Department of Economic and Social Affairs
Secretariat of the Committee for Development Policy

Ex-ante impact assessment of likely consequences of graduation of Republic of Equatorial Guinea from the least developed country category

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Republic of Equatorial Guinea
Ex-Ante impact assessment

Summary

The Committee for Development Policy considered Equatorial Guinea eligible for graduation for the first time in 2006, which triggered the preparation of this ex-ante impact assessment report. The country has experienced remarkable growth fueled by the development of the hydrocarbon sector and reached a relatively high level of per capita income. Official development finance inflows are negligible as a share of GDP while it is unlikely that necessary technical assistance support will be withdrawn due to graduation. Exports-- dominated by fuels-- already enter major markets at zero tariffs under the Most Favoured Nation treatment. With the exception of a few support measures, such as United Nations-related travel benefits, the country seems to benefit little from its LDC status. Graduation from the category will likely have minimal impact.

I. Background

At its 2006 triennial review of the list of Least Developed Countries (LDCs), the Committee for Development Policy (CDP) considered Equatorial Guinea eligible for graduation from the LDC category for the first time. Eligibility was established on the basis of a recommendation CDP previously adopted at its seventh session in 2005 which stipulates that a country would be considered eligible for graduation if its GNI per capita was more than twice the amount of the graduation threshold, even if the country did not meet any of the other criteria for graduation as measured by its Human Asset Index (HAI) and Economic Vulnerability Index (EVI) scores. At the 2006 review, Equatorial Guinea's GNI per capita amounted to $3,393, which was almost four times the graduation threshold ($900). Implicit in this recommendation was the Committee’s preliminary assessment that Equatorial Guinea's high income level was sustainable.

The Committee also noted in its 2006 report[1] that the quality of human assets had improved since the previous review in 2003. The HAI index score had risen from 47 in 2003 (against a graduation threshold of 61) to 56 in 2006 (against a graduation threshold of 64). This was a reassuring indication that Equatorial Guinea’s high income levels were beginning to ameliorate some of the country’s structural handicaps in areas of social development measured by the HAI. Equatorial Guinea’s economic vulnerability, nevertheless, remained high as evidenced by an EVI score of 71 in the 2006 review, which was significantly above the inclusion threshold of 42 in the same review.

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[1] Committee for Development Policy, Report on the eighth session (20-24 March 2006) Economic and Social Council Official Records, 2006 Supplement No. 13 (E/2006/33).

If eligibility for graduation is confirmed at the 2009 triennial review, CDP may recommend the country for graduation in its report to the Council. If the Council endorses the recommendation, graduation will take place three years after the General Assembly takes note of the recommendation.

CDP requested the Department of Economic and Social Affairs (DESA), in cooperation with UNCTAD, to prepare an ex-ante impact assessment of the likely consequences of graduation for Equatorial Guinea.[2] The impact assessment is undertaken in conjunction with, and as a supplement to, UNCTAD's vulnerability profile.

Whereas the vulnerability profiles by UNCTAD focus on factors of a country's vulnerability that are not necessarily captured by EVI, the impact assessments examine the likely consequences of graduation for countries' economic growth and development and potential risk factors, or gains that countries may face after graduating. As such, the impact assessments should provide a better understanding of the relation between the special support measures received (preferential markets access, special treatment regarding World Trade Organization (WTO) obligations, ODA and other forms of assistance) and a country's economic growth and development.

One important element of the impact assessments is to consult with the country's main official development partners (multilateral organizations, multilateral and bilateral donors) on the amount and/or type of preferences, benefits and assistance accorded due to the LDC status.

Equatorial Guinea's development partners were approached by DESA on 16 May 2008. Donors were asked for their views with respect to the likely treatment they would extend to Equatorial Guinea, in particular, concerning the continuation of development aid, technical cooperation and trade preferences if the country's graduation were confirmed at the next review in 2009 and implemented in 2012.

This impact assessment of Equatorial Guinea was finalized in November 2008 to give representatives of Equatorial Guinea the opportunity to make a voluntary oral presentation at the CDP expert group meeting on 28 January 2009 prior to the triennial review in March 2009.

II. Methodology

Despite a wide array of existing impact assessment methodologies to draw on, there is no internationally recognized methodology for identifying and assessing actual or potential consequences incurred by graduating countries as a result of a reduction in receiving special international support measures related to their status as an LDC.

[2] Committee for Development Policy. Report on the ninth session, 19-23 March 2007 (E/2007/33, Supplement No. 33), and ECOSOC resolution (E/2007/34) on the Report of the Committee for Development Policy on its ninth session.

The present impact assessment undertaken by DESA is an ex-ante assessment. In the case of LDCs identified for graduation, the interest in undertaken impact assessments lies in identifying the potential consequences of the withdrawal of the special support measures.

Different methodologies have been developed according to the purpose of the assessment, not all necessarily model-based involving strictly quantitative methods. In the case of LDCs, however, available models incorporate certain assumptions that may diverge from real-world conditions. In any case, models can only give a generalized insight into the possible outcomes of graduation under different scenarios and assumptions. More importantly, there are also data limitations with respect to the representation of individual LDCs in the databases used by existing econometric models.

A feasible option to assess the complex types of economic, social and developmental implications of a possible reduction in international support measures is to consider the importance of these measures qualitatively, that is to say not on the basis of econometric models. In doing so, the report will first identify the support measures being made available and used by Equatorial Guinea. Once these measures are identified, properly quantified (where practical) and considered to be significant for the country, the report will address the potential reduction and/or phasing out of such measures. When feasible and supported by available data, the report will identify the sectors where these measures have been applied and evaluate the possible implications of their withdrawal.

This type of analysis is not without complications. First, involves the identification of support measures that are made available to the country concerned *exclusively on the basis of its LDC status alone*. Some of those measures can be easily identified: preferential market access granted to LDCs in such programmes as the European Union’s “Everything but Arms” initiative is one of them. In this regard, information is collected on export flows (markets and commodities) so as to identify which exports receive preferential treatment and how important these exports are for generating foreign exchange revenues (data on employment generation is often unavailable).

Other support measures (such as those provided by the UN in terms of budget contribution and participation at various meetings) are also easily identified. With respect to these two particular measures, information is collected on the rate of utilization and on whether the country’s scale of assessment would change in view of its potential graduation.

However, in some other instances, it is not possible to make a distinction between LDC specific measures and “regular” development assistance. Some ODA flows are a case in point. This report does not assume however that all ODA reaching the country is due to its status as LDC. A similar approach is taken with respect to multilateral donors, as in the case of the European Community, among others.

Second, the exercise requires the specification of the impact one wants to measure. There is a wide variety of special support measures available targeting different instances of a country's development. Some of them may imply multiple positive impacts. For example, the extension of trade preferences would, in principle, help a country to diversify its economy, increase access to foreign exchange, promote exports, employment and growth. Others may also bring benefits that may not be easily measurable or not applicable to the particular case of the country such as the flexibilities considered within the framework of the World Trade Organization.

Lastly, not all of the LDC specific support measures can be measured or summarized in a meaningful way into a single variable, say, the rate of economic growth. These considerations further support the use of the qualitative approach employed here.

Data sources:

Data availability is an important constraint for the undertaking of an impact assessment for Equatorial Guinea. Statistics are not readily available and, when existing, vary considerable among sources. In fact, in its 2007 Article IV consultation with Equatorial Guinea, the International Monetary Fund (IMF) indicates that economic and financial statistics remain weak in the country, which "hampers monitoring of developments and policy formulation."[3]

The following main data sources were used:

The United Nations Commodity Trade Statistics Database (Comtrade, available at: http://comtrade.un.org/db/default.aspx) was the main source of data for exports (commodities and markets). Information on tariff structure of main trading partners was obtained from the World Integrated Trade Solutions (WITS) data base a collaborative programme among UNCTAD, the World Bank and WTO (http://wits.worldbank.org/witsnet/StartUp/Wits_Information.aspx).

ODA flows were complied from OECD Statistics (available at http://stats.oecd.org/wbos/Deafault.aspx?usercontext=sourceoecd). Information on oil prices, hydrocarbon production and reserves was obtained from the United States Energy Information Administration (http://www.eia.doe.gov/international). The World Bank's World Development Indicators database on line and the UN DESA National account statistics database on line were also used.

III. Possible impact of Equatorial Guinea's graduation from LDC status and the loss of LDC benefits

The least developed countries (LDCs) derive special support measures both from the donor community, including bilateral donors and multilateral organizations, as well as

[3] IMF, Republic of Equatorial Guinea, Staff report for Article IV Consultation, May 22, 2007, Appendix III, p.8.

from the special treatment accorded to them by certain multilateral and regional trade agreements. Currently, the major support measures extended owing to LDC status vary among development partners and are mostly related to trade preferences and the volume of official development assistance (ODA). These measures fall into three main areas: international trade; official development assistance, including development financing and technical cooperation; and, other forms of assistance.

III. 1. World Trade Organization related benefits

LDCs are entitled to a series of benefits and special measures related to international trade when they accede to the WTO. These include (i) provisions requiring WTO Members to safeguard the interest of LDCs; (ii) provisions allowing flexibility to LDCs in rules and disciplines governing trade measures; (iii) provisions allowing longer transitional periods to LDCs; and, (iv) provisions for technical assistance.[4]

Equatorial Guinea is not a member of the WTO. The country has observer status in the WTO and formally applied for membership in February 2007. A WTO Working Party was established in February 2008 to evaluate Equatorial Guinea's application for membership. As an LDC Equatorial Guinea is entitled, in theory, to some special treatment during the negotiations for accession as members are to exercise restraint in seeking excessive concessions by acceding LDCs. It is not clear, however, how these special considerations are translated in practice.

Most importantly, WTO members grant reciprocal Most Favoured Nations (MFN) treatment to each others' exports, which attempts to ensure non discriminatory and equal treatment among all signatories with respect to market access conditions. Higher non MFN tariffs could be imposed on non WTO members, but in most cases non MFN duties are not enforced on non-WTO members.

III.2. LDC status and preferential market access

An enabling clause was introduced in 1979 to the GATT disciplines which allows developed countries to extend more favourable, non-reciprocal treatment towards the exports of developing countries in general (thereby giving the legal basis to the Generalized System of Preferences – GSP) and deeper margins of preferences for LDCs (which may or may not be WTO members).

Equatorial Guinea has access to preferential treatment extended to LDCs by developed countries such as the Everything but Arms (EBA) initiative of the European Union, and the special programmes that other developed countries have for LDCs, within

[4] For detailed information on special support measures derived from WTO membership consult Committee for Development Policy, *Handbook On The Least Developed Country Category: Inclusion, Graduation And Special Support Measures* (United Nations publication, Sales No. E.07.II.A.9)

their GSP schemes, as is the case of Australia, Canada, Japan, and the United States, among others. It has not yet however qualified to have preferential treatment under the United States African Growth and Opportunity Act (AGOA).

III.2.1. Main products and markets

Merchandise export values for the most recently available years (period 2004-2006) were derived from the United Nations Commodity Trade Statistics Database (UN Comtrade) according to information reported by Equatorial Guinea's trading partners and using the Harmonized System (HS-2002) classification of commodities. Data was retrieved for all commodities (at the HS 2- and 6-digit level) and all partners for export values above $50 thousand in order to identify main trading partners and major export commodities. Lower values were not considered in this exercise.

According to Comtrade data, merchandise exports by Equatorial Guinea averaged $8.2 billion during the period 2004-2006. Exports are very concentrated. Fuels generated 93 per cent of the country's exports during the period, while methanol and wood had a much smaller share (see table 1).

Table 1: Equatorial Guinea: value of exports, by main commodities exported, 2004-2006 (US dollar thousands)

HS-2002	Exports	2004	2005	2006	Average 2004-2006	
					Value	%
	Total	5,337,030	8,644,712	10,614,489	8,199,410	100.0
	of which,					
H2-27	Mineral fuels, mineral oils and products of their distillation	4,853,319	8,053,043	10,004,751	7,637,038	93.1
H2-29	Organic chemicals	196,811	315,198	346,836	286,282	3.5
H2-44	Wood and articles of wood	147,182	153,481	183,511	161,391	2.0

Source: Comtrade Database; as reported by trading partners

China, the European Union and the United States are the country's major export markets, each absorbing roughly 20 per cent of the country's exports during the period (see table 2). Table 3 presents a sample of tariff schedule applied by Equatorial Guinea's largest trading partners on the main commodities exported by the country.

While analysis is complicated by disparities in the level of desegregation importing countries report their tariffs (at 8 or 10 digit level) and the trade values available at the Comtrade database (at the 6 digit level), graduation from the LDC category is not anticipated to affect the country's exports.

Exports of crude oil to the United States currently benefit from a zero tariff treatment extended to LDCs and may incur an *ad valoren* tariff (raging from $0.05 to $0.10 per barrel) under the MFN treatment. Even if Equatorial Guinea were to face competition by other fuel-exporting LDCs still benefiting from the tariff exemption (e.g., Angola and the Sudan), the country could re-direct these exports to other markets where no tariffs are imposed under the MFN treatment (e.g., China and the European Union). Alternatively, the country may also consider qualifying as a beneficiary of the AGOA framework which allows this commodity to enter the United Sates market duty free.

Meanwhile, exports of methanol to the United States would not be affected by the change of Equatorial Guinea's status independently of the particular specification of the methanol exported to the United States. According to table 3, one type fall under zero tariff in the MFN scheme while the other enters the country duty free under the GSP treatment.

Graduation should not impact on the country's exports to China as the main commodities exported to the Chinese market enter the country at zero tariffs under the MFN treatment. Similarly, the same conclusion applies to Equatorial Guinea's oil exports to the European Union, while a low tariff of 2 per cent could be applied (after 3 years from effective graduation date, according to EU directives[5]) on the country's exports of methanol. Exports of methanol to the European Union accounted for slightly less than one per cent of Equatorial Guinea's total merchandise exports in 2006.

[5] COUNCIL REGULATION (EC) No 980/2005 of 27 June 2005: applying a scheme of generalised tariff preferences, article 12 (7). Available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:169:0001:0043:EN:PDF (accessed on 25 September 2008.

Table 2.
Equatorial Guinea, value of merchandise exports and main export markets, 2004-2006
(US dollar thousands)

	2004	2005	2006	Average 2004-2006	
				value	%
World	5,337,030	8,644,712	10,616,489	8,199,410	100.0
of which					
USA	1,258,840	1,675,272	1,825,405	1,586,506	22.2
China	996,650	1,437,834	2,537,592	1,657,358	17.3
Taiwan, POC	640,217	488,953	870,283	666,484	8.1
Canada	262,303	451,842	207,295	307,147	3.7
Japan	47,264	224,581	321,151	197,665	2.4
EU	981,151	1,912,918	2,194,936	1,696,335	20.7
of which					
Spain	684,706	739,155	1,043,828	822,563	10.0
Italy	165,643	239,703	194,167	199,837	2.4
Netherlands	42,876	288,854	147,352	159,694	1.9
France	62,237	217,389	187,369	155,665	1.9
Portugal	3,576	373,312	500,512	292,466	3.6

Source: Comtrade data base, values reported by trading partners

III.3 Support measures related to capacity building in trade

As a LDC, Equatorial Guinea qualifies to assistance from the Enhanced Integrated Framework. A total of $77 million is available at the Enhanced Integrated Framework Trust fund for Tier 1 financing, with a funding ceiling of $2 million per country. Tier 1 is a financing arrangement to support, among other things, national implementation arrangements (NIA) and to prepare diagnostic trade integration studies (DTIS).

Table 3: Import tariffs on main commodities exported by Equatorial Guinea by major trading partners, 2007

HS2002\importing partner	**United States**	
27090010 Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	*AdValorem*	*NonAdValorem*
African Growth and Opportunity Act Preferential Rate	0	…
LDC rate	0	…
Most favoured nation tariff	…	5.25 cents/bbl
Non-MFN tariff	…	21.00 cents/bbl
27090020 Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	*AdValorem*	*NonAdValorem*
African Growth and Opportunity Act Preferential Rate	0	…
LDC rate	0	…
Most favoured nation tariff	…	10.50 cents/bbl
Non-MFN tariff	…	21.00 cents/bbl
29051110 Methanol (Methyl alcohol) imported only for use in producing synthetic natural gas (SNG) or for direct use as a fuel	*AdValorem*	*NonAdValorem*
Most favoured nation tariff	0	…
Non-MFN tariff	…	4.80 cents/liter
29051120 Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	*AdValorem*	*NonAdValorem*
GSP : Generalized System of Preference	0	…
Most favoured nation tariff	5.5	…
Non-MFN tariff	46	…

Table 3 (cont.)

HS2002\importing partner	**China**	
27090000 Petroleum oils and oils obtained from bituminous minerals, crude	*AdValorem*	*NonAdValorem*
MFN rates	0	…
Non-MFN tariff	…	85 Yuan/ton
440349 Tropical wood	*AdValorem*	*NonAdValorem*
MFN rates	0	…
Non-MFN tariff	35	…
HS2002\importing partner	**European Union**	
2709009000 Petroleum oils and oils obtained from bituminous minerals, crude (excl. natural gas condensates)	*AdValorem*	*NonAdValorem*
MFN duties (Applied)	0	…
2905110000 Methanol "methyl alcohol	*AdValorem*	*NonAdValorem*
MFN duties (Applied)	5.5	…
Preferential tariff for ACP countries	0	…
Preferential tariff for countries benefiting from the special incentive arrangement for sustainable development and good governance (GSP plus)	0	…
Preferential tariff for GSP countries	2	…
Preferential tariff for Least Developed Countries	0	…

Source: WITS database

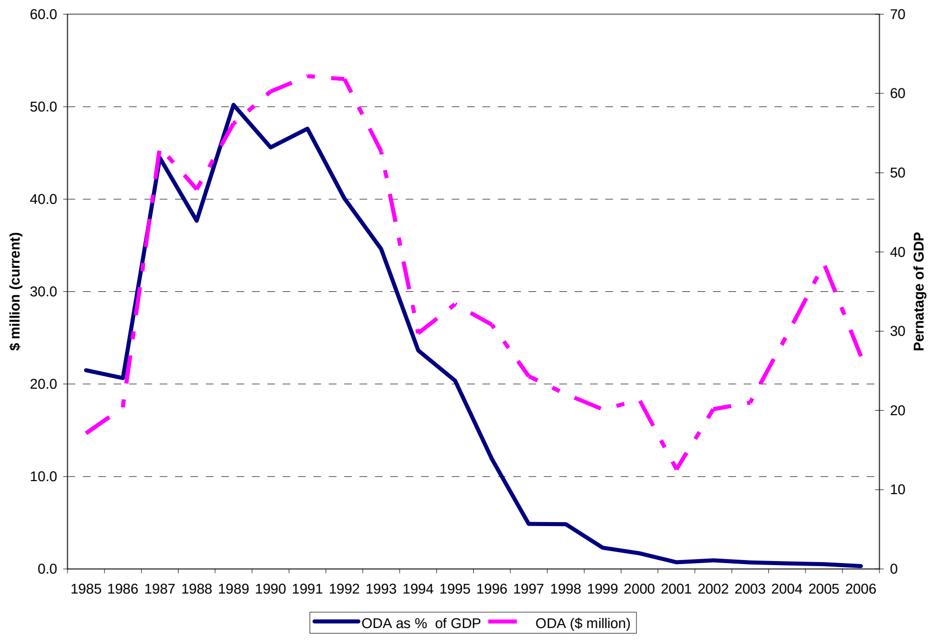
Equatorial Guinea is in the early stages of participation in the Integrated Framework (IF) process. Information available in November 2008 indicated that Equatorial Guinea's request to join the IF programme was undergoing the initial technical review. This is an essential first step that will be followed by a Diagnostic Trade Integration Study (DTIS). Once the diagnostic phase is completed an action plan is elaborated which will serve the basis for the delivery of trade related technical assistance.

Should Equatorial Guinea be confirmed for graduation at the 2009 review, graduation could take place sometime in 2012. Once Tier 1 and 2 funds become available, all IF countries irrelevant of their status within the programme (technical review approved/DTIS completed) become eligible for Tier 1 funds. All countries that had their DTIS endorsed by their Government become eligible for Tier 2 funding. On the other hand, eligibility of LDCs applying to Tier 1 resources during the transitional phase (graduation takes place three years after the General Assembly take note of the decision of the Council to endorse the recommendation for graduation by CDP) will be decided by the EIF Board on a case by case basis[6].

III. 4. Official Development Assistance

Official development assistance annual flows to Equatorial Guinea averaged some $35.5 million during the period 2002-2006, which corresponds to about 0.5 per cent of the country's GDP during the period. Over the years and with the development of its oil sector Equatorial Guinea has drastically reduced its dependence on official assistance. After reaching a peak of 50 per cent of GDP in 1989, ODA as a share of GDP declined to 0.3 per cent in 2006 (see figure 1)

Figure 1. Equatorial Guinea, official development assistance flows, 1985-2006 (current US$ million and percentage of GDP)



Source: World Development Indicators 2008 Database

[6] Communication received from Sari Laaksonen, Deputy Coordinator, Programme Implementation Unit for the Integrated Framework on September 3, 2008 and Draft guidelines for the implementation of the Enhanced Integrated Framework for Least Developed Countries (LDCs), 1 May , 2007 (see http://www.integratedframework.org/files/Compendium_182_08_ENG.pdf)

All official development assistance by bilateral donors which are members of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) was delivered in the form of grants. Assistance delivered by multilateral donors was also, in its majority, delivered in the form of grants.

The country's largest bilateral donors are France and Spain. Both countries accounted for more than 90 per cent of total net ODA during the period (see table 4). Development assistance from Spain is likely tied to the historical political relationship between both countries rather than Equatorial Guinea's LDC status. Similarly, France's relations with Equatorial Guinea are heavily grounded on the contexts of the CFA Franc zone and Francophony (accession in 1989) and not necessarily on the status of the country as LDC.

The European Community, and more recently the Global Fund to Fight Aid Malaria and Tuberculosis (GFATM) are the largest multilateral donors. In general, ODA from the EC granted on terms and conditions determined by provisions of the 2000 ACP/EU Partnership Agreement (the Cotonou Agreement). Criteria such as income per capita, "objective needs" and other factors that determine the absorptive capacity of the target country were more important in determining the EU's development assistance and ODA than the country's LDC status. The European Commission also indicated that the level of development assistance to a former LDC would not be abruptly discontinued upon graduation from the LDC category.[7] Meanwhile, LDC status is not an eligibility criterion for the GFATM and it is unlikely that graduation would interfere with its activities in the country.

Equatorial Guinea has not yet made use of the possibility of tapping the resources available within the Least Developed Country Fund (LDCF) of the Global Environment Facility (GEF). The LDCF was designed to support projects addressing the urgent and immediate adaptation needs of the LDCs as identified by their National Adaptation Programme of Action (NAPA). Apparently, the country has not yet agreed to project proposals to finance the preparation of its NAPA.[8] Projects already in the pipeline are not be affected by the eventual graduation of the country and expected to be financed to completion. By graduating, however, a LDC without approved projects will no longer has access to the LDC fund.

In sum, graduation from the LDC category will unlikely affect ODA flows reaching the country. In any case, Equatorial Guinea's dependence on ODA flows is insignificant. In fact, fast economic growth and higher levels of income have provided the country with resources to finance much needed technical cooperation in some critical areas. In 2006, the Government of Equatorial Guinea provided $15 million for the creation of a Social Development Fund and to hire the United States Agency for International

[7] see 1 July 2008 note from the European Commission to the CDP Secretariat on LDC graduation issues.
[8] UNFCCC, Report of the Global Environment Facility to the Conference of the Parties (note by the Secretariat, FCCC/CP/2007/3, 27 November 2007, Annex 5, table 1, p.69

Development (USAID) to provide technical assistance to design and implement projects "in the areas of health, education, women's affairs and the environment".[9]

III. 5. Other support measures

All Member States of the United Nations are supposed to finance the expenses of the Organization as apportioned by the General Assembly. The minimum assessment rate is 0.001 per cent. LDC contributions to the regular budget of the United Nations are capped at 0.01 per cent of the total UN budget (e.g. amounting to contributions no larger than $206,063 per country to the 2008 budget[10]), regardless of their national income and other factors determining a Member State's assessment rate. Equatorial Guinea's gross contribution to the 2008 budget is assessed at 0.002 per cent—well below the cap imposed on LDC contributions-- and corresponds to $41,213.[11] Graduation therefore will not affect the country's scale of assessment to the UN general budget for some time.

Every LDC is also entitled to a 90 per cent discount in their contributions to peacekeeping operations (i.e. they pay only 10 per cent of their regular budget rate, level J threshold).[12] Approved resources for peace keeping operations for the period 1 July 2007 to 30 June 2008 amounted to $6.75 billion to which Equatorial Guinea is expected to contribute with $13,500 (0.0002 per cent). If Equatorial Guinea were not a LDC, its contribution to the peacekeeping budget would have been $27,000 (level I). The General Assembly in its resolution 61/243 of 7 March 2007 decided to review the structure of the levels of contribution for peacekeeping operations at its sixty-forth session. Therefore, and due to the fact that the country's GNI per capita has increased significantly over the past few years, it is not possible to estimate the financial implications of graduation from LDC category for Equatorial Guinea in terms of its contribution to the peacekeeping budget.

The United Nations provide travel assistance for up to five representatives of LDC attending the General Assembly. The total travel cost to the UN for the participation of qualifying LDC members to General Assembly sessions for the years 2005 and 2006 was respectively $1,124,407 and $980,417. This corresponds to an average of about $20,000 per year per country. Equatorial Guinea made use of this special measure regularly over the past 5 GA sessions (58th to 62nd session).

Besides this assistance to travel to the annual session of the General Assembly, the United Nations and its organizations also provide travel benefits for LDC to support

[9] see USAID press release of 11 April 2006, accessed at http://www.usaid.gov/press/releases/2006/pr060411_2.html in October 2008

[10] See General Assembly, Programme budget for the biennium 2006-2007. A/RES/60/247 A-C. Expenditures for the biennium 2006-2007 were expected to be 3,799 million dollars.

[11] United Nations Secretariat, Assessment of member States's advances to the working capital fund for the biennium 2008-2009 and contributions to the regular budget for 2008. (ST/ADM/SER.B/719, 24 December 2007).

[12] See General Assembly resolution A/RES/55/235 on the scale of assessments for the apportionment of the expenses of the United Nations peacekeeping operations.

their attendance at special sessions of the General Assembly and other consultative processes relevant for LDCs[13]. Equatorial Guinea would lose access to such support upon graduation.

[13] Committee for Development Policy, *Handbook On The Least Developed Country Category: Inclusion, Graduation And Special Support Measures* (United Nations publication, Sales No.E.07.II.A.9).

Table 4. Composition and distribution of financial flows (gross disbursements) to Equatorial Guinea										
	2002	**2003**	**2004**	**2005**	**2006**	**2002**	**2003**	**2004**	**2005**	**2006**
	millions US$					*percentage in total*				
A. Bilateral DAC donors										
1. Grants										
Austria	0.00	0.01	0.01	0.01	0.00	0	0	0	0	0
Canada	0.10	0.28	0.21	1.25	0.23	1	1	1	4	1
France	6.05	6.17	6.75	6.22	5.33	40	32	16	20	26
Germany	0.06	0.00	0.00	0.00	0.00	0	0	0	0	0
Greece	0.01	0.01	0.01	0.01	0.01	0	0	0	0	0
Italy	0.00	0.77	0.00	0.00	0.00	0	4	0	0	0
Japan	0.19	0.03	0.01	0.09	0.01	1	0	0	0	0
Netherlands	0.02	0.00	0.00	0.00	0.00	0	0	0	0	0
Portugal	0.00	0.00	0.05	0.05	0.05	0	0	0	0	0
Spain	8.64	11.88	34.54	23.90	15.03	57	61	83	75	72
Sweden	0.00	0.01	0.00	0.00	0.00	0	0	0	0	0
Switzerland	0.03	0.04	0.05	0.05	0.03	0	0	0	0	0
United States	0.08	0.23	0.03	0.19	0.06	1	1	0	1	0
Total bilateral DAC grants	15.18	19.43	41.66	31.77	20.75	100	100	100	100	100
2. Total DAC non-grants	0	0	0	0	0	0	0	0	0	0
Total (A.1 + A.2)	15.18	19.43	41.66	31.77	20.75	100	100	100	100	100

Table 4 (contd.)

	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
	Millions of US$					*percentage in total*				
B. Multilateral donors										
1. Multi-lateral Grants										
AfDF (African Dev.Fund)	0.16	0.00	0.46	0.30	0.06	2	0	5	3	0
EC	4.37	1.56	3.75	2.53	4.06	48	28	45	22	29
Global Fund (GFATM)	0.00	0.00	0.00	2.13	4.42	0	0	0	19	32
UNDP	0.26	0.50	0.49	0.80	0.59	3	9	6	7	4
UNFPA	0.50	0.49	1.27	1.58	1.92	5	9	15	14	14
UNICEF	0.64	0.67	0.62	0.82	0.74	7	12	7	7	5
UNTA	1.12	1.24	1.69	2.05	1.34	12	22	20	18	10
Total multi-lateral grants	7.05	4.46	8.28	10.21	13.13	77	79	99	89	94
2. Multilateral non-grants										
AfDF (African Dev.Fund)	2.09	1.17	0.12	1.21	0.87	23	21	1	11	6
Total multilateral non-grants	2.09	1.17	0.12	1.21	0.87	23	21	1	11	6
Total (B.1 + B.2)	9.14	5.63	8.40	11.42	14.00	100	100	100	100	100
All ODA	**24.32**	**25.06**	**50.06**	**43.19**	**34.75**					
Source: OECD.Stat at http://stats.oecd.org/wbos/Default.aspx?usercontext=sourceoecd										

IV. Equatorial Guinea’s rapid growth oil production and income

Equatorial Guinea has been found eligible for graduation due to its relatively high level of GNI per capita which, at the time of the 2006 Review was almost 4 times higher than the GNI graduation threshold adopted at that review. The country’s per capita GNI continued to grow since then and reached $8, 957 on average during the period 2005-2007.

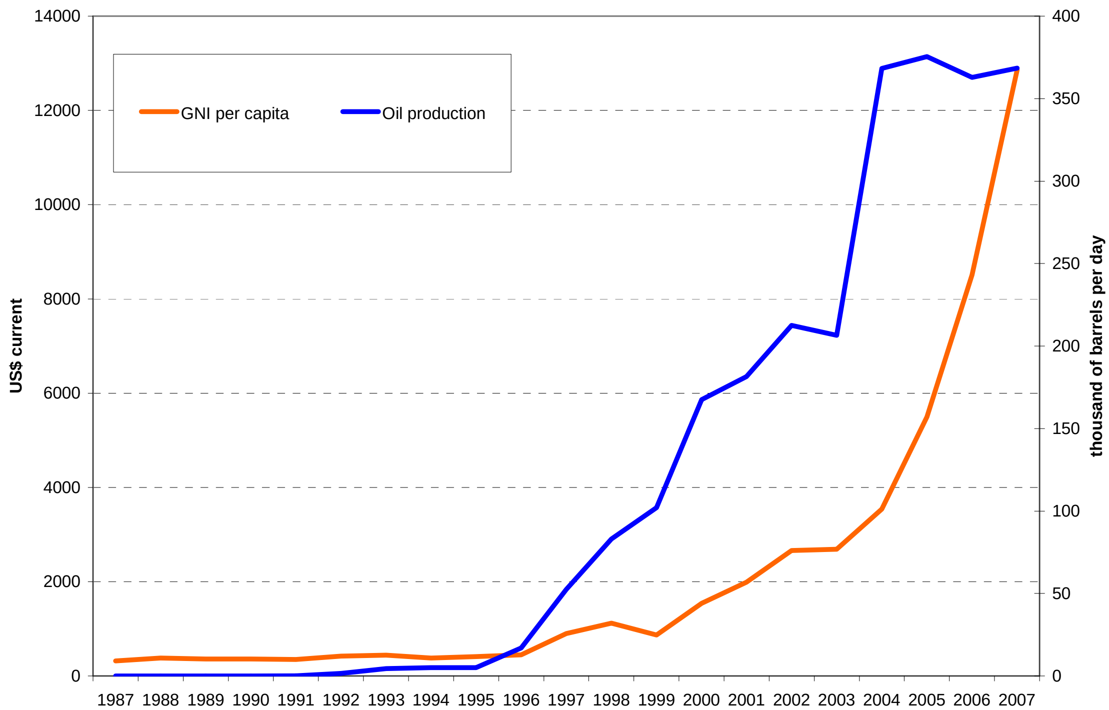
While it is not the objective of this ex ante impact assessment to analyze issues related to the country’s income sustainability, it is worth recalling that the hydrocarbon sector fuelled Equatorial Guinea’s rapid economic growth since the mid-1990s. Annual average real rate of growth of the gross domestic product (GDP) jumped from 2 per cent during the period 1980-1990 to 25 per cent in the period 1995-2007. Crude oil exports grew rapidly from 5,000 barrels per day in 1995 to an estimated 368,000 bpd in 2007 and supported fast growth of GNI per capita (see figure 2).

Increased oil production has taken place in period of strengthening of nominal oil prices providing the country with significant windfall gains from the exploitation of its hydrocarbon resources and allowing for the accumulation of a significant level of international reserves. According to the IMF International Financial Statistics, international reserves reached $3.8 billion at the end of 2007 (from $23 million in 2000), which corresponded to 38 per cent of the country’s GDP in that year.

Equatorial Guinea is now the third largest oil producer in sub-Saharan Africa after Nigeria and Angola. Proven oil reserves were estimated at 1.1 billion barrels in 2007, which, it is further estimated, could sustain production levels at 420,000 bpd. The rise in crude oil production was also accompanied by an increase in the production of natural gas from 1 billion cubic feet in 2001 to 46 billion cubic feet in 2006 against proven reserves proven reserves of 1.3 trillion cubic feet at the beginning of 2007.

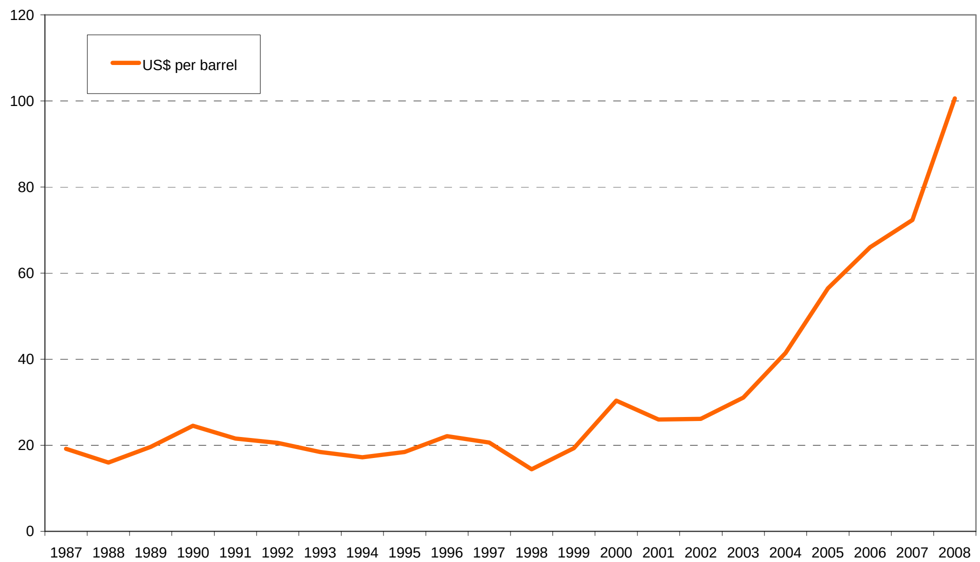
As a result of the developments in the oil sector, the country underwent a dramatic structural transformation: 62 per cent of its GDP was originated in agriculture in 1990. In 2007, the share of agriculture in GDP had shrunk to 4 per cent while mining (hydrocarbons) originated about 91 per cent of the country’s total output of goods and services. Relevant analysis of structural transformation the country underwent in the recent years and implications for the country’s economic vulnerability will be addressed at the vulnerability profile prepared by UNCTAD.

Figure 2: Equatorial Guinea: Trends in oil production and GNI per capita, 1987-2007 (current US$ Atlas method, thousands of barrels per day)



Source: DESA calculations based on data from The World Bank, World Development Indicators 2008 database and United States Energy Information Administration.

Figure 3. Oil prices, 1987 – 2008
(US$ per barrel, current)



Source: United States, Energy Information Agency

Obviously, the extremely fast rates of economic growth observed in the country over the past years cannot be sustained on a long term basis as oil fields reach output capacity, fewer new discoveries take place and/or new fields come on stream. In its article IV consultation, the IMF presented a positive prognostic for the country over the medium term. Continued high public capital spending and private investment are expected to support construction and rising incomes would lead to the expansion of the services sector.[14]

Oil and gas production will likely continue to underline GDP growth in the medium term as the sector represents over 90 per cent of the country's GDP. The possibility of a sharp deceleration of economic growth in the near term due to worsening of global economic prospects should not however be discounted. There is great uncertainly in terms of the oil prices prospects and oil markets have been characterized by considerable volatility over the past few months (partially due to increased speculation and herding behavior by investors[15]). Yet, despite the abrupt price declines in the second half of 2008, the price of Brent crude averaged $101 per barrel in 2008, almost 40 per cent above its average price in 2007.

[14] IMF Republic of Equatorial Guinea: Staff report for the 2007 Article IV consultation, May 22, 2007.
[15] United Nations, World Economic Situation and Prospects 2009 (forthcoming)

It is worth noting that even before oil prices fell from high levels reached in July 2008, available forecasts over the long term were already expecting some gradual decline in nominal prices by about 30 per cent (reference case) over the period 2009-2015. The low price scenario, on the other hand, envisaged a shaper decline in prices, with oil prices decreasing by as much as 50 per cent over the period, albeit also in a gradual fashion.[16]

While the Government of Equatorial Guinea will be likely able to mitigate the short term effects of low oil prices, a prolonged and deep weakness in oil prices may pose a threat to the country's economic prospects. Nevertheless, there are other serious risks to the country's positive outlook, which fall more directly under the responsibility of the Government and require urgent attention. These risks include insufficient progress in improving governance and addressing the country's overall low productivity, particularly if private (both domestic and foreign) investment is to support the diversification of the economy.

V. Conclusion

On the basis of the analysis above, it is possible to say that graduation will bring negligible impact on the development prospects of Equatorial Guinea. The country's current export structure implies little preferential treatment by major importing markets, whereas the country seems to have limited reliance on bilateral official development flows. In any case, several bilateral donors have indicated that the LDC status is not a major consideration in their allocation of funds to Equatorial Guinea and unlikely would cut the support extended to the country. Moreover, it is unlikely that technical cooperation would be interrupted due to the country's change of status. At the same time, Equatorial Guinea will no longer have access to some LDC-specific funds if arrangements/negotiations are not taken before graduation. One case in point is the LDC Fund of the Global Environment Facility, but lack of access could be probably avoided if the country negotiates and implements a national adaptation plan of action before graduation becomes effective. Projects in the pipeline, as indicated above, are expected to be completed even after a country graduates fro the LDC category.

Equatorial Guinea's medium- to long-term development prospects depend to a large degree on future oil revenues. Other factors such as political stability, good governance and successful implementation of economic policies to promote diversification from excessive dependence on the hydrocarbons sector will also be important determinants of the country's development path. The importance of each of these factors requires much more detailed analysis which is beyond the objectives of this report.

[16] See International Energy Outlook available at http://www.eia.doe.gov/oiaf/ieo/index.html