

30 July 2018

Prepared by: RDGC/ECCE

Original: French

Probable Date of Board Presentation  
5 September 2018

FOR CONSIDERATION

## MEMORANDUM

**TO :** THE BOARD OF DIRECTORS

**FROM :** Vincent O. NMEHIELLE  
Secretary General

**SUBJECT :** EQUATORIAL GUINEA – COUNTRY STRATEGY PAPER 2018-2022\*

Please find attached the above-mentioned document

Attach.

Cc : The President

\* Questions on this document should be referred to:

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# **AFRICAN DEVELOPMENT BANK**



## **REPUBLIC OF EQUATORIAL GUINEA**

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### **COUNTRY STRATEGY PAPER 2018-2022**

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*July 2018*

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## CURRENCY EQUIVALENTS

June 2018 Exchange Rates

UA 1	=	EUR 1.21
UA 1	=	XAF 794
UA 1	=	USD 1.42

## FISCAL YEAR

1 January – 31 December

<b>ACCRONYMS AND ABBREVIATIONS</b>	
ADF	African Development Fund
AfDB	African Development Bank
AWF	African Water Facility
BDEAC	Development Bank of Central African States
BTP	Public Works and Civil Engineering
CBFF	Congo Basin Forest Fund
CEMAC	Central African Economic and Monetary Community
CPPR	Country Portfolio Performance Review
CSP	Country Strategy Paper
DBDM	Development and Business Delivery Model
DGPPE	Directorate of Planning and Educational Programmes
ECCAS	Economic Community of Central African States
EITI	Extractive Industries Transparency Initiative
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
HDI	Human Development Index
INSESO	National Social Security Institute
IPP	Provincial Polytechnic Institute
MDG	Millennium Development Goal
MENS	Ministry of Higher Education and Research
MIC-TAF	Middle Income Countries Technical Assistance Fund
MSBES	Ministry of Health and Social Welfare
NESDP	National Economic and Social Development Plan
PADSS	Health Systems Development Support Project
PAGFP	Public Finance Management Support Project
PCR	Project Completion Report
PFCMS	Middle and Senior Management Training Programme
PIU	Project Implementation Unit
PMU	Project Management Unit
PPIP	Portfolio Performance Improvement Plan
PPP	Public-Private Partnership
REC	Regional Economic Community
REG	Republic of Equatorial Guinea
SDG	Sustainable Development Goal
SME	Small- and Medium-size Enterprise
SMP	Staff Monitoring Programme
TFP	Technical and Financial Partner
UA	Unit of Account
UAM	Million Units of Account
WHO	World Health Organization

## EXECUTIVE SUMMARY

1. **Introduction.** This report on the Country Strategy Paper (CSP) proposes to the Boards of Directors a new Bank Group strategy for the Republic of Equatorial Guinea (REG) for the 2018-2022 period.
2. **In July 2013, the Boards of Directors approved the Country Strategy Paper for REG** (ADB/BD/WP/2013/81) covering the period 2013-2017. This CSP hinged on a single pillar, namely: “Promote Human Capital Development and Capacity Building for Economic Transformation”. On 30 April 2018, the Committee on Operations and Development Effectiveness (CODE) approved **the Combined 2013-2017 Country Strategy Paper Completion, 2017 Country Portfolio Performance Review and Proposed CSP 2018-2022 Pillars Report (ADF/BD/WP/2018/33)**. CODE members considered the outcomes of the 2013-2017 CSP to be unsatisfactory. During the CSP period, the only operation added to the portfolio was a Middle Income Countries Technical Assistance Fund (MIC-TAF) grant to support the private sector. During the review of the completion report of the previous CSP, CODE members took note of the lessons learned from the Bank’s previous operations and approved the pillars of the future strategy proposed by Management, namely Pillar 1: *Supporting Agricultural Transformation for Economic Diversification* and Pillar 2: *Building Capacity in Public Policy Design and Implementation*. CODE guidelines were taken into account during preparation of the strategy for the 2018-2022 period proposed in this report.
3. **This report** also reflects the conclusion of ongoing strategic and technical dialogue with the authorities of Equatorial Guinea. The main conclusions of this report, including the proposed pillars and operations, were adopted through a broad-based participatory process during three dialogue missions fielded in January, April and June 2018 in Malabo.
4. **The Bank’s portfolio: Due to the low rate of implementation of the 2013-2017 CSP as at 31 May 2018, the Bank-financed portfolio comprised one active operation**, namely the Private Sector Promotion Support Project (MIC-TAF) worth UA 0.8 million with a 7.3% disbursement rate<sup>1</sup>. All other projects have been closed since the conduct of the mid-term review. The portfolio performance was deemed unsatisfactory. The overall portfolio score, calculated on the basis of scores awarded by the project supervision missions fielded in 2017, is 1.43 on a scale of 0 to 3.
5. **Country strategy for the 2018-2022 period: The proposed strategic orientation seeks to support the Government in implementing its strategy to diversify the economy.** It builds on lessons learned from the implementation of the previous CSP, persistent constraints and challenges, as well as the country’s priorities contained in the National Economic and Social Development Plan (NESDP). This strategic orientation is in line with the two objectives of the Bank’s Ten-Year Strategy 2013-2022 relating to inclusive growth and transition to green growth. This strategy, which also hinges on the Bank’s High 5s, mainly aims to contribute to achieving the structural transformation of Equatorial Guinea’s economy. It focuses on two pillars, namely: **(i) Supporting Agricultural Transformation for Economic Diversification; and (ii) Building Capacity in Public Policy Design and Implementation.**
6. **The first pillar is expected to support the Government’s strategy to diversify the economy**, particularly in the fisheries and agri-food sectors. This pillar is also expected to strongly support the reform of the private sector environment, in continuation of the ongoing Middle Income Countries

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<sup>1</sup> The disbursement of this Technical Assistance Fund (TAF) grant has been delayed. It was approved in 2014, but signed in 2016. Due to delays in the setting up of the project team and the fulfilment of first disbursement conditions, it could only be operationalized at end-2017.

Technical Assistance Fund (MIC-TAF) grant. The objective of this pillar is to assist the country in taking full advantage of opportunities related to its infrastructure, while creating wealth-sharing jobs.

**7. The second pillar seeks to have a leverage effect on Government action by building capacity in the formulation of global and sector policies and in the structuring of their implementation.** In supporting human capacity building and better governance, the Bank will seek to improve public finance management, upgrade senior officers' technical and managerial skills, and improve health sector human resources. These objectives will help to consolidate the recent achievements of the previous CSP in the public finance, training and health management sectors.

**8. Cross-cutting aspects,** including gender, green growth promotion, youth employment and fragility aspects, will also be at the core of the Bank's strategy. In addition, in view of growth prospects and business opportunities linked to the expected economic diversification, **REG's integration into the CEMAC and ECCAS zones will also benefit from Bank support.**

**9. Though ambitious, the proposed strategy draws lessons from the weaknesses of the 2013-2017 CSP. Accordingly, the Bank intends to lay greater emphasis on technical assistance and knowledge which have leverage effects on all sectors.** Capacity building, as well as project coordination and preparation continue to be key factors in the implementation of REG's Development Vision.

**10. The Bank's commitment to CSP 2018-2022 implementation will also be gradual.** It proposes gradual involvement to enable better ownership of operations by the Client and a better match between the operational framework and Equatorial Guinea's new priorities. In addition, the Bank's gradual support will help to ensure better preparation of larger-scale projects with good quality conditions at entry. Finally, the Bank's strategy will give prominence to the private sector to enable it to play a leading role in agricultural transformation. Governance, which has a cross-cutting dimension, will also be at the core of dialogue with the authorities. The operations will be mainly financed with AfDB window resources.

**11. Furthermore, in view of widespread and recurrent operational weakness, the Bank needs to reinforce its presence in REG.** According to opportunity analyses, it would be appropriate to open a liaison office for REG given that in recent years the country's authorities have reiterated this wish. It should be noted that, in general, REG has weak institutional capacity which directly affects strategy formulation and project appraisal. Moreover, experience in collaboration with international development institutions is weak. It is important for the Bank to recruit Spanish-speaking staff on the ground to build the capacity of the country's administrative services in project management and to contribute to providing strategic counselling to the country.



## **I. INTRODUCTION**

**1.1 This report on the Country Strategy Paper (CSP)** proposes to the Boards of Directors a new Bank Group strategy for the Republic of Equatorial Guinea (REG) for the next five years, that is the 2018 to 2022 period.

**1.2 The report reflects the conclusion of ongoing policy and technical dialogue with the authorities of Equatorial Guinea.** The main conclusions of this report, including the proposed pillars and operations, were adopted through a broad-based participatory process during several dialogue missions fielded in 2018 in Malabo.

**1.3 This strategy has been designed within a context marked by** a sharp fall in oil prices, although a recovery in the price of the barrel of oil has been perceptible since January 2018. The country's considerable needs in assistance and counselling thus highlight the expediency and prospect of reviving cooperation between REG and the Bank. The immense financing needs of the National Economic and Social Development Programme (NESDP) provide opportunities to strengthen cooperation between the Bank and the country. Over the past three years, discussions between the country's top authorities and the Bank indicate prospects for renewed cooperation. The period covered by the Country Strategy Paper coincides with the implementation period of the second phase of NESDP which hinges on: (i) building human capital and improving the quality of life for each citizen; (ii) diversifying the economy through the private sector; and (iii) instituting good governance at the service of the citizen.

**1.4** CODE approved the **Combined 2013-2017 Country Strategy Paper Completion, 2017 Country Portfolio Performance Review and Proposed CSP 2018-2022 Pillars Presentation Report (ADF/BD/WP/2018/33)** on 30 April 2018. Bank Management as well as CODE members considered the outcomes of the 2013-2017 CSP to be unsatisfactory. During the 2013-2017 CSP period, the only operation added to the portfolio was a MIC-TAF grant to support the private sector. During the review of the completion report of the previous CSP, CODE members supported the strategic orientations and pillars of the new strategy for the 2018-2022 period proposed by Management, namely Pillar 1: Supporting Agricultural Transformation for Economic Diversification and Pillar 2: Building Capacity in Public Policy Design and Implementation.

**1.5.** CODE members also confirmed the recommendations made by Management on the need to (i) strengthen the Bank's presence and visibility; (ii) prioritize and strengthen policy dialogue with the authorities, technical assistance and knowledge products to diversify the country's economy; and (iii) place governance at the core of the next CSP. CODE members underscored the need to submit to the Boards a concrete plan for the improvement of portfolio performance. All the recommendations made by CODE were taken into consideration during the preparation of this strategy.

**1.6 This report comprises four parts in addition to the introduction.** Part I presents the country context, Part II the strategic options, Part III the Bank's strategy in Equatorial Guinea, and Part IV the conclusion and recommendation.

## II. COUNTRY CONTEXT

### 2.1 Changing Political Context

**The political situation was stable throughout the CSP 2013-2017 implementation period.** The current President has been in power since 1979 and was re-elected in the April 2016 presidential elections for a seven-year term. A national dialogue held in November 2014 resulted in an amnesty and the return of political actors to the country. Some of these actors formed the Opposition Coalition for the Restoration of a Democratic State (CORED). However, the opposition and civil society organizations have little political representation and low media access. Hence, the ruling party, the Democratic Party of Equatorial Guinea, won a landslide victory in the November 2017 parliamentary and municipal elections which African Union observers considered as credible and transparent. It should, however, be noted that there was a mercenary incursion into the country in December 2017, which indicates the challenge of maintaining socio-political cohesion.

### 2.2. Economic and Public Finance Situation

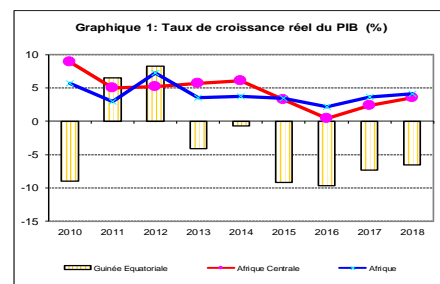
#### Economic situation and outlook

**2.2.1 REG's economy is dominated by hydrocarbons, though their share in the gross domestic product (GDP) dropped between 2013 and 2017 in relative and absolute terms.** Data show that the share of the non-oil sector in GDP is on the rise, increasing from about 40% in 2013 to 56% in 2017.<sup>2</sup> The key sectors that stimulated economic diversification include public works and civil engineering, agriculture, forestry, fisheries and trade. This increase in the share of the “non-oil” sector in GDP is also due to the sharp fall in oil prices and the decline in REG's production over the last five years.

**2.2.2 The oil windfall has enabled the country to profoundly modernize its infrastructure over the past two decades.** During the period of the previous CSP and despite the unfavourable economic environment, the authorities continued to build many high quality infrastructures to provide transport and basic services (water, electricity and housing) to the population. However, public investments declined from 24.6% of GDP in 2013 to 17.2% of GDP in 2017 due to budgetary pressures. These modernization efforts were therefore expected to contribute to developing a diversified and job-creating private sector.

**2.2.3 Economic diversification, which is taking long time to achieve, is a key objective for the country's growth and economic stability in the medium and long term.** The main sectors of economic diversification, with their respective average annual growth potential over a ten-year period, are agriculture (12%), industrial fishing (18%), maritime transport (16%), and electricity (15%).

**2.2.4 According to data provided by the authorities, the country's GDP dropped by almost 57% during the 2013-2017 period, but this shock is expected to stabilize over the next five years, as shown in Graph**



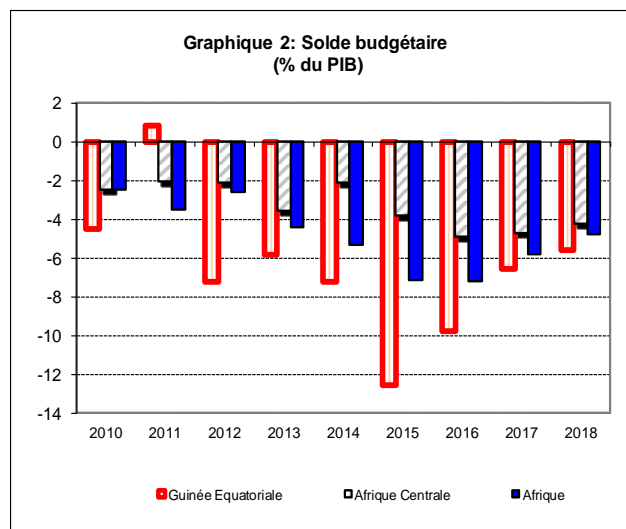
Source: Département des statistiques de la BAD, PEA janvier 2018

<sup>2</sup> The reduction in the relative share of the “oil” economy is due not only to the drop in the value of exports, but also to the improved accountability of the rest of the economy facilitated by the modification of the national accounts basis (2010) and the establishment of the National Institute of Statistics of Equatorial Guinea (INEGE).

1. One of the significant developments in the country's context is the fall in oil prices (although they have been rising since January 2018) which has seriously affected the country's growth. After 2014, falling world oil prices and the decline in the country's production ended the period of strong growth experienced by the country. REG's membership of the Organization of Petroleum Exporting Countries (OPEC) in May 2017 also obliges the country to reduce its oil production by 12 000 barrels a day.

## Public finance situation

**2.2.5 Falling oil prices directly impacted public accounts.** From 2013 to 2017, public revenue contracted by 45% (from CFAF 2 694 billion to 1 485 billion) and expenditure fell in the same proportions. However, the share of oil revenue in the economy dropped from 90% of GDP in 2013 to 71% in 2017. To maximize non-oil revenue within the context of economic recession and budget deficit (illustrated in Graph 2), the authorities have since 2015 implemented a number of measures including combating tax evasion, broadening the tax base<sup>3</sup>, eliminating many customs duty exemptions and exceptional earnings generated by the sale of public assets, particularly real estate. Consequently, non-oil revenue leaped from CFAF 247 billion in 2013 to CFAF 425 billion in 2017, while oil revenue slumped from CFAF 2 446 billion in 2013 to CFAF 860 billion in 2017.



Source: Département des statistiques de la BAD, PEA janvier 2018

**2.2.6 Against this backdrop, the medium-term framework established by the Government seeks to reduce expenditure.** Other measures concern the review of subsidies to government agencies and the restructuring of State enterprises. The payroll in 2017 was estimated at CFAF 146 billion, representing 8% of projected expenditure and 34% of non-oil revenue. These ratios are satisfactory in light of CEMAC convergence criteria. It should be noted that investment projects have been prioritized and emphasis laid on the full implementation of existing projects instead of launching new ones. Funds earmarked for the public investment programme therefore fell from CFAF 2 457 billion in 2013 to CFAF 953 billion in 2017, that is a 61% decline. Furthermore, since 2014, the cost of constructing Djibloho, the new town located in the centre of the country, has accounted for about 50% of public investment expenditure. A major economic concern is the accumulation of domestic arrears owed to economic actors by the State under the public investment programme. According to the authorities, these arrears were estimated at about CFAF 1 3 00 billion in February 2018.

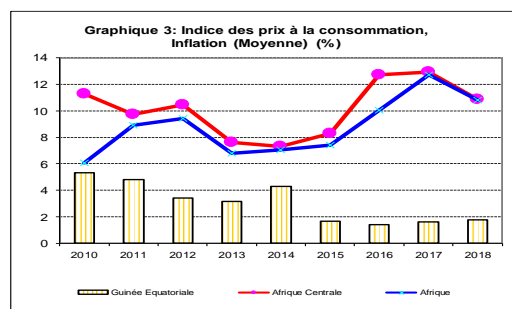
<sup>3</sup> This broadening of the tax base concerns enterprises operating in the informal sector and petty traders.

### Box 1: Public Debt, Borrowing Power and Relations with the International Monetary Fund

Despite the current economic situation, the State still has a considerable borrowing capacity. According to the authorities, the external public debt rose from 7.9% of GDP in 2013 to 15.3% at end-2015 and could reach 20% at end-2020. In comparison, the budget balance was -6.6% of GDP in 2017. According to the IMF, the country's financial reserves at BEAC and in commercial accounts dwindled significantly at end-2017. The country is therefore building up debt. It should be noted that the depletion of oil revenue reserves is common to all CEMAC member countries. In 2015, BEAC authorized the use of cash advances, but later limited such use to the 2016 and 2017 periods to encourage fiscal discipline. It should be noted that a large portion of REG's public debt consists of domestic arrears estimated at CFAF 1 300 billion in May 2018.

Owing to economic and fiscal imbalances due largely to falling oil prices, REG has strengthened its relations with the IMF. An agreement was signed in May 2018 to implement a Staff Monitoring Program (SMP) (no financing). This SMP was implemented from January to June 2018 to achieve macro-economic, public finance, business environment and governance objectives.

**2.2.7 Inflation has been contained, dropping to less than 2% in 2016 and 2017 with prospects for a low inflation rate in 2018 and 2019** as shown in Graph 3. The Bank of Central African States (BEAC) has played a key role in bringing inflation under control, particularly by carrying out banking supervision, controlling liquidity and stopping recourse to cash advances as from 2017. The control of prime rates helped to curb inflation. However, the low inflation rate is due particularly to low inflation in Europe from where many wage goods are imported.



**2.2.8 In the financial sector,** the banking sector is weakened by the accumulation of doubtful loans in a sluggish economic context and payment arrears owed to economic actors. The effects of this chain of events have rippled to economic operators. In spite of the liberalization of the banking sector, the cost of capital remains high, reflecting the low level of competition. In addition, huge fees are levied on loans and other bank transactions, as illustrated by the 15% interest rate for private borrowing enterprises. This has not prevented banks from showing no enthusiasm for financing local businesses due to perceived risks and/or aversion to risk. Most multinational companies operating in the oil and gas sector obtain financing from foreign sources. Thus, broad money dropped by 14.3% in 2017 after declining by 16% in 2016, indicating recession. This unfavourable economic situation also curbs credit to the economy.

### Global trade and balance of payments

**2.2.9 The country's exports continue to be dominated by hydrocarbons, although their relative share is decreasing slightly, from about 88% of exports in 2010 to 67% in 2017.** Similarly, the share of crude oil in REG's exports shows a relative decline compared with gas and methanol exports. There are two main categories of imports, namely: (i) utility and capital goods; and (ii) virtually all agricultural products – indicating food dependency – as well as the need to implement production projects in this sector. The current account balance showed a deficit of 8.3% of GDP in 2017 due mainly to large imports of capital goods and foodstuffs and a decline in hydrocarbon export value.

**2.2.10 Concurrently, foreign direct investments have dwindled since 2014** owing especially to falling oil prices and a decrease in public procurement. Major international companies have been obliged to streamline their investments and concentrate on low-cost deposits, like in Brazil, affecting the balance of payments which deepened from CFAF -19 billion in 2013 to CFAF – 199 billion in 2017.

## **Governance**

**2.2.11 The overall public sector governance environment is characterized by:** (i) limited access to information; (ii) inefficient public finance management planning, implementation, control, transparency and accountability procedures; and (iii) inadequate institutional resources and systems, particularly lack of skilled personnel to ensure sound routine administrative management and pilot reform policies.

**2.2.12 Although REG is eligible for loans from the AfDB window, it has a weak institutional capacity like ADF countries, which calls for the adoption of a flexible approach and greater outreach.** The persistent weakness of public institutions constitutes a risk factor for sustainable development. The reforms initiated seek mainly to improve the budgeting process (streamlining of budget procedures, better classification and recording of public expenditure, preparation of manuals, etc.). REG is ranked 46<sup>th</sup> out of 54 African countries in the 2017 Mo Ibrahim Governance Index<sup>4</sup>. However, it should be noted that the authorities are making significant efforts to attract competences to REG, particularly among the diaspora generations. Mobilization of the diaspora is a very powerful tool for effecting positive change in Equatorial Guinea. This is possible only within the context of extensive job creation.

**2.2.13 The authorities are aware of governance challenges in REG.** To improve transparency and public service control, they have negotiated a refundable technical assistance with the World Bank for the production of national accounts and the organization of the new National Institute of Statistics of Equatorial Guinea (INEGE). Measures have also been taken to restructure and computerize the public administration. Progress has therefore been made regarding transparency through the establishment of a Court of Auditors, the Office of the Ombudsman and an Anti-corruption Brigade. Furthermore, the authorities announced their intention to return to the Extractive Industries Transparency Initiative (EITI) on 8 August 2014. This process is ongoing. There is an urgent need for REG to ratify the United Nations Convention Against Corruption.

## **Private sector and competitiveness**

**2.2.14 The efforts made in public investment in recent years have not boosted the private sector due to an unfavourable business climate.** However, the authorities recently announced the recruitment of an agency to provide counselling for improvement of the business environment.

**2.2.15 The business environment is still facing major institutional challenges** including serious weaknesses in terms of deregulation and access, as well as efficiency and transparency of the public sector. Aware of these problems, the Government announced the introduction of incentives during the 2014 Forum on the Private Sector in REG. The most important reform issues

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<sup>4</sup> Index calculated based on 14 indicators grouped into four categories, namely security and the rule of law, participation and human rights, sustainable economic development and human development.

relate to compliance with the business law and the administrative environment with regard to authorizations to develop and operate a business. However, little progress has been made.

## 2.2.16 The latest Doing Business report ranks REG at the lowest rungs, as shown in Table

1. The country is ranked 173<sup>rd</sup> out of 190 economies on the ease of doing business (although it gained 5 spots with respect to the previous edition). The best score concerns enforcing contracts, followed by getting credit. However, the country occupies the bottom ranks regarding starting a business (although it has abolished the requirement of obtaining the prior authorization of the Prime Minister's Office) and getting credit. Indicators related to trading across borders can also be improved. In addition, it takes 46 days to pay corporate tax (compared to 37 days on average in sub-Saharan Africa). It takes

Intitulé	Rang en 2017	Rang en 2018	Statut
Classement général	178	173	▲
Création d'entreprises	187	182	▲
Obtention d'un permis de construire	160	160	►
Raccordement à l'électricité	143	146	▼
Transfert de propriété	160	162	▼
Obtention de prêts	118	122	▼
Protection des investisseurs minoritaires	137	146	▼
Païement des taxes et impôts	179	177	▲
Commerce transfrontalier	174	174	►
Exécution des contrats	103	104	▼
Règlement de l'insolvabilité	169	168	▲

Source: Rapport Doing Business - Banque Mondiale

132 hours to export a container after completing procedures at an administrative cost of USD 760.

## Regional integration

**2.2.17 REG is a member of CEMAC and ECCAS.** Its central geographical position and economic power since the beginning of the oil era make it a potentially important partner in these economic spaces. Regional integration is essential for this country, given the small size of its domestic market. It is indispensable for expanding the market with a view to diversifying the economy. It should be noted that REG's migration policy is not suitable considering the need for skilled labour for investors in the country. The decision taken in October 2017 to abolish visas for CEMAC citizens is expected to further promote regional trade, thus stimulating the country's economic growth.

## 2.2.18. REG seeks to assert itself as a regional transport and trade hub in Central Africa.

To that end, it has significantly upgraded its port and airport facilities to meet the requirements of a regional goods and passenger transportation hub. As a CEMAC member country, it has embarked on the reform of its tax and customs system. Specifically, it has introduced the common external tariff (CET) comprising four rates and categories of goods<sup>5</sup>. The authorities are also seeking to accelerate and modernize customs clearance procedures, but these efforts are hampered by difficulties in enforcing the law and tax evasion. In June 2015, with AfDB window financing, the country signed an agreement with UNCTAD for the installation of the ASYCUDA software in customs services to significantly enhance the efficiency the customs services and modernize them. Lastly, the authorities guardedly evoke plans to conclude an economic partnership agreement (EPA) with the European Union (EU) which is thought to have a negative impact on employment in the country, technology transfer and diversification.

<sup>5</sup> A levy of 5% imposed on essential goods, 10% on capital goods and inputs, 20% on intermediate goods and 30% on consumer goods.

## 2.3 Social Development and Cross-cutting Themes

**2.3.1 At the social level, progress has been made towards attaining all NESDP objectives, though the pace is inadequate.** The progress regarding human development is below REG's economic potential. With a score of 0.58, the country was ranked 138<sup>th</sup> out of 188 countries in the 2015 UNDP Human Development Index. Nevertheless, REG's infant mortality rate improved from 93‰ live births in 2001 to 51‰ live births in 2011<sup>6</sup>. The HIV/AIDS prevalence rate is 6.2% for people aged between 15 and 49 years, of which 8.3% for women and 3.7% for men. The education system needs to be improved by prioritizing the upgrading of human capacity to provide educational services and by better adapting school curricula. According to UNDP, only one in two pupils completes primary school. The relatively low gross primary school enrolment rate (80%) and the high repeater rate (24%) illustrate the scale of challenges in achieving universal primary education. NESDP is consistent with Agenda 2030 for Sustainable Development Goals (SDGs). Expenditure on health and education, as well as budget allocations for these sectors have been maintained despite the decline in State revenue. Unemployment, especially youth unemployment, is a cause for concern<sup>7</sup>. The economy depends heavily on oil revenue. The poor public policies create few jobs that can promote income redistribution. In 2015, UNDP estimated that the hydrocarbon sector employs merely 4% of the workforce.

**2.3.2 Equatorial Guinea has made significant progress in terms of gender equality.** However, inequalities persist in the level of education which is fairly low, with a primary school enrolment rate of 51% for boys and 49% for girls in 2017. The proportion of women in the labour force remains low as 39% of them are employed (formal and informal sectors), compared with 61% of men. There are geographical disparities in access to employment as 26.8% of women in the island region (Malabo) have formal jobs and 19% informal jobs, compared with 18.9% and 16.5% respectively on the mainland. Men occupy 60 of the 70 seats in the Senate, implying that much remains to be done by the authorities to meet National Development Plan targets. Gender equality and women's empowerment hinge on a gradual change in behaviours, the recognition of and full respect for women's rights, the organization of sensitization campaigns and the promotion of appropriate policies. There is no legal discrimination against women regarding land ownership or access to bank loans, but the *de facto* situation clearly shows that some practices, especially concerning inheritance, are discriminatory.<sup>8</sup>

### Climate change and environment

**2.3.3 REG has adopted a modern legal framework for protected areas, forestry, fisheries and biodiversity.** The country shares the Congo Basin forest. It has 13 protected areas (20% of the national territory). It prioritizes the improvement of natural resources and environmental management, particularly by establishing mechanisms for treating toxic industrial residue and sensitizing the population on environmental management and protection. It has also developed mechanisms for establishment and reforestation of forest concessions. According to FAO (2010), the country's annual deforestation rate is 0.9%. Besides deforestation, REG's forests face a serious threat of degradation due to the abandonment of commercial farming and the country's repositioning on logging. The authorities have begun mainstreaming their commitments into all

<sup>6</sup> According to the 2011 Population and Health Survey.

<sup>7</sup> According to 2008 data (to be updated), for every three people living on less than two dollars a day two are women, and the unemployment rate for women is 30%, compared with 22% for men.

<sup>8</sup> REG has ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW).

sector programmes with environmental impacts, especially the resolve to significantly reduce gas flaring.

### III. STRATEGIC OPTIONS

#### 3.1 Country Strategic Framework

**3.1.1 Equatorial Guinea’s long-term development goals have been the subject of national consensus.** As set out in “Vision 2020” and NESDP 2008-2020, these goals seek particularly to diversify the economy and transform Equatorial Guinea into an emerging economy by 2020.

**3.1.2 The Country Strategy Paper period coincides with the implementation period of the second phase of NESDP 2012-2020.** This phase focuses on: (i) strengthening of human capital and the improvement of the quality of life of each citizen; ii) the diversification the economy based on the private sector; and (iii) establishing good governance at the service of citizens. Under this second phase, the authorities have identified social priorities (basic health and improved training of human capital) and economic diversification priorities. It should be noted that the authorities are planning to organize economic conferences in September 2018 to evaluate NESDP’s implementation in accordance with their Development Vision.

**3.1.3 NESDP therefore represents an investment effort, which was about CFAF 1 000 billion annually between 2008 and 2014.** Due to the decline in tax revenue caused by falling oil prices, the Government slashed its investment budget to between CFAF 300 billion and CFAF 400 billion from 2015 to 2017. However, the oil shock coincided with the launching of the second phase of NESDP which required less investments since the bulk of the infrastructure needed had been completed during the first phase. The maintenance and rehabilitation of the infrastructure will be considered in the medium and long term.

**3.1.4 NESDP proposes sectors that can diversify Equatorial Guinea’s economy,** namely a better developed energy sector, a well-developed fisheries sector that is prominent at the regional level, a modernized agricultural sector that guarantees food security and a budding, but key services sector in the long term, initially driven by tourism and financial services. The mining sector is also a potential pillar. **Besides modernizing the country in terms of infrastructure, the second phase of NESDP, which is being implemented, lays emphasis on capacity building and entrepreneurship,** particularly vocational training and a better match between the formal education system and human labour market needs. The authorities are also banking on comprehensive institutional reforms to stimulate the labour market, as well as supply and demand. The Government will therefore work on simplifying administrative procedures for starting a business and reducing the cost and number of documents required which hamper the effective management of productive projects by entrepreneurs. The establishment of a genuine one-stop shop to reduce administrative red tape and promote economic activities will be at the core of Government’s private investment strategy.

**3.1.5 The country’s strategy is also to modernize public finance management and the statistical tool.** Priorities include resource mobilization, strengthening of programming and implementation, improvement of internal and external audit systems, evaluation of the efficiency and impact of public policies, particularly on the underprivileged segments of the population, and



assessment of the functioning of economic and financial services. The improvement of human resources cuts across these efforts.

### **3.2. Constraints and Challenges**

**3.2.1 The main constraints identified during preparation of the previous CSP in 2013 have not changed significantly.** NESDP 2008-2020 seeks to diversify economic activity in order to boost employment and inclusive growth. However, major constraints related to governance and inadequate human capital persist. The main constraints concerning public finance management relate to resource mobilization and public expenditure programming, control and efficiency. Similarly, as indicated in the Public Finance Management System Review, the unfavourable business climate hampers private investment. Sector productivity is still low, land disputes persist, and the increasing imbalance between agricultural potential and import of staple foods is a key aspect of food insecurity in REG.

**3.2.2 Thus, one of the main challenges to be met by REG is the recruitment of 25 000 to 50 000 youths entering the labour market each year between 2018 and 2020.** About 60% of the population is below the age of 25. However, employment opportunities are very limited, particularly because of the small size of the non-oil sector and the fact that the dominant oil sector absorbs only 4% of the working population. This situation underscores the need to diversify the economy in order to encourage the creation of sustainable jobs. In addition, most youths lack qualifications, do not meet the criteria for entry into the labour market, and lack access to information on job opportunities. Technical and vocational education suffers from malfunctioning at several levels, particularly the lack of adequate training programmes to meet labour market needs and shortage of pedagogic tools.

**3.2.3 Another major constraint in Equatorial Guinea is governance which undermines the country's capacity to take full advantage of its economic potential.** The country generally occupies the lowest rungs of major international rankings regarding governance such as the Mo Ibrahim Index of African Governance, the Doing Business Index, and the Transparency International Corruption Perceptions Index. The authorities are aware that multidimensional efforts are required by combining training, updating the regulatory framework, incentives and control. Governance-related constraints concern weak capacity in managing key economic sectors such as public finance, as well as coordinating public investments and maintaining or stimulating new potential sector activities such as fishing and agriculture. Although private investment and economic diversification are prioritized, the business climate remains unfavourable, thus limiting private, national and international investment in key economic diversification sectors.

**3.2.4 Finally, a significant and relatively new constraint is the accumulation of domestic payment arrears owed to many private enterprises since 2014.** These arrears stem from the discrepancy between major investments made, particularly in infrastructure, and the decline in tax revenue due to falling international oil and gas prices since 2014. **In March 2018, the arrears owed were estimated at about CFAF 1 300 billion.** An audit is being conducted to validate these arrears and determine their structures. These arrears have a significant impact on employment, consumption and the fiduciary reputation of the country. The management of these arrears is a major topic of discussion between AfDB and the Government. Solutions are being explored with the relevant Bank services.

**3.2.5 Concerning challenges, REG should:** (i) continue to improve its public finance management system; (ii) ensure food and nutritional security for its population; (iii) develop the cultivation of cash crops and emerge as a leading exporter; (iv) implement appropriate financing policies and instruments; (v) promote SME development by preparing an investment code with provisions that favour the development of SMEs in joint ventures between Equatorial Guinean and foreign private sectors; (vi) develop an agricultural sector transformation vision and policy; (vii) define an effective and attractive institutional, legal and regulatory framework for private investments; and (viii) build the operational capacity of key stakeholders.

**3.2.6 Another major challenge concerns the fight against inequality and exclusion.** The extraction of hydrocarbons which is the basic sector of the economy is not conducive to wealth redistribution, unless the public authorities can channel the ensuing proceeds towards the poorest segments of the population. Thus, a large proportion of the population cannot fully participate in economic activity and, hence, in growth, because it is excluded from it. In the absence of social benefits such as unemployment coverage, health insurance and/or participation in a pension scheme, there are strong risks of marginalizing those who do not operate in the formal sectors of the economy. In the absence of economic opportunities, such economic exclusion tends to be passed on from one generation to another through lack of access to quality education. Exclusion is also a potential source of social instability.

### **3.3 Strengths and Opportunities**

**3.3.1 The major works undertaken since the advent of the oil boom have largely contributed to modernizing the country in terms of infrastructure, energy, housing and water and sanitation.** Thus, the country's facilities, particularly road and port facilities, provide a good opportunity. These aspects can guarantee competitiveness in order to stimulate non-oil sector economic activities such as fishing and agro-industry.

**3.3.2 REG's fisheries sector** comprises 314 000 km<sup>2</sup> of an exclusive economic zone (EEZ), a 644 km-long coastline and many bays, rivers and mangroves. This geographical features, as well as the structure of the maritime sector and the proper development of the inland river system, enable the country to benefit from its abundant fishery resources. The potential fishery resources are estimated at about 74 000 tonnes of fish and 600 tonnes of crustaceans from which about 5 000 tonnes are caught, including 350 tonnes through industrial fishing. This domestic production is not enough to meet the country's consumption needs, hence the country imports large amounts of frozen fish. From the economic and employment standpoints, this sector constitutes a major opportunity in view of its potential. The development of this sector, coupled with already existing infrastructure, particularly Malabo, Luba, Bata and Mbini deep-sea ports, can also provide export resources due to high demand in Central Africa and the European Union.

**3.3.3 In the same vein,** Equatorial Guinea has an agricultural potential that can enable it to ensure its food security. Although the country has only 750 000 hectares of land devoted essentially to food crop cultivation, the very low agricultural land-use rate shows that the agricultural potential is largely untapped. Before the oil boom, agriculture was the mainstay of the country's economy. Its resources were derived mainly from timber, cocoa and coffee exports. Today, the agricultural and fisheries sectors provide very little contribution to GDP formation. The decline of the agricultural sector increases the risk of massive rural to urban migration (Malabo, Bata and Djibloho).

**3.3.4 Finally, regional integration offers an important opportunity.** Increased energy production, as well as the availability of new competitive ports, offer the possibility of building on the country's comparative advantages in the areas of trade and energy. In October 2017, CEMAC Member States ultimately lifted the visa requirement for CEMAC nationals travelling in the region which is made up of Chad, the Central African Republic, Cameroon, Equatorial Guinea, Gabon and the Republic of Congo. The opening up of borders in this region, which is one of the least integrated in the world, provides considerable opportunities.

### **3.4 Coordination of Technical and Financial Partners**

There is no formal aid coordination mechanism in REG. The Bank maintains contacts with the TFPs present on the ground (UNDP, WB, BDEAC and French, Spanish and American cooperation agencies) during its field missions. The operations of other TFPs in REG are very few, although some of them play a vital role in social sectors such as health and education. This partly accounts for the absence of a formal aid coordination mechanism<sup>9</sup>. Some partners (French, Spanish, Chinese and Cuban cooperation agencies, USAID and United Nations agencies) have begun to organize themselves into three working groups (Education, HIV/AIDS and SDG) under the coordination of UNDP. It should be noted that REG finances many of the services of United Nations agencies in the domains of health, social protection and planning using its own resources. Under this new CSP and with prospects to establish a field representation in the form of a liaison office, the Bank intends to fully play its role within the TFP coordination mechanism.

## **IV. BANK STRATEGY FOR EQUATORIAL GUINEA**

### **4.1 Current Portfolio Status in Equatorial Guinea**

**As at 31 May 2018, the Bank-funded portfolio comprised one active operation,** namely the Private Sector Promotion Support Project (MIC-TAF) worth UA 0.8 million, 7.3% of which has been disbursed<sup>10</sup>. The following projects were closed between 2016 and 2017: (i) the Health Systems Development Support Project (PADSS); (ii) the Public Finance Management Support Project (PAGFP); (iii) the Middle and Senior Management Training Programme (PFCMS); and (iv) the Project for Sustainable Management of the High Socio-Economic Value Ecosystems of the Río Campo Nature Reserve financed by the Congo Basin Forest Fund (CBFF). It should be recalled that the last project is co-financed with the Government for about UA 77 million.

### **4.2 Portfolio Quality and Performance**

**4.2.1 The portfolio review carried out in 2017 showed that its performance was unsatisfactory.** This report is based on the consolidated criteria of the Bank's rating system and the quantitative and qualitative analysis of project performance. Given the age of the portfolio, the former rating system was used. The overall portfolio rating, calculated on the basis of scores awarded by project supervision missions fielded in 2017, is 1.43 on a scale of 0 to 3. The field mission undertaken in November 2017 helped to prepare a portfolio performance improvement action plan.

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<sup>9</sup> For example, there are no statistics on the disbursement of aid.

<sup>10</sup> This TAF grant is behind schedule. It was approved in 2014, but signed in 2016. Due to delays in setting up the project team and fulfilling first disbursement conditions, it could only be operationalized at end-2017.

**4.2.2 The main constraints faced are:** (i) weak capacity of project management units in preparing bidding documents and implementing activities on the ground<sup>11</sup>; (ii) non-compliance with procurement procedures; (iii) the long process of signing contracts which transit through several Ministries; (iv) difficulties in issuing entry and residence visas to consultants recruited by projects, which does not facilitate the delivery of their services or the smooth and continuous monitoring of project implementation. Although this problem, which relates to the security measures adopted by the Government, has been reported to the authorities on several occasions, no adequate solution has been found so far; (v) delays, reported by PMUs, in processing project files at the Bank; (vi) poor quality of projects at entry; (vii) unapproved pre-financing practices; (viii) non-refund of expenditures considered ineligible<sup>12</sup>; and (ix) significant delays in the recruitment of auditors and submission of annual audit reports to the Bank.

**4.2.3 As regards fiduciary management, the following weaknesses were identified at closure of portfolio operations:** (i) long delays in the implementation of activities despite numerous extensions; (ii) lack of a management tool at project start-up (management software and implementation manuals and management procedures); (iii) non-compliance with procurement procedures; (iv) fairly limited mastery of the Bank's disbursement and resource and asset management procedures and rules; (v) lack of State counterpart resources, particularly regarding PADSS; (vi) limited fulfilment of commitments; (vii) late recruitment of auditors and submission of annual audit reports to the Bank after the prescribed time frame; and (viii) need to reimburse to the Bank expenses deemed ineligible for AfDB financing.

**4.2.4 The 2017-2018 Portfolio Improvement Plan** comprises a series of realistic recommendations on the main operational problems encountered, namely: (i) project start-up and implementation delays; (ii) poor financial management and disbursement performance; (iii) poor project implementation monitoring; and (iv) difficulties in communication between the Bank and the country. The Bank will cancel the unspent project loan or grant balances whose last disbursement deadline (LDD) has expired. It should be recalled that all projects had reached their LDD in December 2017. However, at the request of the authorities, the Bank has extended the MIC-TAF grant for private sector support, while restructuring it mainly to support update of the national strategy after 2020. Due to the weakness of the current portfolio, this portfolio improvement plan serves as a roadmap for the new CSP. Details are presented in Annex 3.

### **4.3 Lessons Learned from the Country Strategy Paper (CSP) 2013-2017**

**Assessment of implementation of CSP 2013-2017 highlighted lessons relating to programming, operationalization, support for diversification efforts and the Bank's presence on the ground.** Although the mid-term review and the completion report confirmed the relevance of the single pillar, the implementation difficulties mainly concerned approach and operational issues. The other limitations of the Bank's operation concerned poor follow-up of dialogue due to lack of a Bank field office in Malabo. Finally, the structure of the Bank's operations prioritized conventional operations related to the procurement of capital goods to the

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<sup>11</sup> As regards the specific case of the education sector, delays in processing files are caused by the multiplication of file approval bodies with parallel channels, the transfer of supervisory authority over project management to the Ministry of Finance which henceforth takes all decisions concerning project management. The Ministry of Education and the PMU have no control over project management.

<sup>12</sup> In principle, non-eligible expenditure is a case of default on the part of the country which can trigger suspension of disbursements as well as justifications for special accounts. Dialogue is continuing on this issue.

detriment of technical assistance and the structuring of public policies. These lessons have been considered in the approach proposed for the next five years.

#### **4.4 Rationale for Bank Intervention in Equatorial Guinea**

**4.4.1 Previous analyses indicate that REG faces multiple challenges in achieving its economic and social development objectives** within a context of economic crisis which has reduced the country's fiscal space and seriously affected the development of the non-oil sector due to the accumulation of arrears. **The diversification of the economy and improvement of governance are still major challenges in reducing inequalities and social exclusion in Equatorial Guinea.** In this regard and to better implement its strategy, *the Bank has improved its knowledge on the main growth sectors that guarantee better economic diversification. It has carried out economic and sector work in the fisheries and agricultural sectors to better prepare its operations. Studies have also been conducted in the training sector.*

**4.4.2 The strategic orientations of the Bank's CSP (2018-2022) for REG have been the subject of extensive consultations with the country's stakeholders, particularly during high-level preparation and dialogue missions.** The consultations focused on recent political, social and economic developments. The strategic options are obviously based on NESDP strategic orientations and lessons learned from the implementation of CSP 2013-2017.

#### **4.5 Bank Support Strategic Orientation and Pillars**

**4.5.1** The authorities have expressed interest in a new phase of cooperation with the Bank to meet major diversification, capacity building and governance challenges. In this regard, the Bank's Assistance Strategy (2018-2022), whose main objective is to support REG's economic and social transformation, is fully in line with the Government's orientation expressed in NESDP, particularly the NESDP pillar "Supporting Economic Diversification". In light of the diagnostic studies conducted, the Bank believes that the agricultural and fisheries sectors are the two key sectors that can promote diversification. It goes without saying that the Bank will prioritize the energy sector whose development will impact on the promotion of agricultural value chains.

**4.5.2 The Bank deems it necessary to establish bases and mechanisms for modernization of the agricultural sector** by helping to develop qualified manpower, create jobs at national level, and reduce poverty through inclusive processes. Concerning the fisheries sector, REG has 314 000 km<sup>2</sup> of an exclusive economic zone (EEZ), a 644 km-long coastline, numerous bays, rivers and mangroves. The area of its EEZ is 10 times larger than the land area and much higher than in neighbouring countries like Cameroon, Sao Tome and Principe and Gabon. These features, coupled with low fishing pressure, provide the country with abundant fishery resources, as confirmed by recent assessments. The country has a high domestic demand for fish backed by an important tradition of fishery products consumption. In addition, neighbouring countries like Cameroon (FAO, 2017) and Gabon (FAO, 2007) and Equatorial Guinea itself are net importers of fish, which should justify an increase in the country's production to meet domestic and regional demand for fishery products.

**4.5.3 The proposed strategic orientation is aimed at supporting the Government in implementing its economic diversification strategy.** It builds on the lessons learned from the implementation of the previous strategy, the persistence of the constraints and challenges described

above, and the priorities set out in NESDP. This strategic orientation is consistent with the two objectives of the Bank's Ten-Year Strategy 2013-2022 relating to inclusive growth and transition to green growth. This future strategy seeks particularly to contribute to the structural transformation of Equatorial Guinea's economy.

**4.5.4 Thus, in keeping with CODE guidelines outlined during the review of the completion report of the previous strategy and dialogue with the authorities,** it is proposed that the new CSP should focus on two pillars, namely: (i) Supporting Agricultural Transformation for Economic Diversification (corresponding to the High 5s "Feed Africa, Industrialize Africa, and Improve the quality of life for the people of Africa"); and (ii) Building Capacity in Public Policy Design and Implementation (aligned with High 5 "Improve the quality of life for the people of Africa").

**4.5.5 The proposed strategy, which covers the 2018-2022 period, is therefore aligned with NESDP pillars** and the Bank's High 5s. It seeks to create conditions conducive to inclusive, sustainable and job-creating growth. Finally, through its two pillars, it takes into account the needed synergies and complementarity between various development partners' operations. It also underscores strategic partnership and selectivity, as well as builds on AfDB's comparative advantages.

**4.5.6 In line with the lessons learned during the implementation of CSP 2013-2017, the Bank should lay more emphasis on technical assistance and knowledge building.** Capacity building and project coordination and preparation remain key factors for the implementation of REG's development vision. In addition, considering the serious operational difficulties faced in implementing AfDB-funded projects in REG, particularly large-scale equipment and construction contracts, it is necessary for the Bank to focus its assistance on knowledge-based products which have leverage effects on all sectors. The lessons learned, knowledge-based products and technical assistance could help to prepare major projects through a gradual intervention approach. **Governance and the structuring of economic sectors and public policies will be cross-cutting themes for both CSP pillars.**

**4.5.7 In addition to its partnership through the AfDB (public) window, the Bank will work to develop a portfolio of non-sovereign loans for private entities in Equatorial Guinea.** It will target sectors that are consistent with the pillars selected and use various tools including technical assistance, lines of credit, direct loans, risk guarantees, loan syndications, and even equity investment. To support REG's economic transformation, the Bank will also implement an operation in the energy sector which is at the core of its five operational priorities. As regards investments and public policies, this sector can be considered to intersect with the two CSP pillars.

## **PILLAR 1: SUPPORTING AGRICULTURAL TRANSFORMATION FOR ECONOMIC DIVERSIFICATION**

**4.5.8 Pillar 1 will support the roadmap for economic diversification, particularly in the fisheries and agro-industrial sectors.** It will also provide extensive support for private sector reform in continuation of the ongoing MIC-TAF grant. The objective of this pillar will be to enable the country to take full advantage of the opportunities offered by its infrastructure, while creating wealth-sharing jobs.

**4.5.9 The Bank could further explore the possibility of supporting the promotion of fishing in REG.** This could include: (i) improving sea fishing tools, fish farming and fish processing by modernizing the in-shore fishing fleet and improving post-capture value chain infrastructure; (ii) creating jobs, especially for youths; (iii) building institutional capacity by improving technical knowledge and sector management; and (iv) adopting a cross-cutting approach for environmental sustainability and protection. The Bank's support in this sector will help to "enhance the role of the small-scale fisheries and aquaculture sector so as to improve the country's food and nutrition security as well as reduce poverty by developing value chains and building the institutional capacity of the Ministry".

**4.5.10 The Bank could support agro-industrial development for domestic consumption and export.** Such support is consistent with REG's agricultural sector development strategy and will, therefore, strengthen food security, create jobs and boost harvests. The Bank's support in the agricultural sector will seek to: (i) increase national food production and improve agricultural productivity; (ii) create jobs by improving the quality of the sector workforce through vocational training tailored to market needs (skilled trades); (iii) develop, market and ensure the quality control of national food products; and (iv) improve knowledge on the benefits of good nutrition and the population's nutritional status.

**4.5.11 In June 2018, the Bank financed a study on the integrated development of the timber sector in the Congo Basin, one of whose components concerns REG.** The study findings indicate that REG has the highest rate of deforestation in Central Africa (estimated at 1.2% per year in 2017) and one of the lowest rates of forest product processing. The forestry sector's share in GDP was estimated at 1.6% in 2016, for about 4 000 jobs. The processing rate was estimated at 2% in 2017, down from 11% in 2014. The installed industrial capacity is largely underutilized. The Bank will support REG in implementing the study recommendations concerning: (i) the uniform application of the 60% log export quota to develop the wood processing industry; (ii) the preparation of production forest development plans (REG is the only country in Central Africa that does not have one); and (iii) the creation of forest plantations.

**4.5.12 Support for economic and sector diversification will also depend on the improvement of the business climate.** The Bank's support could, using a cross-cutting approach, help private sector operators to avail themselves of opportunities offered by Equatorial Guinea and its achievements in terms of infrastructure. To support the private sector, the Bank will also adopt a cross-cutting approach to promote job creation. The support will also help to sensitize and train women and youths on income-generating activities. The Bank's support to the agricultural sector will help to achieve three of the four NESDP (NESDP, 2007) strategic pillars of, namely: (i) significantly strengthen human capital and improve the quality of life for every citizen; (ii) build a diversified economy based on the private sector; and (iii) institute good governance by building the institutional capacity of the Ministry of Agriculture.

## **PILLAR 2: BUILDING CAPACITY IN PUBLIC POLICY DESIGN AND IMPLEMENTATION**

**4.5.13 This pillar seeks to leverage the Government's action by building capacity in the design of overall and sector policies, as well as structuring their implementation.** By supporting human capacity building and better governance, the Bank will improve public finance management and statistics, upgrade the technical and managerial skills of senior government officers, and improve health sector human resources. The attainment of these objectives will help

to consolidate the achievements of the previous CSP in the areas of public finance, training and health management. This pillar is consistent with NESDP's human development priorities. Finally, the Bank could prepare a programme-based support operation depending on the status of the country's programme with the IMF, Bank resources and other eligibility criteria.

**4.5.14 Non-lending activities:** Non-lending activities concern studies on development of the fisheries and agricultural sectors which are essential for economic diversification. There are also plans to conduct a study on road maintenance, the social protection mechanism, the impact of the opening up of borders on growth, and studies on the use of sovereign funds. The knowledge products which underpinned the strategy design are mentioned in paragraph 4.4.1.

## **4.6 Expected Outcomes**

**4.6.1 Under Pillar 1, “Supporting Agricultural Transformation for Economic Diversification”,** the CSP will seek to achieve two objectives, namely: (i) develop the fisheries and agricultural product processing sectors; and (ii) improve the private sector environment.

**4.6.2 As regards the fisheries sector,** the CSP will support the national goal of “making Equatorial Guinea a reference platform for seafood products”. This will include supporting actions to increase small-scale fishing and aquaculture products marketed, raising the per capita consumption of fish caught in Equatorial Guinea to replace imported frozen fish and, ultimately, reducing the poverty rate. **Concerning the agricultural sector,** the CSP is consistent with the national strategy to build a modern agricultural sector that guarantees food security and promotes the emergence of a new rural living environment. The Bank's activities are aimed at increasing marketed agricultural and livestock production, reducing food imports, and improving youth employability.

**4.6.3 The authorities intend to stimulate an institutional, regulatory and infrastructural environment that is conducive to private sector development.** The Bank's operations will therefore seek to increase the contribution of private enterprises to growth, improve REG's ranking with respect to the business climate, and stimulate competitiveness to support economic diversification.

**4.6.4 Under Pillar 2: “Building Capacity in Public Policy Design and Implementation”,** the Bank's strategy will seek to: (i) build governance and public finance management capacity; (ii) improve human resource capacity to formulate public policies; and (iii) strengthen human resources development in the social sectors.

**4.6.5 Thus, to support the national goal of creating a strategic State and a modern administration to improve governance,** the Bank intends to support public finance management in order to modernize programming, revenue collection, expenditure execution and public finance control procedures. One of the main objectives will be to increase non-oil revenue so as to, in particular, help to adjust the fiscal and macro-economic imbalances observed over the past three years. The Bank will also support the national system for the collection and use of statistical data. To support the ongoing IMF Staff-Monitored Programme, the Bank will support the planned governance, transparency and anti-money laundering activities.

**4.6.6 The Bank will help build the institutional capacity of the Ministry of Education, Higher Education and Sports in order to strengthen strategic resource planning and**



**governance.** It will also provide cross-cutting support to improve sector governance. Extensive support for capacity building will help to enhance the visibility and build the operational capacity of the education sector. This support will, in particular, seek to better match training with employment and develop skills.

**4.6.7 Finally, in order to extend coverage of the social protection system to the entire population,** the planning and management capacity of the Ministry of Health and Social Welfare (MSBES) will be strengthened by recruiting international technical assistance to train the staff of the Ministry's Strategic Planning Unit. Implementation of the recommendations of the study on alternative methods of financing health will help to significantly extend the population's health and social protection coverage beyond the structured sectors of the National Social Security Institute (INSESO).

#### **4.7 Resource Mobilization and Implementation Instruments**

**The allocation granted to REG, which is an AfDB window eligible country, is based on the Bank's guidelines on "reference loan amounts".** These amounts provide a general framework for the Bank's maximum commitment and are purely indicative. They can vary according to the country's risk profile and the Bank's resources.

#### **4.8 Country Dialogue**

**4.8.1 Country dialogue is a key factor in the successful implementation of this CSP. In policy and strategic terms,** sustained dialogue during CSP implementation will focus on economic diversification, domestic arrears payment, and capacity building. The Bank will highlight the need to improve the business climate so as to use the country's excellent infrastructure to create jobs. **Through its activities in REG, the Bank is expected to focus on technical assistance and knowledge building which have leverage effects on all sectors.** Capacity building, as well as project coordination and preparation are still key factors in REG for the implementation of its Development Vision.

**4.8.2 The Bank's commitment to the implementation of its future strategy will also be progressive.** The Bank intends to adopt a progressive intervention approach which will allow for stronger ownership of operations by the Client, as well as closer match between the operational framework and Equatorial Guinea's new priorities that will be defined in the update of the National Development Strategy after 2020. In addition, the Bank's gradual support will help to better prepare large-scale projects that require good quality at entry. Finally, the Bank's strategy will give prominence to the private sector to enable it to play a leading role in agricultural transformation. Governance, which has a cross-cutting dimension, will also be at the core of dialogue with the authorities.

**4.8.3 Concerning planning and programming,** measures should be taken to ensure that all the required project preparation conditions are fulfilled. In this connection, investment project design should be preceded by preparatory studies. The Bank will also ensure that the proposed projects are backed by a priority commitment that is widely shared by the authorities.

**4.8.4 At the operational level,** dialogue will underscore the need to: (i) build the capacity of project staff by providing training in financial management, procurement, disbursement and project implementation, and organizing fiduciary clinics; (ii) assist the country in preparing

feasibility studies, management manuals and bidding documents for all new projects, in accordance with the PD No. 02/2015; and (iii) ensure that the managers of Bank-funded projects closely supervise their projects, while reducing to the minimum the time taken to respond to requests for no objection opinion.

**4.8.5 Furthermore, given widespread and recurrent operational weaknesses in REG, the Bank needs to strengthen its presence in the country.** According to opportunity analyses, it would be appropriate to establish a Liaison Office in REG, especially as the authorities have repeatedly made this request over the past few years. It should be noted that **REG has weak institutional capacity which directly impacts on strategy design and project appraisal.** It should also be noted that the country has little experience in cooperation with international development institutions. The Bank should recruit Spanish-speaking staff on the ground to build the capacity of the country's services in project management and contribute to providing strategic counselling to the country.

## **4.9 Monitoring and Evaluation**

**4.9.1 The country does not have a regular portfolio monitoring mechanism.** The steering committees provided for in project institutional arrangements hardly meet. In addition, effective ownership of projects by REG remains a challenge. Bank operations are monitored by a National Focal Point who is a senior officer in the Ministry of Finance attached to the PAGFP with limited decision-making powers. Occasionally, he submits project implementation status reports to the Ministry of Finance. Lack of institutional capacity in monitoring operations often results in delays in meeting the conditions precedent to project effectiveness, in signing contracts and granting entry visas to foreign service providers recruited by PMUs.

**4.9.2 To give a strong impetus to operations management and monitoring,** the authorities need to translate their willingness to support project implementation into concrete measures. Such measures should include the regular holding of steering committee meetings, the involvement of relevant Ministries in project monitoring, the acceleration of the signing of contracts, and the simplification of the visa issuing process. In addition, project supervision, portfolio review and CSP mid-term review missions should participate in monitoring and evaluation. For its part, the Bank will conduct the quarterly review of the active portfolio. These reviews will be preceded by the training of PMU staff in Bank disbursement and procurement procedures.

## **4.10 Risks and Mitigation Measures**

The evaluation of the implementation of the Country Strategy Paper 2013-2017 underscored lessons related to programming, operational aspects, support for diversification efforts and the Bank's presence on the ground, as specified in Annex 4. The identified risks and mitigation measures include: (i) the lack of support for and ownership of the Bank's strategy; (ii) increasing oil prices which make the Bank's contribution unattractive; (iii) project implementation-related risks; (iv) credit risks; and (v) social instability risks. The risks and mitigation measures are presented in detail in Annex 4.

## **V. CONCLUSION AND RECOMMENDATION**

### **5.1 Conclusion**

**5.1.1 Strategic and operational lessons were learned from the low level of implementation of CSP 2013-2017 to boost cooperation with REG through a new CSP 2018-2022.** The proposed model is based on support in the form of knowledge and counselling, and a gradual approach while maintaining Bank presence on the ground in order to back Bank dialogue and operations. The proposed operations will have a major leverage effect on support for economic diversification to ensure inclusive, sustainable and job-creating growth. The Bank's overall and sector strategies also seek to better structure Government action.

### **5.2 Recommendation**

**5.2.1** The Board of Directors is requested to consider and approve the Bank's country strategy for Equatorial Guinea for the 2018-2022 period focused on two pillars, namely: (i) Supporting Agricultural Transformation for Economic Diversification (which is consistent with the following three of the Bank's High 5s: "Feed Africa, Industrialize Africa and Improve the quality of life for the people of Africa"); and (ii) Building Capacity in Public Policy Design and Implementation (which is consistent with one of the High 5s, namely "Improve the quality of life for the people of Africa"). The lending programme will depend on trends in the country's risk profile and the Bank's financial capacity.

## Annex 1: Indicative Lending Programme for the 2018-2022 Period

CSP 2018 – 2022 : Indicative Operations Timeline, in UA Million						
	Instrument	2018	2019	2020	2021	2022
<b>Pillar 1: Supporting Agricultural Transformation for Economic Diversification</b>						
Fisheries Sector Support Programme	AfDB		20		50	
Agricultural Transformation and Food Security Programme	AfDB			25		70
Private Sector Climate Reform Support Project	AfDB			25	50	
<b>Economic and Sector Work (Non-Investment Project Activities)</b>						
Study on the Impact of Border Opening on Growth	ESW	1				
Study on the Vertical Integration of the Fisheries Cluster	ESW				1	
<b>Pillar 2: Building Capacity in Public Policy Design and Implementation</b>						
Public Finance Management Support Project - Phase 2	AfDB	30				
Social Sector Human Resource Development Programme (PDRHS)	AfDB	15				
Cross-Cutting Capacity Building and Training Programme - Phases 1 and 2	AfDB	98			40	
Road Maintenance Reform Support Project	MIC-TAF Grant				1	
<b>Economic and Sector Work (Non-Investment Project Activities)</b>						
Study on the Opportunities of Establishing a Special Economic Zone in REG				1		
Analytical Studies not Limited to the Impact of any Rise in Oil Prices: Possibility of Establishing a Sovereign Fund, Assistance for Arrears Payment	MIC-TAF Grant		1	1	1	
<b>Total Pillars 1 and 2</b>		<b>144</b>	<b>21</b>	<b>52</b>	<b>143</b>	<b>70</b>

The table does not take into account subsequent programme-based support operations and non-sovereign loans.

## Annex 2: Indicative CSP Outcomes Matrix

The outputs and outcomes of new proposed projects are indicative and will be fine-tuned/adjusted after the appraisal of operations.

REG's Development Objectives 2 <sup>nd</sup> Phase of NESDP	Problems Hampering Achievement of Development Objectives	FINAL OUTCOMES (expected at the end of the CSP period in 2022)	FINAL OUTPUTS (expected at the end of the CSP period in 2022)	MID-TERM OUTCOMES (achieved in 2020)	MID-TERM OUTPUTS (achieved in 2020)	Bank Operations to be Implemented During the CSP Period
<b>Pillar 1: Supporting Agricultural Transformation for Economic Diversification</b>						
<i>Outcome 1.1: Development of Fisheries Sub-sectors and Food Processing</i>						
Transform Equatorial Guinea into a seafood reference platform	Although the fisheries sector has a great economic potential, it is currently limited to small-scale fishing marked by insufficient resources, untrained fishermen and lack of fishing product preservation, processing and marketing infrastructure.	1.1: Increased quantity of additional small-scale fishing and aquaculture production marketed  1.2: Increased per capita consumption of captured fish in Equatorial Guinea instead of imported frozen fish  1.3 Reduced poverty rate	1-Number of producers and processors trained using new technologies and practices (broken down by gender) 2. Reduced (td) % of post-capture losses 3. Increased fishery products marketed 4-Increased per capita fish consumption 4-Number of new jobs created	Adoption of the action plan	Action plan to restructure the fisheries sector produced, and increased production and related surveillance activities	Support for development of the fisheries and aquaculture sector
Build a modern agriculture that ensures food security and fosters the emergence of a new rural living environment	1- In spite of its enormous potential, the agricultural sector is still a family-based, subsistence and self-consumption sector. 2-Weak evacuation, preservation and	1-1. Increased quantity of additional agricultural and animal production marketed  1-2 Reduced imports of food products	1-Reduced post-harvest losses  2- Increased volume of agricultural products marketed 3-Increased coverage of food needs by national production  4- Number of newly created jobs in the agricultural sector for youths	Adoption of the action plan	Action plan to restructure the agricultural sector produced, increased production and a food security strategy prepared	Agricultural Transformation and Food Security Project

REG's Development Objectives 2 <sup>nd</sup> Phase of NESDP	Problems Hampering Achievement of Development Objectives	FINAL OUTCOMES (expected at the end of the CSP period in 2022)	FINAL OUTPUTS (expected at the end of the CSP period in 2022)	MID-TERM OUTCOMES (achieved in 2020)	MID-TERM OUTPUTS (achieved in 2020)	Bank Operations to be Implemented During the CSP Period
	marketing infrastructure, and substantial post-harvest losses 3-Only 20% of the population can meet all its daily nutritional needs in terms of calories and proteins 4-Domestic production does not cover more than 30% of domestic demand, while the rest is covered by imports. 5-Only between 10% and 20% of food production is sold by Equato-Guineans	1-3 Increased rate of youth employability  1-4 Reduced poverty rate				
<b>Outcome 1.2 : Improvement of Private Sector Climate</b>						
Build an institutional, regulatory and infrastructure conducive to private sector development	1. Inappropriate legal and regulatory framework 2. Weak private sector support institutions 3. Poor market infrastructure	1. Increased contribution of private enterprises to growth 2. Improved REG ranking in Doing Business 3. Improved competitiveness to	1. Reinforced business legal and regulatory framework 2. Increased incentives for improvement of the performance of SMEs and craftsmen 3. An efficient platform established to support	Finalized studies on the investment climate and preparation of the Conference on Update of the National Economic and Social Development Plan (NESDP)	Assessment of the investment climate and related action plan prioritized, and preparatory activities ahead of the Conference on Update of NESDP available	Private sector support MIC-TAF grant and  Private Sector Development and Economic Diversification Support Project

REG's Development Objectives 2 <sup>nd</sup> Phase of NESDP	Problems Hampering Achievement of Development Objectives	FINAL OUTCOMES (expected at the end of the CSP period in 2022)	FINAL OUTPUTS (expected at the end of the CSP period in 2022)	MID-TERM OUTCOMES (achieved in 2020)	MID-TERM OUTPUTS (achieved in 2020)	Bank Operations to be Implemented During the CSP Period
		support economic diversification	priority sectors and promote investments	An institutional support operation to improve the investment climate, promote SMEs/SMIs and diversify the economy is implemented before 2020		
<b>Pillar II: Building Capacity in Public Policy Design and Implementation</b>						
<b>Outcome 2.1: Building of Governance and Public Finance Management Capacity</b>						
Establish a strategic State and a modern administration to improve governance	Weak public finance management and non-oil resource mobilization	Procedures for programming, collecting revenue, executing expenditure and controlling public finance modernized; Non-oil revenue increased.	Non-oil revenue mobilization increased from 4% of GDP in 2017 to 8.1% of GDP in 2022	Non-oil resource mobilization rate improved	Non-oil revenue mobilization increased from 4% of GDP in 2017 to 5.7% of GDP in 2019	2 <sup>nd</sup> Public Finance Management Support Project  Budget Support
<b>Outcome 2.2: Improve Public Policy Design Capacity</b>						
Build human capacity	1. Lack of an education and vocational training sector strategy;  2. Weak resource planning and strategic governance	1. The capacity of the Ministry of Education, Higher Education and Sports in terms of institutional human resources and planning strengthened  2. Sector governance improved		1. Targeted institutional support provided (equipment, human resource training, teaching materials, etc.)  2. Good education sector visibility  3. Sector operational capacity	1. Sector study reports available  2. National Employment Observatory established  3. 100 additional senior officers and teachers trained and/or retrained;	Middle and Senior Management Training Programme –Phase 2

REG's Development Objectives 2 <sup>nd</sup> Phase of NESDP	Problems Hampering Achievement of Development Objectives	FINAL OUTCOMES (expected at the end of the CSP period in 2022)	FINAL OUTPUTS (expected at the end of the CSP period in 2022)	MID-TERM OUTCOMES (achieved in 2020)	MID-TERM OUTPUTS (achieved in 2020)	Bank Operations to be Implemented During the CSP Period
				strengthened4. Effective gender empowerment in technical, vocational and scientific fields	4. 5 IPPs constructed and equipped. 5. 5 National University Laboratories rehabilitated and equipped 6. Number of copies of teaching materials produced and distributed to teachers 7. Number of excellence scholarships granted to deserving girls in secondary schools and higher education	
<b>Outcome 2.3: Improve Human Resource Management in Social Sectors</b>						
Extend social security system coverage to the entire population	1. Structural incapacity of the health system to provide quality health care to the population 2. Insufficient human	80% of the population have access to quality social services thanks to competent health personnel and universal health risk coverage	1. The organization of Equatorial Guinea's health system meets efficiency standards 2. A human resources development plan implemented 3. Universal health coverage implemented	- The National Health Development Plan Report - The Human Resources Development Study Report - The Second DHS Report	- A team of 5 technical assistants (specialized in public health, procurement, accounting, management, bio-medical engineering and monitoring and	Social Sector Human Resources Development Programme (PDRHS)



<b>REG's Development Objectives 2<sup>nd</sup> Phase of NESDP</b>	<b>Problems Hampering Achievement of Development Objectives</b>	<b>FINAL OUTCOMES (expected at the end of the CSP period in 2022)</b>	<b>FINAL OUTPUTS (expected at the end of the CSP period in 2022)</b>	<b>MID-TERM OUTCOMES (achieved in 2020)</b>	<b>MID-TERM OUTPUTS (achieved in 2020)</b>	<b>Bank Operations to be Implemented During the CSP Period</b>
	<p>resources for health and poor social security</p> <p>3. Inadequate and inappropriate sector financing system</p>			<p>- A functional health information system</p>	<p>evaluation) recruited for the MSBES</p> <p>- 5 national senior officers specialized in the same fields and who will make up the Strategic Planning Unit in the Ministry of Health and Social Welfare</p> <p>- The strategy paper for implementing the recommendations of the study on health financing alternatives</p>	

### Annex 3: Portfolio Improvement Plan 2017-2018

Problems Identified	Actions Envisaged		Monitoring Indicators	Responsible Entity	Time Frame
Problem 1: Long delays in project start-up and implementation					
1.1. Difficulties faced by PMUs in timely start-up and implementation of project activities	1.1.1	Increase use of MIC-TAF funds for preparing projects and related BDs prior to their approval (cf. DP 02/2015). Due to exhaustion of MIC-TAF grants, resort to dedicated fiduciary funds.	80% of future projects benefit from MIC-TAF support	AfDB Sector Department/ Ministry of Finance	Immediately
	1.1.2	Put in place the entire PMU staff prior to project launching	All the staff of future projects are mobilized prior to official launching	Ministry of Finance/ relevant AfDB Sector Department	Immediately
	1.1.3	Accelerate the signing of project contracts or, failing which, cancel the loan balances	75% of contracts approved by the Bank are signed within two months	PMU/ Ministry of Finance	Immediately
1.2. Difficulties in redeploying Technical Assistants to support PMUs	1.2.1	Facilitate the processing of requests for entry visas and residence permits for foreign consultants and Bank Experts	All entry visa requests are processed within two months following consideration	Ministry of Finance /PMU	Immediately
1.3. Delays in processing of files submitted to the Bank	1.3.1	Reduce the file processing and NOO timelines, and entrust the processing of disbursement files to COGA	80% of files processed within 15 days following receipt	AfDB Sector Department	Immediately
1.4. Insufficient mastery of Bank procurement, disbursement and financial management procedures	1.4.1	Organize training in procurement, financial management and disbursement for project staff	At least one training session is organized for PMUs	AfDB Sector Department /RDGC/Fiduciary Services Department	31 December 2018
Problem 2: Poor financial management and disbursement performance					
2.1 Absence of an appropriate financial management and accounting system prior to first disbursement	2.1.1	Use MIC-TAF funds (or fiduciary funds) to establish a financial management and accounting system prior to start-up of project activities	80% of future projects have a financial management and accounting manual prior to first disbursement	AfDB Sector Department/ Ministry of Finance	Immediately
2.2 Delays in preparation and poor quality of disbursement requests	2.2.1	Ensure conformity of payment requests with the Disbursement Letter and service providers' contract clauses	80% of disbursement requests submitted to the Bank are accepted	PMU	Immediately
2.3 Audit reports are not always prepared in time and of good quality	2.3.1	Prepare and submit, before 30 June of each year, the financial audit report of the ended financial year to avoid stalling renewal of revolving funds	80% of audit reports are submitted to the Bank before 30 June each year.	PMU / Ministry of Finance	30 June 2018
		Implement audit recommendations within the prescribed deadlines	80% of audit recommendations are implemented within the prescribed deadlines.	PMU/Ministry of Finance	31 December 2018
Problem 3: Poor project implementation monitoring					
	3.1.1	Programme quarterly project activity implementation status monitoring meetings attended by the relevant Ministries	Minutes of project monitoring meetings prepared each quarter	Ministry of Finance	31 December 2017

Problems Identified	Actions Envisaged	Monitoring Indicators	Responsible Entity	Time Frame
3.1 Limited involvement of line Ministries in project monitoring	3.1.2 Ensure regular monitoring of contracts and entry visa requests pending in the various administrative services	The contracts of consultants are signed and entry visas granted within two months following consideration.	PMU	Immediately
	3.1.3 Closely monitor service providers and works to ensure that their products are of the required quality	75 % of contracts are accepted in time.	PMU	31 December 2017
	3.1.4 Send a copy of all project correspondence to the line Ministries for information	Copies of all project correspondence are sent to the line Ministries	AfDB Sector Department	Immediately
	3.2.1 Scrupulously implement supervision mission and project audit report recommendations 3.2.2 Reimburse expenses deemed ineligible to the Bank	50% of supervision mission and audit recommendations are implemented within the prescribed deadline All ineligible expenses are reimbursed	AfDB Sector Department/ Ministry of Finance/Sector Ministry/PMU	31 December 2017
3.2 Insufficient monitoring of supervision and audit recommendations	3.3.1 Ensure as much as possible that supervision missions are multidisciplinary	At least 50% of supervision missions are multidisciplinary	AfDB Sector Department	31 December 2018
3.3 Poor quality of Bank supervision missions	3.4.1 Reinforce the decentralization of project management	Project managers for the entire portfolio are decentralized	RDGC	Ongoing
<b>Problem 4: Difficulties in communication between the Bank and the country</b>				
4.1 Difficulty in getting in contact with the Administration of Equatorial Guinea	4.1.1 Strengthen dialogue with the Government to mitigate communication constraints and improve portfolio quality	At least one high-level dialogue meeting is held each year	Ministry of Finance / RDGC	31 December 2017
	4.1.2 Reinforce the National Coordination Unit of AfDB projects in the Ministry of Finance to make it more efficient	Human and communication resources of the National Coordination Unit reinforced	Ministry of Finance/RDGC	31 December 2017
	4.1.3 Familiarize project managers with the organization and functioning of Bank operational units to ease the monitoring of files	PMUs and the directorates to which projects are attached visit Bank Field Office and/or Headquarters once a year	PMU/AfDB Sector Department	31 December 2017

#### Annex 4: CSP 2018-2022 Risks and Mitigation Measures

<b>Risks</b>	<b>Mitigation Measures</b>
<b>Lack of support</b>	Close dialogue with the Government to pre-empt any changes and opening of a liaison office. Field regular supervision missions and organize regular fiduciary clinics.
<b>Rise in oil prices, thereby rendering Bank support unattractive</b>	Position the Bank as an advisory body that helps to better structure public policies in times of recession as well as in times of economic growth. In particular, demonstrate the Bank's value added in governance improvement and economic exclusivity.
<b>Project implementation-related risk</b>	To mitigate this risk, Bank presence in Malabo will provide close support in project implementation, including efficient assessment of fiduciary and safeguard functions.
<b>Credit risk</b>	External debt and arrears have increased considerably since 2015. However, the country is implementing an IMF Staff-Monitored Programme and return to equilibriums is expected in 2020. The Bank will support this stabilization process through its operations.
<b>Risk of social instability</b>	The Bank is striving to mitigate this risk through its education and health programme in order to broaden access to basic social services, and provide support for economic diversification, the creation of more jobs, and the achievement of more inclusive growth.

## **Annex 5: Linkages Between Proposed Projects and the Bank's High 5s**

### **Industrialize Africa**

- Private Sector Climate Reform Support Project
- Line of credit to the private sector

### **Integrate Africa**

Road Maintenance Reform Support Project

### **Improve the quality of life for the people of Africa**

- Public Finance Management Support Project-Phase 2
- Middle and Senior Management Training Programme – Phase 2
- Human and Health Capital Reinforcement Programme 3

### **Feed Africa**

- Fisheries Sector Support Project
- Agricultural Transformation and Food Security Project

## Annex 6: Key Macroeconomic Indicators

### Equatorial Guinea Selected Macroeconomic Indicators

Indicators	Unit	2000	2013	2014	2015	2016	2017 (e)	2018 (p)
<b>National Accounts</b>								
GNI at Current Prices	Million US \$	403	10 864	10 548	8 037	6 244	...	...
GNI per Capita	US\$	760	13 630	12 850	9 510	7 180	...	...
GDP at Current Prices	Million US \$	1 178	21 949	21 771	13 187	11 253	12 162	12 007
GDP at 2000 Constant prices	Million US \$	1 178	6 028	6 053	5 503	5 031	4 907	4 607
Real GDP Growth Rate	%	18,2	-4,1	0,4	-9,1	-8,6	-2,5	-6,1
Real per Capita GDP Growth Rate	%	14,3	-6,9	-2,5	-11,7	-11,2	-5,2	-8,7
Gross Domestic Investment	% GDP	61,9	30,3	28,7	24,7	16,6	14,4	14,0
Public Investment	% GDP	5,4	22,7	22,8	21,5	13,9	11,9	11,7
Private Investment	% GDP	56,5	7,6	6,0	3,2	2,6	2,5	2,4
Gross National Savings	% GDP	48,6	27,8	25,2	4,0	-1,5	6,5	6,6
<b>Prices and Money</b>								
Inflation (CPI)	%	4,6	3,2	4,3	1,7	1,4	1,1	1,2
Exchange Rate (Annual Average)	local currency/US\$	712,0	493,9	493,6	591,2	593,1	582,1	558,1
Monetary Growth (M2)	%	60,8	6,9	-12,1	-8,2	-14,0	17,8	...
Money and Quasi Money as % of GDP	%	6,7	18,7	16,6	21,0	21,1	23,4	...
<b>Government Finance</b>								
Total Revenue and Grants	% GDP	20,7	24,9	24,0	26,6	17,2	17,9	17,1
Total Expenditure and Net Lending	% GDP	12,1	30,7	28,9	29,9	20,9	20,2	20,4
Overall Deficit (-) / Surplus (+)	% GDP	8,6	-5,9	-4,8	-3,3	-3,7	-2,3	-3,3
<b>External Sector</b>								
Exports Volume Growth (Goods)	%	-36,1	-4,0	6,5	4,6	-13,5	-24,5	-15,8
Imports Volume Growth (Goods)	%	-71,3	-17,4	-8,5	-15,9	-24,1	-31,2	7,5
Terms of Trade Growth	%	42,2	-26,2	-18,9	-43,7	8,3	19,7	20,8
Current Account Balance	Million US \$	-196	-547	-930	-2 151	-64	378	-365
Current Account Balance	% GDP	-16,7	-2,5	-4,3	-16,3	-0,6	3,1	-3,0
External Reserves	months of imports	0,2	6,0	3,9	2,5	0,2	0,0	0,2
<b>Debt and Financial Flows</b>								
Debt Service	% exports	0,8	2,8	2,6	3,4	5,5	3,1	5,0
External Debt	% GDP	37,0	6,2	5,6	9,6	10,0	10,5	12,0
Net Total Financial Flows	Million US \$	22	184	180	-109	-108	...	...
Net Official Development Assistance	Million US \$	21	5	1	7	7	...	...
Net Foreign Direct Investment	Million US \$	154	731	320	316	54	...	...

Real GDP Growth Rate, 2006-2018

Inflation (CPI), 2006-2018

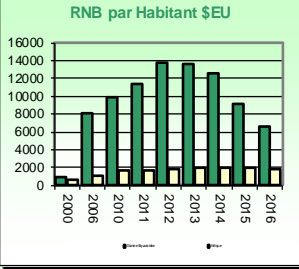
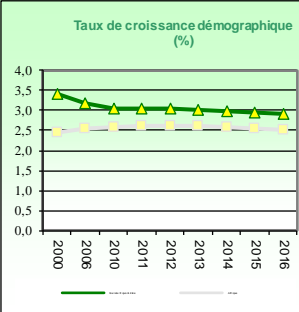
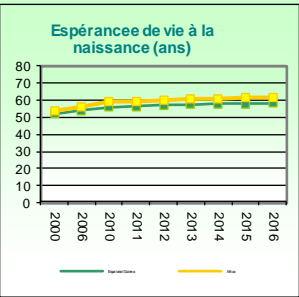
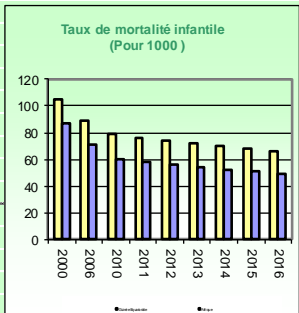
Current Account Balance as % of GDP, 2006-2018

Source : AfDB Statistics Department; IMF: World Economic Outlook, April 2018 and International Financial Statistics, April 2018;  
AfDB Statistics Department: Development Data Portal Database, April 2018. United Nations: OECD, Reporting System Division.

Notes: ... Data Not Available (e) Estimations (p) Projections

Last Update: May 2018

## Annex 7: Key Socio-economic Indicators

	Année	Guinée Equatoriale	Afrique	Pays en Dévelop- pement	Pays Dévelop- pés	
<b>Indicateurs de Base</b>						
Superficie ('000 Km²)	2017	28	30 067	94 716	35 018	
Population totale (millions)	2017	0,9	1 244,8	6 252,1	1 190,0	
Population urbaine (% of Total)	2017	38,0	40,5	49,2	81,4	
Densité de la population (au Km²)	2017	31,9	42,4	66,0	34,0	
Revenu national brut (RNB) par Habitant(\$ EU)	2016	6 550	1 836	4 442	41 208	
Participation de la Population Active *- Total (%)	2017	83,1	65,8	62,3	60,3	
Participation de la Population Active **- Femmes (%)	2017	71,9	55,3	47,8	52,5	
Rapport de Masculinité (hommes pour 100 femmes)	2017	105,0	100,2	107,5	105,3	
Indice de développement humain (rang sur 187 pays)	2015	135	...	...	...	
Population vivant en dessous de 1,90 \$ par Jour (%)	2013	...	...	12,7	0,6	
<b>Indicateurs Démographiques</b>						
Taux d'accroissement de la population totale (%)	2017	2,9	2,5	1,3	0,6	
Taux d'accroissement de la population urbaine (%)	2017	3,1	3,5	2,4	0,9	
Population âgée de moins de 15 ans (%)	2017	39,1	40,8	27,9	16,6	
Population âgée de 15-24 ans	2017	18,8	19,2	16,7	11,9	
Population âgée de 65 ans et plus (%)	2017	3,0	3,5	6,8	17,4	
Taux de dépendance (%)	2017	72,8	79,6	54,6	52,0	
Population féminine de 15 à 49 ans (%)	2017	22,8	24,0	25,6	22,6	
Espérance de vie à la naissance - ensemble (ans)	2017	58,5	61,9	70,2	80,7	
Espérance de vie à la naissance - femmes (ans)	2017	59,9	63,3	72,3	83,5	
Taux brut de natalité (pour 1000)	2017	33,8	33,9	20,6	10,9	
Taux brut de mortalité (pour 1000)	2017	10,3	9,0	7,5	8,6	
Taux de mortalité infantile (pour 1000)	2016	66,2	49,3	33,1	4,5	
Taux de mortalité des moins de 5 ans (pour 1000)	2016	90,9	72,6	44,3	5,3	
Indice synthétique de fécondité (par femme)	2017	4,6	4,4	2,6	1,7	
Taux de mortalité maternelle (pour 100000)	2015	342,0	444,1	237,0	10,0	
Femmes utilisant des méthodes contraceptives (%)	2017	17,3	37,6	62,1	...	
<b>Indicateurs de Santé et de Nutrition</b>						
Nombre de médecins (pour 100000 habitants)	2005-15	...	41,6	121,6	293,5	
Nombre d'infirmières et sages-femmes (pour 100000 habitants)	2005-15	...	120,9	211,3	873,4	
Naissances assistées par un personnel de santé qualifié (%)	2010-16	68,3	55,9	76,6	98,9	
Accès à l'eau salubre (% de la population)	2015	47,9	71,6	89,4	99,5	
Accès aux services sanitaires (% de la population)	2015	74,5	39,4	61,5	99,4	
Pourcent. d'adultes de 15-49 ans vivant avec le VIH/SIDA	2016	6,2	3,6	1,1	...	
Incidence de la tuberculose (pour 100000)	2016	181,0	221,7	163,0	12,0	
Enfants vaccinés contre la tuberculose (%)	2016	48,0	82,1	84,9	95,8	
Enfants vaccinés contre la rougeole (%)	2016	30,0	74,4	84,0	93,7	
Insuffisance pondérale des moins de 5 ans (%)	2010-15	...	18,1	15,3	0,9	
Prévalence de retard de croissance	2010-15	26,2	33,3	25,0	2,5	
Prévalence de la malnutrition (% de pop.)	2015	...	17,5	12,28	2,66	
Dépenses publiques de santé (en % du PIB)	2014	2,9	2,6	3,0	7,7	
<b>Indicateurs d'Education</b>						
Taux brut de scolarisation au (%)						
Primaire - Total	2010-16	79,1	101,7	103,8	102,6	
Primaire - Filles	2010-16	78,2	98,8	102,2	101,8	
Secondaire - Total	2010-16	...	51,8	...	106,6	
Secondaire - Filles	2010-16	...	49,7	...	106,4	
Personnel enseignant féminin au primaire (% du total)	2010-16	44,4	46,0	51,3	81,0	
Alphabétisme des adultes - Total (%)	2010-16	...	68,6	...	...	
Alphabétisme des adultes - Hommes (%)	2010-16	...	76,0	...	...	
Alphabétisme des adultes - Femmes (%)	2010-16	...	61,7	...	...	
Dépenses d'éducation en % du PIB	2010-16	...	4,9	4,1	5,2	
<b>Indicateurs d'Environnement</b>						
Terres arables (en % de la superficie totale)	2015	4,3	8,0	11,3	10,1	
Terres agricoles (% superficie des terres)	2015	10,1	37,4	38,1	35,1	
Forêts (en % pourcentage de la superficie totale)	2015	55,9	21,0	31,4	28,8	
Emissions du CO2 par habitant (tonnes métriques)	2014	4,7	1,1	3,5	11,0	

Source : Base des données du Département des Statistiques de la BAD;

dernière mise à jour:

Janvier 2018

Banque Mondiale WDI; ONUSIDA; UNSD; OMS, UNICEF, PNUD, Rapports nationaux.

Notes: n.a. Non Applicable; ... : Données non disponibles. \* Participation à la population active, total (% de la population totale âgée de 15+)

\*\* Participation à la population active, femmes (% de la population féminine âgée de 15+)

### Annex 8: Intervention Areas of Key Technical and Financial Partners

	WORLD BANK	IFM	AfDB	BDEAC	CHINA	USA	BRAZIL	PORTUGAL	UNITED NATIONS	SPAIN	FRANCE
<b>Governance</b>	X	X	X			X			X	X	
<b>Public Finance</b>	X	X	X			X			X	X	X
<b>Statistics</b>	X		X						X		
<b>Health</b>			X			X			X		
<b>Education and Vocational Training</b>			X		X		X	X	X	X	
<b>Fisheries</b>			X	X							
<b>Culture/ Language</b>					X		X	X	X	X	X



## Annex 9: Portfolio Operations During DSP 2013-2017

(Situation as at 31 March 2018)

	Project Name	No. IP/SAP	Approval Date	Effectiveness Date	Closing Date	Age (years)	Amount Approved (UAM)(*)	Amount Disbursed (UAM)	Disbursement (%) as at 28 February 2017	Source of Financing	Counterpart Contribution Disbursement (%)
1.	Middle and Senior Management Training Programme (PFCMS)	P-GQ-IAE-001	11/12/2008	23/09/2010	31/12/2017	8.7	34.74	10.56	30.40	AfDB	28%
2.	Health System Development Support Project (PADSS)	P-GQ-IBE-002	29/10/2008	2/04/2010	30/06/2017	8.9	13.37	11.18	83.63	AfDB	60
3.	Public Finance Management Support Project (PAGFP)	P-GQ-K00-003	25/11/2008	10/08/2010	30/12/2016	8.8	3.74 (9.29 cancelled)	3.74	100	AfDB	35
4.	Sustainable Management of Ecosystems of High Socio-economic Value of the Río Camp Nature Reserve	P-GQ-C00-035	16/12/2011	23/02/2012	31/07/2016	4.7	0.42 (0.17 cancelled)	0.42	100	CBFF	90
5	MIC-TAF grant for NESDP implementation		10/04/2009	10/04/2009	30/12/2014		0.63 (3.32 cancelled)	0.63	100		
6.	Private Sector Promotion Support Project	P-GQ-K00-007	12/12/2014	10/02/2016	31/12/2017	1.7	0.8	0.059	7.36	AfDB	-
<b>TOTAL</b>						<b>7</b>	<b>66.26</b>	<b>19.30</b>	<b>29.12 %</b>		

(\*) The amounts of loans granted in Euro are liable to slight variations depending on the exchange rate in force.

## Annex 10: Country Fiduciary Risk Assessment

### 1. **Procurement: Risk level: High**

The Bank-recommended methodology was used for procurement fiduciary risk assessment. It is based on the methodology designed by OECD/DAC (MAPS), which the Bank modified and adapted to its operational context. The Bank methodology (Customized MAPS) is based on the qualitative assessment of 21 sub-indicators selected (from among the 54 sub-indicators of the original tool) as critical (essential) from the Bank's point of view. The 21 sub-indicators are grouped under pillars 1, 2, 3 and 4 of the OECD/DAC-designed MAPS. The assessment was conducted using legal documents that constitute the legal and regulatory framework, available diagnostic studies, and information gathered from discussions with some public procurement actors. The findings and conclusions of the assessment are presented below.

#### 1.1 **Detailed Analysis of Risk Factors Related to Equatorial Guinea's Public Procurement System**

The country fiduciary risk assessment (CFRA) for the public procurement sub-component concluded that the risk level was **high** due to various reasons relating mainly to the institutional framework, the control environment, and the lack of a recourse mechanism. This situation is corroborated by the findings of the assessment of national public procurement procedures for local competitive biddings under Bank-financed projects (AfDB, December 2011) and of the **public finance management system review mission (PAGFP, Bureau EGIS BDPA, December 2013)**.

Under the CFRA, the regulatory framework, the institutional environment, management practices and the integrity of Equatorial Guinea's public procurement system were analyzed by identifying weak points and their impact. The assessment findings summarized by pillar of the OECD/DAC MAPS are as follows:

**Public procurement legal and regulatory framework:** The law governing and regulating public procurement is the "*Ley de Contratos del Estado*" (Government Procurement Law) that is Law No. 923/1965 of 8 April (published in the Official Gazette–BOE– 21 March 1965). This law, which dates back to the colonial era, is still in force. However, it was amended by Decree No. 4/1980 of the Presidency of the Republic which is the public procurement reference document. Law No. 923/1965 is applied in the case where Decree No. 4/1980 does not cover some specific aspects. This legal and regulatory framework is incomplete, does not comply with international standards, and does not ensure transparency in contract award. The existing system does not require the publication of business opportunities. It does not define the procurement methods and conditions for their use<sup>13</sup>, does not require public opening of bids, and does not have standard local bidding documents (SLBDs) or a procedures manual. Consequently, most of the contracts awarded in 2017 were by direct negotiation, with inappropriate management of budget resources. The country is expected to improve the framework by transposing CEMAC directives into a new public procurement code.

**Institutional framework and management capacity:** *The existing institutional framework needs to be organized in order to meet international standards which require the separation of incompatible functions such as regulation, execution, control and management of appeals, etc.*

The existing procurement institutional framework does not have a regulatory entity or control bodies. The unorganized institutional framework does not allow for the proposal of relevant instruments, capacity

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<sup>13</sup> The decision to award a contract is at the discretion of the contracting authority who, in the absence of a legal and regulatory framework, most often uses the negotiated contract method by default.

building through the design and implementation of a training strategy, effective control of public procurement processes, the management of appeals, the conduct of public procurement audits, etc.

Furthermore, the country context is characterized by a weak institutional development capacity as it does not have a sustainable training strategy and does not collect or produce exhaustive and reliable statistics on public procurement to analyze (especially performance) and facilitate decision-making assistance. This situation is compounded by the absence of a regulatory entity (as mentioned earlier on) generally responsible for such duties.

**Procurement activities and contract practices:** Contracting practices require major improvements, including reversal of the current tendency of signing negotiated contracts, and the use of clear and regulated procedural practices for contract award and management. The Ministry of Infrastructure, specifically GEPROYECTOS (*Guinea Ecuatorial-Proyectos*), seems to be the only entity with the minimum capacity and acceptable practices. However, although this entity prepares projects, the contract award decision is not regulated by very clear rules and procedures.

The current contract award practice is to request proposals from a selected company without prior defined selection criteria. To address this situation and considering the weak capacity of the various Ministries, a General Directorate of Government Contracts Study was established in the Ministry of Finance and Budget in January 2014. It was expected to be the only entity responsible for the award of public contracts in the long run. This initiative did not succeed for various reasons, including the reluctance of the other actors.

The contract management practices are inappropriate. The management of public procurement disputes would gain credibility by providing for alternative dispute resolution mechanisms such as arbitration. There are no litigation settlement and recourse mechanisms, thereby giving contracting entities all the latitude to impose their conditions and terminate contracts without a legal basis.

The country has not acceded to the New York Convention (1958), which impedes the participation of major international companies in competitive biddings in Equatorial Guinea because there is no guarantee that international arbitration decisions will be recognized and applied.

**System integrity and transparency:** **System integrity and transparency are not effective.** The system is characterized by the lack of a prior control mechanism, the absence of public procurement audits, and the absence of an independent recourse mechanism to enable bidders to file complaints in case they feel aggrieved in a bidding process.

## **1.2. Bank Procurement Strategy During the CSP Period**

The country context is marked by an incomplete and obsolete legal and regulatory framework that does not comply with international standards, weak human resource capacity, and the tendency of signing negotiated contracts for most local procurements. This remark must, however, be qualified because of the Government's increasing determination to embark on reforms in public finance in general, and public procurement in particular. In light of the foregoing, the Bank's procurement strategy during the CSP period is outlined below.

### ***(a) Improving the national system***

Assist the country through the Public Finance Modernization Support Project (PAMFP) being appraised and/or any other project in drafting and adopting a new public procurement code (and its implementing instruments) that complies with international standards and is consistent with CEMAC's Regulation No. 6/09-UEAC-201-CM-20 on procedures for awarding, executing and paying for community public contracts.

**(b) Investment projects**

- Use the Bank's procurement system for planned procurements;
- Provide for the recruitment of an international procurement consultant (preferably from the sub-region) and national counterparts who will work together over a long period with the objective of progressively transferring skills through day-to-day project implementation.

**(c) Budget support operations**

In principle, a high fiduciary risk is not conducive to the implementation of budget support operations. However, positive and effective procurement reforms and inclusion of significant additional measures under the said operations could help in managing such operations that could boost governance and public finance reforms.

**2. Combating Corruption: high fiduciary risk level**

**2.1** In 2017, Transparency International's Corruption Perceptions Index (CPI) ranked REG 171<sup>st</sup> out of 179 countries with a score of 17 on 100. There was no rating for the previous years. The Mo Ibrahim Index of African Governance (IIAG) also shows that governance did not improve in 2016. The country was ranked 46<sup>th</sup> out of 54 countries. Its score slightly improved to 36.8 on 100, but remained below the African average which is 50.

**2.2** As regards transposition of CEMAC Directives, REG has not submitted to the CEMAC Commission the instrument instituting the Public Finance Management Transparency and Good Governance Code which lays down the principles and obligations that each CEMAC Member State must observe and fulfil in its legislation and practices regarding the management of State funds and those of other government services, as well as foreign assistance funds granted by international institutions or foreign countries.

**3. Public Finance Management (PFM): Fiduciary risk level deemed High**

**3.1** The main objective of the PFM country fiduciary risk assessment (CFRA) is to conduct an assessment of the fiduciary risks associated with each sub-system of the management of a country's public finance so as to propose measures and an action plan to mitigate the risks identified, and thus allow for full or partial use of these public finance management (PFM) sub-systems during the implementation of Bank Group-financed operations. However, the assessment encountered various difficulties due to the absence of documentation in French on the diagnosis of REG's public finance management, the absence of a PEFA-type assessment, and the absence of key expenditure chain actors during field missions. The PFM-related fiduciary risk level has not improved since the Bank's previous **review of the public finance management system (PAGFP, Bureau EGIS BDPA, December 2013) which also concluded that the public finance management-related fiduciary risk was high.**

**3.2** *Planning and budgeting: budget preparation, execution and control: fiduciary risk level deemed high*

**REG's public finance management is regulated by the Organic Law of 11 November 2003 (Ley n° 9/2003, Reguladora de las Finanzas Públicas, de fecha 13 de noviembre). However, in efforts to align with CEMAC's Directives on PFM, REG has transmitted to certain texts to CEMAC Commission and received its compliance notice. The texts concern the transposition into domestic legislation of the following five CEMAC Directives on Public Finance Management: finance laws, the General Regulations on Public Accounting, the Government's Budget Nomenclature, the Government**

**Accounting Plan and the Government Financial Operations Table. However, the main instrument, that is the Public Finance Management Transparency and Good Governance Code, which lays down the rules and principles for applying these five directives, has not yet been submitted for consideration by the CEMAC Commission.**

### **3.3      *External audit: fiduciary risk level deemed high***

Article 115 of REG's new Constitution, which was promulgated on 16 February 2012, provides for the establishment of a Court of Auditors. To date, however, the implementing instruments are still not available, hence the inexistence of a Court of Auditors and the shortcomings and weaknesses of the public expenditure *a posteriori* audit and control process.

Furthermore, the regular review of the annual finance law and external audit reports by the legislative power is not satisfactory.

### **3.4      *Level of use of the national public finance management system***

Pursuant to the provisions of the Paris Declaration on Aid Effectiveness (2005), the Accra Agenda for Action (2008) and the Busan High-Level Forum on Aid Effectiveness (2011), the Bank's decision to use or not to use the national public finance management system was reviewed based on REG's assessment system, Bank directives, practices and risk tolerance, national preferences and other factors such as perception of the level of governance and corruption. The review shows that the risk level does not allow - the Bank to adopt an approach based exclusively on national procedures and systems. However, the Bank, together with technical and financial partners, will continue to support PFM system reforms through various instruments so as to mainly use national procedures and systems in the long run.

Financial management arrangements will be reviewed during the appraisal missions of new investment operations which will be financed with Bank resources. The existence of a minimum arrangement at entry of operations will be required in the selection of project institutional anchorage. Bank fraud and corruption control mechanisms will be used and sanctions mechanisms strictly applied. External audit reports will be published regularly, in accordance with the Bank Policy on Disclosure and Access to Information revised in 2012. Operation completion reports will include the findings of the audit conducted at the closure of operation. The Bank should limit the establishment of independent management units. Operations will preferably be implemented by project implementation units within sustainable government services which will have a mechanism for building their capacity, and will receive Bank support through close monitoring by Bank fiduciary experts.

For each budget support operation, the use of Bank resources will be systematically checked through a review of the audit reports of the General Inspectorate of the Ministry of Finance. **It is highly recommended that the Court of Auditors be established prior to any Bank budget support operation.** The Bank will reserve the right to request an audit of the financial flows of programme support and/or performance that it will deem necessary. The said financing (as well as other external financing) will be systematically included in the State budget (these resources will be recorded on the corresponding line in the external resources of budgets). A written confirmation should be provided by the Government for any transfer of the said funds from the Treasury account to the Central Bank of REG, stipulating the foreign exchange rate applied. The account receiving the operation funds will be kept in the Central Bank and will be part of the country's foreign exchange reserves.

## Country Fiduciary Risk Assessment (CFRA) - CSP 2018-2022

<i>System / Sub-system</i>	<b>PEFA Indicators</b>	<b>Risk Factors</b>	<b>Initial Risk</b>	<b>Mitigation Measures</b>	<b>Residual Risk</b>
Procurement		<b>Lack of a procurement legal and regulatory framework that complies with international standards</b>		Prepare and adopt a procurement legal and regulatory framework that complies with international standards, taking into account the country's size and capacity, and including a clear assignment of responsibilities regarding operations, regulation and control.	<b>High</b>
		<b>Lack of an institutional framework to strengthen the procurement system</b>		Define and regulate a procurement institutional framework, providing, in the legal framework, for the establishment of a procurement management body responsible for controls and a regulatory body responsible for procurement, complaints management, training and audit policy	<b>High</b>
		<b>Lack of a complaints management mechanism</b>		Provide, in the legal framework, for an independent and tripartite body responsible for disputes settlement and complaints management, including the establishment of mechanisms and procedures in the law	<b>High</b>
		<b>Lack of standard bidding documents and a procedures manual to ensure transparent application of the law</b>		Prepare and adopt standard bidding documents and make their use compulsory  Prepare and adopt a procedures manual	<b>High</b>
		<b>Weak procurement capacity and inefficient procurement practices</b>		Develop, adopt and implement a national capacity building strategy and training programmes following the establishment of a new procurement legal, regulatory and institutional framework	<b>High</b>

## Annex 11: Note on Equatorial Guinea's Financing Parameters

Type of Expenditure	Parameter	Remarks/Explanations
<p>Cost Sharing:</p> <p>Limit on the proportion of the cost of an individual project that the Bank can bear</p>	A 90% threshold	The mobilization of counterpart funds will be encouraged as a means of Government ownership of and commitment to Bank projects. The basic principle will be a minimum 10% Government participation in most cases. Such participation will be considered on a case-by-case basis during project appraisal.
<p>Recurrent Cost Financing:</p> <p>Limit applicable to the overall amount of recurrent cost financing that the Bank could bear</p>	A 100 % threshold adopted depending on the case	The inclusion of these costs will depend on predictable trends in the fiscal situation and sustainability of Equatorial Guinea's debt which will determine its capacity to ensure continuous cost financing. The costs will be financed by the Bank as long as it is established that they are part and parcel of the project and that they are required for achieving project development objectives. The relevant Bank services will calculate the estimated amounts of recurrent cost financing and indicate on a case-by-case basis the ways and means of ensuring sustainable financing.
<p>Local Currency Cost Financing:</p> <p>Fulfilment of the following conditions for financing this type of expenditure: (i) the country's programme financing needs exceed public sector own resources and the envisaged level of external loans; and (ii) foreign exchange expenditure financing only is insufficient to effectively implement the project under consideration</p>	Yes	Given that the two conditions are generally fulfilled, costs in local currency will be eligible for Bank financing in Equatorial Guinea. Determination of the required proportions to be financed by the Bank to achieve project objectives will be dependent on macroeconomic considerations (the country's financial situation) and the type of project itself.
Taxes and duties	No	Considering the country's context and financing capacity, the principle according to which Bank Group-financed projects are exempted from taxes and customs duties will be the rule.

## **Annex 12: Environnement, Climate Change and Green Growth**

### **I. Equatorial Guinea's Climate Change and Environmental Situation**

Equatorial Guinea is a country in the Congo Basin, which is the second largest tropical forest area after the Amazonian forest. The country has about 1 626 million hectares of dense tropical rainforest, representing 58.0% of the country's total surface area (FAO 2010). REG's forest cover, mainly located in the continental part of the country, stretches over more than 20 000 km<sup>2</sup>, that is close to 80% of the national territory. There are three major types of vegetation inland, namely: (i) average- and low-altitude dense rainforests, with high-value timber species and swampy and flood-prone forests harbouring water-tolerant vegetation and mangroves; (ii) secondary forests resulting from forest regeneration after logging activities; and (iii) tertiary forests interspersing dense forests along road networks and villages. The country's population is officially estimated at 1 014 999 (Ministerio de Planificación y Desarrollo Económico 2002), 38.8% of whom live in urban areas and 61.2% in rural areas. The country has been enjoying unprecedented economic growth over the past decade, driven by oil exploration and massive foreign investment. According to Nguema and Pavageau (2012), vast off-shore oil reserves were discovered in 1998. Since then, the country has enjoyed a two-digit GDP growth rate which peaked at close to 70% in 2001. Revenue stood at CFAF 5 130 billion in 2007 against CFAF 83 billion in 1995. Oil and gas resources accounted for 90 % of GDP in 2007 (EIU 2008).

According to FAO (2010), the annual deforestation rate in Equatorial Guinea is 0.9%. Apart from deforestation, Equatorial Guinea's forests are particularly threatened by degradation, following the abandonment of commercial agriculture and repositioning of the country on timber extraction. As a result, Equatorial Guinea has a high forest cover due to a high deforestation rate, just like Brazil, although its deforestation rate is low compared with the Amazon Basin and the other Congo Basin countries. Deforestation and forest degradation are reported to be responsible for the emission of 65 million and 128 million tonnes of CO<sub>2</sub> respectively annually in the country. Although these figures are largely approximate, the potential of REDD+ (*Reducing emissions from deforestation and forest degradation in developing countries*) activities is substantial. Although forest production was the main economic activity in terms of export earnings (47%) prior to oil production, it employs less than 0.5% of the labour force.

Equatorial Guinea has a rich biodiversity. The land and marine ecosystems provide a network of resources and services to the local communities. However, the country is facing risks related to climate change, loss and degradation of forests and ecosystems and a vulnerable wildlife because it is coveted. The weak surveillance systems, the weak application of the law and unsustainable forest resource exploitation could progressively lead to a drastic reduction in the country's forest cover, with ensuing threats to the ecosystems. Intensive game hunting is seriously threatening the survival of many vertebrate species such as elephants and primates.

The country's climate is of the bimodal equatorial type with two short dry seasons in between two rainy seasons. Rainfall varies from 3 500 mm inland to less than 2 000 mm on the penepains. Bioko island has one of the highest rainfalls in Africa, recording more than 10 000 mm annually (Atlas of Equatorial Guinea 2001). Moreover, in spite of the absence of specific data on the impact of climate change in Equatorial Guinea, more comprehensive studies reveal the vulnerability of farming systems, water resources and degraded forests to climate change today and in the future. Another sector that is particularly sensitive to climate change is the human health sector. The Republic of Equatorial Guinea has demonstrated its commitment to combat climate change through its determined contribution at



national level (CDN). Equatorial Guinea's ambition in this paper is to reduce emissions by 20% by 2030 compared with the 2010 levels, in order to achieve a 50% reduction by 2050.

## **II.National Policies and Strategy Papers**

Equatorial Guinea is signatory to many international conventions on the environment, including the United Nations Framework Convention on Climate Change (UNFCCC). The country has also acceded to the Tokyo Protocol and participates in international negotiations.

It should be noted that there is no policy backing these international climate change commitments. To honour its obligations under UNFCCC, the country is currently preparing its first national communication. This document will help to assess greenhouse gas emissions and define adaptation and mitigation priorities. Furthermore, no assessment of the potential impacts of climate variability or change in the country has been conducted or updated at national level. However, many activities and programmes have been implemented for the climate, carbon sequestration and protection of ecosystems and the population against climate variability. They include the establishment of a National Protected Areas System (SNAP) and the Forestry Action Plan. The "Vision 2020 Programme" is part of building the population's adaptation capacity. It is a development mechanism prepared and entirely financed by the Government of Equatorial Guinea and aimed at ensuring the country's emergence by 2020. Many projects have been identified and proposed by the various development sectors. Although these projects can contribute to ensuring adaptation of the population and forest ecosystems to climate variability and change, they do not meet the requirements of a proven national adaptation plan.

The various efforts made and actions undertaken to ensure better environmental sustainability lack overall coordination and are not part of a coherent climate change control strategy. For example, the Climate Change Communication Preparation Committee and the REDD Working Group do not work in a concerted manner.

## **III.Challenges and Opportunities**

There are few quantified or detailed analyses of current and future impacts of climate variability on the most sensitive sectors, ecosystems and local communities living in Equatorial Guinea's forest zones. The major currently observed and projected impacts of a rise in temperatures and a modification of the rainfall pattern are reduced agricultural productivity, disruptions in water supply and the resurgence of vector-borne diseases (Osman-Elasha 2009). The Inter-Governmental Panel on Climate Change (IPCC) has also projected an increase in extreme climate events such as floods and droughts occurring more often and with increasing severity, and affecting houses, crops, access to drinking water, etc. (IPCC 2001).

The main international framework for adaptation to climate change is the UNFCCC to which Equatorial Guinea is signatory. However, the political process related to the Convention has not evolved very much in the country. The country has not yet submitted an initial communication. It has also not yet benefited from any project or received support financed by one of the adaptation funds established under the Convention (the Kyoto Protocol Adaptation Fund, the Least Advanced Countries Fund and the Special Climate Change Fund). One of the reasons is that the country is not eligible for assistance provided to least advanced countries. Furthermore, adaptation has not appeared as a major challenge for the country and no priority sector has been defined at the political level.

Also, no programme or project explicitly dealing with adaptation to climate change has been identified in the country despite the growing number of continental initiatives and networks.

In addition to these climate change challenges, there are: (i) over logging, especially by foreign companies; (ii) the heavy dependence of the rural population on natural resources; (iii) an unproductive agriculture; (iv) poverty; (v) few public services in rural areas, etc. The major national challenges are the uncertainties regarding land use and its preservation for other uses, poorly designed legal mechanisms, weak forestry law application mechanisms, weak capacity, corruption and lack of transparency. The land law does not define the proportion of forest to be allocated to rural communities in the case of distribution of generated profits.

The REDD+ mechanism and the implementation of the National Climate Change Adaptation Plan are an opportunity for green growth financing and climate change control at national level. However, knowledge and sensitization on the issue are insufficient. In addition, REDD+ is not a policy priority for the country in relation to its desire for oil exploitation-driven economic growth. Climate change adaptation seems to be more in line with the priority areas of the National Emergence Plan aimed at poverty reduction and infrastructure development, on condition that these efforts carefully assess the risks posed by future changes. The issue of good governance is fundamental for climate change adaptation and the development of a REDD+ mechanism. Although the country has huge natural resources, especially oil, timber and fishery resources, their benefits for the rural populations are few. Consequently, the weaknesses of the benefit-sharing system could jeopardize sustainability of a forest preservation compensation mechanism.

#### **IV. Institutional and Regulatory Reforms**

Considering the country's numerous development and natural resource management problems as mentioned earlier on, there is urgent need for the incorporation and structuring of a group of institutions responsible for climate change adaptation.

General policy coordination falls under the Ministry of Planning, Economic Development and Public Investments which can also play a key role in the implementation of climate change adaptation policies because it plays a fundamental role in the definition of the country's policies. The Equatorial Guinea Projects Authority is the institution responsible for managing all the priority development projects identified by the Government for implementation by 2020.

However, the country has made progress in sustainable natural resource management with the establishment of a very vast network of protected areas.

#### **V. Major Environmental Recommendations and Proposed Bank Operations**

*With regard to environmental sector prospects*, it will be necessary to pay greater attention to environmental issues that are a major problem, so as to ensure the country's sustainable development. The major recommendations include:

- Formulate an urban area development policy to control the sprouting of unplanned and unserved neighbourhoods (absence of drinking water supply and sanitation, disorderly electrification with the multiplication of illicit connections, etc.). The underprivileged segments of the population are settling in flood-prone areas rendered even more dangerous by heavy rainfall and the clayey nature of the soil. There are therefore serious security risks in the event of natural disasters (risk of landslide).

- Develop urban services: collection of urban waste which is the main sources of contamination, sanitation systems and a sewage network for treating waste prior to discharge into the sea;
- Preserve biodiversity by streamlining hunting and forestry activities that could result in the destruction of wildlife and deforestation which would reduce biodiversity;
- Conduct studies and identify natural resources to ensure their proper use and prevent the destruction of the already fragile ecosystems;
- Develop a rural cadastral survey for the optimal allocation of land and sustainable agricultural management for the preservation of forest zones, fallow areas and water bodies;
- Fishery policies should be geared towards sustainable fishing through the regulation of fishing (prohibition of drift nets, mesh size, etc.). Resources for exclusive maritime area surveillance should also be mobilized to ensure healthy and sustainable exploitation of fishery resources;
- A policy on the constitution of artificial nests for the production and development of fishery resources should also be implemented;
- The over-exploitation of sea sand for construction should be prohibited to avoid accelerating the encroachment of the sea and reducing the living space of fauna and landlocked or neighbouring populations;
- Similarly, emphasis should be laid on oil exploitation that complies with environmental policies jointly formulated by the Government and oil companies.

The prevalence of poverty despite high economic growth underscores the need to develop approaches that foster adaptation of the population to climate change. The challenges posed by over-logging and unsustainable oil exploitation demonstrate the importance of taking climate change mitigation measures. It is therefore important to combine mitigation and adaptation in the implementation of actions such as: sustainable high-productivity agriculture, development of community business and village land management models, generation and use of renewable energy, etc.

It is also necessary to improve the coordination of stakeholders, train national senior officers and establish transparent governance frameworks.

In a nutshell, Equatorial Guinea's development must be underpinned by the proper handling of environmental management issues at the institutional level. Only a prudent management of resources and the existence of a favourable living environment can lead to sustainable development.

## Annex 13: Map of Equatorial Guinea

