

**Poverty and Poor Governance in the Land of Plenty: Assessing an Oil Dividend in Equatorial Guinea**  
Antony Goldman

**Abstract**

Equatorial Guinea is one of the richest, but most resource-dependent countries in Sub Saharan Africa. While its GDP per capita is well over US\$11,000, 77% of the population of Equatorial Guinea lives on less than two dollars per day. This paper explores the economic and political feasibility of distributing some or all of the oil revenues to individual citizens. Given its sizable oil income and small population, Equatorial Guinea could feasibly eliminate poverty with regular dividends, and generate positive political and governance effects. However, given the dependence of the Obiang regime on control of the rents, there is currently no political appetite for direct distribution within the government, nor a viable opposition to push for its implementation.

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## Preface

The discovery of oil in a developing country is potentially beneficial and, simultaneously, potentially calamitous. While this so-called resource curse is well established in the literature, solutions to counteract its corrosive effects remain highly elusive. CGD's Oil-to-Cash initiative is exploring one policy option that may address the root mechanism of the resource curse: using cash transfers to hand the money directly to citizens and thereby protect the social contract between the government and its people. Under this proposal, a government would transfer some or all of the revenue from natural resource extraction to citizens in universal, transparent, and regular payments. The state would treat these payments as normal income and tax it accordingly—thus forcing the state to collect taxes, fostering public accountability and more responsible resource management.

This background paper by Antony Goldman, commissioned as part of CGD's Oil-to-Cash Initiative, explores the potential benefits and drawbacks of establishing a system of distribution of oil rents in Equatorial Guinea. With a GDP per capita over US\$11,000, but three quarters of the population living in poverty, Equatorial Guinea provides daunting evidence of the serious consequences of mismanaged resource wealth. Goldman argues that while Equatorial Guinea could feasibly eliminate poverty with modest dividends, there is currently no political appetite for direct distribution within the Obiang regime.

Todd Moss  
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'Like the Scriptures say, when the Pharaoh of Egypt had a dream of lean cows and fat cows, we have passed the time of lean cows that represent hunger, and we are now in the time of fat cows, which is prosperity.' In 2002, as the oil boom in Equatorial Guinea was reaching its peak, President Teodoro Obiang Nguema Mbasogo reflected on the apparent transformation of what had been one of Africa's most impoverished states. His administration has however faced persistent criticism of corruption and poor governance, of failing to make effective use of the oil windfall, and of facilitating the emergence of huge disparities of wealth between a privileged elite and a marginalised majority.

### **The 'Kuwait of Africa'**

Equatorial Guinea is one of the richest, but most resource-dependent, countries in sub-Saharan Africa. After the collapse of a subsidized, cocoa-rich export economy after independence in 1968, there was a sharp contraction in the 1970s, followed by stagnation, limited economic activity and escalating poverty in the 1980s.

The country has witnessed phenomenal economic growth since the 1990s. Commercial gas production from the Alba field, first discovered by a Spanish oil company and the Equatorial Guinean government in 1983, began in 1992 (IMF 1999). The next step on the country's journey to becoming a major oil producer were the discoveries made by the United States' Mobil Oil Corporation in the Zafiro field in 1995.

Large-scale oil production began in 1996 and transformed the national economy from one based on aid and very limited exports of coffee and cocoa to one based on oil and natural gas exports. Although the data are unreliable, GDP per capita was estimated to be around \$170 in 1979 (Toto Same 2008). World Bank statistics show that real GDP growth averaged an extraordinary 23.6 percent from 1996 to 2008, albeit from a very modest base. GDP per capita was estimated by the IMF in April 2010 at \$11,033, making Equatorial Guinea the richest country in Africa (IMF 2011). Critics of the government suggest the real picture is even more dramatic, with population statistics inflated to facilitate the manipulation of the electoral register and to make GDP per capita statistics less dramatic than might otherwise be the case (US Department of State 2003).

Hydrocarbon production has dropped in recent years as the prolific Zafiro field reaches maturity. Hitting a peak of 488,000 barrels of oil equivalent per day (boepd) in 2008, production levels fell to 434,400 boepd in 2010. The IMF predicts that hydrocarbon production will rise slightly over the next several years, hitting a peak of 447,3000 boepd in 2014 before falling to a level of 434,600 boepd in 2015. For 2010, the International Monetary Fund predicts that non-tax hydrocarbon revenue alone will have accounted for 20.8 percent of GDP.

A picture of the entire economy, rather than just of government revenue, gives a fuller picture of Equatorial Guinea's dependence on oil and gas. Prior to the 2008 financial crisis, oil accounted for no less than 74.5 percent of GDP (IMF 2010 and table below). The government in 2010 agreed new legislation to attract investment in solid minerals, although thus far international interest in potential opportunities has been limited.

**Table 1. Equatorial Guinea: GDP by Sector of Origin 2004-2009 (percent of GDP based on nominal magnitudes)**

	2004	2005	2006	2007	2008	2009 Est.
Primary sector	83.4	85.2	81.6	76.5	76.5	62.0
Non-oil	4.0	2.6	2.7	2.7	2.0	3.1
Agriculture	2.7	2.0	1.9	1.7	1.4	2.2
Forestry	1.2	0.5	0.8	0.8	0.5	0.8
Fishing	0.1	0.1	0.1	0.1	0.0	0.1
Oil	79.4	82.6	78.8	73.8	74.5	58.8
Secondary sector	11.7	11.1	14.8	20.0	20.5	32.7
Manufacturing	5.7	6.1	7.2	11.6	12.5	13.4
Oil derivatives	5.5	6.0	7.1	11.5	12.4	13.2
Other manufacturing	0.2	0.1	0.1	0.1	0.1	0.2
Electricity	0.4	0.4	0.5	0.5	0.5	0.9
Construction	5.6	4.6	7.1	7.9	7.5	18.4
Tertiary sector	3.8	2.9	2.8	2.7	2.3	4.2
Trade and commerce	1.4	1.0	1.0	0.9	0.7	1.5
Transport and communications	0.2	0.1	0.1	0.1	0.1	0.2
Finance and housing	0.3	0.3	0.3	0.3	0.3	0.6
Public administration	1.3	1.0	0.9	1.0	0.8	1.3
Other services	0.6	0.4	0.4	0.4	0.3	0.6
Import duties and subsidies	1.1	0.7	0.8	0.8	0.7	1.1
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
Of which: non-oil GDP	20.6	17.4	21.2	26.2	25.5	41.2

Sources: Equatoguinean authorities; and IMF staff estimates.

## Oil before all

Taxation in Equatorial Guinea represents a relatively minor component of government revenue, which is dominated by earnings from the oil and gas sector. IMF data confirm that non-tax revenue - almost entirely from royalties, profit sharing and bonuses from the hydrocarbons sector - dominates government revenue. Hydrocarbons earnings were CFA 1.4trn of a total of 1.5trn – 93 percent. The data further indicate that companies operating in the hydrocarbons sector contribute 77 percent of tax revenue collected in 2010.

**Table 2. Equatorial Guinea Revenue 2008**

	CFA fr (bn)	percentage of GDP
Total revenue	2000	29.1
Of which tax revenue	523.6	7.5
Incl corporate income tax	406	6.6
Of which non tax revenue	1,500	21.6
Incl hydrocarbons	1,400	20.8

Source: IMF

The IMF anticipates little significant change in the pattern of earnings in the short-term; of forecast total government revenue in 2015 of CFA 1.8 trn (19.5 percent of GDP), just CFA 277.6 bn (2.5 percent of GDP) is expected to come from corporate income taxation, while non-tax hydrocarbons revenue will generate CFA 1.2 trn CFA (13.3 percent of GDP). The IMF is therefore forecasting that by 2015, with oil production beginning to decline, corporate tax and non-tax hydrocarbons revenues will still account for 83.3 percent of public revenue – a modest decrease from 90 percent in 2008.

Tax and non-tax payments from the hydrocarbons make up the vast majority of government revenue. Law 4/2004, Regulating the Taxation System in the Republic of Equatorial Guinea, which was signed into law in October 2004, sets out the main principles and regulations of the taxation system. Even where there is the

political will, which critics would dispute, the tax authorities do not have the sufficient capacity to manage complex and ever larger revenues (McSherry 2006).

The headline corporate tax rate is 35 percent. Resident companies are taxed on their global earnings, while non-resident companies can be subject to a 10 percent withholding tax on income earned in Equatorial Guinea. Other payments made by companies in the oil and gas sectors are subject to special withholding rules.

Personal taxation is linked to earnings, hitting a maximum rate of 35 percent. Both workers and employers are required to make contributions to the National Social Security Fund and the Work Protection Fund. Since 2005, a value-added tax has been applied to the sale of goods and services at a basic rate of 15 percent.

For 2010, total tax revenue accounted for 7.5 percent of GDP, while taxes on income, profits and capital gains accounted for 6.6 percent of GDP. Personal income tax accounted for about 0.7 percent of GDP and corporate income tax represented 5.9 percent of GDP (IMF 2010b). Value-added tax generated government revenue of about 0.6 percent of GDP over the same period.

While the tax law clearly sets out the rules and regulations for operating in Equatorial Guinea, the oil sector remains partially excluded from its reach. The government signs individual production-sharing contracts with the oil and gas companies and they each contain the specific tax and royalty arrangements that apply to each deal. Those contracts and their contents are not made public.

Most international investors complain of the informal cost of doing business in Equatorial Guinea in the form of non-performing local partnerships and direct corruption as constituting a significant additional 'grey' tax.

### **Governance and the Family business**

Equatorial Guinea's management of natural resource revenue has earned it international notoriety. Allegations of a local elite with an apparent taste for multimillion dollar mansions abroad and wasteful spending at home have dominated reporting of the country since the oil boom began. As a sign of how the government maintains its finances, there are reports that the IMF threatened to withdraw cooperation and dialogue after its visit to Malabo in February 2011 (La Lettre du Continent 2011).

Money is managed by a tight-knit group of family and ethnic group members, but governance is filled with intrigue and unexplained changes. A presidential decree of 27 January 2011 sacked Treasury and Budget Minister Melchor Esono Edjo, a member of the presidential family and minister since 1992; as is typically the case, no reason was given.

The oil industry is at the centre of allegations of corruption in the country. Equatorial Guinea became a candidate country for the Extractive Industries Transparency Initiative (EITI) in 2007 as part of the administration's efforts to display a commitment to improved governance. In practice, however, actual improvements in transparency have been mixed: an application by Equatorial Guinea for an extension of EITI validation was turned down in April 2010, and the government was invited to apply again because of its failure to meet reporting and other guidelines. One of EITI's goals is to bring about greater accountability and transparency in the management of natural resource revenues through the publishing of payments made by companies to governments.

The population of Equatorial Guinea is so small and oil revenues so high that the government has not had the

need to finance deficit spending with costly foreign borrowing. Other resource-dependent countries smooth out the boom and bust cycle with loans. By the end of 2010, Malabo's stock of foreign debt stood at about \$1 bn but was rising. Equatorial Guinea, therefore, is far from any aid dependency. Equatorial Guinea's weak governance credentials and high per capita GDP mean that it is not a target for Western donors. In 2008, the Equatorial Guinean government received just under \$40 m in overseas development assistance. For 2010, aid grants represented less than 0.5 percent of GDP and most foreign lending is at commercial rates, with a few concessional loans from China having been disbursed to finance large projects. Even before the oil boom, bilateral donors and multilateral agencies in the 1980s and early 1990s expressed concern and human rights and governance issues, and had only limited engagement with Equatorial Guinea in terms of loans, and indeed political leverage.

The US Senate in 2004 (*'Money laundering and foreign corruption: enforcement and effectiveness of the Patriot Act: Case Study involving Riggs Bank'*) and 2010 (*'Keeping foreign corruption out of the United States: four case histories'*) highlighted acute governance failings in the management of government revenue, and the complicity of international companies and banks in the facilitation of alleged corruption. The US Embassy in Malabo in March 2009 reported that such allegations should be seen in the historical context of weak institutions, limited capacity and a prevailing culture of combining public office with private business – a historical context that had apparently proved remarkably resilient to change, despite nearly 20 years as one of the world's fastest growing economies.

Teodorin Nguema Obiang, the President's eldest son and forestry minister, used the same defence in a law suit in South Africa to explain a level of apparent personal wealth exponentially out of proportion to his income as minister. In 2007, Harper's magazine in the US quoted a US Justice Department memo that indicated "a large portion of Teodoro Nguema OBIANG's assets have originated from extortion, theft of public funds, or other corrupt conduct"; and that between 2005 and 2007 Teodorin had funneled into the United States at least \$75 million — nearly twice the amount allocated by Equatorial Guinea for its yearly national education budget. In October 2011 the Justice Department formally accused Teodorin of extortion, embezzlement and money-laundering and filed an asset forfeiture claim against property valued in excess of \$70 million; a month earlier, French authorities seized several luxury cars as part of a separate investigation into corruption.

The government more broadly dismisses allegations of impropriety as unfounded and politically motivated. It has invested heavily in Washington-based lobbyists and in seeking to promote the profile of President Teodoro Obiang Nguema Mbasogo, for example through the 2010 fiasco around the UNESCO leadership prize that Obiang sponsored but which ultimately the organisation suspended, and the President's election as Chairman of the African Union in 2011.

The government has developed a recent track record for savings, but there are no safeguards on those funds or mechanisms to ensure that they last. Gross government savings peaked at near 60 percent of GDP in 2009 but dropped to 50 percent of GDP in 2010. The IMF predicts that if the current rates of revenue and spending continue into the near future, government savings will essentially disappear by 2015 (IMF 2010b); officials have urged Equatorial Guinea to make substantial spending cuts in the short-term in order to make for a smoother adjustment to the prospect of reduced revenue as oil production declines.

### **Easy Come, Easy Go: Current Resource Revenue Allocation**

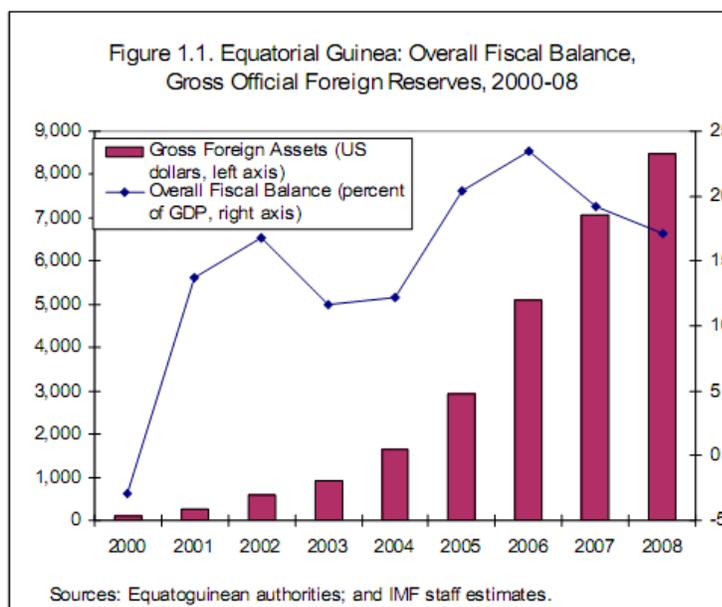
There is little evidence of what goes into the Malabo government's plans for managing oil and gas revenues. Neither the President nor the ruling party make substantive public disclosures about the budgeting process. There is little debate about how money should be spent on the national and regional levels and little is known

about the inputs and outputs of the budgeting process. There are no demonstrable differences in interest between the executive and the legislature, so budgets are rubber-stamped, with little or no independent media scrutiny. The 2003 Public Finance Law is a framework under which the government operates, but it provides little room for public engagement and in practice does not hold the government to well-defined spending practices or priorities. In reality, “fiscal administration is dominated by the executive branch of government, with inherent dangers of overcentralization and inadequate checks and balances” (IMF 2005). In general, the government does not use the existing law to control or prioritise spending.

The International Budget Partnership publishes the Open Budget Index, which ranks governments on the disclosure related to the budgeting process. In its 2008 and 2010 reports, the Open Budget Index gave Equatorial Guinea a score of 0 percent (International Budget Partnership 2010). This means that the government does not provide the public with any information about its budget and financial activities, and that Equatorial Guinea ranks with countries like Fiji and Sao Tome and Principe at the bottom ranking in the survey – unsurprising given that the annual budget is not published. The IMF says that the budgeting procedure “does not allow sufficient time for parliamentary scrutiny and an effective independent audit process” (IMF 2005).

In practice, the Equatorial Guinean government does not have any special mechanisms for the management and allocation of resource revenues. “The authorities have publicly stated that their policy will follow a permanent income model based on long-term sustainability, yet short-term fiscal policy has prescribed capital expenditures which are much higher than sustainable levels” (IMF 2009). The permanent income model would help to smooth spending to avoid the ups and downs that plague the budgeting process each year.

Shifts in international oil prices can wreak havoc on the government budgeting process and spending plans in oil-dependent economies often mirror market movements. Throughout the early 2000s, the government saved a substantial proportion of its revenues and held about \$8.5 bn in foreign reserves in 2008 (see below). However, the practices have been upended, in part, because the government does not have any safeguards on spending from year to year. The IMF calls for “expenditure rationalization” because its calculations suggest that “planned expenditure would exceed expected revenue over the medium term, leading to a near depletion of the stock of government savings by 2015 and a significant weakening of external stability” (IMF 2010b).



The IMF (2005) often finds very little to praise in the government's management of revenue. It has noted that annual budgets do “not include specific information on the relevant macroeconomic assumptions used in the preparation of the budget, nor specific macroeconomic projections for the domestic economy more generally or the oil industry in particular.” The Fund is essentially saying that the budget is little more than a wish-list, with no apparent methodology, commitment to transparency or any kind of detail. With Equatorial Guinea's principal oil field, Zafiro, already past peak production and only more modest new discoveries in development, the Fund in 2010 also expressed concern at the level of capital expenditure that prevented investment in a fund to support a constant annuity under the permanent income model. (IMF 2010b).

The government has created the National Development Plan 2020 to address the prospects of declining oil revenue. It is more a wish list of how the economy could be diversified into the service sector and agriculture than it is a means of allocating resource revenue in order to create new leading sectors. The plan is a framework to invest in a creating a more diversified economy but it remains a wish-list, with no firm commitments – a reflection both of capacity constraints, and a lack of political will and enforceable oversight.

In the early 1990s, government officials in Malabo noted that by arriving late in the oil game, they would be able to learn from the mistakes made by neighbouring states. In practice, the seemingly *ad hoc* revenue management process has done little to help promote institutional integrity or effective public administration. Indeed the government's overwhelming dependence on revenue from oil and gas companies has helped to fuel an instinctive historic lack of accountability and transparency. The lack of a functional social contract between the government and the governed means that funding is spent on the hosting of international prestige events like the 2012 African Cup of Nations soccer tournament rather than on the construction of rural hospitals or the training of teachers. A rubber stamp legislature means there is little democratic consultation even within the ruling party, while the average citizen has very little say in how revenue is allocated. Also, the concentration of wealth in the hands of a small clique within government means that that wealth remains in the hands of the few and that statistics like per capita GDP belie great disparities in income.

The government's current revenue management system falls short in terms of national health and education outcomes. The World Bank's World Development Indicators for 2009 show that the average life expectancy for an Equatorial Guinean is 50.6 years while there is an average mortality rate for under-5s of 145 for every 1,000 births. The government has not made large investments in the health and education sectors that impact the majority of the population; in February 2011, transparency NGO Global Witness reported that Teodorin Nguema Obiang had commissioned plans for a \$380 million ‘superyacht’, a figure it said was “almost three times more than his energy-rich country spends annually on health and education programs combined”. The government confirmed that Teodorin had commissioned the designs from German manufacturers Kusch, but insisted that he had never been serious about actually buying the vessel. Of the countries ranking in the United Nations Development Programme's Human Development Report, Equatorial Guinea is the country that spends the smallest percentage of its GDP – 4 percent – on education (UNDP 2009) – although in real terms this represents a significant increase in overall spending compared with the pre-oil era, and has contributed to a rise in the country's formerly desperate human development indicators.

More than 40 percent of the government's annual investments have been in the infrastructure sector (IMF 2009), but those investments have focused on public buildings and other apparently prestige projects where there have been few positive spillover effects for the productive sectors of the economy nor for the health and other human development outcomes. Some 57 percent of the population lives without improved access to water sources – a figure that has not changed since 1995 (UNDP 2010). Tellingly, the World Bank is able to produce no data or estimates for poverty or wealth inequality in Equatorial Guinea in its 2010 World Development Indicators. Foreign investors are committed, with varying degrees of enthusiasm, to programmes

of corporate social responsibility. Some, including scholarships for overseas study and contracts for local development partners, have been criticised for benefiting the politically well-connected; other projects, for example Marathon's anti-malaria project in the early 2000, attracted positive initial reviews, although the longer term impact of such operations, typically conducted in a vacuum, remains uncertain.

### **Empty rhetoric: planning for a better future**

Information remains scarce about other attempts by the government to manage resource revenues differently. The government said that it set up the Social Development Fund (SDF) in 2005 to use government revenues to back projects in the health, education, women's affairs and environmental sectors. In April 2006, the Equatorial Guinean government signed a memorandum of understanding with the US government aid agency USAID to oversee the establishment and to provide technical expertise for the fund. USAID involvement expired in December 2010 and the SDF is said now to be wholly managed by the Equatorial Guinean government. In an indication of President Obiang Nguema's domination of financial circuits in the country, he is at the head of the board that oversees the SDF's operations (Camponovo 2005).

The funding and the management of the SDF appear to lack transparency, as do the projects that are carried out. The US Department of State (2011) refers to a 2007 SDF programme to improve health and education worth \$336 m. In 2008, DAI, a company that works on USAID contracts, announced that the government had committed to spending \$1 m for 10 high-priority projects. DAI said that it was the first tranche of \$20 m that would be spent on 50 projects over the next three years. At the 2010 TIME/Fortune/CNN Global Forum in Cape Town, President Obiang said that his government would strengthen the SDF. In November 2010, the government said that it would release funds for 18 projects in collaboration with the fishing and environment, and internal affairs and local cooperation departments, but did not mention the value of the investments.

The IMF suggests that there are no safeguards on SDF funding and that it appears to be a normal part of the government budgeting process. It said in 2008 that "implementation of the Social Development Fund has been slow. About twelve projects were agreed on...in education, health, water and sewerage, gender equality, and community development. Funds were allocated in the 2008 budget but the government has yet to approve their disbursement so work can begin."

In a hypothetical situation, other natural resource revenue management tools could possibly be implemented but the current system of political control over spending is unlikely to yield sufficiently different results. A sovereign wealth fund would not exist outside of the current government framework, and as Chad has shown, governments of a similar nature are not inclined to be bound by the constraints of rainy-day or future-generation funds. Equatorial Guinea has a Fund for Future Generations (FFG), but there is little transparency about its management. At its creation, the government pledged to deposit 0.5 percent of annual oil revenues into a special account at the regional central bank, the Banques des Etats de l'Afrique Centrale (BEAC). In 2008, the World Bank confirmed that the government had been following through on its promise (Toto Same 2008), but now the government's statistics on money held at the BEAC appear to present global figures rather than a breakdown, suggesting that the money could be spent without safeguards – and that the rhetoric behind the initiative is designed to satisfy an external constituency while the substance of policy and practice on the ground effectively remains little changed.

While the World Bank mentions how money is supposed to go into the account, the guidelines for how and when the money should be spent are not very clear. In 2005, in reference to the FFG, the IMF argued that "existing fiscal rules are not analytically clear and are loosely observed" (IMF 2005).

Also, when a country like Kuwait puts 10 percent of its oil revenues in its future generations fund, the amount the Malabo government has promised appears insufficient for the country's needs.

An alternative mechanism for revenue management that has been gaining some currency in the region is direct cash transfers. It is a system pioneered in Alaska and taken up in East Timor; Nigeria, a much larger, more diverse and densely populated oil producer, is considering mechanisms to transfer directly to oil producing communities a share in oil revenue. In Equatorial Guinea, however, there has been relatively little debate on the merits of such a system, although the US Justice Department suggests an 'inner circle' in government corruptly operates an informal redistribution mechanism of oil revenues, albeit principally for the benefit a tiny segment of the elite and with no pretence of transparency.

The possible parameters of a more conventional direct distribution system are largely hypothetical and would depend on the ratio of money deemed necessary for state coffers – and may also be a function of declining output and revenue as production from the key Zafiro oil field, already past peak production, runs down, should there be no significant new discoveries. Centralised spending benefits from economies of scale that would make complete financial devolution an unattractive option.

Also, the idea of direct distribution begs the question: direct from where? Would the money be paid directly to the citizens, wholly bypassing opportunities for state corruption? It is most unlikely that a state administration such as that in Equatorial Guinea would be so benevolent as to remove itself wholly from the equation, or even to contemplate a genuine debate on such issues. In an environment where government controls what media there is; with just one opposition member of the National Assembly; and little in the way of organised civil society agencies, with donors enjoying no leverage, the prospects for encouraging a debate not favoured by government appear remote. If the money would pass through government coffers first, it would raise associated questions about the level of taxation. Would governments then tax at the source and take off their own share so that the appearance of the social contract remains? The need to tax the population would be directly related to the level of the direct transfers: the more money that is given directly to the population, the more that would need to be recovered by the government. In a society as hierarchical as that in Equatorial Guinea, where policy making is instinctively cautious in all but the most cosmetic or rhetorical of cases, there seems little early prospect of a strategy that might embrace the direct distribution of resource rents.

Population statistics for the country prove particularly problematic, as census data are spotty and unreliable. However, sources suggest that nearly half of the population counted are immigrants from West and Central African countries, meaning that Equatorial Guinean citizens only make up a sizeable fraction of the country's official population. World Bank statistics put the national population at 676,000 in 2009. If the conservative estimate that about one-third of the population is comprised of West and Central African immigrants, there are about 450,000 Equatorial Guinean citizens who could be involved in a direct distribution programme.

That said, the Equatorial Guinea case could be examined using a high and low estimate. Using the 2010 statistics as a baseline figure, the Equatorial Guinean government took in 1 trillion CFA francs in profit-sharing revenue from oil companies. If all of the government's profit-sharing was to be shared out among the population, that would translate to an annual transfer of 4.4 m CFA francs (\$9,720) per person.



From their current position, the country's most influential politicians would view the potential benefits of direct distribution – including improved governance, the strengthening of the link of responsibility between the state and the citizen – as a threat to the status quo.

Cash transfers could have positive political and governance effects, but they should not be taken for granted. Possible benefits include the creation of a constituency in favor of sound natural resource management, a more level playing field between the state and the citizens, the emergence of broad-based taxation and its positive accountability effects, and less of the principal-agent problems that currently keep resources from serving the public interest.

Corruption and political control of financial expenditure go directly to the pinnacle of power. According to a World Bank report, government spending of more than 1 m CFA francs must be approved personally by the President (Toto Same 2008). Control of the country's economic networks is just as important as the control of political networks. Whereas the government does not encourage the existence of independent media groups or civil society organisations, there are no indications to date that independent sources of revenue would be a welcome change. Opposition politicians might support the idea, but there are very few viable opposition parties or politicians in the country and few oppositionists in exile enjoy much credibility. The lack of a domestic constituency that is calling for the transparent and efficient management of resource wealth is another political stumbling block.

Pitching the idea as something that will rapidly improve the lives of ordinary Equatorial Guineans is not a point that is likely to win over the top-down, hierarchical political culture in Malabo. Improvements to the country's GDP per capita have helped boosted the country's Human Development Index rankings and analysts suggest that it is the country with the largest gap between its economic and health and education outcomes (Salomonsson and Sandberg 2010). With state coffers overflowing with cash from the oil boom since the mid-1990s, the government has not yet sought to direct its spending to high-impact sectors that will have the most immediate on popular livelihoods. Infrastructure spending has been focused on allegedly inflated contracts for high-prestige and low-impact projects like the creation of a second capital city where housing and other benefits are spoils to be divided among those with political connections (Open Society 2010). Equal, universal and unconditional transfers to the Equatorial Guinean population would highlight the negative aspects of the PDGE's rule and might lead to popular questioning of the government's continued control of oil revenue in the face of widespread poverty. Such a system would also reduce the amount of funds available for the inflation of contract prices and other traditional forms of corruption.

### **Potential Windows of Opportunity?**

Some advisers to the current administration may see potential in the adoption of some of the progressive rhetoric around direct distribution. However, the most likely window of political opportunity for the adoption of a direct distribution system would be during an eventual change in the current political dispensation. President Obiang has ruled the country since 1979 and has been accused by his opponents of deploying the same tactics that led to the downfall of governments in Egypt and Tunisia, but the country appears far removed from that sort of instability. If a member of the presidential family or the PDGE takes over from President Obiang, 68, the chances are low that a direct distribution system could be put in place. The most likely imaginable political situation that would allow for such a change would be the installation of a government headed by members with no links to the current regime, as almost two decades of oil production and corruption are not so easily cast aside. The ruling party and presidential family's almost total domination of the political scene would mean that it might be attractive to a new president to quickly develop a large-scale base of support through a direct

distribution system.

One other potential window of opportunity would be in discussions about President Obiang's political legacy as he approaches the end of his rule. A constant theme of his presidency has been a determination to secure external validation and legitimacy for a regime that has struggled to emerge from international isolation and allegations of corruption and human rights abuses. Obiang has invested heavily in lobbyists to try to promote the image of Equatorial Guinea, and has sought a higher profile on the regional and international stage. Results, however, have been mixed, often because of a gap between some of the rhetoric of apparent change and realities on the ground. Appeals could therefore be made to a sense of justice for future generations that someone on the verge of retirement could contemplate so as to leave a lasting legacy. Obiang's principal priority, however, will be to try to strengthen the increasingly precarious integrity of the network that has supported him through four decades in power, in the absence of any consensus over a successor, and the difficulties any such successor will face in managing a system in which Obiang's personality has been key in bridging the chasm between the pre-oil poverty and the riches to which the new elite have become accustomed. Such a scenario is therefore at best an outside possibility rather than a genuine probability.

## **Conclusion**

Equatorial Guinea was one of sub-Saharan Africa's most isolated and impoverished states before the discovery of oil in the 1990s, with weak institutions, very limited capacity and a correspondingly poor record on governance and human rights. Oil has helped transform public finances and fuel nearly two decades of double-digit GDP growth. The government rejects as ill-informed and politically motivated allegations that some have benefited very much more from the oil boom than others. It points to a capital expenditure programme that it says will transform the social and physical infrastructure of Equatorial Guinea and help prepare for sustained, long-term, post-oil growth. A lack of transparency, however, makes the government's claims hard to substantiate; the IMF and other donors express profound reservations about revenue management.

Equatorial Guinea has a population of less than a million; at a logistical level it is better placed to consider a direct distribution component to oil earnings than most of its neighbors. The government has tried very hard to persuade critics of its progressive credentials but to modest success, amid claims it is stronger on the rhetoric of change than the substance. President Obiang has sought a leadership role in Africa and on the world stage that reflects Equatorial Guinea's economic transformation. A commitment to bold measures that would open up public finances and allow for direct distribution of some of the country's oil revenues might go some way towards achieving just such a status.

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