication of books were approved in launching the “Independent Modular Training Project for Nursery and Preschool Teachers.” A new primary-level curriculum was approved; and with support from PRODEGE, a *Primary Education Yearbook* was prepared, a qualitative and quantitative study profiled primary-level teachers, and a new teaching method (active schools) was introduced. At the secondary level, the ESBA curriculum was finalized, increasing educational offerings (primarily by the private sector); and vocational training is being intensified through construction of four new centers and through in-depth reform of the curriculum to meet the needs of the labor market.

4.37 **Shortcomings exist at all levels of education.** At the *preschool level*, despite improvements in the enrollment rate, the shortage of teachers who satisfy minimum qualification standards is having substantial impact at the next level through high repetition rates for the first grade of primary school. Preschools also suffer from a severe lack of infrastructure (including quantity and quality of classrooms, teaching materials, drinking water, and so on). At the *primary level*, none of the rates for enrollment, completion, repetition (essentially in the first grade, where teachers are the least qualified), or overage students nor the quality of the teaching staff has improved. In many rural districts, only a handful of schools offer all grades, reducing educational opportunities for boys and girls. Moreover, 48 percent of students turn to private institutions that require enrollment fees for attendance. Expansion of educational offerings at the secondary level to include the *bachillerato* program, whose coverage had stagnated in recent years, is essentially being achieved through private sector growth, jeopardizing equal opportunity. *Vocational training* at the secondary level remains very limited, and offerings are only available in the districts of Malabo and Bata. Although *higher education* enrollment at UNGE has increased in recent years, the student population is low (3,011 students for the 2008/09 academic year). Enrollment in Colleges of Education (664 students, with 102 graduates in the 2007/08 academic year) is far short of meeting the demand for new teachers, forcing the educational system to hire instructors who lack the required qualifications.

4.38 **Problems of equity exist, particularly at the regional level.** While there are no differences by gender at the primary level, differences are apparent at the levels of secondary and higher education, where 42 percent and 39 percent of students are female, respectively. There are major differences among districts in provision of infrastructure, distribution of qualified and volunteer teachers, repetition rates in primary schools, student-teacher ratios, and vocational training offerings.

4.39 **To remedy inefficient resource allocation in the sector, increased public financing of primary education is needed.** The government's financial support of education is quite limited and falls far short of the recommendations set forth in the EFA-FTI. Expenditure distribution by educational level overemphasizes higher education and is at variance with EFA-FTI recommendations and national priorities. Per student expenditure by each level reveals marked differences: a ratio of FTSF 100 to 1 at the preschool level would be FTSF 177 to 1 at the primary level, FTSF 694 to 1 at the secondary level, and FTSF 4,929 to 1 at the higher-education level. Moreover, the high income levels in Equatorial Guinea in the context of a global economic crisis mean that cutbacks can be expected in the financing from international sources that has covered the lion's share of primary education costs. Earmarking greater domestic funding to primary education is thus essential. Equatorial Guinea can, at least temporarily, afford to do so without reducing resources earmarked for higher education.

4.40 **The information system needs to be upgraded to understand what is happening in the sector and adopt effective policy measures.** The information system is highly inefficient and provides limited and unreliable data. The need to improve data quality for strategic decision making is urgent, requiring effective procedures to ensure regular and accurate information updates. To that end, the government must take the following steps:

- Resolve the uncertainty around demographic numbers and distribution, in terms of age group and district, to detail socioeconomic conditions. This information is crucial for determining current and future demand and facilitating the design of expanded educational offerings, and obtaining it should result in a new population census.
- Conduct a qualitative and quantitative infrastructure census for all levels of education, which will include, among other things, profiles of classroom-use frequency and the household needs of rural teachers to facilitate detailed investment planning for improvements.
- Expand what has been done at the primary level by collecting data on teachers and students (including repetition, dropout, and overage rates) at the preschool and secondary levels, making a distinction between public and private institutions, between urban and rural areas, and among districts. This will provide an accurate picture of coverage, quality, and efficiency in both levels of education.
- Conduct an assessment of the root problems causing repetition and the incidence of overage students, focusing on the first grade of primary school. Results from the new active schools could be evaluated as part of this effort to identify nascent solutions.
- Given the ambiguities found in current information, review the extent of illiteracy.
- Introduce a learning assessment system based on standardized tests to facilitate monitoring and identify differences in the quality of educational offerings by district.
- Strengthen budget procedures to appropriately record public expenditure in the education sector.

4.41 **The overriding objective of education policy must be to achieve quality universal primary education by 2015.** The most important elements for achieving this goal are to increase the number of teachers who satisfy the minimum training requirement and to expand infrastructure, although other policy measures are also needed to ensure that upgraded educational offerings occur in tandem with higher efficiency, quality, and equity. Equatorial Guinea possesses the financial resources to develop an education system that performs better, putting the country on track to meet MDG commitments. However, the problems that have been identified pose serious challenges that must be tackled comprehensively and urgently. This requires prompt reformulation of strategy for the education sector

that can identify and quantify the difficulties facing the system—particularly in such areas as access, coverage, quality, efficiency, and equity—and establish a stable financial model to meet those needs.

4.42 The EFA-FTI recommendations are the most suitable foundation for formulating a strategy to facilitate timely achievement of the MDGs. Although high per capita income levels in the country preclude access to financing from the EFA-FTI Catalytic Fund, the EFA-FTI action framework is still most appropriate for an education system such as the one in Equatorial Guinea, whose characteristics in many regards resemble those of countries in the region where this strategy is being implemented. First, although EQG’s key objective is to achieve universal primary education by 2015, the sector strategy must address all levels of education in a comprehensive manner, including technical and vocational training. Second, EFA-FTI recommendations about resource allocation to and within the sector are extremely relevant to Equatorial Guinea. The EFA-FTI provides for development of a sustainable sector plan based on a detailed simulation model that allocates more overall resources, thereby increasing the percentage of education expenditure relative to total expenditure, and distributes the flow among the various levels of education by allocating the lion’s share of additional resources to primary education until it reaches 50 percent in the medium term. In this framework, no more than 20 percent of total resources should be allocated to higher education. Achieving this scenario requires establishment of broad policy and priority guidelines. It is also necessary to develop a detailed medium-term spending framework that will outline the strategy’s main lines of action through 2015. The EFA-FTI also carries a hidden bonus in that this strategic planning process is usually supported and monitored by donors experienced with African educational systems.

4.43 A staffing strategy needs to be developed that increases the number and improves the quality of teachers. Teacher recruitment and training are two key areas for improvement. It is estimated that by 2015, between 3,280 (UN data) and 7,700 (official source)⁹⁶ teachers will be needed, and filling those slots requires preparation of a staffing strategy that improves the flow of qualified new instructors into the system and encourages present staff to upgrade their skills through training to meet appropriate qualifications. The staffing strategy must provide for gradual elimination of the “volunteer teacher” system, which entails financial contributions from student’s families and introduces severe inequities in educational offerings. Teacher training programs should therefore be developed to ensure that volunteer teachers attain the minimum teaching standards required to perform their duties as new paid members of the state civil service. Lastly, it is necessary to introduce a wage component that links pay to performance in areas such as teacher attendance, ongoing training as well as academic qualifications, and incentives to work in rural or disadvantaged areas.

4.44 Promote more decentralized management of the financial resources of the education sector. The need to build capacity for education policy planning and budget design, execution, and reporting makes it essential to decentralize the administration, management, and oversight of the education system, providing resources and delegating responsibilities to the various inspection levels (district, zone, and municipality). It would also be advisable to establish a mechanism for transferring funds directly to schools for administration by a school management committee that includes managers, teachers, parents, and community representatives. These funds would be used to purchase teaching materials and uniforms and maintain schools and cafeterias. The level of transfer would be based on the number of students, weighing specific needs or particular educational risks. This mechanism will require a new legal framework and training not only of aforementioned committee members in fund management and control, but also of inspection teams. Although the positions of municipal and zone inspectors were recently created, there is still no adequate structure to monitor problems afflicting the sector such as student and teacher attendance and performance, and curricular material and infrastructure needs.

⁹⁶ Not taking into account the impact of repetition and assuming a student-teacher ratio of 35:1.

4.45 **Encourage student enrollment and attendance at the primary level.** Primary enrollment rates since 2000 have remained constant during a period free of social conflicts and marked by high population growth. Encouraging more girls and boys to attend school must take into account sociological obstacles such as the poverty that affects a significant portion of the school-age population and being a child with uneducated parents. A quick way to improve coverage and equity, therefore, would be to establish a primary education scholarship system and introduce school cafeterias to encourage low-income families to enroll their sons and daughters.

4.46 **Develop mechanisms of public-private financing.** The objective of the Government of Equatorial Guinea to assure free basic education should be prioritized through a fair allocation of resources whose benefits reach the most disadvantaged population. Even as the government does its part, additional resources can be brought into play. The increasing private sector participation in education shows the existence of popular demand for education services and people’s willingness to pay for them. To build on this confluence, mechanisms of joint public-private financing could be set up, with public funding supplementing private financing already available (for example, a grant system that matches private contributions with public funds). These mechanisms will require good targeting, management, and control to avoid inequities. Public-private arrangements seem particularly apt for vocational training, through agreements between educational training institutions and firms that could offer students on-the-job training as “apprentices.”

4.47 **Establish an infrastructure needs plan for coverage through 2015.** This plan should establish annual construction and reorganization guidelines based on (a) priority accorded through objective criteria (unmet demand, condition of infrastructure, and so forth); (b) expenditure absorption capacity (construction capacity each year in terms of existing companies, materials, and so forth); (c) consideration of a double-shift system to save resources; and (d) the establishment of institutional prototypes based on specific teaching requirements for each level and the development of a budget to cover costs.

Recommendations

Short Term	
Issues to be resolved	Actions to be taken
Serious discrepancies exist in the population data provided by available statistical sources, clouding analysis of the education sector.	<ul style="list-style-type: none"> Conduct a new population census that quantifies demographic distribution by age group, district, and socioeconomic conditions to identify current and future demand for education.
The illiteracy rate provided is implausible.	<ul style="list-style-type: none"> Review the extent of illiteracy through a survey. Strengthen the “Yes I can” campaign to combat illiteracy, with special focus on rural areas.
The primary completion rate is very low (43 percent), far from achieving the objective of universal primary education by 2015 set forth in the Millennium Development Goals.	<ul style="list-style-type: none"> Implement an action plan to achieve the MDGs in education (100 percent primary completion rate), following the EFA-FTI recommendations.
High rates of overage admission and repetition.	<ul style="list-style-type: none"> Conduct an assessment of the problems pertaining to repetition and overage students, focusing on the first grade of primary school. Assess initial results from the new active schools program, and if positive, strengthen the effort with additional resources. Eliminate repetition between two-year cycles (Grades 1 and 2, Grades 3 and 4, Grades 5 and 6), and establish support classes.

Public financing of the education sector is inadequate and the state only finances around 60 percent of teachers. These shortfalls in state financing are being covered by private contributions and external donations that are vulnerable to drying up.	<ul style="list-style-type: none"> • Allocate more financial resources to the education sector, particularly for recurrent expenditure, at least 20 percent of overall budget allocation (indicative EFA-FTI framework). • Develop a sector plan with medium- and long-term sustainable financing, allocating at least 50 percent of sector resources to primary education and no more than 20 percent of resources to tertiary education (in tune with the EFA-FTI framework).
Distribution of education expenditure does not reflect the priorities of the sector.	<ul style="list-style-type: none"> • Allocate more financial resources to primary education.
The teaching staff is inadequate. Between 3,280 (UN population data) and 7,700 (official population source) additional teachers are needed to meet educational offering requirements through 2015. Instructors have limited training, with a large number of “volunteer teachers” who receive financial contributions from students’ families, thus introducing severe inequities in the education system.	<ul style="list-style-type: none"> • Adopt a staffing strategy that (a) provides for the recruitment of teachers to meet current and future needs, (b) improves training of the current teaching staff, (c) gradually removes “volunteer teachers,” and (d) links performance to wages.
Primary enrollment rates have not increased since 2000 despite a period free of social conflicts and marked by high population growth.	<ul style="list-style-type: none"> • Encourage student enrollment and attendance at the primary level through a scholarship system and the introduction of school cafeterias.
Extremely substandard infrastructure, often constructed with impermanent materials and lacking water and electricity, needs to be replaced or refurbished.	<ul style="list-style-type: none"> • Conduct a qualitative and quantitative infrastructure survey for all levels of education, which will identify classroom frequency use and the household needs of rural teachers. • Prepare an infrastructure needs plan through 2015 that (a) prioritizes location based on objective criteria (unmet demand, condition of infrastructure, etc.); (b) evaluates expenditure absorption capacity (construction capacity each year in terms of existing companies, materials, etc.); (c) evaluates the introduction of a double-shift system to save resources; and (d) establishes institutional prototypes based on specific teaching needs at each level.
Few vocational training opportunities exist and are concentrated in Malabo and Bata, which encourages rural-to-urban migration.	<ul style="list-style-type: none"> • Complete the assessment of labor market needs and their connection to vocational training. • Construct new centers in areas outside of Malabo and Bata.
Medium Term	
Issues to be resolved	Actions to be taken
The information system is deficient, providing limited, poor quality data.	<ul style="list-style-type: none"> • Collect data on teachers and students (including repetition, dropout, and overage student rates) at the preschool and secondary levels, distinguishing between public and private schools and urban and rural areas, and among districts.

	<ul style="list-style-type: none"> • Introduce a learning assessment system based on standardized tests to monitor differences in the quality of educational offerings provided in each district.
<p>There are major deficiencies in the planning, preparation, and execution of the education budget, as evidenced by the considerable variability in budget execution. The quality of budget information is also extremely poor and hinders analysis and the capacity to make policy decisions.</p>	<ul style="list-style-type: none"> • Strengthen capacity in education policy planning and budget design and promote more decentralized management of the financial resources of the education sector through (a) decentralization of the administration, management, and oversight of the education system; (b) establishment of a mechanism for the direct transfer of funds to schools, to be administered by a school management committee; and (c) develop a reporting system of budget implementation.
<p>The regulations under General Education Law No. 5/2007 have not been fully passed.</p>	<ul style="list-style-type: none"> • Revise the legal framework governing the functioning of the education system, clarifying the issue of compulsory and free secondary education and the maximum number of students per classroom.

CHAPTER 5: PUBLIC EXPENDITURE ON HEALTH

5.1 This chapter seeks to contribute to strategy discussions being held by the Ministry of Health and Social Welfare (MSBES) for a new Health Development Plan (HDP) to identify key options, prepare an action plan, and ensure the financial sustainability of the health sector. In keeping with the National Development Plan (NDP) and the Millennium Development Goals (MDGs), public resources to the health sector must be increased to expand access to and quality of health care services.

5.2 **The sector's information system (SNS) is inadequate to determine the status of the health system or provide a basis for sound decision making.** The Directorate of Planning (Dirección de Planificación) oversees the national health information system, while the Directorate of Hygiene and Epidemiology (Dirección de Higiene y Epidemiología) oversees the health information subsystem responsible for managing information on health and epidemiological services, a division of responsibility that hampers the coordination and presentation of a single database for the sector. Human resources also are scarce; and manual, unsystematic and incomplete processes are used to collect and analyze health data. This state of affairs is exacerbated by the lack of appropriate computer equipment. The seriousness of the situation is evident in the current inability to know the country's true epidemiological status. The statistical gap leads to reliance on multiple sources that yield a broad range of estimates, throwing the overall picture into doubt. It is extremely difficult, therefore, to rigorously determine national health indicators and the main disease threats, or monitor movement toward the MDGs.

5.3 **Owing to the paucity of general statistical data, especially on population it is impossible to accurately assess public health needs.** Equatorial Guinea has a serious problem with statistical information, particularly in demographics, and as earlier chapters have pointed out, this impacts the ability to pinpoint key social, economic, and epidemiological indicators. The main difficulty in bringing the country's true picture into focus is the wide variance between the total population figures projected by national authorities from the last census in 2001 (the Third Population and Housing Census), and figures submitted by the international community. While the government estimated a population of 1,014,999 inhabitants in 2001, the overall estimate from international organizations was around 500,000.⁹⁷

5.4 **A young population with a high fertility rate needs more health services.** The government has projected an annual population growth rate of 5.6 percent, to which a significant increase in immigration must be added. According to official data, population rose by 7.6 percent annually between 1994 and 2001, a trend expected to continue in the medium and long term, significantly expanding the need for health services and seriously jeopardizing the sector's financial sustainability. This increase in demand for health services will also be considerable when EQG's age distribution is considered. EQG's demography is typical of a nation with a high fertility rate where the under-14 population is the largest age cohort (47.3 percent of the population). The population increase and the country's age structure require additional resources for the health sector and specific attention to areas such as reproductive and maternal-child health.

5.5 **Improvements in health indicators will be unsustainable if the population's living conditions do not improve.** Despite an increase in the country's average income stemming from oil production, general living conditions remain very poor, impacting health status. Deprived of essential services or having limited access to drinking water, energy sources, housing, and adequate health and sanitary facilities, citizens are at greater risk of exposure to communicable diseases such as malaria, diarrhea, respiratory infections, cholera, and measles. Therefore any improvements in the health sector must be part of a wider effort to improve living standards, including social infrastructure (housing, water, and sanitation) and an increase in income.

5.6 **The country's geographical and cultural diversity poses an additional challenge to the health sector, necessitating specific services.** Equatorial Guinea is divided into two main regions: a continental section with a surface area of 26,017 square kilometers, and a group of islands—comprising Bioko (where the capital city Malabo is located), Annobón, Corisco, Elobey Grande, Elobey Chico, Mbañe, Cocoteros, and Conga—with a surface area of 2,034 square kilometers. The physical barrier posed by the sea makes access to and communication among the various health care levels difficult. The country also contains five ethnic groups—the Fang, Bubi, Ndowe, Annobonés, and Bisio—a number

⁹⁷ Total population estimates are 507,000 according to WHO, 484,000 according to the Global Fund, and 530,000 according to the United Nations.

of which have specific cultural practices that may impact their health indicators. A large foreign immigrant population also may have culture-specific practices (for example, female genital mutilation) that impact health.

A. Organization of the Health System

5.7 The health sector's strategy has not been approved, leaving the MSBES without clear guidelines for action.

The health system is not fully legislated or regulated, although it is considered to be universal and designed for the benefit of all Equatorial Guinean citizens. However, it is not general in scope since it fails to address all health problems, nor is it free since a financial contribution is required from patients. System governance is seriously limited by the lack of strategic and operational planning. The HDP—prepared in 2002 with technical assistance from WHO, the UNDP, and UNICEF—but never formally adopted includes a situation analysis of the health system and identifies the main strategic guidelines to be followed, but has yet to be approved by the government. In the absence of this HDP, two documents help define medium- and long-term strategic guidelines: the MDGs and the NDP approved in 2007. The NDP identified the following 11 strategic objectives for the health sector:

- Strengthen the coordination and management mechanisms and organization of the national health system.
- Improve access to and the provision and quality of health services for the entire population.
- Step up efforts to combat malaria, HIV/AIDS, tuberculosis, and other endemic diseases.
- Boost efforts to control chronic illnesses such as diabetes, high blood pressure, and newly emerging as well as reemerging diseases,
- Develop a plan to combat and respond to epidemics (such as cholera and acute diarrhea).
- Harmonize the content of the decree on urgent measures to halt the spread of HIV/AIDS with the law protecting the human rights of Persons Living with HIV/AIDS.
- Construct pediatric wings at provincial hospitals to serve as referral centers.
- Construct and put into operation regional psychiatric hospitals.
- Establish a national center to prevent and combat endemic diseases.
- Formulate and implement health development plans through the operation of health districts.
- Update, approve, and implement the National Health Development Plan (HDP).

5.8 The general objectives of the NDP for the health sector are difficult to implement, and the 2002 HDP needs to be updated and adopted to obtain an action plan. NDP implementation for health is problematic because (a) it entails a top-down approach without clearly defined or prioritized objectives; (b) it does not take into account the sector's economic and financial sustainability, both in terms of overall funding and allocations among the various health service institutions; and (c) there is no action plan or indicators. Therefore, revising and adopting the 2002 NDP is urgently needed to provide the MSBES with clear strategic guidelines and an action plan.

5.9 The structure of the MSBES is very bureaucratic and requires further decentralization toward health care providers. Health system organization is divided into three main levels: the central level, which corresponds to the management structure of the MSBES;⁹⁸ the intermediate level, which covers the regional and provincial health offices; and the peripheral level, which includes the district entities. Health care is dispensed at three levels. The first is made up of health posts, each of which is managed and administered by a health committee. The second is comprised of health centers, which are managed and administered by health teams. The third corresponds to the hospital, which has a board of directors as its management and administrative body. Strategic decisions are made at the central level with little participation by the other levels. Moreover, policy and budget implementation is highly centralized, leaving little room for decision making by health care providers.

⁹⁸ The central structure of the MSBES is comprised of a minister, a deputy minister, three presidential advisors, three state secretaries, a general secretary, and ten directorates-general. There are also national program directorates, three provincial directors, and ten department heads. This structure is too cumbersome given the country's size, a problem exacerbated by the absence of adequate technical support.

B. Epidemiological Situation

5.10 **Health indicators show little or no progress between 2000 and 2009 and are in line with the rest of Sub Saharan Africa.** The latest data available from the World Bank (Table 5.1) indicate that overall mortality and child mortality improved between 2000 and 2009, while other indicators, such as immunization and the incidence of tuberculosis show a negative trend and are comparable to the other countries in Sub-Saharan Africa.

5.11 **The country's epidemiological profile is of significant interest owing to the incidence of communicable disease,** especially malaria, typhoid fever, acute respiratory infections (ARIs), AIDS, and diarrheal diseases.⁹⁹ These data are substantiated by the 2007 statistical yearbook published by the MSBES, which includes specific information on medical care at the Malabo Hospital and the health centers attached to it. The main causes of death recorded at this hospital are communicable illnesses, primarily malaria, intestinal diseases, and ARIs. HIV/AIDS as well as diseases associated with alcohol poisoning and cirrhosis also account for a significant proportion (Table 5.2).

⁹⁹ There is also an upward trend in cases of noncommunicable diseases such as high blood pressure, cardiovascular disease, chronic renal insufficiency, mental illness, and tumors.

Table 5. 1: Health Indicator Trends in Equatorial Guinea and Comparators, 2000–2009

	Equatorial Guinea		High Income: non-OECD	Sub-Saharan Africa
	2000	2009	2009	2009
Immunization, DPT (% of children ages 12-23 months)	33	33	..	70
Immunization, measles (% of children ages 12-23 months)	51	51	..	68
Newborns protected against tetanus (%)	..	69	..	..
Incidence of tuberculosis (per 100,000 people)	99	117	26	342
Life expectancy at birth, female (years)	49	51	77	53
Mortality rate, adult, female (per 1,000 female adults)	344	349	69	358
Mortality rate, adult, male (per 1,000 male adults)	395	381	116	390
Mortality rate, under-5 (per 1,000)	168	145	..	130

Source: World Bank GDF & WDI central database (April 2011)

Table 5. 2: Main Causes of Mortality Reported by Malabo Hospital Emergency Services, 2007

Most Common Diseases	No.	%
Malaria	17	18%
Hypovolemic Shock	14	15%
Lung Disease	12	13%
AIDS	8	9%
Alcohol Intoxication	6	6%
Heart Disease	7	8%
Cerebrovascular Accidents	7	8%
Cirrhosis	3	3%
Tetanus	3	3%
Psychoactive Drug Intoxication	2	2%
Other	14	15%
Total	93	100%

Source: Annual Report 2007, Malabo Hospital Emergency Services

5.12 **Malaria is the leading cause of mortality and morbidity** and also the primary cause of child deaths, causing Equatorial Guinea to be classified as a “malarial country” since 1998.¹⁰⁰ It is estimated that malaria accounts for 37.3 percent of all mortality cases and 31.5 percent of all morbidity cases, which is consistent with the regional average.¹⁰¹ This potentially serious infectious disease is widespread in rural and semi-rural areas as well as in poor urban areas with poor sanitation.¹⁰² In addition to its life-threatening impact (it is the leading cause of morbidity reported by primary and hospital care services), malaria causes great economic hardship through worker disability and absenteeism.

¹⁰⁰ “Grant Performance Report,” the Global Fund, December 2008.

¹⁰¹ Medical Care Development International (MCDI)

¹⁰² Noteworthy is the high incidence of malaria in the pediatric department of the Malabo Hospital, where malaria represented close to half of the diseases treated in 2007.

5.13 **The Malaria Control Project (PCMIB) was launched on the island of Bioko in 2003, and has successfully reduced incidence of the disease.** The PCMIB is spearheaded by the Government of Equatorial Guinea, financed by the Marathon Oil Corporation, Noble Energy GEPetrol, and Sonagas, and managed by Medical Care Development International (MCDI).¹⁰³ The original five-year public-private project, which includes a program of monitoring and supervision, began by spraying houses on the island and distributing free insecticide-treated bed nets and medication to at-risk groups such as pregnant women and children under 15. By 2006 the impact was notable, and the project was extended to the continental region. The first phase of continental implementation was scheduled for five years with a budget of US\$28 million, of which US\$23 million was contributed by the Global Fund. The project's main positive results to date include the following:

- A 50 percent reduction in the number of malaria-infected children between the ages of 2 and 15, with 73 percent of sampled children indicating that they sleep under insecticide-treated bed nets
- An 85 percent reduction in total malaria cases recorded at health centers
- A 95 percent reduction in the number of malaria-infected mosquitoes.

5.14 **The HIV/AIDS prevalence rate is high and has barely fallen since 2001.** The total number of HIV/AIDS cases among children and adults over the age of 15 climbed from 9,500 to 11,000 between 2001 and 2007 (Table 5.3). In light of the significant population increase, the prevalence rate among 15–49 year olds declined from 3.7 percent in 2001 to 3.4 percent in 2007, which is consistent with the regional average. The impact of HIV/AIDS is much greater on females, who are three times more likely to become infected than men.

5.15 **Implementation since 2005 of the program to combat HIV/AIDS has met little success.** The objective of the US\$9.8 million five-year program is on one hand to reduce the number of infections through education programs targeting young people in schools and general awareness-building campaigns, and on the other hand to improve care to infected persons through the distribution of antiretrovirals, treatment of secondary infections, prevention of mother-to-child transmission, training of health personnel, and better organization of the health system to improve the quality of life of affected patients. However, the program has not yielded the expected results, and the latest monitoring report in August 2008 indicated that only US\$4.6 million (47 percent of the budget) had been executed, which triggered a number of modifications to refocus implementation.

¹⁰³ Other collaborators were One World Development Group, the Medical Research Council of South Africa, the Harvard School of Public Health, Yale University, the London School of Hygiene & Tropical Medicine, Texas A&M University, and the Red Cross.

Table 5. 3: Summary of HIV/AIDS Trend Data

No. of Cases	2001	2007
Adults (15+) and children	9,500	11,000
Low estimate	7,600	8,200
High estimate	12,000	14,000
Adult rate (15–49) (%)	3.7%	3.4%
Low estimate	2.9%	2.4%
High estimate	4.7%	4.6%

Prevalence	Male	Female
Prevalence among 15–24 year olds	0.8%	2.5%
Low estimate	0.4%	1.7%
High estimate	1.4%	3.7%

Source: Epidemiological Fact Sheet on HIV and AIDS.

Core data on epidemiology response. Equatorial Guinea. WHO 2008 Update

5.16 **The MSBES and donors are striving to improve maternal and child care.** The maternal mortality rate is 680 deaths per 100,000 live births, among the highest rates in the region.¹⁰⁴ In addition, the low number of births attended by skilled personnel (64 percent) is worrying. A coordination initiative between the MSBES and the various donors in the sector—especially UNICEF, UNDP, the United Nations Population Fund (UNFPA), the EU, WHO, and a number of nongovernmental organizations—is in place to accelerate reduction of maternal and neonatal mortality, although adequate information is not available to measure its impact and efficiency. This initiative is part of the National Reproductive Health Program that is under the supervision of the General Directorate for Public Health and Health Planning (Dirección General de la Salud Pública y Planificación Sanitaria). This five-year initiative, with a budget estimated to be FCFA 5.3 million, is aimed at reducing maternal and child mortality rates by 50 percent by 2010, 75 percent by 2015, and at least 80 percent by 2020, based on the following five specific objectives:

- Develop comprehensive, accessible, and quality prenatal, childbirth, and puerperium care that will include family planning services (FCFA 1.154 billion).
- Develop comprehensive services for early detection of diseases that threaten the welfare of pregnant women and newborns, including malaria treatment during pregnancy, the prevention of mother-to-child HIV transmission, and the prevention and treatment of STIs, obstetric fistulas, uterine cancer, breast cancer, and so on (FCFA 548 million).
- Increase the number of personnel qualified to provide health care to pregnant women and newborns, as well as quality family planning services (FCFA 1.862 billion).
- Strengthen the capacity of the community and of women in particular, to exercise their rights and actively participate in the reduction of maternal and neonatal mortality (FCFA 315 million).
- Strengthen the institutional framework and the capacity to plan, manage, monitor, and evaluate maternal and neonatal health actions (FCFA 1.376 billion).

5.17 **The MDG indicators for the health sector have not improved and will be difficult to achieve by 2015 if reforms are not promptly implemented.** Obtaining reliable data is difficult, but the latest available information on MDGs for the health sector (Table 5.4), shows no improvement in recent years. Indicators such as the child mortality rate or the prevalence and incidence of tuberculosis have jumped significantly between the base year and the last year for which data are available owing to the lack of medical coverage and the dearth of prevention measures. Unless drastic measures are adopted to organize and finance the health sector, timely achievement of health MDGs is in doubt.

¹⁰⁴ For example, the Republic of Congo has a mortality rate of 740 per 100,000 live births.

Table 5. 4: Millennium Development Goal Trends in Equatorial Guinea

Equatorial Guinea	Value	Base Year	Value	Last Reported Year
4.1 Under-five mortality rate				
Children-under-five mortality rate per 1,000 live births	170	1990	145	2009
4.2 Infant mortality rate				
Infant mortality rate (0–1 year) per 1,000 live births	103	1990	124	2006
4.3 Proportion of 1-year-old children immunized against measles				
Children 1 year old immunized against measles (%)	88	1990	51	2006
5.1 Maternal mortality ratio				
Maternal mortalities per 100,000 live births	680	2005	680	2005
5.2 Proportion of births attended by skilled health personnel				
Births attended by skilled health personnel (%)	50	2004	64.6	2000
5.4 Adolescent birth rate				
Births per 1,000 adolescent females	113	1994	128	2001
5.5 Antenatal care coverage (at least one visit and at least four visits)				
Antenatal care coverage, at least one visit (%)	37	1994	86.1	2000
6.1 HIV prevalence among population aged 15–49 years				
People living with HIV, 15–49 years old (%)	3.7	2001	3.4	2007
HIV prevalence rate in national surveys, women 15–49 years old,(%)	3.4	2004	3.4	2004
HIV prevalence rate in national surveys, men 15–49 years old (%)	2.9	2004	2.9	2004
AIDS deaths	1,000	2001	1,000	2007
6.3 Proportion of population aged 15–24 years with comprehensive correct knowledge of HIV/AIDS				
Men aged 15–24 with comprehensive correct knowledge of HIV/AIDS (%)	n.a.		n.a	
Women 15–24 with comprehensive correct knowledge of HIV/AIDS (%)			4	2000
6.4 Ratio of school attendance of orphans to school attendance of nonorphans aged 10–14 years				
Ratio of orphan to nonorphan school attendance	0.95	2000	0.95	2000
School attendance rate of orphans aged 10–14 (%)	84.6	2000	84.6	2000
School attendance rate of children aged 10-14 both of whose parents are alive and who live with at least one parent (%)	88.7	2000	88.7	2000
AIDS orphans (one or both parents)	1,600	2000	4,800	2007
6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs				
Antiretroviral therapy coverage among people with advanced HIV infection (%)	14	2006	31	2007
6.6 Incidence and death rates associated with malaria				
Notified cases of malaria per 100,000 population	n.a		n.a	
Malaria death rate per 100,000 population, all ages	n.a		n.a	
Malaria death rate per 100,000 population, ages 0–4	n.a		n.a	
6.7 Proportion of children under 5 sleeping under insecticide-treated bed nets				
Children under 5 sleeping under insecticide-treated bed nets (%)	0.7	2000	0.7	2000
6.8 Proportion of children under 5 with fever who are treated with appropriate antimalarial drugs				
Children under 5 with fever being treated with antimalarial drugs (%)	48.6	2000	48.6	2000
6.9 Incidence, prevalence, and death rates associated with tuberculosis				
Tuberculosis incidence per year per 100,000 population	102.2	1990	255.8	2006
Tuberculosis prevalence per 100,000 population	175.6	1990	403.5	2006
Tuberculosis deaths per year per 100,000 population	19	1990	66.1	2006
6.10 Proportion of tuberculosis cases detected and cured				
Tuberculosis detection rate under DOTS (%)	84.7	1995	74.9	2004
Tuberculosis treatment success rate under DOTS (%)	89.0	1995	51.3	2003

Source: United Nations (<http://mdgs.un.org/unsd/mdg/Data.aspx>)

C. Health Sector Resources

5.18 **The state is the country's primary health care provider, although no data are available on the size of the private sector.** The MSBES has responsibility for 18 hospitals, 46 health centers, and 300 health posts. There are two regional hospitals (Malabo and Bata), 11 district hospitals, and five provincial hospitals (Table 5.5). The vast majority of the primary health care centers (36 of the 46 in operation) are under the direct control of the MSBES, while nongovernmental entities with which the MSBES coordinates are responsible for the others. Public health services are supported by a network belonging to the National Social Security Institute (Instituto Nacional de Seguridad Social, INSESO), which is parallel to the MSBES system, and to which only social security subscribers have access. INSESO currently has two health centers: the Dr. Loeri Combá Hospital in Malabo, which has 62 beds, and a small clinic in Bata that is expected to be complemented in 2009 by a new hospital with approximately 300 beds. INSESO is also planning to improve infrastructure at several health centers across the country to provide increased coverage. Although INSESO is more organized in its management of subscribers and ability to address their problems, its activities often duplicate work already done by the MSBES.

Table 5. 5: Hospitals and Health Centers by Province, 2001

Province	Health Districts	Hospitals				Beds		Health Centers		
		R	D	P	Total	No.	Total	State	Other	Total
Bioko Norte	Malabo	1			1	288		3	1	4
	Baney		1		1	16	304	2		2
Annobón	Annobón			1	1	7	7			0
Bioko Sur	Luba			1	1	48		2		2
	Riaba		1		1	10	58			0
Litoral	Bata	1			1	224		4	4	8
	Mbini		1		1	29		1	1	2
	Kogo		1		1	16	269	1		1
Centro Surtral	Evinayong			1	1	65		2	1	3
	Niefang		1		1	24		3		3
	Akurenam		1		1	13	102	2		2
Kie Nten	Ebebiyin			1	1	92		3	2	5
	Nsok Nsomo		1		1	16		1		1
	Micomeseng		1		1	40	148	4	1	5
Wele Nzás	Mongomo			1	1	80		4		4
	Añisok		1		1	42		2		2
	Akonibe		1		1	24				0
	Nsok		1		1	20	166	2		2
National Total		2	11	5	18		1,054	36	10	46

Source: MSBES

5.19 **The health sector's infrastructure has fallen into a state of disrepair, and improvement plans may not be suitable due to the absence of cost-benefit calculations.** Health infrastructure is very dilapidated, with inadequate facilities for patient admission, conditions that are exacerbated by external problems such as frequent power outages or lack of drinking water. To address this problem, the MSBES

has identified essential infrastructure projects for the health sector, including new construction and the rehabilitation or expansion of existing facilities (Table 5.6). Its hospital building proposal provides for the construction of 7 new hospitals and 61 health centers and the expansion or rehabilitation of 8 hospitals and 12 health centers, representing a 39 percent increase in the number of health care centers and a 44 percent increase in the number of hospitals. However, this health infrastructure development was not based on a technical analysis of the size and location of activities.

Table 5. 6: Planned Health Facility Construction and Rehabilitation/Expansion by Province

Provinces	New Construction		Rehabilitation/ Expansion	
	Hospital	Health Centers	Hospital	Health Centers
Bioko Norte		6	1	2
Annobón	1	1		
Bioko Sul	1	7	1	
Litoral	2	15	1	1
Centro Sur		11	2	3
Kie Nten	1	9	1	3
Wele Nzás	2	12	2	3
Total	7	61	8	12

Source: Social Service, MSBES, 2007

5.20 **The paucity of human resources in the health sector will be exacerbated by the construction of new infrastructure.** In light of current needs, limited and insufficiently trained personnel constitute major drawbacks in the current health system (Table 5.7). Equatorial Guinea has 211 physicians, a ratio of 2.08 physicians per 10,000 inhabitants,¹⁰⁵ of which only 106 (50 percent of the total) are nationals, with Cubans accounting for the highest number of foreign physicians (82 professionals or 39 percent of the total). The MSBES recently conducted a survey to ascertain human resource needs in each district in the country to formulate a health development strategy. Needs were identified in almost all areas, from clinic support workers to diagnostic technicians, pharmacists, and administrative personnel. Most noteworthy among the needs identified were the shortages in nursing, with a need for close to 380 professionals, and in medicine, which needs an additional 24 pediatricians, 24 gynecologists, 22 internists, 13 anesthetists, 9 general surgeons, and 68 midwives. The low wages earned by public sector workers with medical training prompt young people in these professions to emigrate to other countries. There is also a dearth of technical skills in the sector, especially in areas that require advanced technical and technological training, which could make it impossible to maintain medical teams in the future. The MSBES compartmentalizes management of the various professional groups, separating them into physicians, nurses, and other professionals, and lacks an overall picture of the problem or a plan for staffing expanded services as new infrastructure comes into service.

¹⁰⁵ According to WHO (2002), the average in Africa is 2.17 per 10,000 inhabitants.

Table 5. 7: Distribution of Human Resources in the Health Sector¹⁰⁶

Provinces	Physicians	Senior Technical Personnel	Mid-level Technical Personnel	Health Care Assistants	Support Personnel
Bioko Norte	70	40	100	372	110
Annobón	2	5	5	43	23
Bioko Sul	8	1	2	23	0
Litoral	86	26	85	295	66
Centro Sur	15	9	6	102	52
Kie Ntem	14	9	7	141	80
Wele Nzás	16	11	13	184	81
Total	211	101	218	1,160	412
Per 10,000	2.08	1.00	2.15	11.43	4.06

Source: Hospital Support Services, 2007, and Human Resource Services, 2006

5.21 **Given the lack of public sector coverage, private sector involvement is extensive**, including direct provision of health care services (clinics and polyclinics) as well as additional diagnostic and therapeutic resources (laboratories). Private sector providers are not regulated by the MSBES, which is unaware of the number of private entities and the conditions under which dispense services. The MSBES does not act as a technical regulatory body for activities conducted by health professionals and does not certify the academic qualifications of health care providers. Since no professional associations regulate development of the sector's various professions either, quality control of health care services is poor.

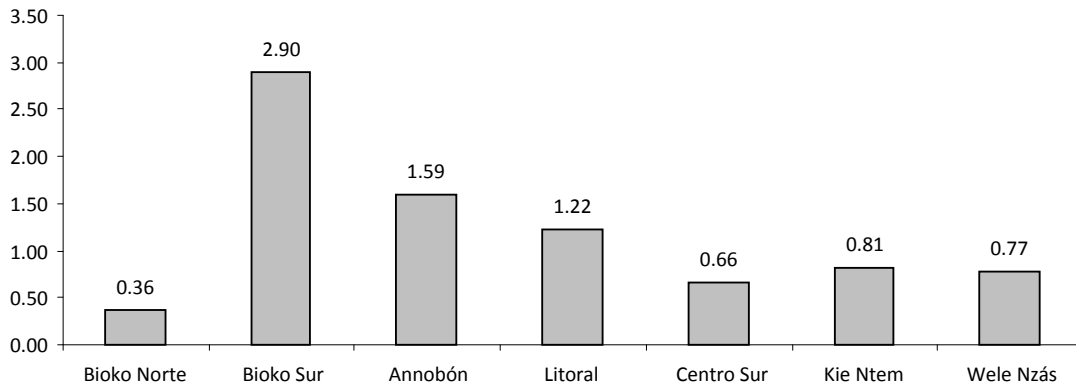
D. Inequality in the Regional Allocation of Resources

5.22 **Regional distribution of resources is not uniform.** Seventy-nine percent of all physicians and 63 percent of all health personnel are found in the regions of Bioko Sur, Bioko Norte, and Litoral, with significantly lower numbers in the continental interior (Kie Ntem, Wele Nzás, and Centro Sur). According to data for 2001,¹⁰⁷ the insular regions and the region of Litoral account for 60 percent of all hospital beds. This translates into significant variations in the use of health services measured by the number of outpatient visits and hospital admissions per capita among the health provinces, with the highest per capita activity rates found in Bioko Sur and Annobón (Figure 5.1). This is perhaps attributable to the lower number of health centers (Figure 5.2) and physicians (Figure 5.3) in the regions of the continental interior, which increases the physical distance for the patient to travel for treatment. Other factors that may have an influence are the greater sensitivity to price (because of high concentrations of the poorest populations), the illiteracy rate, the specific cultural traits of each ethnic group, and the use of traditional medicine.

¹⁰⁶ The information on the number of physicians is from 2007, while the information on the other technical personnel is from 2006.

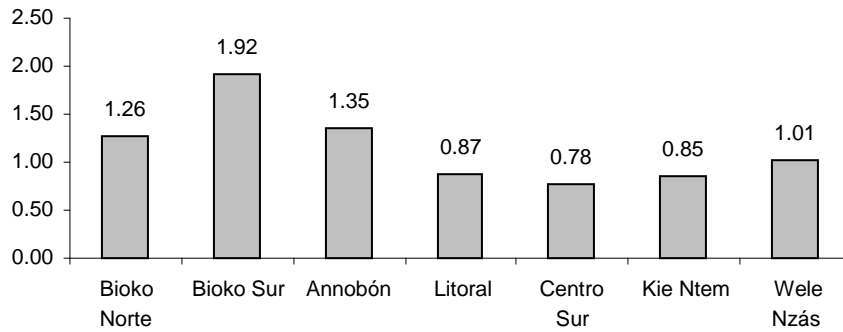
¹⁰⁷ The Directorate-General for Hospital Care does not have an accurate record of the hospital beds in the country, owing, among other things, to the rapid pace of hospital construction and infrastructure remodeling under way.

Figure 5. 1: Rate of Use of Health Services by Health Province¹⁰⁸
(Per 10,000 inhabitants)



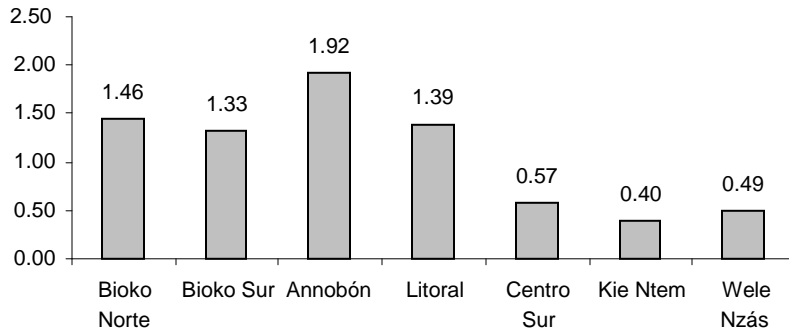
Source: Hospital Care Service, 2007

Figure 5. 2: Distribution of Beds by Geographic Area
(Per 10,000 inhabitants)



Source: WHO, UNDP, and UNICEF. NHDP Proposal, 2001

Figure 5. 3: Distribution of Physicians by Geographic Area
(Per 10,000 inhabitants)



¹⁰⁸ Neither the number of visits to Malabo Hospital nor data for Bioko Norte are recorded in MSBES 2007 statistical yearbook.

5.23 **The allocation of resources is reflected in a specific epidemiological picture for each province.** The hospital data for 2007 indicate a disproportionate impact on morbidity across the country (Table 5.8). There is a higher incidence of malaria in the continental interior and the Bioko Sur region, while AIDS is particularly prevalent in the Litoral Province (Bata, Mbini, and Cogo). It is difficult to draw conclusions about the impact of health service distribution on epidemiological indicators (for example, AIDS is concentrated in more internationally connected areas, regardless of health coverage), but it is obvious that the MSBES will eventually have to tailor its supply of health services to the specific situation in each province.

**Table 5. 8: Incidence of Main Diseases in Hospitals, 2007
(Per 10,000 inhabitants)**

Province	Malaria	Typhoid	Dysentery	Tuberculosis	AIDS	Gonorrhoea	Diarrhea	Pneumonia
Bioko Norte	9.1	14.0	0.6	0.0	0.3	1.1	5.5	30.2
Bioko Sur	115.7	41.7	0.0	4.5	12.7	2.8	38.2	51.7
Annobón	41.9	89.9	41.9	0.0	0.0	0.0	47.9	26.0
Litoral	69.5	6.4	2.9	5.9	76.5	4.8	19.0	24.2
Centro Sur	140.3	8.3	7.3	2.7	8.6	8.7	34.9	39.4
Wele Nzás	103.6	8.3	0.5	0.6	9.9	4.1	14.4	18.7
Kie Ntem	81.6	4.7	5.2	3.6	18.2	10.3	31.0	23.0
Rep. of Eq. Guinea	73.0	9.8	3.0	2.9	28.5	5.2	19.8	27.2

Source: Annual Statistical Report, SIS, 2007

5.24 **INSESO is financed by subscribers and contributors, but services are only provided to subscribers.** INSESO has a public health insurance system that ensures health protection for its approximately 60,000 beneficiaries and provides direct health service through its own clinics.¹⁰⁹ Financing is derived from two sources: (a) employer and employee contributions (all public and private sector workers are included, as well as self-employed persons and volunteers); and (b) a government subsidy of approximately 25 percent of INSESO's total budget (which in practice has disappeared in recent years because of INSESO's surplus). There is a clear inequality in the health care coverage for INSESO's subscribers in comparison to the rest of the population since INSESO finances 43 percent of total recurrent health expenditure, which only benefits 60,000 members (or approximately 10 percent of the population) who therefore receive a higher per capita health expenditure than the rest of the population.

E. Financing of the Health Sector

5.25 **Despite favorable economic growth in the last decade, the increase in health sector allocations is insufficient to meet the needs of the population.** The national health system is financed by five main sources: the General State Budget (GSB), the Investment Program (PIP), INSESO, cost recovery, and donors (Table 5.9).¹¹⁰ The government budget financed 88 percent of health sector

¹⁰⁹ INSESO insurance includes a 75 percent reduction in the cost of a visit to outpatient facilities and a 50 percent reduction for the purchase of medication, as well as totally free access for beneficiaries who have to be admitted. If beneficiaries choose hospitals or health centers outside of the INSESO network, charges are subsequently reimbursed by INSESO in keeping with an agreement between the MSBES and INSESO.

¹¹⁰ Private sector health expenditure could not be included in the table. Owing to the lack of adequate information, the total financial allocation for the health sector during the last five years cannot be obtained. The following constraints should be taken into account: (a) the GSB values correspond to budget appropriations since reliable information about disbursements cannot be obtained; (b) INSESO data prior to 2006 refer to budgeted values since the amounts executed were unavailable; and (c) since the

expenditure for 2008, either through the GSB or the PIP, with FCFA 54 billion allocated to the health sector in 2008, which amounts to €122 (FCFA 79,925) per capita per annum.¹¹¹ However, there has obviously been a significant increase in financing through INSESO, which exceeds 10 percent of total financing for the system in 2008 owing to its increase in expenditure on infrastructure. These data are incomplete since they do not take into account the expenditure by patients in the private system, which can be very high. Not only is the total allocation insufficient, but the annual variability for each source of financing threatens the stability of the sector since it does not allow for strategizing based on a predictable budget.

Table 5. 9: Sources of Public Financing for the National Health System

Public	CFAF millions				
	2004	2005	2006	2007	2008
MSBES	6.056	18.503	15.119	34.136	48.010
GSB	6.056	5.556	7.278	7.864	10.750
PIP		12.947	7.841	26.272	37.260
INSESO	0	0	1.851	2.188	5.998
Current			1.851	2.188	3.690
Investment					2.309
Direct Revenues				346	
Total Sector Público	6.056	18.503	16.970	36.670	54.009

Source: MSBES

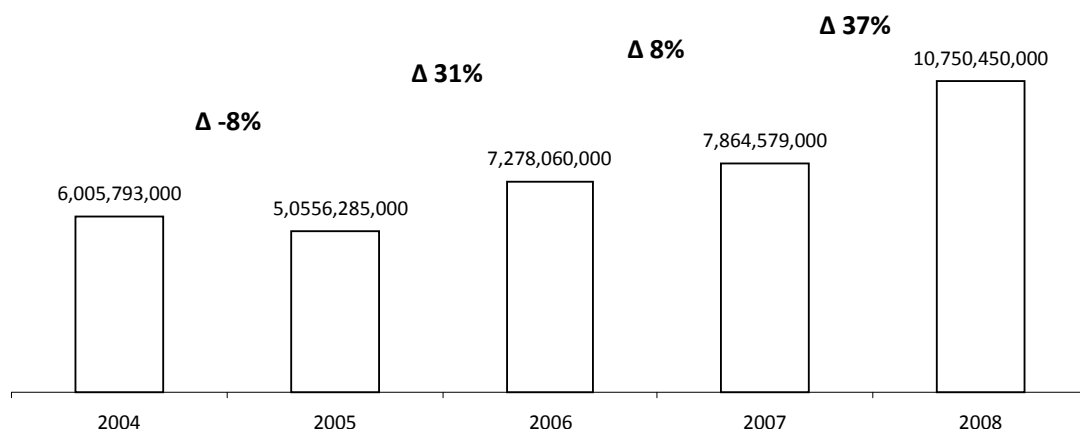
5.26 The increase in public health sector expenditure is a result of investments rather than higher recurrent expenditure. Despite the 77 percent increase in current expenditure in the health sector since 2004, the sector has decreased its total current public expenditure, which fell from 5.1 percent of total recurrent expenditure in 2004 to 3.1 percent of total recurrent expenditure in 2008 (FCFA10.6 billion), resulting in a very low current per capita public expenditure of €16 (FCFA10, 600) that fails to meet the population's health care needs (Figure 5.4). Furthermore, despite the 37 percent recurrent budget increase in 2008, only 80 percent of this budget was spent, which suggests that the MSBES lacks the capacity to execute large budgets. However, health sector investment tripled between 2005 and 2008, reaching FCFA 37 billion in 2008, 94 percent of which was financed with domestic resources, and always remained significantly higher than recurrent expenditure. Notwithstanding, these figures must be viewed in context since the PIP is rather vague about the classification of included programs and often incorporates current expenditure as well.¹¹²

cost recovery amounts for each institution were not obtained, the amounts for 2007 were reconstructed based on the report from the Malabo Hospital.

¹¹¹ Using the rate from official population data, the per capita expenditure would be much less—that is, €69 (FCFA 45,008)—than would be the case using UN population data.

¹¹² The use of current expenditure in the PIP may create the following risks: (a) the deterioration of infrastructure, (b) no recurrent financing of current expenditure, (c) the diversion of strategic investment expenditure, and (d) the loss of strategic influence because of the dependence on external sources for the current operation of the MSBES.

Figure 5. 4: General State Budget for the Ministry of Health and Social Welfare, 2004–08
(Denominated in FCFA)



Source: GSB

5.27 Flaws exist in preparation and execution of the health sector budget, which is highly centralized. The lack of a health sector strategy prevents meaningful evaluation of GSB allocations since the priorities are unknown. The MSBES budget is prepared using a bottom-up method, consolidating the budgets submitted by the various departments within the ministry, essentially their Directorates General. The fact that the entities in the health system have no administrative or financial autonomy presents grave difficulties with cash management and the control of procurement for goods and services, and creates a lack of flexibility unsuitable for a sector in which rapid response is needed in emergency situations.¹¹³ In addition, the Economic Department of the MSBES lacks a suitable system to comprehensively supervise and control execution of the health budget, nor does it receive reports from the Ministry of Finance or the health regions. Since the manner of budget execution during the fiscal year is not tracked, a gap is created between what has been budgeted and the amounts that institutions spend. There is also no regular information system for financial services. The lack of an accounting system for recording capital, financial, and analytical transactions limits the analysis of public accounts and hampers decision making.¹¹⁴ Finally, the Minister of Health can draw on a number of bank accounts in the country’s financial institutions for extra-budgetary expenditure, with no requirement to report how it is used.

5.28 Although the wages of public officials are funded by the state, revenue from operational fees is needed to supplement salary payments because of budget rigidity. Forty-seven percent of the total recurrent MSBES budget is allocated for personnel expenses, which helps ensure health sector operation,¹¹⁵ although this does not prevent channeling of some cost recovery revenues to personnel. This is particularly worrying because the MSBES did not execute its entire personnel budget for 2008.

5.29 Funding for administration and for hospital treatments that do not meet the needs of the general population is excessive. The current MSBES cost structure does not permit functional analysis

¹¹³ Authorization for the purchase of goods and services is highly centralized in the agencies of the Office of the President (President and Prime Minister), making the process very bureaucratic and slow, with limited autonomy and flexibility.

¹¹⁴ The poor organization of the centers of responsibility hinders data collection to categorize expenditure functionally, whether by aggregating cost centers or regions, and limits analysis to a financial consideration of income and expenditure.

¹¹⁵ The MSBES also distributes a fixed operations subsidy to four hospitals to cover meals for inpatients: FCFA 910,000 for Malabo Hospital, FCFA 110,000 for Luba Hospital, FCFA 70,000 for Baey Hospital, and FCFA 70,000 for Eriaba Hospital.

of public expenditure since the 15 cost centers defined in the GSB for the Ministry of Health are classified administratively rather than functionally (Table 5.10). Budget distribution seems very concentrated since only 4 of the 15 internal departments account for 92 percent of total expenditure. It also suggests that funding is inefficiently targeted for best results. The Administrative Center that manages the system and provides no health care receives 35 percent of the total budget. Hospitals are the primary focus of service delivery financing (31 percent of total expenditure), which means that illnesses are treated reactively rather than preventively through better primary health care (Figure 5.5). This is reflected both in the low immunization rate and the current infrastructure distribution across the country, which accords priority to large hospitals. The country's main problems, including malaria and HIV/AIDS, could be tackled much more effectively by focusing on health promotion and disease prevention.

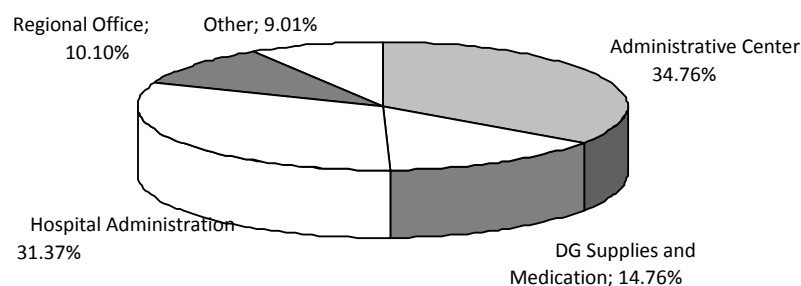
Table 5. 10: Values by Cost Center, GSB 2008

Cost Center	CFAF Thousands	
	Value	%
Administrative Center	3,736.73	34.8
DG Public Health and Health Planr	64.47	0.6
DG Hosp. Care and Coord.	22.46	0.2
DG Coord. HIV/AIDS Prevention	684.19	6.4
DG Pharmacy and Traditional Med	75.08	0.7
Inspectorate General of Services	18.39	0.2
Regional Office	1,085.41	10.1
Provincial Office (Cont. Reg.)	36.72	0.3
Bioko Norte Provincial Office	8.08	0.1
Hospital Administration	3,372.20	31.4
Bioko Sur Provincial Office	8.08	0.1
DG Supplies and Medication	1,587.25	14.8
Annonbon Provincial Office	8.26	0.1
DG International Health	21.56	0.2
DG Preventive Health Care	21.56	0.2
Total	10,750	100

Source: General State Budget (Amended), 2008

Note: DG refers to General Directorate (Direccion General)

Figure 5. 5: Ministry of Health and Social Welfare Expenditure by Cost Center

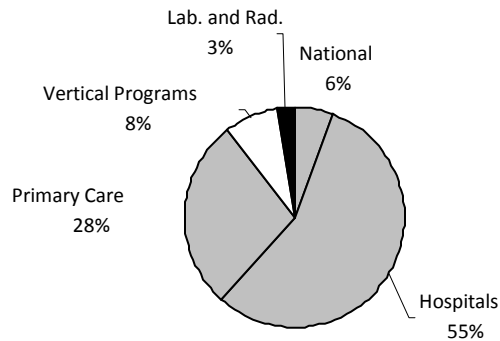


Source: General State Budget, Amended 2008 version

5.30 Concentrating investment in hospital infrastructure requires MSBES to strengthen its new Secretariat for Infrastructure to improve effectiveness. Hospitals account for 55 percent of the health sector's total public investment, almost twice the projected allotment for the primary care network (Figure 5.6). This reflects the high cost of such infrastructure as well as the priority accorded by authorities to

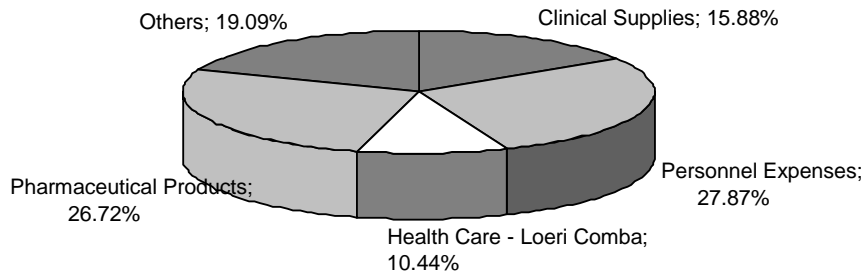
development of the national hospital complex. However formal selection criteria (cost-benefit analyses) have not been used to guide the investment being made. To better manage the high number of projects, a Secretariat for Infrastructure was recently established within the MSBES, making it the sole sector ministry to which the Ministry of Infrastructure has delegated the supervision of PIP implementation. This secretariat is still very small, with only one hospital engineer; and it will have to be strengthened to ensure adequate programming of the investment cycle and effective supervision of all projects under way.

Figure 5. 6: Distribution of PIP Health Expenditure by Functional Area, 2008–10



5.31 **The much expanded INSESO budget had an execution rate of only 60 percent, which may indicate a limited capacity to manage larger resources.** INSESO’s budget jumped from 6 percent of total public health sector financing in 2006 to 12 percent in 2008 as a result of a substantial rise in current expenditure and the increase in investments to expand the Loeri Comba polyclinic, construct a new hospital in Bata, and rehabilitate and build health centers across the country. Figure 5.7 shows that INSESO’s main expenses in 2008 were for personnel (28 percent of the total) and medications (27 percent of the total). INSESO’s accounts are presented in a different manner from those of the GSB, creating another obstacle to consolidation and analysis of state expenditure in the health sector.

Figure 5. 7: Distribution of INSESO Expenditure by Category, 2008



Source: INSESO, 2008

5.32 Inefficiencies are associated with the existence of parallel health systems by INSESO and MSBES. Operating two parallel systems with overlapping responsibilities but separate financing and management, generates inefficiencies such as the following:

- Unequal provision of health services in terms of access, efficiency, and quality
- Duplication of system management resources and tools (such as information systems, human resources, and health priorities)
- Duplication of public health care facilities, which can lead to a lack of balance between supply and demand, and high costs for construction, operation, and maintenance
- Competition for scarce resources, especially human resources
- Mitigation of economy of scale.

5.33 External donors are essential for financing key health projects, but lack of coordination with MSBES affects systemic efficiency.¹¹⁶ External financing is critical to essential programs such as those to combat malaria (a US\$23 million budget, boosted by an additional US\$28 million for a second phase of the program) and HIV/AIDS (US\$9.8 million). With UNFPA management and FCFA 185 million from the European Union since 2003,¹¹⁷ a cost recovery mechanism was created to ensure replenishment of medication and contraceptive stocks. The Spanish Agency for International Cooperation provides approximately FCFA 4.466 billion each year for institutional strengthening programs, with a focus on those that impact primary care.¹¹⁸ Nongovernmental organizations also engage in direct interventions outside the view of MSBES. The MSBES, in fact, generally lacks up-to-date information on external financial contributions to health care. The lack of ministerial coordination with external organizations and the attempt by independently operated nongovernmental organizations to resolve the most pressing problems may result in efforts that work at cross purposes or miss the opportunity to expand success more broadly.

5.34 Given the rigidity in budget management, cost recovery provides decentralized institutions within the health system with a way to generate essential income that can be used flexibly to cover their expenses. In keeping with the Bamako Initiative,¹¹⁹ institutions within the MSBES and INSESO are permitted to charge fees to patients for various services (such as diagnosis, treatment, or medications), subject to legal regulations that set prices and conditions adapted to each of the health care delivery systems. Although MSBES has tried to set parameters for managing these resources, no standard practice is mandated, which results in uneven and incomplete information about billing patients for out-of-pocket

¹¹⁶ The main external donors are the United Nations Development Programme (UNDP), the World Health Organization, UNICEF, UNFPA, the Global Fund, and the Spanish Agency for International Cooperation. Each institution participates in a different way and usually drafts annual bilateral cooperation agreements (if the programs are managed directly by the financing institution) or multilateral agreements (if management is delegated to other entities).

¹¹⁷ EQG/03/P01, “Strengthening Reproductive Health Services in Equatorial Guinea” (Reforzamiento de los servicios de salud reproductiva en Guinea Ecuatorial)

¹¹⁸ A new hospital is also to be built in Malabo using Equatorial Guinea’s debt relief from Spain.

¹¹⁹ The Bamako Initiative, sponsored by UNICEF and WHO and adopted by African ministers of health in 1987, was based on the realization that, despite accepting in principle the core tenets of comprehensive primary health care, by the late 1980s many countries—especially in sub-Saharan Africa—were burdened by a lack of resources and practical implementation strategies. The Bamako Initiative aimed to increase access to primary health care by raising the effectiveness, efficiency, financial viability, and equity of health services. Bamako health centers implemented an integrated minimum health-care package to meet basic community health needs, focusing on access to drugs and regular contact between health-care providers and communities. Based on the concept that communities should participate directly in the management and funding of essential drug supplies, village committees engaged in all aspects of health-facility management, with positive results for child health in West Africa in particular. The purpose of community financing was to capture a fraction of the funds households were already spending in the informal sector and combine them with government and donor funding to revitalize health services and improve their quality.

costs, the revenues raised, and how the income was handled. Without an accounting framework to process the information, only a summary of total collections and general payments is available. For example, fee collections at the Malabo Hospital during 2007 totaled approximately FCFA 95 million (Table 5.11) mainly for diagnoses and therapy, which represented 29 percent of total expenditure. These funds were used primarily for payroll (20 percent), free medical assistance (22 percent), and the purchase of essential goods and services for provision of health care (Table 5.12).

Table 5. 11: Cost Recovery Amounts at the Malabo Hospital, 2007

Category	CFAF Thousands	
	Amount	%
Emergency Care	2,783	2.94%
Ultrasound Scans	8,638	9.13%
Laboratory	19,445	20.56%
Hospitalization	7,917	8.37%
Interventions	5,653	5.98%
Charity	21,080	22.28%
Official paper	4,174	4.41%
Other	24,909	26.33%
Total	94,600	100%

Source: Malabo Hospital, 2007

Table 5. 12: Use of Cost Recovery Amounts at the Malabo Hospital, 2007

Category	CFAF Thousands	
	Amount	%
Health Supplies	10,682	11.30%
Payroll	18,885	19.98%
Cleaning	5,948	6.29%
Offices	5,623	5.95%
Allowances	5,090	5.39%
Official paper	4,474	4.73%
Security	3,581	3.79%
Charity	20,500	21.69%
Meals	10,920	11.56%
Other	8,798	9.31%
Total	94,503	100%

Source: Malabo Hospital, 2007

5.35 Cost recovery generates inefficiencies in the system and inequality in access to health services. The financial capacity of the state ensures the regular payment of wages to MSBES personnel, but health care providers need to recover costs for the purchase of essential goods and services, including equipment maintenance. However, the current system design has serious flaws that reduce its efficiency and generate inequality among patients, such as the:

- Possible triggering of demand for health services as a result of asymmetrical information on health market supply and demand, in which there is a tendency to maximize the number of services to increase cost recovery
- Lack of regular audits on collection procedures
- Lack of clarity on the exemption of economically/epidemiologically vulnerable groups

- Cash payment for treatment of an illness owing to the lack of health insurance
- Inequality in access to health services depending on the patient's wealth.

5.36 **The current SNS financing model requires urgent reform to achieve the MDGs.** Since the health system obtains limited results when most needed, Equatorial Guinea is listed among the countries at risk of not achieving the MDG targets for 2015 (see Table 5.13 for an analysis of the strengths and weaknesses of the system and the opportunities and threats it faces). The MSBES does not currently use the financing mechanism as a tool for improving the efficiency and quality of service provision; therefore, a new financing model must be developed to address the main problems facing the sector, which can be summarized by funding source, management, and distribution:

Source of funds

- Insufficient financial resources allocated to the health sector, as evidenced by the general deterioration of facilities, the breakdown of medical equipment, and the inability of the budget to cover remuneration of personnel
- High financial risk for patients from co-payments for health services or purchasing medication
- Lack of coordination between parallel health systems (INSESO and MSBES) with respect to collective financial assistance mechanisms
- Dependence on donor financing for a number of essential programs

Management of funds

- Excessive centralization of the budget management and execution process without any record of budget execution
- Regional entities ill-equipped to manage and supervise the system
- Lack of an adequate information system
- Lack of coordination in fund management among the various MSBES institutions and with donors.

Distribution of funds

- Budget allocation dependent on the expenses incurred the previous year, which does not encourage efficiency
- Budget allocation focusing on hospitals, far from the country's priorities
- Financing of administrative units within the system rather than the direct health care providers
- Priority for financing infrastructure without suitable selection criteria rather than recurrent expenditure
- Unequal regional support.

Table 5. 13: Analysis of Health System Strengths, Weaknesses, Opportunities, and Threats

Strengths	Weaknesses
Ability to work in adverse conditions Investment/general priority of the health system Vertical programs to combat malaria and HIV/AIDS Existence of a financing mechanism for the health system through INSESO	Imbalance between the country's per capita income and health indicators Lack of a National Health Development Plan Extremely deficient information systems Existence of two health service provision systems Limited human resources Inefficient financial control processes Lack of a Directorate General/Financial Management Institution in the MSBES Centralization of the budget execution process Centralized and excessively large governance structure without intermediate management entities Hospital-based health service provision system
Opportunities	Threats
Availability of financial resources for the health system Decentralization of budget execution Development of a planning cycle Health earnings through cost-effective investments	Not Linking economic growth to development Maintenance of the new facilities and equipment Maintenance of the current situation Nonachievement of the MDGs Infrastructure construction without proper planning

F. Conclusions and Recommendations

5.37 Equatorial Guinea has the financial resources to improve the health of its entire population, but the system needs to be reformed. Unlike most countries of Sub-Saharan Africa, Equatorial Guinea has the financial means to improve the health of its population. However, the concentration of expenditure on investments has yet to produce any visible impacts, either in improved health conditions or in the quality and quantity of health services. Although these conditions, especially with respect to infrastructure, might significantly improve in the medium term, it will be difficult to improve the population's epidemiological status during the current phase of underdevelopment. Greater allocation of financial resources will not necessarily result in higher quality health services or improved health indicators if the health system is not reformed to increase efficiency.

5.38 There is an urgent need to approve and implement a detailed health sector strategy in keeping with the MDGs. The lack of such a strategy and the planning to implement it limits decision making by the MSBES and suitable budget allocation. Since the goals set by the NDP are too generic, the 2002 HDP must be updated and action plans developed for each MSBES institution, clarifying their respective principles (universal, general, and free access) and spelling out health sector needs for infrastructure, equipment, and human resources. This strategy of relating goals to means through an action plan is vital because increased financing by itself does not guarantee better performance.

5.39 Development of the epidemiological information system can benefit from prior experience with similar systems such as the one used in the malaria control program. The lack of information systems at the central or decentralized level is a serious problem since limited data that have been validated by internationally recognized methodologies are available. Development of an integrated information system is therefore fundamental to increasing health system efficiency, and would help redefine the state's role in the sector by strengthening its regulatory function through supervising the collection and processing of information provided by decentralized reporting institutions. To speed up formation of the national system, experience with the information system used in the malaria control

program on the island of Bioko should be used as a guide.¹²⁰ Although the ideal in the medium to long term is to have personalized information that allows for specific medical analysis of each patient, the following objectives must be fulfilled in the short term:

- Obtain information on the operations of MSBES entities
- Automate the information gathering, processing, and analyzing processes
- Integrate and standardize the information produced
- Create databases for tracking demographic and epidemiological changes in the health status of populations (mortality and morbidity)
- Respond to the various information needs of different actors in the system
- Introduce control and support mechanisms for operation of health sector institutions.

5.40 Resource allocation must focus on primary care rather than hospital and administrative expenditure. The current system is based on the provision of curative services at the hospital level rather than primary care for disease prevention and health promotion. In keeping with WHO recommendations, health policies, planning, and budget allocations must be reoriented toward a more cost-effective service delivery level that reaches the entire population and focuses on primary care. Furthermore, the current system devotes excessive resources to administrative overhead. Streamlining administration would free up resources for direct provision of health services, resulting in better patient care.

5.41 More balanced growth is needed in health sector investment, with an increase in human resources to match improvements in infrastructure. The health PIP is the sector's primary investment vehicle, financing numerous facility construction, rehabilitation, and expansion projects or the purchase of technical equipment. However, the government's commitment to improve health infrastructure will only be effective if sufficient human resources are added to operate and maintain it. The current shortfall in human resources requires investment in training physicians, nurses, and other health professionals. This can be accomplished through professional training programs to qualify new personnel and through courses to upgrade the skills of currently employed professionals. Additional financing must also be allocated in coming years to ensure maintenance of the new infrastructure. The MSBES must also strengthen its recently established Secretariat for Infrastructure with sufficient resources to increase investment expenditure efficiency in the health sector. This includes, in particular:

- Properly managing projects, ensuring that initial programming targets for time frames, budget, and quality are met
- Directing investments toward the most cost-effective care, that is, investments focused on primary care or on management programs for prevalent diseases (such as AIDS and malaria)
- Standardizing medical and technical equipment to facilitate their use and maintenance
- Possibly outsourcing the maintenance of infrastructure and equipment.

5.42 Strong financial management is essential to improve health sector results. At present the financial unit of MSBES has only two professionals, which adversely affects management of financial resources. In keeping with the 2002 HDP, an Administrative and Financial Directorate must be

¹²⁰ Other existing information systems supervised by external entities, such as the HIV/AIDS program, also should be borne in mind for guidance.

established to assume the financial functions that are currently shared by various MSBES institutions (see Annex XII). This directorate will basically seek to ensure the financial sustainability of the system by implementing a plan to improve the collection and use of funds (see table in Annex XII). To accomplish this, progress must be made in four key areas: (a) preparation of a financial management plan, (b) decentralization of budget execution, (c) improvement in the control of cost recovery, and (d) development of an accounting and reporting system.

5.43 The goal of the financial management plan in the medium term must be to support the HDP that defines health sector strategy. The financial management plan must define the health system's main strategic and operational guidelines in terms of efficient use of its financial resources. Preparation of this new financial process must be an MSBES-led project and should be realized simultaneously with the HDP, encouraging a broad discussion among the various health system actors to ensure its legitimacy. This financial management plan must have the following objectives:

- Define the financial role of MSBES in relation to other government institutions to achieve a cohesive financial policy and the activities and procedures that support that policy
- Increase efficient health care delivery by promoting positive individual and institutional behaviors
- Support the programming of MSBES activities to better integrate their planning and financing
- Facilitate supervision, control, and assessment of financial performance.

5.44 The gradual decentralization of budget execution to health care providers would facilitate health expenditure efficiency. At present, control of fixed costs (wages) is centralized while cost recovery is used for health care provider maintenance. This adversely limits the ability of service providers to meet urgent and unexpected needs. It is therefore essential to begin decentralization of budget execution by the MSBES Directorate-General of Financing toward health care providers. This process must be carefully paced; first strengthening the Directorate-General of Financing and then the district-level institutions to assure that financial control is maintained to prevent undue cost increases or a decline in service quality. Decentralization would positively affect the following:

- Procurement control of goods and services since the decentralized institutions are best placed to determine whether purchased items have been delivered and contract terms fulfilled
- Budget management accountability
- Financial resource allocation since the heads of the institutions are better placed to know local needs and how they can be met
- Speeding up budget execution and cutting bureaucratic red tape.

5.45 Gradually improve control of cost recovery. Health care providers presently must generate their own revenues to cover current expense gaps. Although this income represents merely 1 percent of total public sector financing, it is the only discretionary funding over which decentralized institutions exert authority. Although the Bamako Initiative must not be implemented in the short term, the following improvements should be gradually introduced:

- Rules governing exemption from payment by vulnerable groups (economically or epidemiologically) should be defined to avoid rationing of access to health services by the poorest groups.

- The income and expenditure control system for co-payments should be improved, starting with an estimated budget based on services provided in previous years, making it easier to spot the most significant deviations while facilitating integration of this information into the aggregate accounts of the MSBES.
- The requirement for co-payments should be replaced with collective protection mechanisms (insurance) to cover treatment of illness. However reasonable rates must be kept to guard against the risk of moral hazard and control the demand for health care.

5.46 **Coordination between INSESO and MSBES could be attained by pooling existing resources while the financing and health service provision functions are separated in the medium term.** A high degree of inefficiency and inequality comes with parallel health service provision by two state entities. A first step to improve coordination between INSESO and MSBES is joint management of the Malabo hospital complex. Follow-up steps toward integration would involve separating the financing functions (which can be performed in part by INSESO for its subscribers) from health care delivery, and integrating the service provider units of MSBES and INSESO into a single national network in the medium term. This system must be accompanied by insurance mechanisms for citizens not covered by INSESO, which would reduce the financial risk for users, increase the total amount available for the health sector, and better stabilize the sources of financing for the health system.

5.47 Development of an accounting system in the medium term would facilitate greater control of the system and better inform decision making. From an epidemiological and accounting standpoint, the current information system seriously impedes analysis and decision making by national health system managers. Accounting records are maintained manually, based on cash payments and revenues, preventing determination of the system's internal efficiency since the production unit cost for each health care provider cannot be calculated. It is also impossible to determine the net worth of MSBES assets. This situation is aggravated by the state MSBES accounts, which are kept independent of budget execution. To improve the recording of transactions and ensure procedural uniformity throughout MSBES, an accounting system must be implemented that accomplishes the following:

- Adoption of generally accepted accounting principles (International Standards of Accounting)
- Creation of an Official Accounting Plan for the Ministry of Health (structured on a base that can be integrated with other public sectors)
- Development and implementation of an internal accounting system (analytical) that allows for the identification of production cost
- Regular and systematic preparation of the National Health Accounts
- Regular audits of activities carried out by public health care providers
- Definition of a pricing system, identifying the most expensive illnesses or benchmarking among the various districts.

Recommendations

Short Term	
Issues to be Resolved	Actions to be Taken
The health sector's information system does not allow for determination of the status of the health system and decision making.	<ul style="list-style-type: none"> • Develop an epidemiological information system based on the experience of existing programs such as the malaria control program. • Coordinate the Directorate of Planning and the Directorate of Hygiene and Epidemiology, clarifying their responsibilities.
Improvements in health indicators will not be sustainable unless accompanied by improvement in the population's living conditions.	<ul style="list-style-type: none"> • Increase public expenditure in areas related to improvement in the standard of living, such as housing, water, and sanitation.
The health sector's strategy has not been approved, leaving the MSBES without clear guidelines for action to achieve the MDGs.	<ul style="list-style-type: none"> • Update the 2002 HDP, including an action plan up to 2015 and a financial management plan consistent with the MDGs.
Health indicators are in line with the rest of Sub-Saharan Africa, with a high incidence of malaria and HIV/AIDS.	<ul style="list-style-type: none"> • Strengthen the implementation of malaria and HIV/AIDS control programs.
There is an excessive amount of funding for administration overhead and hospital treatments, which does not meet public needs.	<ul style="list-style-type: none"> • Reallocate resources for primary care rather than expenditure on hospitals and administration.
The health sector's infrastructure has fallen into a state of disrepair, and improvement plans may not be suitable.	<ul style="list-style-type: none"> • Strengthen the recently created Secretariat for Infrastructure for the health sector to increase the efficiency of investment expenditure in the sector.
The paucity of human resources in the health sector will be exacerbated by the construction of new infrastructure.	<ul style="list-style-type: none"> • Ensure more balanced growth in the health sector with an increase in human resources to match the improvement in infrastructure. • Develop a hiring and human resource development strategy (especially for physicians and nurses). • Increase resources for the purchase of medication and clinic supplies, and outsource maintenance.
Given the lack of public sector coverage, private sector involvement in the health sector is extensive.	<ul style="list-style-type: none"> • Strengthen the role of the MSBES as regulator of the health sector to ensure private sector providers of health services are adequately licensed.
The regional distribution of resources is not uniform, which affects the epidemiological picture for each region.	<ul style="list-style-type: none"> • Focus the malaria and HIV/AIDS control programs on areas of special impact while an accounting system is developed to calculate production unit costs per province.
Medium Term	
Issues to be Resolved	Actions to be Taken
INSESO is financed by subscribers and contributors, but services are only provided to subscribers.	<ul style="list-style-type: none"> • Improve coordination between INSESO and MSBES, starting with the joint management of the Malabo hospital complex. • Take steps to separate financing from the provision of health services.
The structure of the MSBES is very bureaucratic and requires further decentralization toward health care providers.	<ul style="list-style-type: none"> • Strengthen the Directorate-General of Financing and the district-level institutions to implement decentralization gradually.
External donors are essential for the financing of key health projects, but the lack of coordination with MSBES affects system efficiency.	<ul style="list-style-type: none"> • The MSBES must ensure better coordination of all donors around the HDP to be adopted.
Cost recovery generates inefficiencies in the system and inequality in access to health services.	<ul style="list-style-type: none"> • Define the rules for payment exemptions by vulnerable groups. • Improve the revenue and expenditure control system for co-payments. • Replace co-payments with collective protection mechanisms (insurance) for cases of illness.

ANNEXES

Annex: I. Alternative Population Estimates in Equatorial Guinea

According to the 2001 Demographic Census in Equatorial Guinea, total population in 2001 was 1.015 million, of which 47.3 percent were below 15 years of age. According to the demographic projections of the United Nations,¹²¹ total population in 2000 was 530,000 people, of which 44.2 percent were below 15 years of age. Although both sources are in rough agreement about the age and sex structure of the population the overall population estimates are radically different, and as of today, they have not been yet reconciled. These discrepancies have obvious consequences in terms of policy analysis as for instance, meeting the 2015 Millennium Development Goals (MDGs) on child mortality and universal primary education will much more costly and difficult if Equatorial Guinea had one million people in 2001.

This note compares the UN medium variant demographic projections for the years 2010, 2015 and 2020 with projections for the same years based on the 2001 census. This will provide a framework for analyzing the impact of alternative demographic projections upon public expenditure programs in health and education. The UN medium variant and the census projections presented here are illustrative and sensitive to the underlying assumptions on fertility, mortality and migration and alternative projections may be easily considered.

Population projections based on UN medium variant data

The UN medium variant projections are based on assumptions about the evolution of total and age specific fertility rates, sex ratio at birth, life expectancy and mortality rates.¹²² The impact of HIV/AIDS on mortality is included for all countries where the HIV prevalence rate among population aged 15–49 exceeded one percent at any time between 1980 and 2007, as is the case in Equatorial Guinea. The main assumptions for Equatorial Guinea are given in Table A1.1.

In addition, the UN medium variant includes migration assumptions based on past migration estimates and the stance on migration policies in each country. The assumed net migration rate underlying the UN medium variant projection is 5.3 per thousand people in the period 2000–2005, 3.1 per thousand in 2005–10, and zero thereafter.

¹²¹ Medium variant, <http://esa.un.org/unpp/>, June 8, 2009

¹²² Detailed data and assumptions can be found in <http://esa.un.org/unpp/index.asp?panel=3>.

Table A1.1. Equatorial Guinea: Assumptions in the UN Medium Variant Demographic Projection¹²³

Infant mortality rate				Under-five mortality			
Period	Total	Male	Female	Period	Total	Male	Female
2000-2005	105.6	113.3	97.7	2000-2005	180	189	171
2005-2010	99.6	106.9	92	2005-2010	168	177	160
2010-2015	90.9	97.9	83.7	2010-2015	153	161	144
2015-2020	82.2	88.8	75.5	2015-2020	137	145	128
Life expectancy at birth by sex (years)				Total fertility rate			
Period	Total	Male	Female	Period	TFR		
2000-2005	48.8	47.4	50.2	2000-2005	5.64		
2005-2010	50.1	48.9	51.3	2005-2010	5.36		
2010-2015	52.1	50.9	53.3	2010-2015	5.08		
2015-2020	54.1	52.8	55.4	2015-2020	4.68		
Age-specific fertility rates							
Period	15-19	20-24	25-29	30-34	35-39	40-44	45-49
2000-2005	128.77	262.51	257.66	165.76	154.26	107.57	51.08
2005-2010	122.81	255.15	256.43	162.24	139.2	92.59	43.19
2010-2015	116.9	247.1	254.1	158.13	124.92	78.61	35.85
2015-2020	108.25	232.79	244.49	149.82	108.72	64.05	28.28

The UN medium variant demographic projection for the years 2010, 2015 and 2020, is given in the World Population Prospects, 2008 revision,¹²⁴ and uses 2000 as the base year. Results per five year age groups are shown in Table A1.2 and allow for drawing population pyramids. According to these projections, the average yearly growth rate of the population between 2000 and 2010 is 3 percent; between 2010 and 2015, 2.4 percent; and between 2015 and 2020, 2.3 percent. In addition, the proportion of children aged 0–14 is projected to remain at 40 percent of the total population in 2010–20 slightly below 44 percent proportion in 2000. The population under 25 years old will remain almost unaltered at around 60 percent of the total population.

¹²³ The data in this report is based on the available information at the time of preparation (2008 and 2009).

¹²⁴ , <http://esa.un.org/unpp/index.asp?panel=2>

Table A1.2. UN Medium Variant Projection of Population by Five-Year Age Group and Sex (thousands)

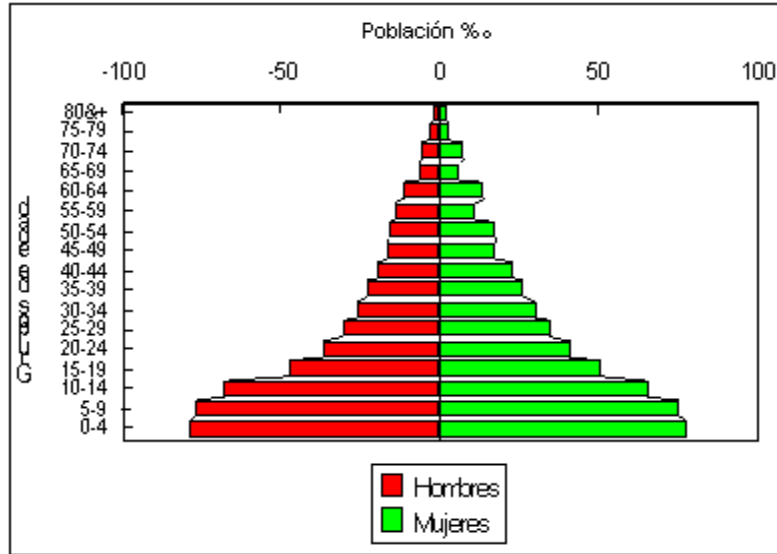
2010				2015				2020			
Age	Total	Male	Female	Total	Male	Female	Total	Male	Female		
0-4	108	55	54	122	61	61	131	66	65		
5-9	91	46	46	103	52	51	116	58	58		
10-14	83	41	41	90	45	45	101	51	50		
15-19	75	38	38	81	41	41	88	44	44		
20-24	66	33	33	74	37	37	80	40	40		
25-29	47	23	24	64	32	32	72	36	36		
30-34	33	16	16	45	22	23	62	31	31		
35-39	35	17	18	31	16	16	43	21	22		
40-44	39	19	20	33	17	17	30	15	15		
45-49	38	18	19	37	18	19	31	16	16		
50-54	30	15	16	35	17	18	35	17	18		
55-59	19	9	10	28	13	15	33	16	17		
60-64	10	5	5	17	8	9	25	12	13		
65-69	7	3	4	8	4	4	15	7	8		
70-74	6	3	3	6	3	3	7	3	4		
75-79	4	2	2	4	2	2	4	2	2		
80-84	2	1	1	2	1	1	2	1	1		
85-89	1	0	0	1	0	1	1	0	1		
90-94	0	0	0	0	0	0	0	0	0		
95-99	0	0	0	0	0	0	0	0	0		
100+	0	0	0	0	0	0	0	0	0		
Total	694	344	350	781	389	395	876	436	441		

Table A1.3. 2001 Census Population by Five-Year Age Group and Sex (thousands)

Age	Both sexes combined	Male	Female
0-4	168	85	83
5-9	162	82	80
10-14	150	76	74
15-19	100	49	51
20-24	82	39	43
25-29	61	29	32
30-34	52	24	28
35-39	48	22	26
40-44	43	20	23
45-49	34	16	18
50-54	32	15	17
55-59	25	13	12
60-64	23	10	13
65-69	15	7	8
70-74	11	5	6
75-79	5	2	3
80-84	3	1	2
85-89	1	0	1
90-94	0	0	0
95-99	0	0	0
100+	0	0	0
Total	1,015	495	520

Demographic projections based on the 2001 Equatoguinean census

The age and sex composition of the population in the 2001 census by five-year age groups was published as a population pyramid,¹²⁵ without the actual figures for each age group and is reproduced below.



Figures inferred from this pyramid are given in Table A1.3, and are in line with total population of 1,015 million and a population of 480,000 (47.3 percent) below 15 years of age. While inferring the numerical values underlying the population pyramid undoubtedly contains errors the sensitivity of the results to changes is not too large.

Based on the age and sex composition of the population in Table A1.3 and the demographic assumptions in Table A1.1 population projection have been calculated for 2010, 2015 and 2020 and the results are shown in Table A1.4. Therefore the main difference between tables A1.2 and A1.4 is the different population size in the base year.¹²⁶ The UN medium variant assumptions have not been changed to highlight the fact that the age structure of the population (a matter on which there is no significant difference between the 2001 census and the UN medium variant demographic projections) weighs heavily upon health and education expenditures and the prospects for growth. With respect to education, these consequences can be worked out from Table A1.4 by breaking down the five-year figures for the age groups 5–19 into one-year figures and linking the projections to the educational system, as done in Chapter 4 of the PER on education. With respect to health, the impact of malaria, HIV/AIDS and other diseases on expenditure requires the use of alternative analytical tools. They also have impact on the structure of urban and rural population but unfortunately data are scarce to carry out projections in these areas.

¹²⁵ (<http://www.dgecnstat-ge.org>, under /datos estadisticos/datos estructurales/indicadores de poblacion

¹²⁶ Table A1.4 has been obtained using *DemProj*, the demographic module of the policy modeling system *Spectrum 3.31* (<http://www.policyproject.com/software.cfm?page=Software&ID=Spectrum>).

Table A1.4. 2001 Census Demographic Projection: Population by Five-Year Age Group and Sex (thousands)

2010				2015				2020			
Age	Total	Male	Female	Total	Male	Female	Total	Male	Female		
0-4	226	113	112	262	132	130	282	142	140		
5-9	181	91	90	217	109	108	253	127	126		
10-14	158	80	78	179	90	89	215	108	107		
15-19	158	80	78	156	79	77	177	89	88		
20-24	145	74	72	155	78	77	154	78	76		
25-29	96	47	49	142	72	70	153	77	76		
30-34	78	37	41	94	46	48	140	71	69		
35-39	57	27	30	76	36	40	91	45	47		
40-44	48	22	26	55	26	29	73	35	39		
45-49	44	20	24	46	21	25	53	25	28		
50-54	38	17	21	41	18	23	44	20	24		
55-59	29	13	16	35	16	19	38	17	21		
60-64	25	11	14	25	11	14	31	14	17		
65-69	18	9	9	21	9	12	21	9	12		
70-74	14	6	8	13	6	7	16	7	9		
75-79	7	3	4	9	4	6	9	4	5		
80+	5	2	3	6	2	3	7	3	4		
Total	1327	652	675	1532	755	777	1757	871	888		

The number of children aged 0–14 in 2000–2001 is important for the economic development of Equatorial Guinea. The cost and the potential benefits of investments in their health and education depend in part upon how many they are. It makes a great difference whether they were 230,000, as in the UN medium variant demographic projection, or 480,000, as in the 2001 population census of Equatorial Guinea. An important aspect of the projections in Table A1.4 is the weight of the young in the population of Equatorial Guinea. Children (the age group 0–14) is projected to remain at 47.3 of the population in the base year 2000-2001, and they are projected to be about 43 percent of the population between 2010 and 2020. In 2010, almost two-thirds of the Equatorial Guinean population is less than 25 years old. By 2020, the projected ratio is 60 percent. It is difficult to visualize sustained growth in Equatorial Guinea if the young lack health, education and job opportunities.

Remarks on the population count in the 2001 Equatoguinean census

The UN Population Division reliance on its own demographic projections is probably based on the population figures reported in Table A1.5 that shows the population in the three demographic censuses carried out in Equatorial Guinea to date. The 2001 census stands in sharp contrast with the ones of 1983 and 1994, and the contrast is attributed in part to undercounting in 1994. A footnote to the 1994 census figures summarized that undercounting is due to omissions (of people within households, of houses and villages...) and to “lack of popular participation due to the census date (a time of democratic transition).” This undercounting has been put at about half the recorded 1994 figure, and the adjusted 1994 population is 596,000 people. No backward adjustment has been made for the 1983 census.

Table A1.5. Thousands of People in Three Censuses

	1983	1994	2001
Insular	60	91	265
Continental	240	316	750
TOTAL	300	406	1,015

Source : Dirección General de Estadística y Cuentas Nacionales
<http://www.dgecnstat-ge.org/Datos/estructurales/Poblacion.htm>

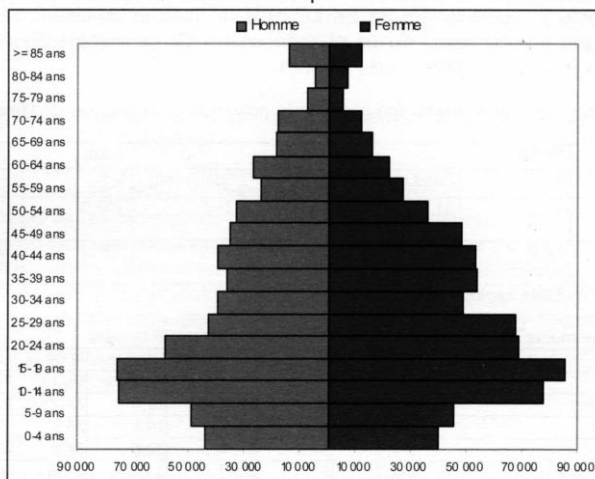
According to the adjusted census of 1994 and the 2001 census the yearly rate of growth of the Equatorial Guinean population between 1994 and 2001 is 7.6 percent. This would imply a net inflow of migrants of up to five percent of the Equatoguinean population every year between 1994 and 2001. About one-fourth of the 2001 population of one million would represent net immigration between 1994 and 2001. The plausibility of such a large inflow in such a short time is questionable. Also, the population growth rate between 1983 and 1994 would have been 6.2 percent, a rate that is difficult to justify by net immigration flows during these years.¹²⁷

According to projections made available by the national statistical authorities on yearly population projections between 2001 and 2008 the Equatoguinean population in 2008 is 1.5 million and the implicit rate of population growth between 2001 and 2008 is 5.6 percent per year. Of the projected total population in 2008, another quarter million would be explained by net immigration between 2001 and 2008. This means that Equatorial Guinea would have received about half a million net immigrants between 1994 and 2008, which is questionable. Furthermore, if this were the case, the projected population for 2015 in Table A1.4 would have already been reached in 2008, making the 2015 MDG for health and education even more difficult to reach.

The discrepancies between the 2001 census data and UN demographic projections will be resolved through increased cooperation, and eventually, through a new census. In the meantime, it is understandable that the UN Population Division is reluctant to alter its projections on the basis of the limited data published about the 2001 census. Pending a new census, surveys are necessary. The poverty survey EEH 2006 published in November 2007 might be of help despite the fact that coverage of education, health, employment and access to public services was excluded of the survey. The following population pyramid from this survey is reproduced:

¹²⁷Even if there had been no return migration between 1979 and 1983, and if 100,000 people had returned between 1983 and 1994, the natural rate of growth of the population consistent with a total growth of 6.2 percent is 3.6 percent, arguably too high.

Gráfico 1: Pirámide de las edades de la población en Guinea Ecuatorial en 2006



Fuente: EEH 2006 -

This pyramid differs radically from the one reproduced above from the 2001 census. The hypothesis advanced in the survey publication (page 15) is that this change could be explained by the return migration of Equatoguineans and by foreign immigration. This hypothesis cannot be assessed on the basis of the survey itself, but cohort changes with respect to the 2001 census pyramid are too drastic to be explained by migration. The implied migration patterns by age and sex would be very peculiar: preponderance of women aged 15–50 and unusual structure in the first four age groups. Children in the age group 5–9 were 0–4 in 2001, and the EEH pyramid reports 100,000 children less in the age group 0–4 that corresponded according to the 2001 census. What happened to these children? There are also around 100,000 fewer children in the age group 0–4 in the EEH than were in the 2001 census. Has fertility changed that much in five years to account for this difference? It looks convenient to revisit the design and implementation of the EEH 2006 survey procedures, before using its results.

Annex: II. Selected Indicators and Data

Table A2.1. Selected Indicators

	2004	2005	2006	2007	2008 Est.
(Annual percentage change, except where indicated)					
Production, prices, and money					
Real GDP	38.0	9.7	1.3	21.4	11.3
Oil and gas GDP (excluding hydrocarbons secondary production)	40.4	6.7	-6.4	11.9	8.2
Non-oil GDP (including hydrocarbons secondary production)	28.4	22.8	29.8	47.2	17.6
GDP deflator	16.9	42.6	14.4	-1.2	23.7
Consumer prices (end of period)	5.1	3.2	3.8	3.7	6.0
External sector					
Exports, f.o.b.	65.4	52.2	16.6	23.7	40.9
Hydrocarbons exports	66.9	53.3	16.7	23.5	41.3
Oil primary exports	68.1	52.8	14.7	14.3	38.5
Hydrocarbons secondary exports	51.6	60.9	44.5	126.5	57.2
Imports, f.o.b.	27.7	34.3	-4.8	17.1	70.2
Non-oil sector imports	106.1	48.9	57.9	15.6	90.4
Terms of trade	11.1	33.1	16.6	3.2	22.2
Nominal effective exchange rate (depreciation -)	5.1	-0.1	0.4	5.0	...
Real effective exchange rate (depreciation -)	7.0	2.7	2.1	7.1	...
(Percent of GDP, unless otherwise specified)					
Investment and savings					
Gross investment	43.7	39.9	32.5	35.3	26.7
Public	13.1	10.3	15.1	16.9	16.8
Private	30.6	29.6	17.3	18.4	9.9
<i>Of which: oil sector</i>	24.4	25.0	13.5	13.6	8.8
Gross national savings	22.1	33.6	39.5	39.6	36.5
Public	25.4	30.9	36.8	34.7	32.1
Private	-3.3	2.7	2.8	4.8	4.4
Government finance					
Revenue and grants	29.8	34.7	40.8	38.3	36.8
Hydrocarbons revenue	26.4	31.7	37.5	33.9	34.4
Expenditure and net lending	17.4	13.8	17.2	20.3	21.5
Overall balance after grants (cash basis)	12.2	20.4	23.4	19.2	15.3
Non-oil primary balance (cash basis, percent of non-oil GDP) /1	-64.2	-60.9	-54.6	-49.7	-66.8
External sector					
Current account balance (including official transfers; deficit -)	-21.6	-6.2	7.1	4.3	9.8
Outstanding medium- and long-term public debt	5.6	3.1	1.5	1.0	0.7
(Millions of U.S. dollars, unless otherwise specified)					
Exports, f.o.b.	4,673	7,113	8,290	10,252	14,443
Hydrocarbons exports	4,591	7,040	8,217	10,151	14,344
Imports, f.o.b.	-1,580	-2,121	-2,020	-2,365	-4,025
Non-oil sector imports	-636	-947	-1,495	-1,728	-3,292
Current account balance (deficit -)	-1,134	-511	679	542	1,808
Overall balance of payments	652	1,384	685	389	600
Outstanding medium- and long-term public debt	323	245	156	136	117
Gross official foreign assets	1,648	2,911	5,078	7,057	7,641
Of which: Reserve assets at the BEAC	945	2,102	3,067	3,846	4,206
Government bank deposits abroad	703	808	2,011	3,211	3,435
Gross official foreign assets (months of next year's imports)	5.5	11.0	16.0	14.2	21.2
Memorandum Items					
Nominal GDP (billions of CFA francs)	2,769	4,334	5,021	6,027	8,296
Non-oil GDP (including hydrocarbons secondary production)	571	752	1,062	1,578	2,095
Atlas GNI per capita (US\$)	3,250	5,210	6,870	9,710	14,980
Exchange rate (average; CFA francs/U.S. dollar)	528	527	523	479	448

Sources: EQG authorities; IMF and World Bank estimates.

Table A2.2. Growth by Sector, 1990–99 (percent)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture	53	-6.8	-3	-11.2	21.6	10.7	7.3	18.7	-5.9	-0.4
Forestry	53	-0.3	4.7	-15.3	39.5	36.5	33.2	41.8	-38.7	86.9
Fishing	80	-12.6	-55.5	-10.5	4.9	4.1	-0.5	2.9	-20	28.2
Manufacturing	64	9.4	8.4	0.2	5	5	3.5	3.5	3.5	4.5
Utilities	89	3.9	2.8	11.2	5.5	2.7	2	-15	35	13
Construction	94	36.6	6	-15.6	35	5.6	2	8	8	15
Trade and commerce	98	17.3	9	-22.9	31.9	4	5	3	6	23.6
Transport and communications	103	9.4	1.8		-85.6	4	3.5	3	4	16.7
Finance and housing	118	4.7	2.9	-9.9	13.8	1.8	1.4	1.9	1.9	28.1
Public administration	49	-8.1	27.7	-21	34.8	3.8	13.7	8	7	35
Other services	71	16.6	3	-1.7	6	2.4	2.2	0.1	7.2	19.8
Total NON-OIL GDP		-1.1	2.4	-2.5	12.2	14.1	14	21.4	-14.4	30.7
<i>Memorandum items</i>										
NON-OIL	35	36	36	37	47	61	74	95	81	103
OIL Derivatives										
OIL	0	0	4	7	13	16	60	197	168	337
Total GDP (<i>billion FCFA</i>)	35	36	41	44	61	77	134	292	248	440

Source: World Bank

Table A2.3. Growth by Sector, 2000–2007 (percent)

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture		0.3	-3	15.3	-1.1	8.4	6.4	4
Forestry		-7.9	4.5	5.7	3.2	13.2	0	18.8
Fishing		55.6	41.9	9.4	6.9	6.4	5.2	5.3
Manufacturing		15.2	13.6	17.3	20.6	17.7	17.7	14.4
Utilities		29	21.4	18.2	41.8	35.2	44.2	20
Construction		76.5	39.4	11.1	107.8	29.5	77.8	30.8
Trade and commerce		31.4	20.9	15.4	27.3	10.8	6.8	4.4
Transport and communications		15	24.8	17.9	3.5	10.8	6.8	-0.3
Finance and housing		42	16.1	19.7	55.3	62.6	10.9	15.9
Public administration		20.5	14.6	13.9	1	22.2	9.3	22.3
Other services		48.8	13	50.2	3.1	11.1	6.8	6.5
Total NON-OIL GDP		18.3	14.6	14.2	35.1	21.3	39	22.4
<i>Memorandum items</i>								
NON-OIL	153	194	239	269	388	463	668	837
OIL Derivatives	13	75	92	110	152	259	355	694
OIL	700	982	1,142	1,306	2,197	3,582	3,959	4,448
Total GDP (<i>billion FCFA</i>)	866	1,251	1,473	1,685	2,738	4,304	4,982	5,979

Source: World Bank

Table A2.4. Deflators by Sector of Origin, 1990–99 (2000 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture	53	58	60	67	62	84	85	69	82	86
Forestry	53	47	45	56	96	94	102	123	104	94
Fishing	80	82	80	79	55	61	57	85	399	108
Manufacturing	64	64	64	64	64	64	64	65	66	66
Utilities	89	89	89	89	89	93	93	93	97	99
Construction	94	94	94	113	96	98	103	105	107	103
Trade and commerce	98	98	98	127	105	101	107	110	111	95
Transport and communications	103	103	103	15	107	101	103	103	102	91
Finance and housing	118	118	118	131	118	118	118	118	118	96
Public administration	49	49	49	62	45	50	70	84	97	99
Other services	71	71	71	71	71	71	71	73	71	96
Total NON-OIL GDP										
<i>Memorandum items</i>										
NON-OIL	35	36	36	37	47	61	74	95	81	103
OIL Derivatives										
OIL	0	0	4	7	13	16	60	197	168	337
Total GDP (<i>billion FCFA</i>)	35	36	41	44	61	77	134	292	248	440

Source: World Bank

Table A2.5. Deflators by Sector of Origin, 1990–99 (2000 = 100)

	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture		0.3	-3	15.3	-1.1	8.4	6.4	4
Forestry		-7.9	4.5	5.7	3.2	13.2	0	18.8
Fishing		55.6	41.9	9.4	6.9	6.4	5.2	5.3
Manufacturing		15.2	13.6	17.3	20.6	17.7	17.7	14.4
Utilities		29	21.4	18.2	41.8	35.2	44.2	20
Construction		76.5	39.4	11.1	107.8	29.5	77.8	30.8
Trade and commerce		31.4	20.9	15.4	27.3	10.8	6.8	4.4
Transport and communications		15	24.8	17.9	3.5	10.8	6.8	-0.3
Finance and housing		42	16.1	19.7	55.3	62.6	10.9	15.9
Public administration		20.5	14.6	13.9	1	22.2	9.3	22.3
Other services		48.8	13	50.2	3.1	11.1	6.8	6.5
Total NON-OIL GDP		18.3	14.6	14.2	35.1	21.3	39	22.4
<i>Memorandum items</i>								
NON-OIL	153	194	239	269	388	463	668	837
OIL Derivatives	13	75	92	110	152	259	355	694
OIL	700	982	1,142	1,306	2,197	3,582	3,959	4,448
Total GDP (<i>billion FCFA</i>)	866	1,251	1,473	1,685	2,738	4,304	4,982	5,979

Source: World Bank

Annex: III. Petroleum Accounting beyond Gross Domestic Product

Gross Domestic Product has limitations as an indicator of economic performance and wellbeing in EQG. A first limitation follows from the nature of the GDP deflator, which refers to both oil and non-oil output and reflects mainly the volatility of world oil prices and dollar exchange rates. A second limitation follows from the exhaustibility of oil reserves. Exclusive focus on GDP ignores oil depletion: the higher the rate of oil extraction the higher is the rate of GDP growth but the faster is the rate of decline in oil reserves. A third limitation follows from the inclusion of the oil companies' income in GDP.

Net Domestic Product and Net National Income take into account oil depletion and the income of the oil companies. A barrel of exported oil adds to GDP, but Net Domestic Product does not change if the value of that barrel is counted as depletion of natural capital. In turn, Net National Income has increased by the government takeout from that exported oil. The value of natural capital has fallen, net domestic product has not changed and net national income has increased by the government intake.¹²⁸

Oil Rent and Net National Income. Net National Income in EQG is the oil rent plus the net output value of the nonhydrocarbon sector. The oil rent is computed from panel A as hydrocarbon exports minus the income of oil companies. Net output in the nonhydrocarbon sector is not available: there are no estimates of depreciation in that sector. The Net National Income Plus calculated in panel B is net national income in EQG plus depreciation in the non-oil sector. Panels A and B lead to panel C, that shows the links between the oil rent, the value of non-oil output and its breakdown into consumption, investment (public and private) and the non-oil trade deficit.

Between 2000 and 2008, EQG exported oil, gas and oil derivatives for an accumulated value of US\$52 billion, of which US\$25 billion went to the government (the oil rent) and US\$27 billion to the oil companies. Of the 25 billion, about one-third went into foreign exchange reserves, and the rest has already been consumed or invested. Accumulated reserves are about the same as the accumulated value of output in the non-oil sector over this period, US\$8.2 billion.

Accumulated net imports by the non-oil sector over 2000–2008 are equal to the accumulated value of its output. Imports increased by a factor of 24, while exports remained roughly stable. Imports of public sector equipment, in particular, increased by a factor of 55, for an accumulated total value of US\$6.6 billion. This suggests that the chosen pattern of growth for the non-oil sector is highly capital intensive and it is likely to generate little employment. Given the age structure of the population and fast urbanization in EQG, the generation of employment is a basic requirement for growth and the reduction of poverty.

¹²⁸ Going from GDP to NDP and NNI poses important policy questions. Is it worth to extract that barrel of oil? How to value depletion? How to design a system of permits and fees to increase proven oil reserves? What is the best measure of net domestic product and net national income? Can the accumulation of capital (both physical and human) compensate for oil depletion? Answers to these questions have a long history in the theoretical and applied literature on the economics of exhaustible resources. A formal solution to the problem of optimal extraction when there is a backstop technology to replace the resource is in Weitzman, M.L., *Income, Wealth and the Maximum Principle*, (Harvard U. Press, 2003, pages 157–170). Another treatise on depletion, and of exhaustible resources in general is Dasgupta, P.S. and Heal, G.M., *Economic Theory of Exhaustible Resources* (Cambridge Economic Handbooks, 1979). A treatment of a strictly oil exporting economy is in Hartwick, J.M., *National Accounting and Capital*, (E. Elgar, 2002, pages 84-88), who proposes a sustainability criterion different from the utilitarian interpretation of NNP in early papers by Weitzman and his 2003 book. Both sustainability criteria, though, require extraction to be on an optimal path. Whether this necessary condition is roughly met in Equatorial Guinea has yet to be established.

Consumption in the non-oil sector is output minus investment and net imports, and this calculation is carried out in panel C¹²⁹. The oil rent has had a very large impact: consumption in the non-oil sector grew in real terms at an average yearly rate of 20 percent between 2000 and 2008. Indications are that this increase has not been widely shared across the population and that the reduction of poverty is not yet significant.

Investment in the non-oil sector, measured in U.S. dollars, increased at the average rate of 36 percent between 2000 and 2008, broken down into a 20 percent for private and 46 percent for public investment. The rate of return on this accumulation of capital is open to question, given that the statistical and administrative capacity in EQG is at early stages of development.

A. Balance of Payments Items, 2000–2008 (US\$ million)

Items	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Hydrocarbons										
Exports	1136	1673	2049	2750	4591	7040	8217	10151	14344	51951
Imports	367	665	306	929	944	1174	525	636	733	6279
Nonhydrocarbons										
Exports	83	66	64	75	81	73	73	101	99	715
Imports	136	144	202	309	636	947	1495	1728	3292	8889
Petroleum products	26	27	28	38	62	95	114	149	253	793
Public sector equipment	45	89	127	204	481	697	1189	1319	2486	6638
Other	65	27	47	66	93	155	192	260	552	1457
Net Imports of Services	549	769	591	985	1251	1392	1117	1397	1872	9924
Oil Companies Income	337	826	940	1504	2831	3878	4293	5782	6675	27066
FDI	154	945	323	1444	1652	1869	1739	1716	-570	9273

B. Net National Income Plus, 2000–2008 (US\$ million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Oil Rent	799	847	1109	1246	1760	3162	3924	4369	7669	24885
Nonhydrocarbon GDP	215	264	343	463	735	877	1277	1747	2287	8209
Net National Income Plus	1014	1111	1452	1709	2495	4040	5202	6116	9956	33094

²This is true if all net imports of services in panel A refer to the hydrocarbon sector only. Ignoring trade in services in the non-oil sector is probably not a serious omission.

C. Nonhydrocarbon Sector, 2000–2008 (US\$ million)

Value	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Output	215	264	343	463	735	877	1277	1747	2287	8209
Consumption	125	156	190	241	445	710	984	900	1883	5634
Investment	143	186	291	455	844	1041	1715	2476	3596	10748
Public	64	128	182	292	687	846	1453	2126	3107	8885
Private	79	58	109	163	157	196	262	350	489	1863
Trade deficit	-53	-78	-138	-234	-555	-874	-1422	-1628	-3192	-8173
Shares in Output (%)										
Consumption	58	59	55	52	61	81	77	51	82	69
Investment	67	70	85	98	115	119	134	142	157	131
Public	30	49	53	63	94	96	114	122	136	108
Private	37	22	32	35	21	22	21	20	21	23
Trade Deficit	-25	-30	-40	-51	-76	-100	-111	-93	-140	-100
Memorandum items										
Non-Oil GDP (FCFA billion)	153	194	239	269	388	463	668	837	1024	
Average FCFA per US\$	712	733	697	581	528	527	523	479	448	
Oil Price (US\$ per barrel)	26	22	23	27	34	49	60	67	93	
Real Consumption	89	105	113	112	180	271	356	290	536	
Consumer Price Index	100	109	117	126	131	138	145	149	157	

Sources: WB, IMF and official data

Annex: IV. The Permanent Income Hypothesis Model—Key Assumptions and Data

The PIH model used in this chapter is calibrated on the basis of the one currently developed by the IMF (the IMF model is used as the base case scenario). In a nutshell, the permanent income consists of two components: the annuity that is expected from the net present value of the lifetime oil revenue flows and the return from accumulated savings. In a PIH model, government spending is determined by the projected level of permanent income plus any non-oil revenues, and government savings are equal to oil revenues minus the permanent income (Box A4.1).

Box A4.1. Equatorial Guinea: Permanent Income Model

$$OR_t + NR_t - G_t = S_t \quad (1)$$

$$G_t = YP + NR_t \quad (2)$$

$$OR_t - YP = S_t \quad (3)$$

$$YP = r \left[A_t + \sum_{i=0}^T \frac{X_{t+1+i}}{(1+r)^i} \right] \quad (4)$$

Where: *OR*: Government oil revenue
NR: Government non-oil revenue
G: Government spending
S: Overall balance is equal to government savings
YP: Permanent income (perpetual income) related to oil revenues

The key oil production data used to construct the PIH model are taken from the Equatorial Guinea's Ministry of Mining. The Ministry projection is that the country's oil reserves will start declining in 2013 and will be completely depleted by 2035 leaving future generations only with the assets and savings accrued during the petroleum era and income derived from non-oil economic sectors. Therefore, efficiently managing its oil wealth is critically important for Equatorial Guinea, a country where the oil sector contributes to around 90 percent of GDP¹³⁰ and more in total central government revenues. Uncertainty about potential petroleum prices negatively affects the capacity of the authorities to adequately plan and implement the National Development Strategy. In our model, we estimate as a component of permanent income the return on accumulated savings as of December 31, 2007. In addition, the overall balance and the non-oil primary balance were projected based on government budget for 2008 and 2009, assuming that public investment descends along oil and derivatives revenues. It is also assumed that non-oil revenue will progressively increase to balance the decline of oil revenue. The model forecasts for the period 2009–50.

From the IMF base case scenario of the PIH model, three more cases have been developed to draw policy implications for oil revenue management in Equatorial Guinea. The IMF baseline scenario of the PIH model developed for Equatorial Guinea relies on the following key assumptions. Oil reserves will

¹³⁰ Taking into account petroleum derivatives, which are obviously oil and gas related.

completely deplete in 2035 (in line with the government's projection). In line with the WEO, oil price is forecasted at US\$58/barrel adjusted downward by a fixed US\$3.75/barrel for Equatorial Guinean oil due to its lower quality. Real rate of return on investment and real discount rate are assumed to be 1.5 percent until 2012 and 2 percent onward. Two more scenarios are developed to test the impact of various projected oil prices. The worst case scenario assumes 25 percent lower oil price than the oil in the base case scenario, that is, it reflects a conservative case scenario with average oil real price around US\$41/barrel in line with the real long-term historical average oil price of US\$35/barrel.¹³¹ Symmetrically, the best case scenario assumes a 25 increase in annual oil price compared with the IMF projected prices, that is, it assumes that even if hydrocarbon prices improve they remain at an average of approximately US\$68/barrel. The model incorporates uncertainty into the valuation of oil resource flows by using a real discount rate that reflects the values of real risk adjusted interest rate, U.S. inflation, and risk premium with higher discount rates being used for the later years of the projection. For simplicity, the rate of return on the stock of oil savings is assumed to be the same as the discount rate used in the corresponding years, except for the separate sensitivity test conducted on the impact of the rate of return on savings.¹³²

PIH model results

The PIH's sustainable fiscal envelope, projected on prudent forecast of primarily the rate of oil reserve depletion and oil prices, is substantially smaller than the government-budgeted expenditures.

Tables A4.1–3 summarize the PIH model results in three case scenarios (for the purpose of presentation only the projections for 2009–20 are shown). It is worth noting that the overall balance of government expenditures is consistent to the PIH is similar across three different case scenarios. The underlying PIH assumption that the government expenditures are determined by the level of permanent income, regardless of the volatility in oil price or rate of return of investment may help explain such consistency and similarity of the pattern of overall fiscal balance as a share of the GDP.

A similar pattern of the projected expenditures related to the permanent income level is also observed with the sensitivity analysis that allows for the rate of return to investment to vary. Table A4.4 indicates when the rate of return to investment rises, the PI consistent level of expenditures as a share of GDP will also increase and vice versa.

¹³¹ It reflects a conservative case scenario with average oil real price around US\$41/barrel in line with the real long-term historical average oil price of US\$35/barrel.

¹³² For concise discussion on the discounting for PIH, see for example, Sweder van Wijnbergen (March 2008), The Permanent Income Approach in Practice (mimeo).

Table A4.1. Base Case Scenario

Year	Expenditure related	Overall balance	Expenditure related	Overall balance
	to permanent income		to permanent income	
	% of GDP	% of GDP	Bn CFA	Bn CFA
2009	12.8	24.9	634	1,233
2010	11.8	22.6	710	1,359
2011	11.4	22.7	776	1,547
2012	11.3	21.3	846	1,591
2013	13.3	16	1,026	1,241
2014	14.3	12.4	1,108	958
2015	14.5	11.5	1,152	909
2016	14.5	11.1	1,180	902
2017	15.1	9.2	1,237	753
2018	15.3	7.8	1,254	642
2019	15.2	6.9	1,278	577
2020	15.4	5.1	1,296	425

Table A4.2. Best Case Scenario (Oil Price up 25 percent compared with Base Case Scenario)

Year	Expenditure related	Overall balance	Expenditure related	Overall balance
	to permanent income		to permanent income	
	% of GDP	% of GDP	Bn CFA	Bn CFA
2009	12.8	24.9	634	1,233
2010	11.8	22.6	710	1,359
2011	11.4	22.7	776	1,547
2012	11.3	21.3	846	1,591
2013	13.3	16	1,026	1,241
2014	14.3	12.4	1,108	958
2015	14.5	11.5	1,152	909
2016	14.5	11.1	1,180	902
2017	15.1	9.2	1,237	753
2018	15.3	7.8	1,254	642
2019	15.2	6.9	1,278	577
2020	15.4	5.1	1,296	425

Table A4.3. Worst Case Scenario (Oil Price down 25 percent compared with Base Case Scenario)

Year	Expenditure related to permanent income		Expenditure related to permanent income	
		Overall balance		Overall balance
2009	14.1	24.8	567	995
2010	12.8	22	633	1,087
2011	12.2	22	685	1,230
2012	12.1	20.4	746	1,264
2013	13.7	15.5	878	996
2014	14.4	12	943	785
2015	14.5	11.1	985	755
2016	14.4	10.7	1,021	756
2017	14.8	8.9	1,070	642
2018	14.9	7.5	1,098	555
2019	14.7	6.6	1,130	508
2020	14.8	4.9	1,159	384

Table A4.4. PIH expenditures as share of GDP with alternative rate of return to investment

Year	Base Case Scenario	If Return	
		increases by 1 percentage point (compared with base case scenario)	If Return decreases by 1 percentage point (compared with base case scenario)
2009	12.8	16.4	9.2
2010	11.8	14.7	8.9
2011	11.4	13.9	8.9
2012	11.3	13.6	9.1
2013	13.3	15.3	11.2
2014	14.3	16.4	12.3
2015	14.5	16.4	12.6
2016	14.5	16.4	12.7
2017	15.1	16.9	13.4
2018	15.3	17	13.6
2019	15.2	16.8	13.6
2020	15.4	17	13.9

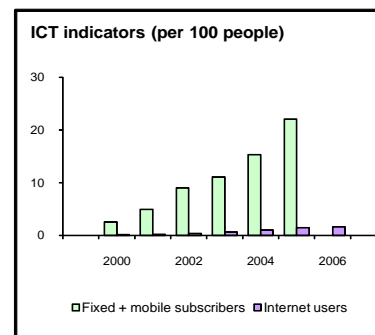
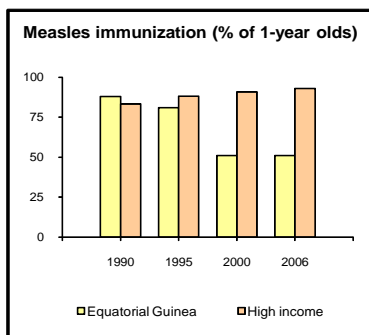
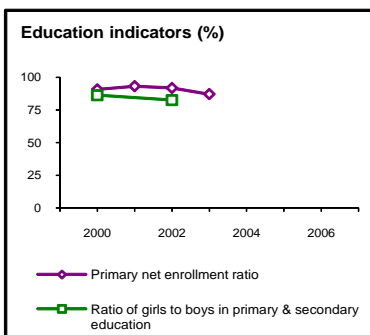
Annex: V. Millennium Development Goals

Millennium Development Goals

Equatorial Guinea

*With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)*

	Equatorial Guinea			
	1990	1995	2000	2007
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	..	..
Share of income or consumption to the poorest quintile (%)	..	..	..	..
Prevalence of malnutrition (% of children under 5)	..	..	15.7	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	96	..	91	87
Primary completion rate (% of relevant age group)	..	50	56	58
Secondary school enrollment (gross, %)	..	..	33	..
Youth literacy rate (% of people ages 15-24)	..	..	95	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	86	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	11	..	..	..
Proportion of seats held by women in national parliament (%)	13	9	5	18
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	170	187	200	206
Infant mortality rate (per 1,000 live births)	103	112	120	124
Measles immunization (proportion of one-year olds immunized, %)	88	81	51	51
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	680
Births attended by skilled health staff (% of total)	..	5	65	..
Contraceptive prevalence (% of women ages 15-49)	..	..	..	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	3.7	3.4
Incidence of tuberculosis (per 100,000 people)	102	153	222	256
Tuberculosis cases detected under DOTS (%)	..	85	83	74
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	43	43	43	43
Access to improved sanitation facilities (% of population)	51	51	51	51
Forest area (% of total land area)	66.3	..	60.9	58.2
Nationally protected areas (% of total land area)	..	..	..	16.2
CO2 emissions (metric tons per capita)	0.3	0.3	0.6	11.5
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	..	..	..	..
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	0.4	0.7	1.4	2.1
Mobile phone subscribers (per 100 people)	0.0	0.0	1.2	43.3
Internet users (per 100 people)	0.0	0.0	0.2	1.6
Personal computers (per 100 people)	..	..	0.5	1.9



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

4/6/09

Development Economics, Development Data Group (DECDG).

Annex: VI. List of Autonomous Institutions

Annex 6. List of Autonomous Institutions

Autonomous Institutions	Status	Sector	Government Financing	Created by the 2007 NDS
SEGESA	100% Public Enterprise	Electricity	Partly	NO
GECOTEL	100% Public Enterprise	Telecom	Partly	NO
SONAPESCA	100% Public Enterprise	Fishing	100%	YES
Empresa Nac. Peages y Manten. Carret.	100% Public Enterprise	Infrastructure	100%	YES
CEIBA	100% Public Enterprise	Transport	100%	YES
SONAGAS	100% Public Enterprise	Hydrocarbons	100%	YES
GEPETROL	100% Public Enterprise	Hydrocarbons	100%	NO
GETESA	Parastatal Enterprise	Telecom	NO	NO
ADG	Parastatal Enterprise	Transport	NO	NO
INPYDE	Central Government body*	Promotion of SMEs	100%	NO
INPAGE	Central Government body	Agriculture	Partly	NO
GEPROYECTOS	Central Government body	Infrastructure	100%	NO
CICTE	Central Government body	Technology	100%	NO
UNGE	Central Government body	Education	100%	NO
INSESO	Central Government body	Social Security	Suspended*	NO
Administracion de Puertos	Central Government body	Infrastructure	Suspended	NO
INDEFOR-AP	Central Government body	Forestry	100%	YES
O.R.TEL.	Central Government body	Telecom	100%	YES
ENPIGE	Central Government body	Housing	100%	YES
Corporaciones Locales	Municipalities	Public sector	Partly	NO
Cámaras de Comercio (Malabo-Bata)	Public	Private sector	Partly	NO
Federaciones Deportivas	Nonprofit organization	Sport	100%	NO

Source: Directorate of Autonomous Institutions, Public Companies, Joint ventures and Privatization of the Ministry of Finance.

* Subsidies to INSESO and the Port Administration Body were suspended by the Government due to their Budget's surplus.

Annex: VII. Ministries and Public Institutions Grouped by Function

Functions	Ministries and Public Institutions
Administración Pública	Jefatura Camara de los representativos Poder judicial Tribunal constitucional Presidencia del Gobierno Asuntos exteriores y cooperacion internacional Justicia y culto Función publica y reforma administrativa Interior y corporaciones locales
Defensa, Orden Púb.y Seguridad	Defensa nacional Seguridad nacional
Servicios económicos	Planificación y desarrollo economico Economía, commercio y promoción Agricultura y bosque Minas, industria y energia Información, turismo y cultura Pesca y medio ambiente Infraestructura y urbanismo
Transporte	Tranportes, tecnologia y comunicaciones
Salud	Sanidad y bienestar social
Educación	Educacion, ciencia y deportes
Promoción y Protección Social	Promoción de la mujer Trabajo y seguridad social

Sources: Equatorial Guinean authorities and World Bank

**Annex: VIII. Illustration of the Impossibility of Following PIP Execution
(Example taken from the education sector)**

The following table compares the public investment program for the education subsector prepared by the MoPD with project execution data prepared by Geproyectos and recorded by the Treasury for 2007. Data from both lists cannot be reconciled because (a) project names differ and there is not a single number to identify a project; and (b) there is hardly any project in Geproyectos' list that was budgeted in the PIP (that also includes an important amount of recurrent expenditure). In fact, the list from Geproyectos is a list of payments to contractors and is not used for monitoring and reporting on the projects as, (a) a contractor's payment can include several projects or part of a project; and (b) there is no information on the total budgeted cost or the contractual cost of the project.

Public investment program (PIP) 2007		Execution 2007 (investments by Geproyectos; recorded by the Treasury)		
Name of project	Amount (in million CFAs)	Company	Name of project	Amount (in million CFAs)
Alfabetización de Adultos	16,0	TECNOBAT	Acondicionamiento Inem Mbini	6,67
Apoyo Económico de los Becarios en el Exterior	350,0	GRAL,WORK	Centro Formacion Profesional Mongomo	563,33
Asistencia Técnica Cubana	175,0	APSOGESA	Const Coleg Santa Cruz Ikund 2 aulas y despach Dirección	36,71
Atlant: Construccion y Formacion escuela turismo y hostelería	2 000,0	CHINA DALLAN	Constr 1 Edificio 20 aulas de clases en Bata	3 292,51
Capacitación de Docentes del Nivel Primario	1 120,0	CHINA DALLAN	Constr 1 Edificio 20 aulas de clases en Malabo	3 292,51
Cons. 60 vivien. Docent. centros ambito nacional (E.S.)	1 666,6	APSOGESA	Constr Colegio Santa Cruz Ikunde 4 aulas (ampliacion)	45,05
Const. 60 vivien. Docent.centros ambito nacional (E.P.)	766,6	CONGESA	Constr Lectrin Perforac Poz Coleg Nac Micom	53,18
Const. de una residencia universitaria en Bata	1 000,0	ARAB CONTRAT	Constr. 2 Edific. Internado Escuela Agricola Alep Bata	767,54
Constr. CAMPUS universitario en Bata (5.000 estudiantes)	35 150,0	CONSTRUC BIMBILE	Construc Escue Prim Consejo Pobl Ebebe -Nsomo	9,51
Constr. CAMPUS universitario en Malabo (5.000 estudiantes)	27 750,0	PROMAGRO	Construcción 3 Escuelas y Casas de Maestros Bioko-Sur	45,39
Constr. Facultad de Letras y CCSS UNGE en Malabo	150,0	ARAB CONTRAT	Construcción Escuela Agricola Alep Bata	885,96
Constr. Y Equipa. Aulas de Enseñanza Primaria	163,3	GRUPO MANSOGO	Construcción Vall INEM Bonifico Ondo Edú Evinayong	87,43
Construc. Centro de Formación Profesional de Bata	176,5	CHINA DALLAN	Construcción un Bloque 20 Aulas Clase Mongomo	2 822,15
Construc. Centro de Formación Profesional de Malabo	176,5	EAMAU	Contribuc G.E. en concept Estud Becarios dicha Escuela	271,47
Construc. de 18 Aulas de Clase Enseñanza Media (4 en Okong Oyec, 4 en Nsang, 4 en Rio Campo, 4 en Annobon y 2 en Luba)	166,6	ATEC	Control Superv Rehab Edif Coleg Nac Lumumba Mongomo	8,79
Construc. Y Puesta en Marcha Primer año Cinco Centros de Formacion en: Bata, Evinayong, Mongomo y Ebibeyin. SUPERIOR	343,0	ATEC	Control Superv Rehabilit Edif Coleg Antiguo Ministerio Industria Malabo	7,60
Construccion de aulas de clases	300,0	MACIAS	Contrucción Facultad Medicina de Bata	513,65

Public investment program (PIP) 2007		Execution 2007 (investments by Geproyectos; recorded by the Treasury)		
Name of project	Amount (in million CFAs)	Company	Name of project	Amount (in million CFAs)
para enseñanza superior		CONST		
Construcción de Centros Profesionales Provinciales	750,0	BANEY GLOBAL	Curso de Formación Unidad Malabo	1 156,12
Construcción Escuelas Profesionales agrarias en las Provincias	140,0	CONS MEMBILA	Delegacion Regional Educacion	40,67
Diseño curr. enseñ. Presecolar y edición textos escolares	200,0	INGENIERIA CONST	Estudio Cento de Reeducción de Meneores de Riaba	24,08
Diseño curr. Enseñ. Profesional y Edición de textos	110,0	RAM (Royal Maroc)	Formac diez Mecanico Tecnicos Obtencion Calificac Avion	95,54
Diseño de curr. de enseñ. media y edic. de l de texto	250,0	BANEY GLOBAL	Formac Unidad Bata 5 Instruct Unidad Mongomo	1 618,57
Educación de la Niña y Reducción de Sobreedad	166,0	UCRANIANA	Formacion 16 Estudiantes Ecuato Guineanos Aviacion	367,12
Educación para la Paz	4,6	BANEY GLOBAL	Formacion del personal	1 802,53
Elaboracion del Mapa escolar	750,0	IMPAGE	Funcionario del Invocado Instituto	2 255,89
Enseñanza Prescolar	375,2	UCRANIANA	Identificación reclutamiento y formación Pilotos LAIGE	225,91
Enseñanza Primaria	942,3	ANDOGA	INEM de Mongomeyén	29,00
FONDO SOCIAL MIU: adquisicion de mobiliario para aula de nivel pre-escolar	85,0	EDITORIAL	Libros textos fabricados M° Educac, C y D	178,54
FONDO SOCIAL MIU: construccion aulas para escuelas primarias	3 423,0	BANEY GLOBAL	Pag varias Facturas; formacion Pers Camiones Contenedores	13 078,18
FONDO SOCIAL MIU: construccion aulas para las escuelas secundarias	778,0	GRUPO C.D.F.	Pintado Complejo Centro Pres-Escolar Micomeseng	2,10
FONDO SOCIAL MIU: construccion aulas para nivel pre-escolar	3 931,0	CONS FERBEGE	Pintado Completo Colegio Naser Vall Ebebiyin	28,00
FONDO SOCIAL MIU: construccion de baños y letrinas	612,0	APSOGESA	Reha. y Acond. Letrin. Pozo agua Pre-esolar Santa Cruz	26,87
FONDO SOCIAL MIU: construccion de baños y letrinas para el nivel primario	2 246,0	CONST MARE	Rehab Edific Alber Direc INEM Dele Policia	9,80
FONDO SOCIAL MIU: construccion de posos de agua para escuelas de nivel pre-escolar	734,0	SOMBRA	Rehab. Colegio Nacional Alén Concentrad. Ebibeyín	25,44
FONDO SOCIAL MIU: instalacion de posos de agua en patios de juegos de escuelas primarias	1 326,0	CIGESA	Rehab.M° Sanidad y B Social y M° Educ C y Dep Malabo	2 910,42
FONDO SOCIALMIU: adquisicion de mobiliario para aula de nivel primario	1 249,0	MBAYE S.A.	Rehabi vivi Maestro plaza Acurenam	4,42
FONDO SOCIALMIU: adquisicion de mobiliario y materiales de enseñanza profesional	106,0	CONGESA	Rehabilit Colegio Inmaculada Bata	112,12

Public investment program (PIP) 2007		Execution 2007 (investments by Geproyectos; recorded by the Treasury)		
Name of project	Amount (in million CFAs)	Company	Name of project	Amount (in million CFAs)
Formación de Recursos Humanos del Ministerio Pesca y M.A.	40,0	MARTARAL	Rehabilit Colegio Nacional BENITO NSANG (okong oyek)	18,74
Formación Personal Técnico Especial de Trabajo y Seguridad Social	100,0	ECUATOG CONS	Rehabilit y Acond Colegio Nacional Tegujete	17,21
Formacion y reciclaje de funcionarios	49,0	BUETAS URCOL	Rehabilita Coleg Patric Lumumba Mongom Vall y Urbaniz	125,51
Fortalecimiento Institucional para el MINEDUCYDE	353,3	GRUPO MANSOGO	Rehabilitac INEM Bonifacio Ondo Edú	177,22
Manuel Macias: Facultad de Medicina Bata	443,0	ECUATOG CONS	Rehabilitac. y Acond Colegio Nacional Municipio Bikurga	35,61
Mejora de las capacidades de la Facultad de Medicina de la UNGE	1 068,3	MBAYE S.A.	Rehabilitación Colegio Nacional Micomeseng	60,94
Mejora de las capacidades de los docentes del nivel secundario	1 675,2	MBAYE S.A.	Rehabilitación Completa Vivienda Profesores Micomeseng	92,69
Mejora de las capacidades del Centro Nacional Formación Profesional	770,6	MBAYE S.A.	Rehabilitación Completa INEM Micomeseng	81,53
P.N.D. Educación para Todos. Enseñanza Secun. General	238,8	MBAYE S.A.	Rehabilitacion del INEM de Acurenam	5,30
Plan de desarrollo de enseñanza tecnica y profesional G.E	173,3	PREGUIS	Rehabilitación del INEM de Añisok	163,30
Plan Nacional Formación de Recursos Humanos (Educ., Cien, Dep.)	5 263,3	BUETAS URCOL	Rehabilitación INEM de Mongomo	238,27
Programa de abastecimineto de agua potable a las escuelas	1 444,6	SOGECO	Rehabilitación INEM de Riaba	219,13
Programa de capacitación para agricultores zona rural	25,0	MARTARAL	Reheb Escuela Consejo Poblada Nkumekieñ concentrado	126,97
Programa de enseñanza del idioma frances - edicion textos	100,0	MARTARAL	Rehebit Escuela Consejo Poblada Engong concentrado	126,97
Programa de primeros auxilios en el aula	3 884,6	MARTARAL	Rehebit Escuela Consejo Poblada Moka concentrado	126,97
PROMAGRO: construccion 3 escuelas y casas de maestros en Bioco Sur	20,0	ECUATOG CONS	Reparación Colegio Consejo Movo Concentrado	35,61
Promoción y Capacitación Mujeres	233,3	FILYAL.S.A.	Reparacion Pintado Colegio Nacional Inem Nsok Nsomo	43,63
Proyecto continuo Formacion docente con UNESCO	100,0	PROSER	Sup.Obras const 1 Bloq edif 20 aulas en Bata	92,19
Reab. y acondic. de varios centros en mal estado de conserv.Ambito Nal. SECUNDARIA	333,3	PROSER	Sup.Obras const 1 Bloq edif 20 aulas en Malabo	92,19
Rehab. Acondic. Sede MINEDUC en Malabo	200,0	PROSER	Sup.Obras const 1 Bloq edif 20 aulas en Mongomo	92,19
Rehabilitación 7 Centros Pilotos de Formacion	550,0	CHINA DALLAN	Term 1 edif Adm y Const 1 Bloq edif Adm Aulario Univ. Malabo	589,57
Rehabilitacion Comlpejo Residencia Universitaria de Malabo	200,0	ANDOGA	Terminacion Edificio Casa -Cuna Micomeseng	46,97

Public investment program (PIP) 2007		Execution 2007 (investments by Geproyectos; recorded by the Treasury)		
Name of project	Amount (in million CFAs)	Company	Name of project	Amount (in million CFAs)
Reorganización de la Formación Profesional en G.E.	391,0	ECUADOR	Terminación Const 1 Centro educat. 2 Plantas	65,80
Reorganización de la Formación Profesional en G.E.		SOMBRA	Vall Colegio Nac Consejo Pobl Alen Connec Ebebiyin	13,46
Salud Escolar	16,7	PROCONS	Vallado de la Escuela Inglesa de Ela-Nguema	5,88
	107 321,5	APSOGESA	Vallado del Colegio de Santa Cruz	35,80
		MARTARAL	Vallado del Colegio Pastor Juan Esono de Acurenam	41,29
		MARTARAL	Vallado del INEM de Akurenam	100,24
		CONS MEMBILA	Vallado Delegación Regional de Educación	60,05
		PREGUIS	Vallado INEM de Añisok	114,23
				39 746,2

Annex: IX. Examples of Reporting Tools

1. Data for the payments' commission

Numero unico de identificacion de cada proyecto	Nombre del proyecto de inversion	Sector	Sub-sector	Ministerio resp. de de la operacion	Fecha de inicio	Fecha estimada para la terminacion de la obra	Numero de fases del proyecto	Fase en la que se encuentra el proyecto	Fecha en la que la fase en curso deberia terminar	Retrasos (*)	Costo inicial previsto	Reeval. eventual del costo validada por la comision	Ejecucion total hasta la fecha	Decisiones anteriores tomadas por la comision	Comentarios (+ / + / - / ! / !)

(*) : it is possible to provide detailed information on estimated delay and whether this has already been examined by the payments commission

2. Data for the identification of the project and of implementation responsibilities

Numero unico de identificacion de cada proyecto	Nombre del proyecto de inversion	Sector	Subsector	Ministerio responsable	Funcionario(s) encargado(s) del control	Nombre de la empresa de control

3. Data on implementation delays

Numero unico de identificacion de cada proyecto	Nombre del proyecto de inversion	Fecha de inicio	Fecha estimada para terminar la obra	Numero de fases del proyecto	Fase en la que se encuentra el proyecto	Fase en la que deberia estar de acuerdo con el contrato	Fecha en la que esta fase deberia terminar	Retrasos	Indicadores fisicos

4. Data on costs

Numero unico de identificacion de cada proyecto	Nombre del proyecto de inversion	Costo inicial previsto		Ultima evaluacion del costo	Pagos en anos anteriores	monto del adelanto	costo presupuestado ano en curso	Pagos ano en curso	%pagos ano en curso sobre costo presupuestado ano en curso	% total de pagos sobre costo inicial	Comentarios (+ / + / ~ / ! / !!)
		Capital	Gastos de operacion y mantenimiento anuales								

Annex: X. School-Age Population Projections

Official population source. According to the National Population and Housing Census completed by the General Directorate of Statistics and National Accounts in the Ministry of Planning and Economic Development, the first census conducted in 1983 registered 300,000 inhabitants; another done in 1994, 406,151 inhabitants (later adjusted to 595,995, that is, almost 50 percent higher); and finally, a third census in 2001, which indicated that the number had risen to 1,014,999 inhabitants. This means that between the first and second censuses, the average annual growth rate was 2.8 percent when compared to the original rate and 6.4 percent when compared to the corrected one. Between the second and third censuses, the average annual growth rate was 14 percent and 7.9 percent, depending on the figure used as the point of departure. The arguments advanced by the official source in favor of an average annual growth rate of 7 percent—which is far above the regional average of around 3 percent—between the censuses of 1983 and 2001 are the high birth and fertility rates, declining mortality, and, owing to strong economic growth and improvements in the domestic political climate, repatriation and immigration, although the relative importance of any of these factors cannot be established.

Population distribution by region and district. The results of the official census of 2001, indicating population distribution by region and district, are shown in Table A10.1. In addition to density, the table shows the high and growing concentration of people in the districts of Malabo and Bata (a combined total of 44.9 percent against 27 percent in 1983 and 33.5 percent in the first version of the 1994 census), and that 26.2 percent live in the insular region. It should also be noted that 49.4 percent of the population is male and 38.8 percent lives in urban areas.

Table A10.1. Population by Region and District

Region/District	Population	Land Area	Density
Insular Region	265,470	2,034	131
Malabo	211,276	345	612
Baney	20,152	431	47
Luba	23,870	843	28
Riaba	5,164	398	13
Annobón	5,008	17	295
Continental Region	749,529	26,017	29
Bata	244,264	1,910	128
Mbini	28,586	2,514	11
Kogo	25,564	2,241	11
Evinayong	51,867	4,338	12
Niefang	53,734	2,339	23
Acurenám	20,255	3,254	6
Mongomo	69,154	1,415	49
Añigok	52,684	1,718	31
Nsork	16,037	1,237	13
Akomibe	20,105	1,108	18
Ebibeyín	88,891	1,095	81
Micomeseng	45,409	2,037	22
Nsok Nsomo	32,979	811	41
TOTAL	1,014,999	28,051	36

Source: Official Census of 2001

When viewed by age group, the official census indicates the distribution in Table A10.2, in which 57.6 percent of the population is under 19 years of age.

Table A10.2. Population by Age Group

Age group	Total	Percentage
0-4 years	187,907	18.5
5-9 years	149,575	14.7
10-14 years	127,533	12.6
15-19 years	119,188	11.7
20 years and over	430,796	42.4
TOTAL	1,014,999	100

Source: Official Census of 2001

Population projections of the official census. The official census used the average annual growth rate of 7.9 percent established between the last two censuses as the basis for its projections, a rate that appears high when compared to the regional average (around 3 percent). Projections can be further extended to the year 2015, with a low average annual growth rate (2.5 percent), yielding the results in Table A10.3.

Table A10.3. Population Projections and Annual Growth Rate (percentage)

Year	Population	Percentage
2001	1,014,999	
2002	1,085,000	6.9
2003	1,157,005	6.6
2004	1,242,006	7.3
2005	1,318,008	6.1
2006	1,383,009	4.9
2007	1,446,011	4.6
2008	1,508,013	4.3
2009	1,566,014	3.8
2010	1,622,016	3.6
2015	1,835,000	2.5

Source: National Institute of Statistics

United Nations demographic projections. According to the estimates of the UN Population Division, the results in Table A10.4 were obtained.

Table A10.4. UN Population Estimates

Year	UN	Percentage
1995	452,000	
2000	530,000	3.23
2005	610,000	2.85
2007	642,000	2.58
2010	694,000	2.63
2015	781,000	2.39

Source: UN Population Division.

United Nations population projections by age group. Table A10.5 indicates the population data disaggregated by age group in five-year increments. It bears noting that the relative share of the

population under 19 years of age is 53 percent, which is slightly less than the figure established by the official source.

Table A10.5. Population by Age Group^a

Age group	UN	
	2007	2015
0-4 years	102,000	122,000
5-9 years	88,000	103,000
10-14 years	80,000	90,000
15-19 years	69,000	81,000
20 years and over	303,000	385,000
Total	642,000	781,000

Source: UN Population Division

^a In all instances, each source uses the same average annual population growth rate for 2007 as for 2005.

Population estimates by age. In order to estimate the 2007 school enrollment rate, the period for which there is the most enrollment data, as well as the teaching and infrastructure needs for achievement of the MDGs by 2015, the cohorts are *disaggregated by age*. The official source uses the same disaggregation by age group in 2007 as in 2001, whereas in 2015 the disaggregation used by the UN is applied. For both the official source and the UN, the following ad hoc coefficient was applied to each group: $0.21 + 0.205 + 0.2 + 0.195 + 0.19 = 1$. Table A10.6 shows that according to the estimates, the population in the theoretical age group for primary education rises to 236,000 in 2007 according to the official source and to 100,000 for the UN, and in 2015 to 271,000 and 115,000, respectively.

Table A10.6. Population by Age

Age	Level	2007		2015	
		Official	UN	Official	UN
0		56,178	21,420	60,196	25,620
1	Nursery school	54,840	20,910	58,762	25,010
2	Nursery school	53,502	20,400	57,329	24,400
3	Nursery school	52,165	19,890	55,896	23,790
4	Kindergarten	50,827	19,380	54,463	23,180
5	Kindergarten	44,638	18,480	50,821	21,630
6	Kindergarten	43,576	18,040	49,611	21,115
7	1st Grade	42,513	17,600	48,401	20,600
8	2nd Grade	41,450	17,160	47,191	20,085
9	3rd Grade	40,387	16,720	45,981	19,570
10	4th Grade	38,261	16,800	44,407	18,900
11	5th Grade	37,350	16,400	43,349	18,450
12	6th Grade	36,439	16,000	42,292	18,000
13	1st Year	35,528	15,600	41,235	17,550
14	2nd Year	34,618	15,200	40,177	17,100
15	3rd Year	35,528	14,490	39,966	17,010
16	4th Year	34,683	14,145	39,014	16,605
17	5th Year	33,837	13,800	38,063	16,200
18	6th Year	32,991	13,455	37,111	15,795

Source: World Bank, based on official and UN projections.

Considerations regarding the population. There are two further questions regarding the population estimates:

- When considering the population distribution by district, it is difficult to estimate the impact of migration from rural areas to the cities, mainly to Malabo and Bata. The pace of population growth in both districts, which is greater than the country's average, could be used as a reference, but this raises questions regarding its origin.
- Two arguments provide evidence in line with international estimates. First, according to the report “Educational Development in Equatorial Guinea” (2006) by the Academy for Educational Development, the estimated population for the year 2005 is 529,034 inhabitants. Second, in the report “Current Situation and Basic Characteristics of Primary Education Teachers in Equatorial Guinea” (2008), produced in the context of the Program for Educational Development of Equatorial Guinea (PRODEGE), when estimating gross and net primary enrollment rates, the figure used as the common denominator is 88,814 inhabitants, which is more or less in line with the scenario proposed by external sources. Both arguments are gaining traction considering each study was conducted in coordination with the Ministry of Education, Science and Sport (MECD) of Equatorial Guinea, which in some way would support United Nations statistics.

Annex: XI. Additional Statistical Data on the Education Sector

Table A11.1. Illiteracy by Region and District (2008)

Region/District	Number of Illiterate Persons	Percentage
Insular Region	900	5.1
Malabo	400	2.3
Baney	80	0.5
Rebola	80	0.5
Luba	188	1.1
Riaba	49	0.3
Moka	61	0.3
Annobón	42	0.2
Continental Region	16,723	94.9
Bata	4,000	22.7
Mbini	496	2.8
Kogo	486	2.8
Evinayong	700	4.0
Niefang	117	0.7
Acurenám	315	1.8
Mongomo	800	4.5
Añigok	150	0.9
Nsork	117	0.7
Akomibe	260	1.5
Ebibeyín	2,142	12.2
Mícomeseng	7,000	39.7
Nsok Nsomo	140	0.8
Total	17,623	100

Source: Inspectorate General, MECD

Table A11.2. Gross Enrollment Rate

Level	Official	UN
Preschool	33.2	83.1
Primary	34.4	80.6
Secondary	16.7	39.5
Total	27.8	66.2

Source: MECD, World Bank

Table A11.3. Teaching Staff by District and Level of Training (2007/08)

Region/District	Teachers				Total
	Legally qualified	Primary	Secondary	No data	
Insular Region	380	52	290	12	734
Malabo	332	36	234	11	613
Baney	23	7	23	0	53
Luba	18	6	20	1	45
Riaba	2	3	4	0	9
Annobón	5	0	9	0	14
Continental Region	985	212	952	17	2,166
Bata	560	32	306	0	898
Mbini	22	6	29	0	57
Kogo	21	6	30	0	57
Evinayong	31	29	89	1	150
Niefang	50	20	37	3	110
Acurenám	25	14	49	0	88
Mongomo	49	15	76	2	142
Añigok	46	23	63	0	132
Akomibe	19	10	33	0	62
Nsork	18	7	22	1	48
Ebibeyín	72	25	102	8	207
Mícomeseng	51	18	52	1	122
Nsok Nsomo	21	7	64	1	93
Total	1,365	264	1,242	29	2,900

Source: MECD *Primary Education Yearbook*

Note: The category “legally qualified” includes persons holding doctorates, master’s degrees, bachelor’s degrees, and degrees or diplomas in education; “primary” and “secondary” include those who either have or have not completed these levels.

Table A11.4. Level of Education Attained by Teachers with Under Five Years’ Seniority (2007/08)

Seniority	Legally qualified	Primary	Secondary	Total
1 year	45	14	67	126
2 years	72	17	73	162
3 years	86	10	81	177
4 years	72	10	78	160
5 years	77	13	87	177
Total	352	64	386	802

Source: *Primary Education Yearbook*

Note: See Table A11.3.

Table A11.5. Level of Teachers' Educational Attainment by District

Region/District	Teachers				
	Incomplete primary	Primary	Incomplete secondary	Secondary	Total
Insular Region	38	72	169	7	286
Malabo	35	44	155	7	241
Baney	2	6	8	0	16
Luba	1	18	4	0	23
Riaba	0	1	0	0	1
Annobón	0	3	2	0	5
Continental Region	164	394	802	9	1,369
Bata	10	121	305	8	444
Mbini	11	7	44	0	62
Kogo	12	5	29	0	46
Evinayong	17	3	60	1	81
Niefang	3	53	34	0	90
Acurenám	15	9	18	0	42
Mongomo	11	50	47	0	108
Añigok	3	27	39	0	69
Akomibe	26	7	26	0	59
Nsork	4	20	26	0	50
Ebibeyín	35	25	99	0	159
Mícomeseng	2	18	52	0	72
Nsok Nsomo	15	49	23	0	87
Total	202	466	971	16	1,655

Source: Análisis de situación de la educación infantil y preescolar de Guinea Ecuatorial (2006/07)

Table A11.6. Condition of the Centers, by District

Region/District	Type of construction material			
	Permanent	Semi-permanent	Local materials	Total
Insular Region	63	42	2	107
Malabo	43	31	0	74
Baney	9	5	0	14
Luba	8	6	2	16
Riaba	1	0	0	1
Annobón	2	0	0	2
Continental Region	163	396	73	632
Bata	86	60	0	146
Mbini	5	9	24	38
Kogo	4	26	0	30
Evinayong	9	20	0	29
Niefang	5	39	0	44
Acurenám	5	7	12	24
Mongomo	20	12	19	51
Añigok	3	49	0	52
Akomibe	9	15	0	24
Nsork	4	6	15	25
Ebibeyín	7	67	0	74
Mícomeseng	5	38	0	43
Nsok Nsomo	1	48	3	52
Total	226	438	75	739

Source: Análisis de situación de la educación infantil y preescolar de Guinea Ecuatorial (2006/07)

Table A11.7. Type of Classroom (2007/08)

Region/District	Classroom		
	Permanent	Temporary	Total
Insular Region	484	44	528
Malabo	379	33	412
Baney	52	3	55
Luba	35	8	43
Riaba	10	0	10
Annobón	8	0	8
Continental Region	1,394	417	1,811
Bata	484	129	613
Mbini	53	10	63
Kogo	58	1	59
Evinayong	82	34	116
Niefang	81	50	131
Acurenám	55	14	69
Mongomo	136	11	147
Añigok	122	18	140
Akomibe	48	8	56
Nsork	39	2	41
Ebibeyín	133	60	193
Mícomeseng	68	36	104
Nsok Nsomo	35	44	79
Total	1,878	461	2,339

Source: MECD *Primary Education Yearbook*

Table A11.8. Equity Indicators B (2007/08)

District	Colegio Nacional (%)	Permanent classrooms (%)	Students per classroom
Acurenám	80.2	79.7	21
Akomibe	69.5	85.7	18
Annobón	100.0	100.0	65
Añigok	71.8	87.1	19
Baney	89.6	94.5	25
Bata	93.3	79.0	47
Ebibeyín	73.4	68.9	28
Evinayong	67.8	70.7	23
Kogo	65.7	98.3	24
Luba	96.7	81.4	30
Malabo	92.3	92.0	51
Mbini	62.7	84.1	22
Mícomeseng	69.7	65.4	28
Mongomo	87.5	92.5	23
Niefang	75.0	61.8	23
Nsok Nsomo	66.8	44.3	19
Nsork	71.5	95.1	19
Riaba	80.1	100.0	18
Total	86.2	80.3	35

Source: *Primary Education Yearbook*, MECD

Table A11.9. Relative Share of Education Expenditure (Millions of CFA francs)

Year	1998	1999	2000	2001
Total public expenditure	69,200	84,382	100,918	158,141
Total education expenditure	3,745	3,099	3,855	6,399
GDP	286,200	422,000	885,300	1,180,300
TEE / TPE	5.4	3.7	3.8	4
TEE / GDP	1.3	0.7	0.4	0.5

Source: General State Budget, World Bank and IMF

Table A11.10. Total Public Expenditure, Education Expenditure, and GDP (Millions of CFA francs)

Concept	2004	2005	2006	2007	2008
Total current expenditure (TCE)	98,978	101,615	154,828	204,337	352,819
Total capital expenditure	159,785	200,825	427,000	979,436	1,300,000
Total public expenditure (TPE)	258,763	302,440	581,828	1,183,773	1,652,819
Current education expenditure	9,083	9,695	10,860	14,251	14,786
Capital education expenditure	46,948	8,791	8,681	107,322	20,886
Total education expenditure (TEE)	56,031	18,486	19,541	121,572	35,673
GDP	2,757,400	4,253,500	4,927,300	5,850,900	7,890,400
TPE / GDP	9.4	7.1	11.8	20.2	20.9
PEE / TPE	21.7	6.1	3.4	10.3	2.2
CEE / TCE	9.2	9.5	7.0	7.0	4.2
TEE / GDP	2.0	0.4	0.4	2.1	0.5

Source: General State Budget, World Bank and IMF

Table A11.11. Education Expenditure (Millions of constant CFA francs in 2008)

Heading	2004	2005	2006	2007	2008
Current expenditure	13,867	10,455	10,278	13,926	14,786
Capital expenditure	71,674	9,480	8,216	104,875	20,886
Total education expenditure	85,541	19,936	18,493	118,801	35,673

Source: General State Budget

Table All.12. Budget Execution of Current Expenditure (Millions of current CFA francs)

Category	2007		2008	
Personnel	7,600	52.8	6,392	24.2
Goods and services	1,206	8.4	2,166	8.2
Transfers	5,590	38.8	17,866	67.6
Total	14,395	100	26,424	100

Source: General State Budget

Table A11.13. Personnel Expenditure by Function (Thousands of current CFA francs)

Function	Q	Amount	Additional Responsibilities	Miscellaneous expenses	Total
Management personnel	22	122,294	13,920	80,604	265,256
Teachers	3,583	5,889,161	194,868	20,000	6,107,612
Wages - civil servants	3,583	4,307,161	194,868	20,000	4,525,612
Contract personnel		500,000			500,000
Seniority		532,000			532,000
Extra allowance		550,000			550,000
Total	3,605	6,011,455	208,788	100,604	6,372,868

Source: Prepared by the author, based on the General State Budget

Table A11.14. Actual Wages, 2007/08 (Thousands of CFA francs)

Wage Scale	Q	W Básico	Seniority	Grade	Total
A	9	16,737	6,169	1,594	24,500
B	499	726,823	301,133	66,232	1,094,189
C	810	889,646	231,562	85,858	1,207,066
No payment or no data available	269	0	0	0	0
Total	1,587	1,633,206	538,864	153,684	2,325,754

Source: Prepared by the author

Table A11.15. "Theoretical" Wages, 2007/08 (Thousands of CFA francs)

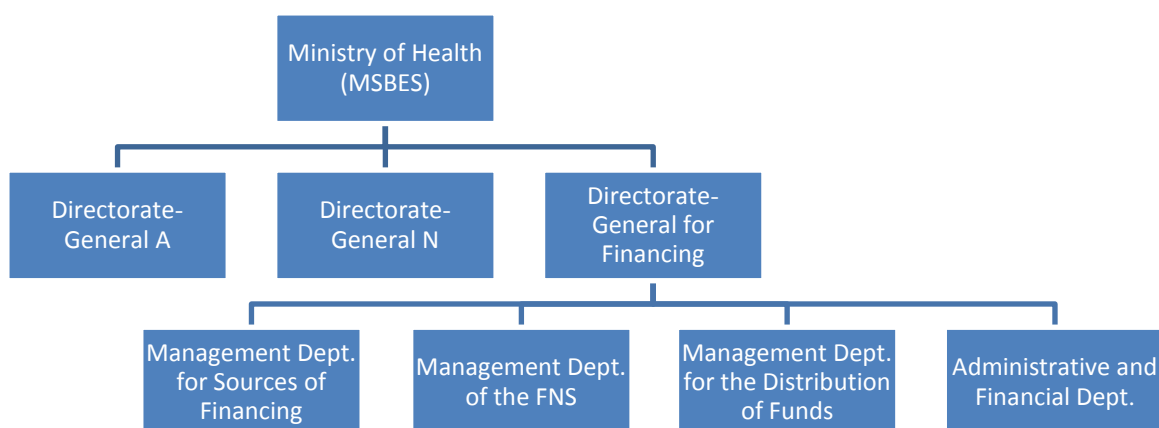
Wage Scale	Q	W Básico	Seniority	Grade	Total
A	9	16,737	6,169	1,594	24,500
B	499	726,823	301,133	66,232	1,094,189
B (assumption)	1,079	1,571,628	344,730	135,086	2,051,444
Total	1,587	2,315,189	652,032	202,911	3,170,132

Source: Prepared by the author.

Annex: XII. Institutional Strengthening of the MSBES for Budgeting

An improvement in the financial operation of the MSBES would strengthen the system and the capacity to improve the provision of health services as it would be expected that there would be greater capacity for intervention and negotiation by the MSBES with external donors and other ministries. It would increase the possibility of generating efficiency by concentrating assets and resources, coordinating all the institutions, and standardizing procedures. The increase in the MSBES's capacity to spearhead the budget preparation and execution process would be supported by greater flexibility in the management of funds and a gradual decentralization of the system. This would also help with the separation of the service provision and financing functions of the system.

The organizational chart of the MSBES and the description of the functions of the Administrative and Financial Directorate would be the following:



Departments	Main Functions
Management of Sources of Financing	<ul style="list-style-type: none"> • Collection of funds for the MSBES • Responsibility for relationships with external donors • Coordination of self-management funds • Coordination of National Health Insurance
Budget Management	<ul style="list-style-type: none"> • Responsibility for the control of financing • Earning on the available financing resources • Preparation of the General Budget of the MSBES (consolidated)
Distribution of Funds	<ul style="list-style-type: none"> • Responsibility for the financing of health care providers • Supervisor of the budget execution process
Administrative and Financial	<ul style="list-style-type: none"> • Ensuring the standardization and implementation of accounting procedures • Consolidation of economic and financial information • Preparation of the National Health Accounts • Cash management

EQUATORIAL GUINEA

- SELECTED CITIES AND TOWNS
- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

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