THE POWER OF PUBLIC INVESTMENT MANAGEMENT
Transforming Resources into Assets for Growth

COUNTRY CASE STUDY

Equatorial Guinea: Public Investment Management Review

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This case study is one of a number of country cases in the Public Investment Management Series. The country case studies accompany the volume, “The Power of Public Investment Management: Transforming Resources into Assets for Growth”, World Bank (2014), and apply a common methodology to assess PIM systems globally.
The chapter offers concise diagnostics of the public investment management (PIM) system in Equatorial Guinea. It provides specific examples of how underperforming institutions throughout the investment process raise the risk of selecting "white elephants," reducing the value for money of investment projects and undermining the quality of completed projects. Politically compatible recommendations unlock the opportunities for overcoming the major institutional and procedural binding constraints to improve the country's PIM in a sequenced manner. The set of analysis and derived policy implications provides policy insights for countries in similar situations that need clear and pragmatic guidance on where to start building a better performing investment system in a challenging country context. Equatorial Guinea, one of the poorest countries in Africa prior to the discovery of hydrocarbons in the 1990s, has made a significant effort to transform this new wealth into public infrastructure. After a first phase focused on improving the dilapidated infrastructure and supply of capital in the country, the Government embarked on a second investment round to implement the National Development Plan, adopted in 2007 with the aim of diversifying the economy out of petroleum production and improving living standards. However, the country is ill equipped for such a massive investment effort—with oil comprising 22 percent of GDP in 2008. Public expenditure is thwarted by cumbersome administrative procedures encouraging informal shortcuts that render the rigorous capital budgeting both irrelevant and impossible. The absence of reliable budget data undermines the monitoring of budget implementation. As a result, the public budget fails as a tool for resource allocation and control. To partially overcome these deficiencies and accelerate public investment, the Government set up a centralized unit, "Geproyectos," that reports directly to the Presidency and acts as a parallel government for implementing a large infrastructure program with limited involvement of sector ministries. Given the limited institutional capacity and concerns over the sustainability of the large investment program, the authorities worked with international partners to improve the efficiency of the PIM system. In 2007 the Government commissioned the World Bank to review its PIM system and the work translated into a full Public Expenditure Review in 2010. The work forms the basis of this chapter. Some years after the World Bank and Equatorial Guinea collaboration, results on PIM are mixed. On the one hand, infrastructure development has certainly been impressive and the country has been able to build roads, ports, airports, and many other infrastructure projects in a short time span. On the other hand, most of the World Bank recommendations were never adopted and there is a serious risk that the country has not built the right infrastructure at the right quality with value for money. Moving forward, these recommendations remain valid as the current institutional setting for investment management is reaching its limit and will need to be reformed.
Equatorial Guinea, comprising a mainland portion plus five inhabited islands, is one of the smallest nations on the African continent. President Teodoro Obiang Nguema Mbasogo has ruled the country since seizing power in 1979. Equatorial Guinea gained independence in 1968 after 190 years of Spanish rule, and began a nation with limited human capital, a weak public administration, and a shortage of capital. Political turmoil after independence led to the collapse of the economy, fostering migration and further increasing poverty. Guinea has experienced rapid economic growth since the 1990s as a result of the discovery of large offshore oil reserves, and in the last decade has become Sub-Saharan Africa’s fourth largest oil producer after Nigeria, Angola, and Sudan (figure X.1).

Figure X.1 Sub-Saharan Crude Oil Production, 2000–08 (thousands bbd)

![Graph showing crude oil production in Sub-Saharan Africa from 2000 to 2008](image)

**Source:** U.S. Energy Information Administration.

Mounting Government oil revenues during the 1990s (estimated at US$1.3 billion/year) and an inflow of foreign direct investment (FDI) signaled that the chronic stringency and dependence on aid that had characterized the country’s economy for nearly a quarter century was over. Consequently the Equatoguinean budget has grown enormously in recent years as royalties and taxes on foreign company oil and gas production have provided new resources to a once-poor Government. The 2008 total Government revenue was about US$7.1 billion, of which oil represented more than 81 percent. Value-added tax and trade taxes are other large revenue sources for the Government.

Equatorial Guinea boasts other resources, including its tropical climate, fertile soils, rich expanses of water, deep water ports, and reserves of unskilled labor. However, its hydrocarbon riches and a few sectors like construction, dwarf all other economic activity. The once-significant economic mainstays of the colonial era—cocoa, coffee, and timber—remain miniscule compared to the energy sector. There is little industry in the country, and the local market for industrial products is small. Thus the Government is seeking to diversify the economy by encouraging agriculture and financial services and further liberalizing trade and investment flows.
Equatorial Guinea's economic policies support an open trade and investment regime. Qualitative restrictions on imports, non-tariff protection, and many import licensing requirements were lifted in 1992 when the Government adopted a public investment program endorsed by the World Bank. Trade regulations have been further liberalized since Central African Economic and Monetary Union (CEMAC) reform codes were introduced in 1994. This included elimination of quota restrictions and reductions in the range and amounts of tariffs. The CEMAC countries agreed to the introduction of a value-added tax (VAT) in 1999.

The country's business laws promote a liberalized economy but the overall business climate remains poor.1 Efforts to create an atmosphere conducive to investor interest have not been sufficient and application of the laws remains selective, corruption among officials is widespread, and business rules and institutions are nontransparent. The Government is attempting to create a more favorable investment climate to promote foreign investment, for example, by adding numerous incentives to its investment code for job creation, such as training, promotion of nontraditional exports, support of development projects and indigenous capital participation, freedom for repatriation of profits, exemption from certain taxes and capital, and other benefits.

Overview

The discovery and exploitation of large oil reserves have contributed to dramatic economic growth in the past two decades, and rapidly rising oil income has made Equatorial Guinea comparatively wealthy. When Equatorial Guinea (EQG) began exporting oil in 1991, yearly gross domestic product (GDP) was merely US$132 million, or US$272 dollars per capita; in 2009 GDP equaled US$12.2 billion, US$9,580 per capita. Real GDP growth averaged 20 percent during 2000–09 (from over 34 percent in the 1990s), that is, almost four times the average growth in the Sub-Saharan Region due mainly to improved oil and gas production and the buoyancy of public infrastructure-construction works. In recent years, the economy grew at a rate of 10.7 percent in 2008, from 38 percent in 2004 and 21 percent in 2007, and then decelerated to 5.3 percent for 2009 as the price of oil fell.

The oil industry has become the engine of Equatorial Guinea's economy, a long way ahead of other industries, including agriculture and forestry (the contribution of hydrocarbons to GDP in 2006 was 87 percent). Forestry, farming, and fishing are minor components of GDP. Although pre-independence Equatorial Guinea counted on cocoa production for hard currency earnings, the neglect of the rural economy under successive regimes has diminished potential for agriculture-led growth. Subsistence farming predominates at large. No longer eligible for concessional financing because of large oil revenues, the Government has recently reengaged with international organizations such as the World Bank and IMF to get assistance to improve its fiscal management program. Undeveloped natural resources include titanium, iron ore, manganese, uranium, and alluvial gold.

Private FDI to the petroleum sector after 1994 lifted gross fixed capital formation above even GDP values (figure X.2). However, domestic non-oil private-sector investment did not develop to keep pace, averaging a scant 4.3 percent of GDP in 2001–08. With the retrenchment of petroleum
sector FDI after 2001 and the limited role of the private sector, the Government has taken the lead in filling the gap, transforming its high savings from petroleum revenues (on average 28 percent of GDP between 2001 and 2008) into public investments (12 percent of GDP for the same period and rising).

Figure X.2 Public and Private Investment, Gross Fixed Capital Formation, 1990–2009, %GDP

Source: World Bank

Indeed, after 2000 the stream of income grew to a torrent as rising hydrocarbon production and soaring global prices brought the State an estimated US$25 billion in revenues during the next eight years. Meanwhile the current account and fiscal balance remain in surplus (figure X.3) even though public spending has vastly expanded. The oil boom has spilled over to the non-oil economy, especially through public investment in infrastructure and private construction, with the average yearly growth rate of consumption running around 20 percent since 2000. Yet indicators of social and human development as well as governance remain low, and despite a per capita GDP (PPP) of more than US$30,000—as of 2009 it ranked 27th highest in the world—Equatorial Guinea ranks 118th out of 182 countries on the United Nations Development Program (UNESDP) Human Development Index. The budget structure does not favor social investment, with recurrent education and health expenditures in 2008 accounting for only 11 percent of total current expenditure (0.2 percent of GDP) and 6.4 percent of total current expenditure (0.1 percent of GDP), respectively.
Thus, despite nearly two decades of oil-fueled growth, very serious challenges remain, with a looming threat that the present pace will falter and fade without new sources of wealth generation:

- **Unsustainable economic policies.** Petroleum production has started to tail off and is expected to run dry in a couple of decades. Current economic policies based on high public-sector expenditure cannot be maintained unless the private sector develops and the economy diversifies. While efforts to discover and exploit new hydrocarbon resources, if successful, will allow the Government to maintain current policies longer, the reserves are finite and EQG must start now to prepare its economy for the post-oil era.

- **High levels of poverty.** Despite abundant petroleum revenues, the standard of living of most of the population has not significantly improved and poverty is widespread. Indications show that nearly three of four people live on less than two dollars per day, about half the population lacks access to safe drinking water or sewage facilities, and infant and child mortality rates have risen since 1990. Furthermore, the contrast between high per capita income and high poverty rates and the widening gap in income distribution pose a serious menace to social stability in the medium term unless addressed adequately and quickly.

- **High unemployment.** Unemployment is increasing among the fast-growing urban youth population. Structural change in the economy has been accelerated by low agricultural productivity and heavy migration from rural areas, which, with growing immigration, expands the need for urban employment opportunities and social services. The demand for jobs is exacerbated by a large cohort of youth funneled into the labor force, with 244,000 – 491,000 newcomers to the labor market projected during 2010–20. New jobs will have to be created in the non-oil economy since the petroleum industry is capital-intensive and
employs relatively few workers, most of whom are highly skilled and often from other countries.

- **Weak governance.** Rising incomes have not been matched by better overall governance or stronger institutional capacity in the public sector, which continues to function in many respects as it did before petroleum was discovered. This hinders private-sector participation in the non-oil economy, which is reflected in the country's low rank in the Doing Business Index (162 out of 185 countries in 2013). The public sector, financed by high oil revenues, continues to be the main economic agent, often operating ineffectively while distorting market incentives and not fulfilling its redistribution responsibilities.

The Government is accumulating savings while hydrocarbons reserves are drying up; notably, savings reached US$ 8.5 billion reserves in 2009. However, a declining hydrocarbon production trend and prices below the recent highs, coupled with a substantial overrun in public expenditure (mostly capital investment), led to an overall fiscal deficit of 8.0 percent of GDP in 2009 (versus a surplus of 1.7 percent of GDP in the original budget), for the first time since petroleum was first extracted. The medium-term outlook is clouded by the onset of declining hydrocarbon production, uncertainty about petroleum prices, and most notably, unsustainable public expenditure, which, if implemented according to Government projections, will deplete the stock of government savings over the next decade.

To respond to these challenges, EQG has adopted a National Economic and Social Development Plan (NESDP, EQG 2007) to diversify its economy out of petroleum production and broaden the foundation of its wealth by developing the skills and promoting the well-being of its people. While the Government for some time has invested heavily in upgrading the country's ailing infrastructure, it has started to take additional measures to prepare the economy for the transition ahead. The NESDP was adopted in 2007 to set a strategy for economic diversification and poverty reduction (see box X.1). Early on, the authorities emphasized large investment programs to implement the NESDP and meet public needs. Petroleum resources are used to create a more positive long-term framework for the economy by way of two complementary steps: (1) obtain validation from the Extractive Industries Transparency Initiative (EITI) to improve petroleum sector transparency; and (2) push for more sustainable macroeconomic policies, for example, by adhering to the Permanent Income Hypothesis (PIH) to ensure that the return on petroleum is adequately conserved for future generations.

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**Box X.1 The National Development Strategy of Equatorial Guinea**

The 2008–20 National Economic and Social Development Plan (NESDP) (EQG 2007), *Equatorial Guinea 2020: Agenda for the Diversification of Sources of Growth*, was adopted in 2007 at an
international conference in Bata. It reflects the Government’s view that the recently favorable growth performance belies the fragility of present foundations for future expansion, since the economy is overdependent on oil production that is expected to run dry circa 2035. The NESDP lays out an economic and social vision through 2020 for meeting these challenges. This strategy highlights two objectives: (1) transition from an oil to a diversified economy; and (2) the reduction of poverty and enhancement of social cohesion. To do so, the NESDP emphasizes job creation and labor productivity so that the future growth path is inclusive and reduces poverty.

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

NESDP implementation began with approval of Decree Law 2/2008, which officially adopts the plan and creates the institutional framework for its implementation. This framework, called “Equatorial Guinea–Horizon 2020,” includes (1) the Governing Council formed by the President and other government officials which holds quarterly meetings; (2) the National Commission for Monitoring and Evaluation of the National Economic and Social Development plan, “Equatorial Guinea–Horizon 2020,” headed by the Prime Minister and including other members of government and representatives of the sponsor board, workers, and civil society, which oversees the creation and operation of sector technical committees; and (3) a National Agency, Horizon 2020, for the management, coordination, monitoring, and evaluation of the National Economic and Social Development plan. Agencies were also created to be in charge of implementing various policies adopted in the NESDP, such as the National Enterprise for Housing Promotion (ENPIGE) and the National Society of Fishing (SONAPESCA).

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

The Public Expenditure Review, produced through a Services Agreement with the World Bank in 2007, provided recommendations to raise public-sector efficiency and improve public financial management to ensure that the policy objectives laid out in the NESDP are translated into annual budgets and implemented quickly yet efficiently to achieve results on the ground.
NESDP implementation has been seriously hampered by weak governance, limited information, and low institutional capacity, and thus far has yielded few results beyond infrastructure development. It is therefore critical at this juncture for the Government to increase transparency and engage fully with international actors (including the Bank and the IMF) to address the low public sector efficiency and a poor business environment and to broaden participation in oil sector income to get the plan on track and moving forward.

While improving the business environment is key for successful private-sector-led growth to achieve sustainable economic diversification, the Government has decided to begin the transformation process by accelerating public-sector reforms to improve economic governance so that current resource flows can be managed more efficiently for long-term impact. To that end, it signed a Services Agreement with the World Bank in 2007 for improving compilation of the national accounts and carrying out a Public Expenditure Review (PER) to propose measures for more efficient public spending that raises non-oil sector productivity, facilitates economic diversification, and generates employment to reduce poverty and improve income distribution in the medium term.

**Public Investment Management (PIM) Institutional Setting**

This analysis of public investment management in Equatorial Guinea highlights three critical weaknesses that hinder economic governance in the public sector:

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

The scarcity of reliable fiscal and general socioeconomic information constrains authorities from designing and implementing adequate investment policies. First, the dearth of household and enterprise surveys limits preparation of the national accounts, poverty assessments, and knowledge about the labor market. Second, the large and longstanding difference between national and international sources for population estimates has not been resolved. Third, budget implementation data do not conform to budget classification, making adequate budget supervision and audit reports impossible. Filling these data gaps requires immediate action by the authorities, who could use the National Agency 2020 to take the lead as part of its effort to increase institutional capacity for planning and improve coordination among different agencies and ministries to better supervise implementation of the NESDP.
Even if better data were available, current budget management practices undermine the Government's ability to guide allocation expenditure in support of public goals. The 2003 law that regulates public finances has not been implemented, and customary practices reduce transparency and make the process prone to irregularities. Long and centralized budget procedures severely delay budget implementation and lead agencies to bypass regular channels, resulting not only in poor reporting but also in inadequate budgetary supervision. Particular attention is needed in the Public Investment Program (PIP), which represents 80 percent of the total budget but follows ad-hoc budgetary procedures, involves too many actors, and diffuses accountability. Further complicating the process, extra-budgetary spending occurs throughout the fiscal year (figure X.4). This not only circumvents controls, it also weakens the capacity of the authorities to manage the macroeconomy and achieve longer-term economic and social goals.

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

With donor aid practically nonexistent, public investment management modality is predominantly financed by domestic revenues. In fact, the progress of project implementation has shifted more on hydrocarbons-related tax revenues to support priority projects. According to the Ministry of Finance and Budget (MOFB), the project portfolio funded by these funds ranged between 75 and 80 percent of total revenues in 2005–08, with a major shift from social and economic infrastructure toward productive activities. Analysis of capital expenditures shows that
the domestic resources allocated to construction of new roads and power, ports, and water irrigation facilities averaged two-thirds of total investments in recent years.

**Key PIM Stakeholders**

The responsibilities of PIM are divided among the following agencies and departments:

- Office of the President's Geproyectos
- Ministry of Finance and Budget (MOFB)
- Ministry of Planning and Development (MOPD)
- Executing agencies and units
- Parliament

Geproyectos is the main agency responsible for coordinating infrastructure project implementation and monitoring on behalf of the Office of the President of the Republic. Geproyectos is independent from other ministries and accountable only to the President, although three ministries—MOPD, MOPWI (Ministry of Public Works and Infrastructure), and MOFB—are members of its board of directors.

The objectives of Geproyectos are broad and cover the entire investment process: from (1) planning, design, supervision, execution, monitoring, evaluation, and control of all public infrastructure projects, construction that involves civil engineering, as well as those projects earmark-funded either by the Treasury or donors; to (2) elaborating and publishing calls for tender and assessing the bids; (3) periodically informing the Government on its activity and the progress of works and projects being implemented in the country; and (4) any other attributions that may be decided.

The MOFB plays a pivotal role in setting the budget ceilings for both current and investment (PIP) budgets. The ministry derives its mandate and functions from the 1995 Constitution of the Republic of Equatorial Guinea and other related subordinate laws, including the Public Finance Law (2003) and acts establishing agencies and auxiliary organizations. The Ministry of Planning and Development (MOPD) is responsible for allocating the investment budget (PIP) between the different ministries according to the country's economic and social development priorities set in the NESDP.

The scope of PIM encompasses mainly the Central Government, which consists of 20 ministries, and many other public agencies (commissions, universities, and research institutions), as well as other autonomous entities, statutory corporations and public enterprises. The line agencies responsible for the bulk of capital spending are the Ministry of Public Works and Infrastructure (MOPWI), the Ministry of Education (MOE), and the Ministry of Health (MOH). Of these, the MOPWI is responsible for almost two-thirds of the spending, followed by MOE and MOH, which contributed less than 10 percent of the total budget estimates in 2009. Lacking in the PIM institutional setting is the organizational and technical capacity at the national and sector levels to
align public resources to specific outcomes and policy objectives and to oversee the spending agencies’ compliance in procuring and executing contracts on behalf of the Government or independently according to investment plans.

Information about the legal framework governing public finance management is limited, and where it does exist (as with the 2003 Public Finance Law), it is not applied. Mandated procedures are time consuming and often circumvented, which reduces transparency and accountability. Consequently only an economic classification of budget execution is prepared, with no reliable administrative or functional information about spending. This seriously inhibits the Government’s ability to adequately supervise implementation of disbursements and assess public policy impacts. The Government should review budget administration to cut red tape, preserving adequate controls on the most relevant steps while limiting the use of exceptional procedures and reducing payment delays. It should also ensure that the same economic and administrative classifications are used for the approved and executed budgets and that an additional administrative classification is introduced in the investment program to differentiate between infrastructure and other types of investment that should be classified as current expenditures.

**Recommendations from the 2010 Public Expenditure Review**

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

Sector ministries need to participate further in budget preparation and implementation. By 2008 it was clear that the current project selection and implementation system was reaching its limits, and the 1,400 projects in the PIP could not possibly be implemented simultaneously given existing capacity constraints. The bottleneck could only grow since the NESDP calls for additional financing to be directed toward sector ministries to get quick results in poverty reduction. Clearly an adjustment is required and the number of projects in the PIP would have to shrink while additional responsibility is delegated to sector ministries for selecting sector projects within sector envelopes allocated by the MOFB. This change would also allow better planning for future project maintenance and operating costs. In that vein, sector ministry participation should be ensured throughout project implementation to ensure adequate planning for transfer of the social infrastructure into service and ensure its sustainability after operations begin.
The existing dual budget system needs improved coordination between the MOFB (which implements the current budget and sets the investment ceiling) and the MOPD (which implements the PIP). This could be achieved by setting sector ceilings for current and investment allocations, making use of the same classification during budget implementation, and making both budgets more consistent with the NESDP goals. There is also an overlap in authority and responsibility within the investment program that creates confusion. Insufficient coordination between Geproyectos (which is in charge of investment implementation of infrastructure projects), the MOFB, the MOPD, and the sector ministries results in poor reporting on actual execution of the PIP. Geproyectos does not use the Public Investment Program as a tool for investment prioritization and selection; and that, coupled with implementation of non-PIP projects, renders the PIP useless as a tool for raising spending efficiency. There is a need to overhaul of the institutional setting and provide assurance of adequate coordination and accountability of all stakeholders in order to make the PIP a relevant policy tool. Creation of a database with updated project information from all participating ministries (including sector ministries) would strengthen the process, allowing a central agency to annually report and evaluate implementation of the PIP.

**Capital Budget Predictability**

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

The Government’s substantial increase in public investment since 2004 has focused mainly on improving infrastructure. In 2008 capital expenditures reached 21.8 percent of GDP (table X.1), up from 8.4 percent of GDP in 2002. Using data from the PIP, projects have been bundled together to analyze allocations in the social, infrastructure, economic, and productive sectors. Data confirm the results visible on the ground, which show improved infrastructure in roads, airports, and ports alongside less successful construction of social infrastructure, such as housing, schools, and hospitals. Approval of the NESDP signaled the Government’s aim to shift resources toward investment in social sectors, although limited implementation capacity in these social sectors has limited past spending there to a mere 2.5 percent of GDP (figure X.5).
## Table X.1: Public Investment Program, 2005–08

### Allocation by Purpose (% of GDP)

<table>
<thead>
<tr>
<th>Purpose</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social sectors</td>
<td>1.4</td>
<td>5.5</td>
<td>4.5</td>
<td>3.1</td>
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<td>Public administration</td>
<td>0.7</td>
<td>1.0</td>
<td>1.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Productive sectors</td>
<td>1.7</td>
<td>1.4</td>
<td>2.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>0.7</td>
<td>0.7</td>
<td>8.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>4.5</td>
<td>8.6</td>
<td>16.3</td>
<td>15.7</td>
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</table>

### Capital Budget Execution (% of GDP)

<table>
<thead>
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<th>2006</th>
<th>2007</th>
<th>2008</th>
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</thead>
<tbody>
<tr>
<td>Social sectors</td>
<td>1.6</td>
<td>1.8</td>
<td>3.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Public administration</td>
<td>2.8</td>
<td>2.7</td>
<td>2.9</td>
<td>1.6</td>
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<tr>
<td>Productive sectors</td>
<td>1.5</td>
<td>3.7</td>
<td>3.6</td>
<td>13.4</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4.4</td>
<td>7.0</td>
<td>7.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Total</td>
<td>10.3</td>
<td>15.2</td>
<td>16.9</td>
<td>21.8</td>
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</tbody>
</table>

### Execution Rate (% of allocated investment)

<table>
<thead>
<tr>
<th>Purpose</th>
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<th>2006</th>
<th>2007</th>
<th>2008</th>
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</thead>
<tbody>
<tr>
<td>Social</td>
<td>115</td>
<td>32</td>
<td>69</td>
<td>81</td>
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<tr>
<td>Public administration</td>
<td>409</td>
<td>279</td>
<td>245</td>
<td>92</td>
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<tr>
<td>Productive sectors</td>
<td>86</td>
<td>277</td>
<td>159</td>
<td>355</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>606</td>
<td>1,022</td>
<td>88</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>225</td>
<td>178</td>
<td>104</td>
<td>139</td>
</tr>
</tbody>
</table>
Figure X.5  Public Investment Program, 2005–08

(\% of GDP)

Sources: EQG authorities, IMF and World Bank

The high infrastructure investment (most notably roads) is expected to decline when large projects are completed. Infrastructure represents half of the investment carried out, two-thirds of which was in roads (around 4.1 percent of GDP, 2005–07). Capital expenditure in airports and urban facilities represented around 1.2 percent and 1 percent of GDP, respectively (8.5 and 6.3 percent of total infrastructure expenditure, 2005–07, respectively, as indicated in figure X.6). This investment, which has significantly upgraded the deteriorated road system and the main airports, should slow down as the bulk of transport infrastructure improvements are completed, and resources will likely shift toward investments in the sectors using the newly installed infrastructure (that is, in the productive and social sectors).

Figure X.6  Infrastructure in the Executed PIP, 2005–08

(\% of total investment implemented)

Investment allocations to productive sectors are too low to raise productivity substantially in the non-oil economy. Investment in the productive sectors equaled 3.7 percent of GDP in 2007, mostly focused in ports (see figure X.7).\textsuperscript{4} As upgrades to the ports of Malabo and Bata reach their final stages, a significant shift in public investment is expected to increase productivity in the non-oil economy. Given the size of the rural population and the importance of agricultural activity for their livelihood, the authorities should prioritize agricultural investment. Currently, agriculture is not considered a priority for investment and accounts for less than 0.5 percent of total outlays.

**Figure X.7 Executed Investment in Productive Sectors, 2005–08**

(% of total investment executed)

![Graph showing investment in different sectors from 2005 to 2008](image)

**Sources:** Equatorial Guinea Government, IMF, and World Bank.

Investment in social sectors will need to increase to improve the living conditions of the general population. Investment in social sectors has hovered around 2.5 percent of GDP between 2005-2008 (about 16 percent of capital expenditures implemented 2005–08, see figure X.8). Despite NESDP recommendations, budget allocations for social sector investments have remained constant in absolute terms since 2006; merely around 2.5 percent of GDP has actually been implemented. However, this low amount may be misleading since a portion of social infrastructure such as schools or hospitals is often accounted as infrastructure and not as social expenditure. In any case, social sector investment is far too low, given the importance of education, health, water and sanitation, and housing for poverty reduction, and needs to increase significantly in size to improve the overall social and economic conditions of the population.
**Figure 8: Executed Investment in Social Sectors, 2005–08**

* (% of total investment executed)

Sources: Equatorial Guinea authorities, IMF, and World Bank

**Sources:** Equatorial Guinea Government, IMF, and World Bank.

The current institutional setting for PIM is reaching its limits. Execution of the PIP has exceeded investment allocations each year; the Government has spent twice the amount budgeted between 2004 and 2007, with overruns of US$385 million in 2004, US$460 million in 2005, and US$600 million in 2006. This over-execution, mostly concentrated in physical infrastructure and public administration, is due mainly to the Government’s will to carry out investments urgently. However, the current lack of discipline in committing public funds is not sustainable and poses a serious risk that may lead the country to achieve little in the long term. Moreover, the large size of the 2007 capital budget—around US$2 billion—and the limited overrun of US$37 million seems to mark the ceiling for the Government’s investment capacity. Since the bulk of infrastructure investment (characterized by large contracts) has been completed and, given the NESDP’s calls for greater productive investment to develop the non-oil economy and social investment to fight poverty, the Government must begin to redefine its institutional investment arrangements to handle smaller contracts. Accomplishing this requires improved supervisory capacity of sector ministries expected to take more of the investment lead in the years ahead. The section, “Management of Public Investments in Infrastructure” will analyze the current institutional setting for public investment and propose recommendations to facilitate project implementation, safeguard public funds, and raise efficiency.

**Challenges to Effective PIM**

Challenges to the effective management of public investments in Equatorial Guinea include: budget comprehensiveness and transparency of information included in the budget; substantial fragmentation during budget preparation with sector ministries having a limited role in the decision of what investment projects are selected; combined with lack of sector strategies to guide
investment. These challenges raise the risk of selecting unnecessary projects. While budget implementation in Equatorial Guinea is cumbersome and inefficient, investment management has been centralized in Geproyectos, overcoming some of the hindrances of the system but raising the risks of inefficient control and disconnection of the rest of public expenditure, which undermines sustainability and maintenance of the projects.

Budget Comprehensiveness and Transparency

The public budget does not record all public spending, thus the amount of extra-budgetary spending and where it is spent is difficult to evaluate. The budget covers ministries and legislative and judicial institutions, but many other public agencies fall outside its purview. First, only state subsidies and transfers to some autonomous entities are recorded, while the entity budgets are neither included nor consolidated in the National Budget. Second, some donor-financed spending is not recorded in the budget. Third, the budget does not provide an accurate picture of state revenues. In this context, joining the Extractive Industries Transparency Initiative (EITI) would be a very positive step that would allow more transparency and better knowledge of total oil revenues.

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

The current budget classification provides hardly any information on investment expenditure, although it represents 80 percent of the budget. Only two categories of investment expenditure are recorded in the State Budget: (1) financing of miscellaneous projects (Budget Code 5310) for projects fully financed by the State; and (2) co-financing of miscellaneous projects (Budget Code 5380) for projects co-financed by donors. Moreover, all investment expenditure is recorded in a single administrative unit (“Diverse obligations”), regardless of the administrative unit benefitting from the investment. Also, around 30 percent of budgeted investment in the PIP—such as training programs, pharmaceutical purchases, studies, the design of development plans—should in fact be considered as current expenditure. If from an economic standpoint some of this expenditure can be considered as future investment (for example, in human capital), from an accounting point of view, they do not increase public assets and therefore should be recorded as current expenditure. The Government should introduce more categories into the budget classification to allow for better monitoring of investment expenditure and at least differentiate
between infrastructure and other types of investments. It would also be useful to introduce accrual elements into the public accounts to facilitate audits.

Public access to key fiscal information is limited. Information on the public budget and government performance is inaccessible to the general public. Annual budget documentation, which is the most widely available information in the ministries, exists only in printed form and in a limited number of copies. The information is not obtainable through the press, a website, or sale or notice boards. In-year budget execution reports are unavailable in sector ministries. There are no external audit reports, and contract awards are not published. This lack of transparency reduces agency accountability and increases opportunities for misappropriation.

**Recommendation**

To increase transparency, the 2010 World Bank Public Expenditure Review (PER) (World Bank 2010) recommends that Government publish fiscal information and contract awards on the Internet, on boards outside the Ministry of Public Works and Infrastructure, as well as in magazines published in the country. Given the lack of access to published material and to the Internet, only a small percentage of the population could access such information, but this would still represent an improvement over current practice.

**Budget Preparation**

Current and capital expenditures follow different budget rules and procedures. The Ministry of Finance and Budget (MOFB) is responsible for preparing and supervising the execution of current expenditures, and its only role in the investment budget is to set the global ceiling. The Ministry of Planning and Development (MOPD) is responsible for the investment budget. This produces inconsistencies and makes it difficult for sector ministries to decide on adequate distribution of capital and current expenditures in their respective sectors. Current expenditure in social sectors, for instance, might be shortchanged even though it yields a higher rate of return than some infrastructure investment. Unifying budgetary responsibilities, or at least improving coordination, would allow sector ministries to redress that imbalance by allocating current and capital spending resources to each project more effectively.

Budget preparation of current expenditures does not reflect national priorities and maintenance costs. Under existing procedures, sector ministries submit a first budget proposal without receiving any guidance from the MOFB, which can lead to overspending in non-priority ministries that have been particularly ambitious in their initial request. Another problem is that operational costs of many construction projects (such as schools or hospitals) are not factored into project budgeting even though they can be expected to represent a higher proportion of the recurrent budget as more investment projects are finished.

**Recommendations**

According to the 2010 PER, the MOFB could address the issues mentioned on budget preparation by (1) communicating their budget ceiling to the sector ministries at the beginning of
the budgetary process so that NESDP priorities receive due consideration in the overall budget; and (2) setting some form of multiannual planning that takes into account the cost of operating and maintaining infrastructure once it has been installed. This could be done through a project technical card that indicates, among other things, investment and maintenance costs, planned operational expenses, and an investment timeline to properly plan annual budgeting. This project technical card would be updated regularly during construction and with relevant additional information as needed.

Planning of capital investment needs to ensure that projects correspond to NESDP priorities. The PIP in the 2008 and 2009 budgets shows the authorities’ determination to increase the amount budgeted for capital expenditures. However, the institutional setting does not provide adequate information to monitor implementation and adjust budgets throughout the year. Therefore it is essential to improve investment planning and provide better easily accessible information about the list of ongoing projects.

**Budget Execution**

Procedures for budget execution are frequently bypassed, reducing budget control and information quality. The official procedure for expenditure execution is described in Decree 52/2005, but it is actually used for a very small percentage of public spending. The procedure separates the administrative phase (payment-authorizing officer), the payment phase (public accountant), and the disbursement after the delivery of goods, works, or services (Treasury). Figure X.9 details the current budget implementation system. It is a long procedure that is centralized at the MOFB, with none of the credit administrators at the sector ministries acting as payment-authorizing officers. To expedite commitment and payment and avoid some of the controls applicable to the administrative phase, direct payments are made for civil servant salaries (representing 25 percent of the current budget in 2008). Also, to accelerate budget implementation, sector ministries send payment requests directly to the MOFB or the President, bypassing the system. This limits the capacity of the MOFB to produce reliable and timely reports on budget execution, a gap that is only partially bridged by quarterly Treasury reports (approximately two months after the end of a given term) since the Treasury has incomplete information to carry out an adequate classification. Furthermore, most of the procedures are manual, which increases the risk of mistakes.
Figure X.9  Normal Procedures (1–2 months) for Executing Current Expenditures

Source: Decree No. 52/2005 that establishes norms on public accounts, Ministry of Finance and Budget, and interviews.

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

There is a risk that goods may be paid for before being delivered. Most of the control is concentrated on task of the purchase commitment, with rather loose control of goods delivered,\(^\text{14}\) opening the possibility of paying for a good/service that is never provided. Some improvement has been made over time, with the Treasury requesting confirmation of delivery before payment. This is a positive evolution, and these payment controls should be systematically carried out, notably by the MOFB.

Three other budget execution procedures exist although they are not formally regulated: (1) an emergency procedure that allows payments before goods or services are delivered, (2) cash advances (not including petty cash), and (3) payment of infrastructure expenditure.

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

The cash advance procedure lacks appropriate controls and cannot be assimilated with petty cash procedures,\(^\text{15}\) In the EQG system there is no need to provide documents to account for
and record past expenditure. Also, advances are made to a bank account of the minister or the ministry, and they are considered final budgetary expenditure without need to provide further justifications. The Treasury does not know what the money will eventually be used for and cannot classify the disbursement against the appropriate budgetary appropriation. A similar system of monthly advances is used to buy office supplies (1/12th of the annual budget for the line item is paid every month to each ministry and no documentation is requested). This procedure is highly problematic since it is impossible to know the final use of the funds. It not only raises the risk of misuse but limits Treasury control on sector accounts since no record of all existing bank accounts and their amounts is kept (even in the economic services of the sector ministries).

**Recommendations**

The 2010 PER highlighted the need for the Government to address weaknesses in budget execution quickly. All existing procedures should be formalized and developed on the basis of the 2005 Decree, providing clear instructions for application. This should be reinforced by a review of budget implementation procedure to make it swifter and to establish adequate controls on the most relevant steps (availability of credits, control of goods provision) to reduce the use of exceptional procedures and reduce payment delays so that suppliers willingly deliver goods before being paid. This could eventually entail delegating part of the budget procedure to sector ministries as credit managers.\(^{16}\) Adequate procedures should be introduced for management of small budget amounts to replace the current cash advance system, notably concentrating payments to sector ministries into a single account per ministry. Finally, regularly reconciling information on budget execution from the BD or the FCD and payments made by the Treasury should ensure that expenditure is properly monitored by the payment authorizing officer. An integrated information system would certainly be useful, but it is not necessary to quickly improve the situation. Only if the current organization and procedures are modified will an integrated information system be productive.

**Accounting**

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

**External Scrutiny and Audit**

Internal oversight, although formally present, provides very weak results. According to the 2005 decree that defines norms in public accounting,\(^{17}\) the control of budget execution is carried
out at five levels: within each ministry, by public accountants, by the competent authorities within the MOFB, by the jurisdiction in charge of controlling accounts, and by Parliament. There is no internal audit within each ministry and the role of Inspector General of Finances (IGF) should be strengthened to ensure adequate internal audits to reduce the risk of misappropriation of public goods. The IGF has broad powers and a mandate across entities of the Central Government to carry out internal audits. In particular, the IGF can act as a control for any institution that uses public funds—including ministries, public companies, and autonomous institutions—and evaluate public policies following an annual program of control. However, the IGF does not use recognized professional auditing norms and in practice does not act as a control for the Treasury and review public accounts. Audits and inspections held in ministries entail a significant risk of not detecting frauds and irregularities since they do not foster audits of expenditure procedures and do not allow close analysis of the reliability and integrity of financial information. Strengthening the role and professionalism of the IGF is crucial to identify problems, provide recommendations in public finance management, and ensure that procedures are defined and adequately enforced. A risk-based approach to audit planning also should be developed to focus attention on the most relevant issues.

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

Management of Public Investments in Infrastructure

The PIM system assessment is structured along the eight step process found in Rajaram et al. (2010): (1) investment guidance and preliminary screening, (2) formal project appraisal, (3) independent review of appraisal, (4) project selection and budgeting, (5) project implementation, (6) project adjustment, (7) facility operation, and (8) project evaluation. These dimensions are discussed in detail in this section and the performance indicators and dimensions are summarized in table X.4, which highlights whether the performance on a dimension significantly undermines the overall PIM system performance. To do so, four ratings A to D are used, with D representing a serious impact that undermines overall PIM and C representing a risk that it undermines overall PIM system.

Table X.4: Preliminary Core PIM Indicators for Equatorial Guinea

<table>
<thead>
<tr>
<th>Stage</th>
<th>Indicators and Dimensions</th>
<th>Findings</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Guidance and preliminary</td>
<td>National development strategy; sector-wide strategies</td>
<td>NESDP and sectoral strategies missing for the most part. Lacking a statement of Government priorities, the budget circular provides no</td>
<td>D</td>
</tr>
</tbody>
</table>
### Country Case Study: Equatorial Guinea

**Equatorial Guinea Public Investment Management Review**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Indicators and Dimensions</th>
<th>Findings</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>screening</td>
<td></td>
<td>guidance. Priorities set out in strategic sector plans not matched by the budget execution ratio.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>First level screening to ensure strategic alignment</td>
<td>No revision of projects’ consistency with national priorities</td>
<td>D</td>
</tr>
<tr>
<td>2. Formal project appraisal</td>
<td>Clarity of roles in planning process</td>
<td>Roles well defined, but process has little analytical content.</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Formal technical guidance</td>
<td>There is no administrative guidance on the appraisal process. No financial guide provided to sector ministries. There is no cost-benefit analysis</td>
<td>D</td>
</tr>
<tr>
<td>3. Independent review of appraisals</td>
<td>Sound project appraisal</td>
<td>Generally limited or practically nonexistent within line ministries before the project is submitted for appraisal. Problems with project design become apparent at later stages.</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>Proportionality of appraisal</td>
<td>No cost-benefit analysis</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>Effective coordination and scrutiny of donor-funded projects</td>
<td>Not relevant as donor-financed projects are irrelevant.</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>Capacity in national planning agency and line ministries</td>
<td>Limited technical capacity of MOPD at project level. Sector-wide planning capability weak within line ministries.</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>Independent reality/quality checks</td>
<td>None</td>
<td>D</td>
</tr>
<tr>
<td>4. Project selection and budgeting</td>
<td>Fixed budget calendar with sufficient time for line ministries to prepare capital budgets</td>
<td>Not evident</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Comprehensive guidance and capital spending ceilings</td>
<td>None</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>Projects developed</td>
<td>Little evidence on sufficient design/planning</td>
<td>D</td>
</tr>
</tbody>
</table>
## Equatorial Guinea Public Investment Management Review

<table>
<thead>
<tr>
<th>Stage</th>
<th>Indicators and Dimensions</th>
<th>Findings</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>before submission to MOF in budget</td>
<td>work prior to submission. Overall a low base of adequately prepared projects.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integration of capital and current spending</td>
<td>No integration between completion of capital projects and programming of maintenance activities</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>MOPD checking of projects</td>
<td>Not evident</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislature has sufficient time to consider projects</td>
<td>Not evident</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legislature passes budget in a timely manner</td>
<td>Not evident</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5. Project implementation</strong></td>
<td>Published guidelines</td>
<td>None</td>
<td>D</td>
</tr>
<tr>
<td>Detailed implementation plan with clear accountabilities</td>
<td>Some planning for financial and physical execution of projects. But nobody held accountable for progress of project implementation.</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>Open competition for procurement</td>
<td>Not evident</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective procurement complaints mechanism</td>
<td>None</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>Commitment controls</td>
<td>Commitment controls set up only at the time payment orders are entered into the system. Commitments of contracts not entered in the system, track down of supplier deliverables, project implementation difficult. Timely implementation of projects unpredictable.</td>
<td>C</td>
<td></td>
</tr>
<tr>
<td>Predictability of funding</td>
<td>Over budgeting common in infrastructure projects.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular process reporting</td>
<td>Serious problems in financial reporting; serious inconsistencies in accounting.</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>Active monitoring of progress</td>
<td>MOFB and MOPD lack monitoring units to assess on-site progress, physical inspection of output deliverables, and quality of works. Line</td>
<td>D</td>
<td></td>
</tr>
</tbody>
</table>
### COUNTRY CASE STUDY: EQUATORIAL GUINEA

Equatorial Guinea Public Investment Management Review

<table>
<thead>
<tr>
<th>Stage</th>
<th>Indicators and Dimensions</th>
<th>Findings</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sound internal control</td>
<td>Internal controls on cost overruns of major projects, tracking down of project extensions, preventive controls for avoiding delays in project implementation, all missing. Internal audit for overseeing compliance of contracts, value for money missing. Weak institutional capabilities at line agency, local government, and project levels.</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>Formal project completion</td>
<td>Not evident</td>
<td></td>
</tr>
<tr>
<td>6. Adjustment for changes in project circumstances</td>
<td>Constant project adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Explanation required for variances from budget and plan.</td>
<td>Explanations are required and provided and their validity is negotiated and adjusted.</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Mechanisms for project adjustment</td>
<td>Not evident</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Periodic review of costs compared to benefits for major projects</td>
<td>Costs are reviewed but not the benefits.</td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>Mechanism to stop projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Facility operation</td>
<td>Effective handover of assets</td>
<td>Delivery of assets to service operator not formalized in an official document for most projects. For those documented disclosure publicly is generally missing.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Assets fit for purpose</td>
<td>External contractor often used to undertake inspections to monitor assets built fit the expected quality of expenditures.</td>
<td>B</td>
</tr>
<tr>
<td></td>
<td>Asset registers</td>
<td>Journals do not exist for land, building, other properties, and the existing ones are not kept up to date as projects get implemented. Assets are not recorded.</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>Sufficient O&amp;M funding</td>
<td>Not evident</td>
<td></td>
</tr>
</tbody>
</table>
Investment Guidance and Preliminary Screening

Formal guidance from the National Economic and Social Development Plan (NESDP) cannot be translated into the investment program, given the plan’s wide development priorities and long timeframe (12 years). To facilitate planning of investment projects, the NESDP should be complemented with sector strategies and action plans that present detailed sector priorities in the medium term. These sector investment strategies could be prepared by each sector ministry, with impetus and cross-ministry coordination from the MOPD or the National Agency 2020.

The 2008 PIP, with projects to be implemented between 2008 and 2010, does not reflect strategic investment allocations.\(^\text{20}\) The PIP continues the Government’s ambitious investment effort, which saw public investment in infrastructure increase sixfold between 2004 and 2008, when it represented approximately 80 percent of the budget. Close to 1,400 projects were identified by the Government for implementation during 2008–10, compared to just 159 projects executed in 2004. The increase was particularly rapid in 2008 and 2009 in response to NESDP priorities for investing oil revenues in infrastructure to create the conditions for sustained economic growth after petroleum reserves are depleted. However, the PIP is not regularly updated and cannot be used to monitor investment implementation or assess strategic investment decisions. Furthermore, not only is the PIP not an instrument for yearly budget allocations, it is not being used for strategic medium-term budget allocations as described in the later section, Project Selection and Budgeting.
Public investment decisions are concentrated in the Presidency. Ultimate investment allocation is decided by the Presidency, without the need to record the investment project into the budget being implemented, bypassing any formal screening and budgetary system in place.

Attempts to improve investment in social sectors have not succeeded. The authorities established a Social Development Fund in 2005 with support from USAID to improve social services delivery by enhancing the administrative and technical capacity of selected ministries and raising budget allocation to social sectors (health, education, gender, and sanitation). The Social Development Fund helps the ministries to prepare projects, participates in project selection, and assists in project implementation and monitoring, but results have been below expectations.

**Formal Project Appraisal**

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

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

Limited technical capacity of ministry staffs hinders investment efforts, and outsourcing project appraisal should be considered. The number of civil servants working on public investment
management is low and their capacity is limited.\textsuperscript{21} The Government should review staffing numbers by skill type and functions in each ministry and prepare a precise analysis of missing skill sets to define a much needed human resources policy, a training strategy, and a hiring policy. Given limited staff pools some skill sets might be difficult to find for each ministry, but technical personnel could assist several sector ministries at a time. While this capacity is built up, the authorities should consider outsourcing project appraisals to an international contractor. Not only could this raise overall investment efficiency by carrying out project appraisals that are currently not properly done, but it would also help build institutional capacity by training local staff in internationally accepted appraisal methodologies.

Guidance on project appraisal is essential to ensure better investment allocation and facilitate implementation. The Government preference to expedite investment implementation does not require neglecting the appraisal phase, as is the case today. The aim, after all, is to make sure that Equatorial Guinea raises investment efficiency by implementing projects that work. The key assessments required include the following: (1) confirmation that the investment is consistent with the NESDP and policy; (2) stakeholder analysis, including evaluation of institutional capacity; (3) complementarities with other ongoing and planned initiatives, incorporating lessons learned; (4) an objective hierarchy assessment (objective, purpose, results, and indicative activities); (5) assessment of resource and cost requirements; (6) assessment of management, monitoring, coordination, and financing arrangements (including financial management and internal control/reporting); and (7) environmental analysis.

The formal guidance should describe which techniques and tools for economic evaluation are more appropriate to the scale and scope of the project—with larger projects requiring more-rigorous tests of financial and economic feasibility and sustainability. It is particularly important to assess whether the project is relevant (whether it meets demonstrated and high-priority needs) and feasible (whether it is well designed and whether it would provide sustainable benefits to target groups). The project appraisal process should consider project proposals of different scales and take into account the key macro, sector, and project-specific uncertainties, such as inflation, cost overrun, and change in output and key input prices over the project’s life. The appraisal of each project according to these criteria should be reflected in key documents, such as project technical cards.

**Independent Appraisal Review**

No independent project review is being performed. The MOPWI is responsible for its own investment projects in roads, social housing, and urban infrastructure and also for all infrastructure projects presented by the sector ministries in which it intervenes as a technical ministry. Sector ministries often identify a project and rely on the MOPWI for project designing and feasibility assessment as well as implementation. These designs, however, are not reviewed by any other independent institution and sometimes are only prepared after the project has been incorporated into the PIP. Geproyectos, the national agency with technical capacity and expertise in public
investment, participates throughout the investment project cycle and could not be expected to carry out an independent review of project appraisals.

New structures stemming from the NESDP could carry out independent technical reviews. Three new institutions have been created to realize the NESDP. The Equatorial Guinea High Council 2020 (Consejo Superior Guinea Ecuatorial 2020), chaired by the President, is in charge of providing strategic leadership, validating the priorities for implementation of the NESDP and evaluating its progress. The National Agency 2020 (Agencia Nacional Guinea Ecuatorial 2020) is a technical institution in charge of coordinating and making the NESDP operational. However, its final role will depend on the place assigned to it within the current institutional setting in which informal arrangements are prevalent. Two main roles might be delegated to the National Agency 2020: (1) carrying out independent reviews of project proposals that have been adequately appraised by Geproyectos or the MOPWI; and (2) devising an NESDP action plan and budget with new reporting tools that allow for monitoring and evaluation of NESDP implementation.

Project Selection and Budgeting

Many institutions intervene in the decision-making process with unclear roles that vary according to the sector of the project. The project selection procedure is not formalized, and it is not clear who formally authorizes project implementation, which dilutes responsibilities and transparency. There is substantial institutional overlap in the current institutional setting, with the participation of three main actors: the Ministry of Planning, the Ministry of Infrastructure, and Geproyectos. Sector ministries also intervene but to a lesser extent and with varying intensity according to the sector. The MOFB’s role consists of setting the overall investment ceiling. Geproyectos shares with the MOPD and other sector ministries the authority for planning public investments and with the MOPWI for assessing infrastructure projects. Geproyectos and the MOPWI both intervene in the implementation of investment projects, and they prepare the tendering process, choose the contractor, co-sign contracts, and are co-responsible for project monitoring. There is also overlap between the National Agency 2020 and Geproyectos, since both report to the Presidency on infrastructure projects that are part of the NESDP.

The PIP is prepared by the Ministry of Planning and Development (MOPD), based on limited information provided by sector ministries. Sector ministries are not requested to justify their investment proposals, and there is no minimum screening requirement for projects (Figure 10 shows the steps of PIP preparation). Ministries provide a list of projects for implementation, sometimes with their estimated total cost and duration. Further information is sometimes provided on the content and justification of projects and their cost, but mostly for projects that should be classified as current expenditure. For infrastructure projects there is very little information, and sector ministries may only indicate a project’s name and costs without a justification. No explanations are provided on the methodology used for cost evaluation, and the timetable is not justified. No distinction is made between projects that were approved in previous years but not yet begun and ongoing projects, sometimes because projects are implemented by a different institution (that is, Geproyectos) and the ministry does not have the information. For
ongoing projects, there is no information on the amount already executed and the amount that remains. The MOPD does not have information on project implementation and cannot correctly budget ongoing investment to identify the surplus for new projects. This could soon become an overwhelming problem as the portfolio of ongoing projects grows and the fiscal constraint tightens.

Figure X.10 Preparation of the Public Investment Program


Projects included in the PIP do not necessarily reflect NESDP priorities. There is no ceiling per ministry, and ministries do not spell out their priorities but provide an aggregate investment program for implementation. To build the PIP, the MOPD adds all the ministerial demands. If the total estimated cost of the projects is under the investment ceiling set by the MOFB, then all the
projects are approved. However if they exceed this amount, the MOPD has limited information for deciding on which projects to reject. The informal rule applied for the initial 2009 budget was to accept all projects presented by social ministries and reduce the budgeted amount of the remaining projects for 2009 by scheduling more costs in 2010 or 2011, taking into account possible delays in implementation.26 Thus, final budgetary envelopes by sector depend mostly on the capacity of a ministry to come up with projects rather than on strategic importance. In spite of a small number of projects being labeled “Priority Projects Horizon 2020,” it is uncertain whether these or other projects in the PIP are consistent with the strategic goals of the Government. Furthermore, approximately 30 percent of projects included in the PIP should not be considered as investment but as recurrent expenditures.

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

Infrastructure maintenance and operating costs are not taken into account when selecting projects. They are neither considered when assessing a project, nor in choosing between contractor bids, and are only estimated once the work is finished.27 A ministry's capacity (in both financial and human resources terms) to operate and maintain a particular infrastructure is not a criterion for project selection, even though differences in operational and maintenance costs between projects in the medium to long run can be substantial and taking them into account could lead to different projects and contractors being chosen. There is today a high premium for contractors proposing projects that are cheap to build, even if they turn out to be costly to maintain.

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

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

Financial execution of infrastructure projects is concentrated at the Treasury and at Geproyectos, with limited involvement of other ministries. The procedure is not formally documented and an informal procedure has filled the legal vacuum (see figure X.11). The Treasury has all the information on financial execution. It records infrastructure payments in a single section and keeps track of payments per company as approved in the payments’ commission documentation. However the information available makes it impossible to compare this execution report with the PIP because (1) many of the projects implemented are not included in the PIP and (2) when they are, they have different names and do not share the same budget code. Furthermore, this information on budget implementation is not transmitted to sector ministries or the MOPD, which therefore cannot monitor execution of the PIP.

The current system could be improved substantially by rationalizing the financial execution system in the infrastructure sector. This could be done by (1) identifying projects by a unique number (as used in the PIP) in contracts and payments and (2) sharing the payment information available at the Treasury with sector ministries and the MOPD.

There is no procurement regulatory framework, which raises the risks of corruption and the selection of non-optimal proposals and contractors. The lack of procurement regulations gives Geproyectos and the MOPWI the freedom to opt for a bidding process or a direct award of contract. If bidding is chosen, there are no rules on tendering, so that decisions on publicity requirements, criteria of choice, and obligatory timelines are made ad hoc. Also, no process exists for resolving complaints involving the procurement process. This lack of formal procedures raises the risks of collusion and corruption, increases the probability that suboptimal projects or contractors will be chosen, and in general negatively affects the final price and quality of the project.

The authorities are aware of these risks, and the NESDP highlights the need for building a procurement regulatory framework to enhance public investment efficiency. The plan also calls for establishing databases on standard prices and unit costs of construction. Following these recommendations, the Government should expedite preparation and adoption of a system that is in line with the OECD/DAC (Development Assistance Committee of the Organization for Economic Co-operation and Development) recommendations and should create databases with unit costs for crosschecking with contract costs.

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

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

Adapting to changed circumstances in project implementation is difficult because available information is too segmented, hindering adequate project monitoring and control. There is no single and centralized information system, and project documents are scattered among different public institutions and private monitoring agencies. Some information does not exist at all: for instance, there is no updated list of projects (see table X.3 for a summary of available information). When adequate reports exist, such as those prepared by engineers from Geproyectos after field trips, they are not framed to meet decision makers’ needs.
The current “reporting” system cannot be relied on to be timely, thorough, and accurate. A new system is needed to adequately inform managers on the physical and financial progress of their projects. This system will need to provide information about the pace of project implementation, constraints encountered, significant remedial or supportive actions required, and document changes in forward plans, including budgetary requirements and reallocations. Finally, it will need to be flexible enough to adapt information requirements to the different decision levels, that is, it will require a hierarchy of data collection and reporting formats to meet the information needs of different levels of management.
### Table X.3 Available Information for Infrastructure Projects

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

*Note: This table does not apply to non-infrastructure investment expenditure.*

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

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

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

A project database with relevant information and updated indicators should be created. Project technical cards should be designed to provide this information, containing at least the project’s (1) name and budget code, (2) objective and description, (3) outcome indicators, (4) initial and revised cost estimates, (5) initial and revised timeline, (6) responsible sector ministry, and (7) person in charge of monitoring. The centralization of infrastructure management in Geproyectos makes it easier to gather this information. With these project technical cards, Geproyectos could create a database geared to different phases of the project cycle, in particular at the implementation stage. One key need will be to identify projects using the same single budget number attributed in the PIP.
Facility Operation

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

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

Evaluation

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

Conclusions for the chapter

Limited institutional capacity and concerns over the sustainability of the on-going large current investment program has led the authorities to work with international partners to improve the efficiency of the investment system. Since Equatorial Guinea started hydrocarbon production in the 1990s, there has been a significant effort to improve the dilapidated infrastructure and lack of capital in the country. This process accelerated in the recent years when the Government embarked in a large investment effort to implement the National Economic and Social Development Plan adopted in 2007 that aims to improve infrastructure to diversify the economy out of petroleum production and improve the standard of living of the population. The large program under implementation, coupled with limited institutional capacity and prospects of lower petroleum revenues in the medium term, led the authorities to commission the World Bank to review its public investment management system with the aim to raise their capacity and improve the overall efficiency of the system. This translated into a Public Expenditure review in 2010 and forms the basis for the recommendations included in this chapter.
In general, public expenditure is thwarted by cumbersome administrative procedures that encourage informal short cuts that render the formally adopted National Budget irrelevant. This leads to incomplete and unreliable budget data, insufficient monitoring of budget disbursement, risk of corruption, and the proliferation of ministerial bank accounts whose balances are not adequately monitored. More importantly, it prevents the authorized Budget from being used as a tool for resource allocation and implementation control. The highest priority should be given to ensuring that simpler and quicker procedures are enforced to encourage ministries to use the official channels so that information from the executed budget is systematically reported and can be compared to the voted budget. Transparency and audits are also very weak and need to improve in the medium term to improve budget quality.

The public investment system revolves around Geproyectos, with limited involvement of the sector ministries and use of the PIP as a tool for investment allocation or control. Geproyectos reports directly to the Presidency and is not constrained by the PIP. Project appraisal is seldom carried out, and the public investment cycle has no clear connection with the budget process. No procedure prevents unscreened projects from being implemented, even if they have not been included in the PIP. Moreover, reporting does not allow reconciliation of investment implementation data with data stemming from the PIP formally adopted, which makes the PIP an irrelevant tool for making investment decisions. Furthermore, internal controls for project supervision are weak and rely on limited technical staff, private monitoring agencies, and contractors.

The overall poor governance of infrastructure investment raises the risks of corruption and reduces public investment efficiency at a time when the Government needs improved and streamlined budget procedures to implement the large investment program set in the NESDP. The current institutional setting for investment management is reaching its limit and will need to be reformed to respond to the need of increasing expenditure in social sectors and lowering in infrastructure.

Although the budget system underperforms, a few measures could be taken to make the budget a relevant tool for management and resource allocation. Implementation of the recurrent budget requires streamlined procedures that allow for more delegation from the payment- authorizing officer (currently the President of EQG) to lower administrative levels. This selective delegation would ensure larger responsibility of the MOFB in budget implementation and would help to reinforce the budget system—with improved disbursement reporting better aligned with enacted budget appropriations and strengthened internal controls.

On the investment side, PIP’s project quality needs to be raised by carrying out project appraisals and allocating resources on the basis of NESDP’s strategic guidance. This should be complemented by greater transparency in the decision-making process, eliminating the possibility of implementing unscreened projects not included in the PIP, and by a better reporting system that allows comparing projects implemented with the PIP formally adopted.
These efforts will require a clearer definition of responsibilities among all institutions participating in the investment cycle, including more involvement of sector ministries during the preparation and implementation phase. Finally, internal controls should be strengthened to better supervise private monitoring agencies and focus on the most relevant or risky projects.

### Recommendations

<table>
<thead>
<tr>
<th>Issues to Address</th>
<th>Action to Take</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget and PIP preparation does not reflect national priorities.</td>
<td>Define sector envelopes during the budget preparation phase.</td>
</tr>
<tr>
<td>Budget and PIP preparation does not take into account maintenance and operational costs.</td>
<td>Improve multiannual planning by taking into account the operational and maintenance costs of infrastructure projects.</td>
</tr>
<tr>
<td>Inadequate budget classification and recording reduces Government’s accountability and transparency.</td>
<td>Use the same economic and administrative classification for current and investment expenditure in the initial budgets and in reports on budget execution.</td>
</tr>
<tr>
<td>Procedures for budget execution are frequently bypassed, reducing budget control and quality of information.</td>
<td>Streamline and formalize budget procedures to ensure allocations are used for their intended purpose, expenses are properly recorded, and budget execution is monitored.</td>
</tr>
<tr>
<td>Many institutions intervene in the decision-making process with roles that vary according to the sector of the project, and no independent review of projects is carried out.</td>
<td>Increase transparency in the decision-making process, clarifying the role of the different actors in infrastructure project management and appoint one institution to carry out independent reviews of project appraisals.</td>
</tr>
<tr>
<td>Technical capacity of staff in all ministries, notably sector ministries, is very limited and hinders investment efforts.</td>
<td>Define a human resources policy for hiring, retaining, and training enough qualified staff to effectively assess and implement investment projects. Accelerate the MoPD institutional capacity building program in sector ministries.</td>
</tr>
</tbody>
</table>
| Projects are seldom appraised, raising the risk of inadequate project selection. | • Approve a formal and well-publicized guidance for project appraisal, tailored to the technical capacity of ministries and to the nature and size of projects.  
• Outsource project appraisals to raise investment efficiency and enhance institutional capacity |
| The PIP has no connection with the budget process.                                | Reduce the current practice of launching often unscreened projects that are not in the PIP, and ensure appropriate procedures are followed for projects included during the year. |
| Available information on project execution is too segmented and hinders adequate | Design a new reporting system based on project technical cards with all relevant information (including |
### Medium-Term Recommendations

<table>
<thead>
<tr>
<th>Issues to Address</th>
<th>Action to Take</th>
</tr>
</thead>
<tbody>
<tr>
<td>The current accounting system does not allow for registration of assets and liabilities and does not account for actual infrastructure investment.</td>
<td>Create a new budget line in the economic classification to differentiate between infrastructure investment and other investments and provide some basic information on assets accumulation.</td>
</tr>
<tr>
<td>Internal control is very weak and raises the risk of corruption.</td>
<td>Professionalize the internal audit function to obtain an accurate analysis of the reliability and integrity of financial information and reduce the possibility of corruption.</td>
</tr>
<tr>
<td>External oversight does not exist.</td>
<td>Create a national audit office with jurisdictional power and adequate means, and ensure broad dissemination of its audit reports.</td>
</tr>
<tr>
<td>There is no procurement regulatory framework, which raises the risks of corruption and selection of non-optimal bids and contractors.</td>
<td>Elaborate a procurement regulatory framework and a unit cost database for comparison with contractor proposals.</td>
</tr>
<tr>
<td>No project evaluation is conducted, neglecting key lesson learning that would</td>
<td>Develop ex post evaluation, in particular for “standardized” projects to learn from past experiences.</td>
</tr>
</tbody>
</table>
raise the efficiency of future investment projects.

**Notes**


2. National sources project 1.6 million inhabitants in 2011 while United Nations (UN) sources report around 720,000 (UN 2011).


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

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

6. Includes wages and salaries, purchases of goods and services, interest, transfers and subsidies, investment expenditure, debt amortization, and special funds.

7. For comparison, current expenditure distinguishes 26 administrative units.


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

10. Under the current system for example, inconsistencies can arise if the demands for current and investment expenditure evolve differently during budgetary negotiations with the MOFB and the MOPD.

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

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

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

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

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

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


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

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

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

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


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

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

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

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

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

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

30. For example, engineers from Geproyectos inspect projects on site that last two to three weeks, every three months.

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

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

References


Country Case Study: Equatorial Guinea

Equatorial Guinea Public Investment Management Review