Monitoring of Graduated and Graduating Countries from the Least Developed Country Category:

Equatorial Guinea

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Contents

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I. Background

General Assembly resolution 67/221 of 21 December 2012 requests the Committee for Development Policy (CDP) to monitor the development progress of countries that graduated from least developed country (LDC) category. The monitoring is to be conducted, in consultation with the Governments of those countries, on a yearly basis for a period of three years after graduation becomes effective, and triennially thereafter, as a complement to two triennial reviews of the LDC category. CDP has also been requested to include its findings in its annual report to the Economic and Social Council (ECOSOC). This note contains a brief overview of the development progress and the smooth transition strategy of a graduated country, Samoa.

This note also contains a brief update on current conditions of graduating countries, Equatorial Guinea and Vanuatu, as requested by ECOSOC in its resolution 2013/20. Following the guidelines of resolution 67/221 of the GA, the CDP Secretariat has invited both countries to submit a concise report to CDP with information and an overview of the preparation of smooth transition strategy.

Guidelines on monitoring were first outlined by the CDP in its 2008 Report to the Council and updated in the 2013 Report.[1] The main objective of the monitoring provision is to identify any signs of reversal in the development progress of the graduated and graduating country and bring them to the attention of the ECOSOC.

II. Monitoring development progress of Equatorial Guinea

Equatorial Guinea: Monitoring timeline

In 2009, the Committee recommended Equatorial Guinea to graduate in accordance with the "income only" rule, as its GNI per capita was several times above the income graduation threshold.[2] ECOSOC endorsed the recommendation for graduation in 2009 (E/RES/2009/35). The General Assembly took note of the recommendation by the CDP in 2013 (A/RES/68/18). The General Assembly also decided to provide Equatorial Guinea, on an exceptional basis, with an additional preparatory period of six months, before the start of the three-year preparatory period leading to graduation. Therefore, Equatorial Guinea is scheduled to graduate on 4 June 2017 (see table 6).

Table 6. Time line for monitoring reports: Equatorial Guinea

Date	Equatorial Guinea	Relevant resolution
December 2015	Country report to CDP (graduating)	A/RES/67/221

[1] See paragraphs 34 and 35 in Committee for Development Policy, Report on the tenth session (17-20 March 2008), Economic and Social Council, Official Records, 2008, Supplement No. 13. Committee for Development Policy, Report on the fifteenth session (18-22 March 2013), Economic and Social Council, Official Records, 2013, Supplement No. 13, chapter V.

[2] Report on the twelfth session of the Committee for Development Policy, 22-26 March 2010 (E/2010/33, Supplement No. 13)

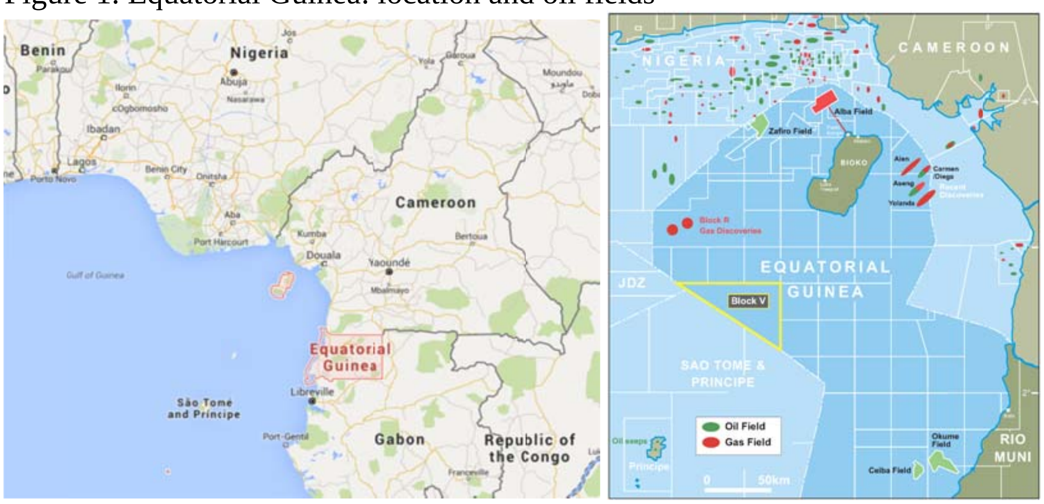
March 2016	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2016	Country report to CDP (graduating)	A/RES/67/221
March 2017	CDP monitoring report to ECOSOC	E/RES/2013/20
June 2017	**Equatorial Guinea graduates**	A/RES/68/18
December 2017	Country report to CDP (graduated, #1)	A/RES/67/221
March 2018	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2018	Country report to CDP (graduated, #2)	A/RES/67/221
March 2019	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2019	Country report to CDP (graduated, #3)	A/RES/67/221
March 2020	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2020	Country report to CDP (triennial review #1)	A/RES/67/221
March 2021	CDP monitoring report to ECOSOC	E/RES/2013/20
December 2023	Country report to CDP (triennial review #2)	A/RES/67/221
March 2024	CDP monitoring report to ECOSOC	A/RES/67/221

Source: CDP Secretariat.

Equatorial Guinea: Recent macroeconomic developments

Equatorial Guinea is highly dependent on the oil sector, and facing serious challenges due to the decline in hydrocarbon production compounded by recent sharp decline in oil prices (see figure 1). Real GDP contracted by 6.5 per cent in 2013, by 0.3 per cent in 2014 and 10.2 per cent in 2015 (see table 7). Estimates vary depending on assumptions about international oil prices but real GDP is projected to further contract by 2-5 per cent annually during the period 2016-2020.[3]

Figure 1. Equatorial Guinea: location and oil fields



The external sector is a key source of vulnerability in view of the country dependence on the oil sector. The current account deficit was large at $1.6 billion in 2014, and turned to a surplus of $731 million in 2015. The balance of goods decreased from $9,284 million in 2014 to $6,499 million in 2015, but larger changes in the balance of service (from -$2,908 million to -$1,974 million) and the balance of income (from -$7,635 million to -$4,971 million) during 2014-2015, turned the current account deficit into a surplus.

[3] IMF, Article IV consultation: Equatorial Guinea, 2015; Economic Intelligence Unit, Country Report: Equatorial Guinea, January 2016; Oxford Economics, Country Economic Forecast, January 2016.

Equatorial Guinea’s foreign exchange reserves decreased from $4,396 million to $2,004 million between 2013 and 2015.

Table 7. Equatorial Guinea: Socio-economic indicators, 2010-2015

	2010	2011	2012	2013	2014	2015
GDP growth rate (per cent, constant price)	-3.8	1.9	5.8	-6.5	-0.3	-10.2
Inflation rate (per cent)	5.3	4.8	3.4	3.2	4.3	3.5
Government revenue (Millions of US dollars)	4,342.9	6,037.8	6,257.7	5,454.0	5,223.7	3,016.5
Government expenditure (Millions of US dollars)	5,081.7	5,864.0	7,881.1	6,738.4	6,274.3	3,611.3
Government balance	-739	174	-1,623	-1,284	-1,051	-595
Government balance as per cent of GDP	-6.4	1.1	-9.0	-7.5	-6.8	-4.7
Net ODA received (Millions of US dollars)	84.7	24.3	14.2	4.3	0.6	…
Balance of Payments (Millions of US dollars)						
Current Account (Millions of US dollars)	-2,793	-1,565	-388	-688	-1,551	731
Goods, Credit (Exports)	10,332	14,306	17,349	15,776	14,761	10,129
Goods, Debit (Imports)	5,485	6,972	6,905	5,785	5,475	3,630
Balance on Goods	4,847	7,334	10,444	9,991	9,284	6,499
Services, Credit (Exports)	…	…	…	…	…	…
Services, Debit (Imports)	…	…	…	…	…	…
Balance on services	-2,055	-2,638	-3,038	-2,690	-2,908	-1,974
Balance on Goods and Services						
Balance on income	-5,477	-6,155	-7,545	-7,682	-7,635	-4,971
Balance on current transfers	-108	-107	-249	-308	-291	-284
Capital Account	0	0	0	0	0	0
Financial Account	2,404	2,602	2,956	1,846	-447	79
Direct investment (net)	2,374	1,975	985	731	320	316
Portfolio investment (net)	0	0	2	2	2	2
Other investment (net)	-330	627	1,969	1,113	-767	-238
Memorandum item:						
Reserves (Millions of US dollars)	2,354	3,054	4,282	4,396	3,177	2,004
Reserves (months of imports)	5.1	3.9	10.1	7.8	8.4	5.9

Source: IMF, World Economic Outlook Database, October 2015; IMF Country Report No. 15/260, Article IV consultation: Equatorial Guinea, 2015; OECD, Table 25: ODA Receipts and Selected Indicators for Developing Countries and Territories

As revenue from the oil sector accounts for around 90 per cent of total government revenue, the fiscal balance is expected to continue to deteriorate over time with falling oil prices and large government expenditure on infrastructure. The fiscal deficit is forecast to reach five per cent of the GDP in 2015, and then decrease over the medium term, as government spending declines due to financing constraints.

As seen above, the oil sector is the key to the Equatorial Guinea’s economic prospects. Mineral fuels export accounts for 94.2 percent of all commodity exports in 2014 (see table 8).

Table 8. Equatorial Guinea: value of exports by main commodities exported, 2014

HS code	Exports	Value (US dollar billions)	Share (per cent)	Main destinations*
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	12.2	94.2	China (25%), USA (16%), Singapore (9%), Brazil (9%), France (8%), Japan (7%)
29	Organic chemicals	0.4	3.3	Netherlands (54%), USA (30%)
44	Wood and articles of wood; wood charcoal	0.2	1.5	China (91%)
Total		13.0	100	

Note: * Market share in the parenthesis.
Source: UN Comtrade, accessed 25 January 2016.

Equatorial Guinea is located at the Niger Delta Basin which is one of the richest in undiscovered petroleum resources (see figure 1).[4] According to the most recent estimate, Equatorial Guinea had proven oil reserves of 1.1 billion barrels as of January 2015.[5] In 2014, total oil production averaged about 270 thousand barrels per day. The daily production is well below Equatorial Guinea's peak production of 369 thousand barrels per day in 2007, but the country is the third leading oil producer in sub-Saharan Africa, after Nigeria and Angola.[6] Due to a steady fall in the output of existing fields, in the absence of significant new discoveries, the overall output is expected to fall further to around 189 thousand barrels per day in 2020.[7]

Equatorial Guinea is estimated to have 1.3 trillion cubic feet of proven natural gas reserves as of January 2015.[8] Between 2001 and 2014, Equatorial Guinea's natural gas production increased rapidly from 1 billion cubic feet to 292 billion cubic feet.[9] Recent discoveries in international oil companies' complex may boost future natural gas production.

Equatorial Guinea: Developments related to indicators in the LDC criteria

Due to the development of its fuel resources, Equatorial Guinea achieved high levels of national income. Table 9 shows that GNI per capita of Equatorial Guinea is estimated as $15,250 in 2016, using the same methodology and data source for 2015 triennial review. It is 12 times higher than the graduation threshold established at the 2015 triennial review ($1,242).[10] As discussed above, a projected contraction of real GDP in recent years, due to falling oil prices and declining oil production, is likely to lead to a reduction in the

[4] Economic Intelligence Unit, Industry Report: Energy, Equatorial Guinea, January 2016.
[5] US Energy Information Administration, Equatorial Guinea: Overview, April 2015.
[6] African Development Bank, African Economic Outlook, Country Note: Equatorial Guinea, 2015.
[7] Economic Intelligence Unit, Industry Report, Energy: Equatorial Guinea, 4th quarter 2015.
[8] US Energy Information Administration, Equatorial Guinea: Overview, April 2015.
[9] Calculated from Economic Intelligence Unit, Industry Report, Energy: Equatorial Guinea, 4th quarter 2015.
[10] Committee for Development Policy Secretariat. The graduation threshold in 2015 triennial review was established based on 2011-2013 data.

GNI per capita in the near future. Yet, the level of national income is forecast to remain at a high level in the medium term, supported by an increase in natural gas output.[11]

Table 9. Equatorial Guinea: LDC criteria indicators, 2009-2016

Index/Criteria	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
GNI per capita in USD	5,422	7,210	10,424	13,482	15,268	15,807	15,468	15,250
EVI	45.4	45.6	44.6	43.4	41.2	40.8	40.0	35.7
Population (thousands)	665.8	686.2	707.2	728.7	750.9	773.7	797.1	820.9
Remoteness	49.8	49.7	49.8	49.2	48.4	48.2	48.4	48.5
Low elevation coastal zone (%)	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Export concentration	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7
Shares of agriculture, forestry and fisheries	2.0	1.7	1.6	1.5	1.6	1.4	1.4	1.5
Victims of natural disasters (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agricultural instability	4.9	5.3	5.3	5.0	3.1	2.9	2.8	2.5
Export instability	28.3	28.7	28.2	27.5	26.7	26.5	25.8	21.0
HAI	49.1	49.7	50.2	50.8	53.5	54.0	54.6	55.1
Undernourishment (%)	30.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0
U5MR (per 1,000)	118.4	114.6	110.9	107.3	103.7	100.3	97.4	94.1
Adult literacy rate (%)	88.3	88.3	88.3	88.3	94.8	94.8	95.3	95.3
Gross secondary school enrolment (%)	27.4	27.4	27.4	27.4	27.4	27.4	27.4	27.4

Note: Indicators are generated based on the same data source and methodology used for the 2015 review. Therefore, the values in 2009 and 2012 are different from the ones included in the triennial reviews presented in the CDP reports to the ECOSOC in the respective year.
Source: CDP Secretariat.

Equatorial Guinea's EVI score is estimated as 35.7 in 2016, getting closer to the graduation threshold established at the 2015 review (32 or lower) (see table 9). However, the improvement in the EVI score needs to be carefully interpreted. The changes in the EVI score are mostly explained by the recent decrease in the export instability, which is an indicator generated from a regression analysis of a 20-year period. The export instability appears to decrease in 2016, because of the statistical outcome, not because of a fundamental change in the economy's instability.[12] As the country heavily relies on commodity exports, Equatorial Guinea is expected to remain susceptible to volatile changes in the international commodity prices.

[11] Economic Intelligence Unit, Country Report: Equatorial Guinea, January 2016.
[12] In the 20-year sample period, Equatorial Guinea has a structural break: a no-growth period until 1995 and an oil-driven-high-growth period since 1996. The export instability indicator is calculated from a regression using an intercept, a linear trend, and a lagged value of export. The time series of the export value may not be adequately detrended by the linear trend, if a structural break exists. The no-growth period until 1995 is excluded from the calculation of the indicator for 2016, and it leads to a better performance of the regression model with a linear trend, and results in a low value of the export instability. See Handbook on the LDC Category, available from http://www.un.org/en/development/desa/policy/cdp/cdp_ldcs_handbook.shtml.

The income level and human development of Equatorial Guinea are unbalanced. While there seems to be some improvement in human assets, the HAI score still remains at 55.1 in 2016, much lower than the graduation threshold established in the 2015 review (66 or higher). Table 10 also presents the Human Development Index (HDI) and its components for 10 countries with lowest values of GNI per capita rank minus HDI rank. The GNI per capita rank minus HDI rank represents the difference in rankings by GNI per capita and by the HDI, and a negative value means that the country is better ranked by GNI than by the HDI. Equatorial Guinea, as one of two high income countries in sub-Saharan Africa[13], is ranked 54 in GNI per capita, but ranked as 138 in HDI, with the difference of -84.

Table 10. Human Development Index and its components for 2014, bottom 10 countries in GNI per capita rank minus HDI rank

HDI rank	**Country**	**Human Development Index (value)**	**Life expectancy at birth (years)**	**Expected years of schooling**	**Mean years of schooling**	**Gross national income (GNI) per capita (2011 PPP $)**	**GNI per capita rank minus HDI rank**
138	Equatorial Guinea	0.587	57.6	9.0	5.5	21,056	-84
48	Kuwait	0.816	74.4	14.7	7.2	83,961	-46
121	Iraq	0.654	69.4	10.1	6.4	14,003	-44
110	Gabon	0.684	64.4	12.5	7.8	16,367	-42
106	Botswana	0.698	64.5	12.5	8.9	16,646	-41
41	United Arab Emirates	0.835	77.0	13.3	9.5	60,868	-34
103	Suriname	0.714	71.1	12.7	7.7	15,617	-32
32	Qatar	0.850	78.2	13.8	9.1	123,124	-31
149	Angola	0.532	52.3	11.4	4.7	6,822	-30
116	South Africa	0.666	57.4	13.6	9.9	12,122	-29

Source: UNDP, Human Development Report, 2015.

Preparation of the smooth transition strategy: Equatorial Guinea

The country’s export structure implies little preferential treatment by major importing markets, including China, the United States and other European countries. And the country has limited reliance on bilateral official development flows – net ODA as a percentage of GNI was 0.1 per cent in 2013.[14]

Nonetheless, a smooth transition strategy should be prepared to engage the country’s development partners in providing the necessary support to ensure that the country’s development path is sustainable. National Economic Development Plan: Horizon 2020, the country’s long-term development strategy, highlights two objectives: (1) transition from an oil dominated to a diversified economy; and (2) the reduction of poverty and enhancement of social cohesion. During the Phase I of the plan (2008-2012), road, port and airport infrastructure were created, the electricity supply network was improved and

[13] Seychelles is the other high income country in sub-Saharan Africa (World Bank, Country classification, 2016)
[14] OECD, Aid at a glance: Equatorial Guinea, accessed January 2016.

public housing and buildings were built.[15] The Phase II of the plan (2013-2020) aims at improving governance, the business climate and human capital formation. To leverage the improved hardware, the software of the economy needs significant strengthening, as potential investors continue to be deterred by a weak investment climate and low human capital.[16]

The Government submitted a report on the graduation process to the CDP in January 2016.[17] The report overviews possible impacts of graduation on the country, and confirms that no significant negative impact of graduation is foreseen. The report emphasizes the importance of economic diversification, including expanding export destinations and strengthening the service sector, and social development, and possible actions are considered regarding the diversification and enhancing productivity: (1) participate in EIF and conduct a diagnostic trade integration study (DTIS); (2) conclude negotiations for accession to the WTO as soon as possible; (3) liberalization of trade in services; (4) improve the business environment.

The report suggests a course of action to prepare and implement the smooth transition strategy. The first phase is to establish a consultation mechanism for the development, monitoring and evaluation of the strategy. In the second phase, the strategy could be implemented by proactive actions by the Government (such as participating in EIF, or communicate with various investments funds with the help of the AfDB), or by arrangement of the Government with relevant international organizations (such as WTO negotiations). In the third phase, monitoring and evaluation of the smooth transition would be done by the consultation mechanism together with CDP and its secretariat.

Equatorial Guinea: Summary

In contrast to its high level of income, the country has not used these resources to improve human assets and reduce vulnerability. Diversification into non-oil industries is in urgent need. Agriculture is the population’s main source of income, but limited to subsistence farming. Productivity urgently needs to be increased.[18]

Against this background, the CDP in its 2015 report advised the country to formulate and implement a transition strategy for economic divarication and an improved human assets index.[19] A smooth transition strategy of Equatorial Guinea will have to be customized in order to reflect the country’s special economic situations and to ensure sustainable development. As Equatorial Guinea’s medium- to long-term development prospects depend extensively on future oil revenues, the Government is recommended to consider what implications graduation will have on the Horizon 2020 plan, how to manage volatile

[15] African Development Bank, Equatorial Guinea Economic Outlook, January 2016.
[16] IMF, Article IV consultation: Equatorial Guinea, 2015
[17] Government of Equatorial Guinea and UNDP, Dependence on oil sector and the process of graduation of Equatorial Guinea, October 2015.
[18] FAO, Country profile: Equatorial Guinea, available from http://www.fao.org/countryprofiles/index/en/?iso3=gnq
[19] See paragraphs 67 in Committee for Development Policy, Report on the seventeenth session (23-27 March 2015), Economic and Social Council, Official Records, 2015, Supplement No.13.

rents associated with oil, and specifically how the country will diversify its economy. Evidence from other countries shows that a more equitable income distribution, as well as enhanced provision of education and health services, leads to increased economic growth over the long run.