EQUATORIAL GUINEA

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- **The country has entered into recession following a decline in oil revenue. Growth was negative (-1.4%) in 2013 and is projected to remain so, at -1.8%, in 2014.**
- **The authorities maintained investment expenditure high at 37.9% of GDP, causing a budget deficit of 7.5% of GDP in 2013.**
- **Oil and gas revenue have allowed rapid development of basic infrastructure in recent years, but there was no attending diversification of the economy or significant improvement of the population's living conditions.**

Overview

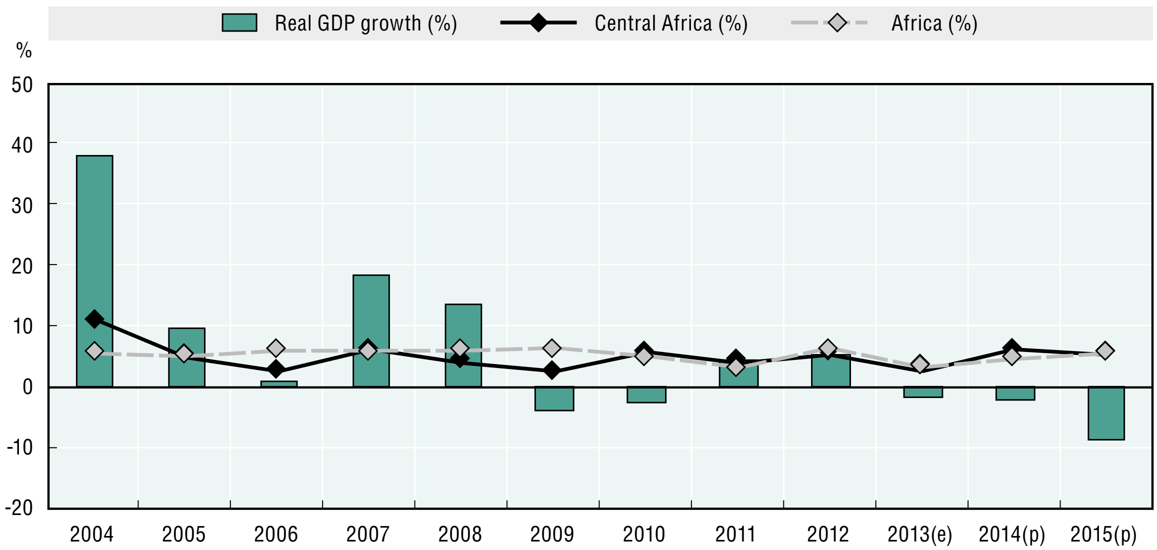
Equatorial Guinea's economy went into recession in 2013, posting negative growth estimated at -1.4% of GDP after +5.3% growth in 2012, and is expected to continue to deteriorate in 2014 (-1.8%) and 2015 (-8.5%). The recession is the result of a fall in oil revenue and lower gas and oil output, both of these highly dominant factors in the country's economy.

Hydrocarbons excluded, growth of the economy was largely driven by public investment aimed at developing and improving basic infrastructure such as roads, ports and airports. Public capital expenditure has grown constantly in recent years, and this trend should continue into 2014 and 2015, despite the fall in oil revenue that began in 2012. The fiscal deficit, which grew from 5.4% of GDP in 2012 to 7.5% in 2013, is therefore projected to deteriorate further, reaching 11.4% of GDP in 2014 and 12.8% in 2015.

Production at the significant oil and gas deposits discovered in the 1990s has driven strong economic growth, allowing per capita income to surge to an estimated USD 29 940 in 2013. Although revenue from hydrocarbon production has enabled rapid development of basic infrastructure in recent years, growth has not yet been supported by a process to diversify the economy, and improvements in the population's living conditions have been very slow. The country's Human Development Index (HDI) stood at 0.554 in 2013, ranking it 136th out of 187 countries, while it is ranked 59th in terms of per capita GDP. The oil and gas sector currently amounts to nearly 90% of GDP and provides almost all of the country's exports, while agriculture, the population's main source of income, is limited to subsistence farming and covers only 30% of the country's needs.

Aware of the need to make growth more inclusive and to broaden its bases, the authorities have developed a national economic and social development plan, the PNDES *(Plan Nacional de Desarrollo Económico y Social)*, aimed at turning Equatorial Guinea into an emerging economy by 2020. The first phase of the plan (2008-12) focused on developing transport and electricity infrastructure and public buildings (hospitals and schools) at the cost of substantial capital expenditure financed by oil and gas revenue. The second phase, begun in 2013, plans to maintain high public investment in infrastructure while targeting the development of five priority sectors that offer the country untapped comparative advantages and could generate wealth and jobs: agriculture and livestock farming; fisheries; petrochemicals and mining; tourism; and financial services. The authorities wish to improve the business climate in these areas to attract foreign investment and move up the global value chains (GVCs).

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2012	2013(e)	2014(p)	2015(p)
Real GDP growth	5.3	-1.4	-1.8	-8.5
Real GDP per capita growth	2.5	-4.2	-4.5	-11.2
CPI inflation	3.4	5.0	5.8	5.2
Budget balance % GDP	-5.4	-7.5	-11.4	-12.8
Current account balance % GDP	-12.6	-7.9	-10.8	-0.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Discovery in the 1990s of large oil and gas deposits and their subsequent exploitation has driven strong economic growth. The country is the leading oil and gas producer in the Central African Economic and Monetary Community (CAEMC) and the third largest oil exporter in sub-Saharan Africa. Oil revenue has helped improve public finances and enabled public investment in large basic infrastructure projects. Economic growth driven by the oil and gas sector also helped to upgrade Equatorial Guinea to the status of "middle-income country", with the continent's highest per capita income (USD 29 940) in 2013. Improvement in the population's living conditions, however, has been very slow, and the country continues to appear at the bottom of the social-indicator scale.

Oil production totalled 110 million barrels in 2012 while liquefied gas and methanol production amounted to about 7 million tonnes. The economy's huge dependence on oil and gas, currently accounting for nearly 90% of GDP and almost all of the country's exports, makes its growth rate highly vulnerable to fluctuations in world oil prices and variations in the volumes produced and exported in the sector. The economy fell into recession in 2013 as oil, gas and methanol production dropped after six oilfields (Zafiro, Okoumé, Alba, Ceiba, Jade and Serpentina) reached maturity, causing a decline in oil revenue. Oil revenue accounted for 30.9% of GDP in 2013, compared to 31.6% in 2012, and this downward trend is expected to continue in 2014 and 2015. This resulted in a downturn in GDP growth to -1.4% in 2013, compared to +5.3% in 2012, with growth projected to fall further to -1.8% in 2014 and -8.5%, in 2015.

The construction sector is the country's second major activity after gas and methanol production. Growth in the sector has been largely driven by public investment to rehabilitate and build basic infrastructure such as roads, ports, airports, public housing and public buildings. Investments made under the first phase of the PNDES, which aims to turn Equatorial Guinea into an emerging economy by 2020, have helped to increase the housing supply in urban areas and to develop transport infrastructure (roads, ports and airports) as well as electricity distribution. Public capital expenditure is financed by oil revenue. The increase in public capital expenditure in 2013, 2014 and 2015 aims to facilitate implementation of the second phase of the PNDES, which is intended to diversify the economy in sectors other than oil and gas.

The private sector outside of hydrocarbons is still in the early stages of development, hampered by excessive red tape and poor governance. Few agricultural products have been sold since the virtual disappearance of coffee, cocoa and palm oil plantations in the 1970s. Agricultural production in 2013 came mainly from subsistence agriculture, still the population's main source of income but covering only 30% of local needs. The two main cash crops are cocoa and coffee. The advanced age of the plantations and massive rural-urban migration among young people seeking better pay in oil and construction have caused coffee and cocoa production to fall continuously since 2007. Weak land infrastructure and the absence of marketing channels are major obstacles to the development of the agricultural sector.

Although Equatorial Guinea has very dense forest cover, especially on the mainland, the forestry sector's contribution to GDP remained negligible in 2013 (less than 0.5%) because orders from other countries dropped due to international economic conditions and because the 2008 forestry law prohibited the export of wood as raw logs and requiring wood-processing units to be set up. Timber exports amount to more than 280 000 tonnes of m^3. The vast territorial waters and diverse marine wildlife are untapped assets because industrial fishing is not well organised. The authorities have prioritised the development of fisheries to reduce the economy's dependence on oil and gas. They are also planning to diversify the economy by mining untapped gold, diamond, bauxite, tin, tungsten and coltan deposits.

On the demand side, fixed capital investment and household consumption are the two main contributors to GDP, providing just over a third each. Public investment expenditure should continue to grow in 2014 and 2015. The trade balance is structurally positive and has been estimated at 44.2% of GDP for 2013, down nonetheless from 46.1% of GDP in 2012 due to the fall in oil and gas exports. Exports of goods and services declined slightly in 2013 to just under 70% of GDP, while imports were stable, estimated at nearly 40% of GDP. The trade surplus should continue to contract in 2014 and 2015 to 40.6% and 39.2% of GDP, respectively.

Table 2. **GDP by sector (percentage)**

	2008	2011
Agriculture, hunting, forestry, fishing	....	1.3
of which fishing	....	....
Mining	....	89.4
of which oil	....	....
Manufacturing	....	0.1
Electricity, gas and water	....	0.7
Construction	....	5.7
Wholesale and retail trade, hotels and restaurants	....	0.7
of which hotels and restaurants	....	....
Transport, storage and communication	....	0.1
Finance, real estate and business services	....	0.8
Public administration, education, health and social work, community, social and personal services	....	0.9
Other services	....	0.3
Gross domestic product at basic prices / factor cost	**....**	**100**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Public spending has more than doubled in real terms since 2007. Under the first phase of the PNDES (2008-12), the government invested oil revenue in developing and improving basic infrastructure such as roads, ports and airports, public housing and public buildings in order to increase competitiveness and growth. Actual spending was almost twice the initially planned amount due partly to the cost of the work done for the Africa Cup of Nations and the Summit of Heads of State of the African Union, and partly to oil revenue exceeding projections.

The 2013 budget, based on growth projected at 1.8% in 2013, reflected the authorities' desire to carry out the second phase of the PNDES aimed at diversifying the economy so as to upgrade Equatorial Guinea to the category of emerging economies by 2020. Contrary to official projections, however, the economy went into recession in 2013 with negative growth (-1.4%) and a deepening primary-balance deficit (from 5% of GDP in 2012 to 6.8% of GDP in 2013) due to a continuous increase in expenditure despite the drop in oil revenue since 2012.

Public expenditure contributed more than 35% to domestic demand in 2013 and was largely dominated by capital expenditure (37.9% of GDP in 2013, versus 8.5% for current expenditure). Capital expenditure was primarily used to develop transport infrastructure and the energy grid, and to construct large public buildings. The upward trend in capital expenditure should continue into 2014 (at a projected 41.1% of GDP) and 2015 (at a projected 42.7% of GDP). Current expenditure is slightly down from 9.0% of GDP in 2012 to an estimated 8.5% in 2013, a downward trend expected to continue in 2014 and 2015 (at 8.4% and 8.1% of GDP, respectively).

The lion's share of government revenue is derived from oil and gas production. Oil revenue fell slightly in 2013 to 30.9% of GDP, and is projected to slip to 29.8% in 2014 and 29.6% in 2015. Tax revenue was slightly up from 2.4% of GDP in 2012 to 2.6% of GDP in 2013, but shows a recent downward trend when excluding oil and gas production. Better management of oil and gas revenue is indispensable to limit the impact of their volatility on the budget balance and on public spending.

Table 3. **Public finances (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Total revenue and grants	**43.2**	**39.3**	**39.0**	**39.2**	**38.9**	**38.0**	**38.0**
Tax revenue	1.7	2.0	1.8	2.4	2.6	2.7	2.8
Oil revenue	37.3	32.2	33.7	31.6	30.9	29.8	29.6
Total expenditure and net lending (a)							
Current expenditure	4.8	7.5	6.4	9.0	8.5	8.4	8.1
Excluding interest	4.6	7.2	6.0	8.7	7.8	7.7	7.5
Wages and salaries	1.0	1.3	1.0	1.1	1.3	1.4	1.5
Interest	0.2	0.3	0.4	0.4	0.7	0.7	0.7
Capital expenditure	12.7	34.3	28.9	35.6	37.9	41.1	42.7
Primary balance	**25.8**	**-2.2**	**4.1**	**-5.0**	**-6.8**	**-10.8**	**-12.2**
Overall balance	**25.6**	**-2.6**	**3.7**	**-5.4**	**-7.5**	**-11.4**	**-12.8**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The Bank of Central African States (BEAC) defines and implements the monetary policy of the six CAEMC member states. The main convergence criteria are a stable inflation rate below 3%, a primary budget surplus, domestic and external debt below 70% of GDP and no government payment arrears on these debts. BEAC's monetary policy in 2013 maintained the goal of bank refinancing at XAF 2 billion (CFA Franc BEAC) and continued cash-reserve requirements. The key interest rates were lowered. The interest rate on tenders was set at 3.25% in July 2013. In December 2013 the BEAC lowered its interest rates on investments from 0.1% to 0% for 7-day investments, from 0.1625% to 0.0625% for 28-day investments, and from 0.225% to 0.125% for 84-day investments. The interest rate on public investment in the reserve fund for future generations was reduced from 0.75% to 0.5% in July 2013, that on public investment under the budgetary stabilisation mechanism from 0.35% to 0.1%, and that on public investment as special deposit from 0.10% to 0%.

In 2013, the authorities confirmed their aim to counter the effects of higher liquidity in the economy in order to stabilise prices. They did not achieve this, with prices in Equatorial Guinea remaining more volatile than in the other CAEMC countries. Domestic demand, driven by strong public investment, helped keep inflation high. The rate of inflation rose from 3.4% in 2012 to 5.0% in 2013, above the 3% CAEMC convergence criterion and well above the 3.1% that had been projected. Consistently higher than in the other countries of the region, Equatorial Guinea's inflation rate has eroded the country's external competitiveness and contributed to an increase in the real effective exchange rate. The upward trend in inflation is expected to continue in 2014 and 2015, projected rates of 5.8% and 5.2%, respectively.

Economic co-operation, regional integration and trade

The country's external position relies on oil and gas, which are highly vulnerable to shocks to the terms of trade. Oil and gas production has enabled the country to accumulate large foreign exchange reserves, which are held at the BEAC and as foreign-currency deposits in private offshore banks. The trade surplus contracted from 46.1% of GDP in 2012 to 44.2% in 2013 as imports remained the same while exports declined, due to the fall in production of oil and gas.

The services deficit narrowed from 15.6% of GDP in 2012 to 15.3% in 2013 and is projected to continue to contract to 14.1% in 2014 and 12.4% in 2015 thanks to investments by gas production companies and by subcontractors in the oil sector. The revenue deficit was brought down from 42.4% of GDP in 2012 to 36.1% in 2013 due to lower compensation of private capital in the oil and gas sector.

Table 4. **Current account (percentage of GDP)**

	2005	2010	2011	2012	2013(e)	2014(p)	2015(p)
Trade balance	75.1	38.5	52.2	46.1	44.2	40.6	39.2
Exports of goods (f.o.b.)	107.0	85.0	86.2	86.7	84.8	82.2	82.1
Imports of goods (f.o.b.)	31.9	46.5	34.0	40.6	40.6	41.6	42.9
Services	-20.9	-17.1	-14.4	-15.6	-15.3	-14.1	-12.4
Factor income	-60.9	-44.6	-47.7	-42.4	-36.1	-36.7	-26.8
Current transfers	-1.0	-0.9	-0.6	-0.6	-0.7	-0.6	-0.6
Current account balance	**-7.7**	**-24**	**-10.5**	**-12.6**	**-7.9**	**-10.8**	**-0.5**

Source: Data from the Central Bank and domestic authorities; estimates (e) and projections (p) based on authors' calculations.

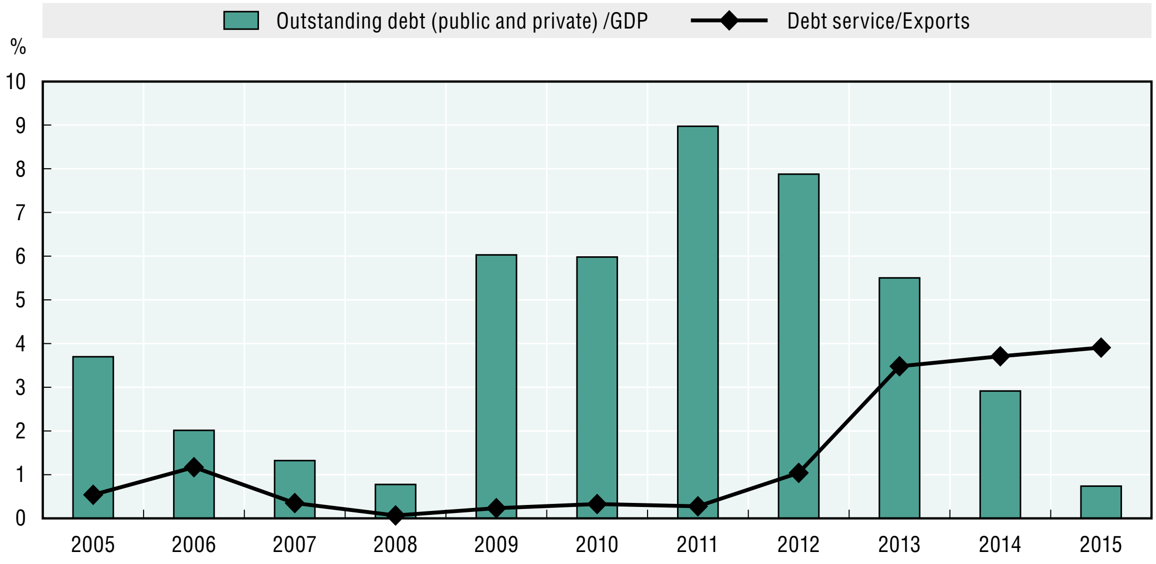
Despite strong oil and gas exports, there has been a persistent current-account deficit in recent years, largely funded by the substantial flow of foreign direct investment (FDI) in the country's oil and gas sector. The deficit improved from 12.6% of GDP in 2012 to 7.9% of GDP in 2013 as an effect of a recovery in factor income. The unremitting current-account deficit is explained by the fact that a large proportion of the revenue from gas and oil exports is transferred to foreign-based parent companies, as well as by the impact of massive public-sector investments on imports. Since most contracts, material and labour involved in public investment expenditure come from abroad, these capital expenditures led to substantial imports of goods, capital and services. The external sector is likely to remain a source of vulnerability as long as public capital expenditure continues to entail significant imports. According to projections, imports, estimated at 40.6% of GDP in 2013, will amount to 41.6% of GDP in 2014 and 42.9% in 2015, given the increase in capital-equipment purchases created by the infrastructure-building policy.

As a member of the CAEMC, Equatorial Guinea applies the four category rates of the zone's common external tariff: 5% for basic necessities, 10% for capital goods and inputs, 20% for intermediate goods and 30% for consumer goods. At the last CAEMC summit held in Libreville in June 2013, however, the country rejected plans to implement freedom of movement within the zone. It then closed the country's borders for two weeks before reopening them at the end of negotiations conducted by the 5th permanent joint committee on border security.

Debt policy

The debt stock in 2013 was relatively large, mainly because the country had to participate in the funding of the 2012-16 national infrastructure plan through a partnership with the private sector and in the funding other types of concessions such as the issuance of a bond on the CAEMC financial market. The country's external debt was an estimated 5.5% of GDP in 2013, well below the rate in 2012 (7.9%) and well below projections of around 11%. According to International Monetary Fund projections, it should decrease further in 2014 to 3.3% of GDP. External debt remains low and 83% of it is owed to bilateral creditors.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

The private sector is led mainly by foreign , mostly US, companies concentrated in undersea oil extraction. Retail distribution of fuel is monopolised by a few European companies. These international groups generally operate in financial partnership with Equatorial Guinean public companies.

Bureaucracy, opaque regulations, an underdeveloped labour market and a poorly qualified local workforce are obstacles to the development of a competitive private sector in Equatorial Guinea. The World Bank report *Doing Business 2014*, which ranks the world's economies on their business climate, gives Equatorial Guinea very poor rankings, whether for starting a business, good governance or transparency. The country's overall ranking went down two places from the previous year to 166th out of 189 economies. Two indicators did improve: trading across borders (up four places to 137th) and enforcing contracts (up one place to 50th). Rankings remained unchanged for protecting investors (147th), paying taxes (177th) and resolving insolvency (189th and last). For the four remaining indicators, the rankings fell.

Starting a business in Equatorial Guinea takes 135 days on average, requires 18 procedures and costs 98.6% of income per capita. The cost of labour is high relative to that in neighbouring countries, and the tax system is opaque and its implementation not uniform. Customs taxes are high. The country holds the lowest rank in the terms for closing a business. The assets of bankrupt companies are not quickly and effectively redeployed for other uses.

Access to financial services, microfinance included, remains an obstacle to the emergence of a dynamic private sector. Banks are reluctant to finance local businesses not involved in public procurement. The banking system has yet to play a sufficient intermediation role for the private sector and relies far too heavily on short-term loans. In the aforementioned report, the country fell four places to 109th for "getting credit".

Financial sector

Equatorial Guinea has four banks. Three are subsidiaries of large international banking groups while the government holds a majority stake in the fourth, Banco Nacional de Guinea Ecuatorial (BANGE), which also has German and Filipino capital. Two new banks, not yet operational, are expected on the market. The bank portfolio is fairly healthy and complies with CAEMC prudential ratios. The share of bad loans was reduced to less than 5% and the performance of assets and own funds is improving.

Liberalisation of the banking sector has failed to reduce the cost of finance, which remains high, reflecting the weak competition. Despite all the measures taken recently by the BEAC, aimed in particular at promoting access to credit and supporting economic growth, the cost of bank financing remains high with considerable charges collected on loans and high interest rates charged to private companies, even though the lending rate was lowered for the second time in three months in November 2013 from 3.5% to 3.25%.

The population's access to banking services is limited and few households have a bank account. Payment systems are poorly developed and are concentrated in the country's two main cities, Malabo and Bata. There are few cash machines and cheques are seldom used. The presence of three international banks, which manage large international transfers on behalf of the government and oil companies, could however facilitate the rapid development of automatic payments, provided that the domestic market is further opened to competition and the opening of bank branches is facilitated across the country.

Public sector management, institutions and reform

Despite some progress, the transparency and quality of public finance management are deficient in the budget, in procurement, and in internal and external auditing. The budget follows a dual management system in which the current budget and the capital budget are separated. Budget planning and programming suffer from lack of co-ordination among the ministries and an economic classification system that does not allow resources to be efficiently allocated among the sectors according to strategic objectives. Budgetary discipline is hurt by recurrent overspending, and the limited use of new technologies greatly reduces the efficiency of the financial system. The budget is implemented manually on a cash-accounting basis.

Improvements are needed in the monitoring and programming of the public investment plan, especially in light of the sharp increase in capital expenditure. The ministries have no effective internal audit service. The establishment of a court of auditors *(Tribunal de Cuentas)*, decided by referendum in November 2011, is nonetheless a step forward in strengthening budgetary control and accountability. The efficiency of the procurement process suffers from having no legal and institutional framework, and direct agreement remains the standard for public purchases.

Reducing corruption remains a major challenge for the country, which was ranked 163rd out of 177 countries in Transparency International's 2013 corruption perception index. According to the *Transparency International* report, corruption is endemic in the public sector, and the oil sector is lacking in transparency. According to the International Budget Partnership's Open Budget Survey 2012, the country's budgetary transparency score was zero, just as it was in 2010, ranking Equatorial Guinea last out of the 100 economies compared in the survey.

Natural resource management and environment

The country's application for membership of the Extractive Industries Transparency Initiative (EITI) has not yet been approved because of the country's slow implementation of the transparency rules for the production, marketing and use of oil revenue.

Forests cover about 2.2 million hectares, or nearly the country's entire area. The accelerated building of infrastructure has precipitated deforestation, adding to the problems of land degradation and hunting for human consumption. The July 1997 forestry law has made it possible to classify forests into two categories, productive forests and conservation forests. The country has adopted a modern legal framework on protected areas, logging, fisheries and biodiversity, but its implementation remains problematic. The laws relating to the management of forest resources are being completely restructured. Their aim is to protect the natural environment, but in practice concessions are granted to operators in extremely fuzzy circumstances. Due to a lack of sufficient personnel on the ground, the government is powerless to oversee logging operations properly and to draw up an inventory of forest resources.

Although it has ratified the Kyoto Protocol, Equatorial Guinea does not do enough to ensure that all economic players comply with its commitments, especially underwater oilfield operators. As a member of the Global Gas Flaring Reduction Partnership (GGFR), Equatorial Guinea has significantly reduced its greenhouse gas (GHG) emissions, particularly in the Alba oilfield, by implementing a management plan for gas deposits to eliminate flaring. The country's GHG emissions were estimated at approximately 5 million tonnes in 2013.

Political context

According to the World Bank's governance indicators, Equatorial Guinea's percentile rank for the "political stability and absence of violence/terrorism" indicator was 53.55 in 2012. For the "voice and accountability" indicator, it scored 2.37.

A constitutional reform approved through a referendum by a large majority of the population (97.7% of the voters) in November 2011 limited presidential terms to two, instituted a position of vice-president and institutionalised five organisations: the Chamber of Senators, the Court of Auditors, the Council of State, the Council for Economic and Social Development and the Ombudsman. The reform did not specify whether the current president, Teodoro Obiang Nguema, would have to leave his position in 2016 at the end of his current term, or whether the number of terms would be applied starting only from the date of the referendum.

A new government came into office in 2013 after legislative elections were held in May 2013 and won by the ruling PDGE *(Partido Democrático de Guinea Ecuatorial)*. Although the country's institutions are stable and progress has been made in the political sphere, civil rights and liberties still need to be improved.

Social context and human development

Building human resources

The progress achieved in human development is far from reflecting Equatorial Guinea's economic potential. In 2013, the country was 136th out of 187 countries in the United Nations HDI rankings with an overall score of 0.554, while gross national income per capita was USD 29 940. The country made progress in infant mortality, reducing the ratio of deaths from 93 per thousand live births in 2001 to 51 in 2011, and in maternal mortality, by moving from 352 deaths per one hundred thousand live births in 1994 to 308 in 2011. Average HIV/AIDS prevalence is 6.2% in the 15-49 age group – 8.3% for women and 3.7% for men.

According to the World Health Organization, 85% of visits to health professionals are for communicable diseases, especially malaria, acute respiratory infections and diarrhoea. Communicable diseases are the leading cause of death among children under five, 19% of whom suffer from malnutrition and only 76% of whom are regularly covered for vaccination. The country set up basic services to improve the performance of the health sector, but results are mixed because there are not enough staff.

The education system is particularly inefficient. Only half the pupils finish primary school. The relative weakness of the gross enrolment rate in primary education (80%) combined with a high repetition rate (24% of pupils) makes the country's ability to achieve the Millennium Development Goal of universal primary education by 2015 doubtful. Improving the quality of education, primary education in particular, will involve measures such as granting scholarships, introducing school lunches and building more schools in the most remote rural areas to receive more children from low-income families. Vocational training is undergoing deep reform. Four new centres are to be built and the curricula are to be reviewed and adapted to the needs of the labour market.

Poverty reduction, social protection and labour

Poverty reduction is a major challenge for Equatorial Guinea, which has vast financial resources. According to data from the second national economic conference *(Conferencia Económica Nacional)*, 76.8% of the population lived below the poverty threshold (USD 2 per day) in 2007. Poverty affected 79% of the rural population, 70% of those living in the capital city Malabo, and 62% of those in the largest city Bata.

Allocations to the social sectors have been greatly increased in recent years, especially in health care, and the authorities have displayed their willingness to improve care for the disadvantaged. There are very few safety nets for the vulnerable, with the social-protection system only covering civil servants and therefore excluding the majority of workers, who work in the informal sector. Private-sector employees and workers in multinational corporations, meanwhile, are protected by insurance taken out by their employers. A few social-protection programmes are starting to be set up, but with limited funding and scope.

Absorbing the 25 000 to 50 000 young people entering the labour market every year between 2010 and 2020 will be one of the main challenges facing the country. About 60% of the population is under 25 years old. Employment opportunities remain very limited because the non-oil sector is small and the country's leading sector, oil, employs only 4% of the working population. In addition, most young people are not qualified, do not meet the labour-market entry criteria and do not have access to information on job opportunities. Technical and vocational education suffers from problems at many levels, including a lack of adequate training programmes to match labour-market needs and a scarcity of educational tools. The government therefore allows foreign workers to enter the country and encourages large enterprises to set up in-house specialised learning centres.

The government is also focusing its efforts on training middle and senior managers to offset existing deficiencies and enhance young people's employability. These efforts are supported by an ongoing training programme jointly funded by the African Development Bank, which also entailed the institution in 2012 of a ministerial department for vocational training. Stepping up this programme under the current country strategy paper will contribute to removing one of the major obstacles to transforming the economy and to reducing unemployment among the young.

Gender equality

Despite equality of rights and opportunities guaranteed under national law, women are still disadvantaged compared to men in terms of access to positions of responsibility. The constitution clearly establishes gender equality, but much remains to be done to achieve it, particularly in rural areas.

Only 11% of the members of the cabinet formed in 2012 are women, even when counting vice-ministers and ministry general secretaries. A woman was made president of the newly created senate in 2013. The country has ensured there is equal access to primary education, but boys are almost twice as likely as girls to enrol in secondary schools. There are still disparities among the provinces: in the Centro Sur province nearly a fifth of women have never attended school, but in the Bioko Norte province only 3% of women have never attended school.

Economic activity is dominated by men, and women are more strongly affected by job insecurity. Of the 76.8% Equatorial Guineans living on less than USD 2 a day, two-thirds are women. There is no legal discrimination against women for land ownership or access to bank credit, but the reality clearly reveals a form of structural discrimination. Although the country has ratified the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), women's low level of education and their widespread illiteracy prevents them from enjoying their rights.

Thematic analysis: Global value chains and industrialisation in Africa

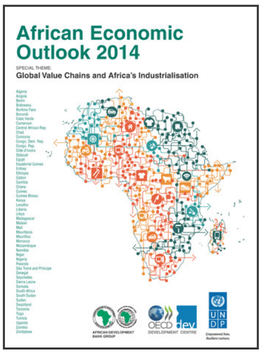
The country was radically changed in the 1990s when oilfields were discovered and went into production. It was upgraded from a low-income, mainly agricultural country to a middle-income country, the third largest oil producer in sub-Saharan Africa and the second main destination of FDI – from foreign oil companies – in Central Africa. The country's main trading partners are, in order of importance, the United States, China, Spain, Italy and France, to which Equatorial Guinea exports petroleum, methanol, timber and cocoa. Major imports include petroleum equipment, food and beverages. The tremendous growth driven by the oil and gas sector has enabled the development and improvement of basic infrastructure but has at the same time led to a decline in agriculture, fisheries and forestry, making the economy highly dependent on the oil sector.

Oil reserves are estimated by the authorities at 1.2 billion barrels, or 10 years of production at the current pace. The authorities are now focused on developing the petrochemical value chain in order to increase the vertical integration of the domestic oil industry. The main opportunities for foreign investors identified and highlighted by the government in the area of petrochemicals are the gas industry, bioethanol and biodiesel, refining and industrial-waste recycling, paint, asphalt, tyre retreading and plastics recycling.

Natural gas should provide half of the total hydrocarbon resources by 2016 and is being considered as a remedy to the decline in oil production since 2012. The country aims to become the regional hub for gas production. The first LNG terminal for exporting liquefied natural gas was built in 2007, and a second terminal is scheduled to open in 2016. The government aims to build a natural-gas collection system in the fields currently in operation (Zafiro, Alba and Alen) as well as in future fields, with transformation planned in the Punta Europa port area. The country also wishes to attract foreign investment to mine its gold, diamond, bauxite, tin, tungsten and coltan deposits.

Unused arable land, combined with strong demand for agricultural products both within the country and in the region, has made developing agriculture and livestock a key vector in the country's economic diversification strategy. The government is seeking to attract foreign investors in processing activities for animal feed and fertilisers; cocoa and coffee; soap manufacturing; juice and derivative products; palm oil and coconut oil; packaging, processing and conservation of fishery products; and canning. The main foreign company currently operating in this sector is SOEGUIBE (a subsidiary of the French group Castel), which produces and distributes 300 000 hectolitres per year of drinks (beer, sugary drinks and mineral water).

Despite massive public investment to modernise infrastructure, Equatorial Guinea's industrialisation level is lower than the regional average. To take an active part in building GVCs and to promote industrialisation of the economy, the authorities intend to improve competitiveness, notably by setting up a one-stop shop for investors. The stated goal of the PNDES is to diversify the economy to free it of its dependence on hydrocarbons and turn the country into an emerging economy by 2020. To do so, the Equatorial Guinean government has committed to supporting foreign investment by allocating XAF 500 billion to a joint investment fund, the *Fondo de coinversión* (FCI), which testifies to the country's determination to lay the groundwork for economic diversification in order to achieve sustainable growth and create more jobs. The FCI should support the country's development in the key economic sectors identified for industrial development: agriculture and livestock; fisheries; petrochemicals and mining; tourism; and financial markets.



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