

## **Helpdesk Research Report: Equatorial Guinea and São Tomé and Príncipe**

Date: 02/05/08

**Query:** Provide a brief overview of current literature available on conflict prevention and governance activities in Equatorial Guinea and São Tomé and Príncipe.

**Enquirer:** DFID - Conflict, Humanitarian and Security Affairs Department

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### **1. Overview**

The two small island countries of Equatorial Guinea (EG) and São Tomé and Príncipe (STP) have experienced several governance problems over the years. Made more acute by the discovery of oil and the prospect of oil revenues in both countries, these problems have received greater attention in recent years. Fears of the 'resource curse' and the potential for conflict have resulted in a series of reforms projects.

There is little documentation available on the situation in Equatorial Guinea and on current governance and conflict prevention activities. Most of the literature on EG centres on the poor governance record of the ruling regime - its patronage, corruption, repression and human rights abuses; and the impact of the oil boom since the 1990s. High per capita income levels have not improved the general welfare of the population and have benefited only the elite. Much of the literature critiques the U.S. for its close ties with the ruling regime and advocates that the U.S. (in addition to International Financial Institutions) use economic leverage to induce reforms. Some progress has been made in recent years. The government has requested technical assistance from the World Bank in oil revenue management and public expenditure planning as well as support in developing the National Poverty Reduction Strategy. The IMF is also working with the government on public financial management, the improvement of economic statistics, and transparency. Further, EG was recently accepted as a candidate in the Extractive Industries Transparency Initiative (EITI).

This is far greater documentation of governance and conflict prevention activities in São Tomé and Príncipe. Much of the literature is complimentary of the country's adoption of reforms and effective governance frameworks. While oil production has not yet begun, many instruments and mechanisms for managing the prospect of high oil revenues have already been put in place. Key recent and ongoing activities include:

- The Advisory Project for STP at the Earth Institute (Columbia University) began in 2003 and is designed to help STP escape the 'resource curse'. It took the lead in helping STP develop and adopt its Oil Revenue Management Law, an institutional framework for transparency and accountability in public expenditure over time; and continues to assist in its implementation.

- The World Bank's technical assistance programme, focused on support for the Poverty Reduction Strategy Plan; and management of future oil revenues. The latter includes setting up a national petroleum agency that would provide advice on all oil-related matters.
- International Alert's Conflict Prevention Project, which aimed to strengthen the capacity of local actors and institutions to influence national, regional and international policies to counter the impact of oil on conflict in STP. Project activities include establishing media centres and training journalists in order to increase the profile of oil and governance issues.

In addition, STP was also recently accepted as a candidate in the Extractive Industries Transparency Initiative.

## 2. Key Documents

### Equatorial Guinea

- IMF, 2006, 'Republic of Equatorial Guinea: 2006 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Republic of Equatorial Guinea', Prepared by the Staff Representatives for the 2006 Article IV Consultation with the Republic of Equatorial Guinea and approved by Siddharth Tiwari and Scott Brown:  
<http://www.imf.org/external/pubs/ft/scr/2006/cr06233.pdf>

This report is based on IMF consultation discussions with government officials, private sector representatives and donors in Equatorial Guinea (EG) in January 2006. The report notes that resource management, the failure to channel oil revenues to priority social areas due to weak institutions and capacity constraints, are key issues in. To address these problems, the IMF is to assist with:

- the reform of the public finance management system: improving the budget formulation and execution processes, and enhancing information reporting and oversight controls;
- the development of an analytical and operational fiscal framework for the medium term for managing Equatorial Guinea's vast oil wealth; and
- the improvement of economic statistics.

The World Bank will complement Fund technical assistance in the areas of national accounts, social statistics (poverty assessment), a public expenditure review, and support in developing the National Poverty Reduction Strategy.

- Woodside, C., 2007, 'West Africa: America's Foreign Policy Post 911 and the 'Resource Curse,' A Head On Collision', Journal of Military and Strategic Studies, vol. 9, no. 4:  
<http://www.jmss.org/2007/2007summer/articles/woodside.pdf>

This paper discusses the resource curse in oil producing nations in West Africa, including Equatorial Guinea. It defines the 'resource curse' as 'a phenomenon where resource abundant economies experience slow and even declining rates of economic growth' (p.1). This is often attributed to a lack of economic diversity, civil conflict, corruption, and authoritarian regimes. The report stresses that the US has adopted a military strategy in West Africa, which is unlikely to address resource curse problems. Instead, the US military's structured policies and programmes (e.g. military training and building up the capacity of African military forces to protect oil production and transport) could increase the potential for conflict and insecurity. The paper provides a case study of Equatorial Guinea, which it considers a prime example of the 'resource curse'. It notes that high GDP/capital have not contributed to better social indicators. Its president, Teodoro Obiang Nguema Mbasago, is known for corruption, patronage, repression and human rights abuses. The paper critiques the US policy response which has been, since 2003, the improvement of relations with Equatorial Guinea and support for the ruling regime in order to increase the stability of oil production.

- Amosu, A., 2007, 'Democracy in Sub-Saharan Africa: Trends and Transitions', Open Society Institute, New York:  
[http://www.soros.org/initiatives/washington/news/amosu\\_20070717/amosu\\_20070717.pdf](http://www.soros.org/initiatives/washington/news/amosu_20070717/amosu_20070717.pdf)

This paper points to the progress made in various African countries as well as the continuing challenges. One of the positive achievements noted is the growth of civil society networks, exemplified by the 'Publish What You Pay' coalition. (This campaign seeks to help citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas and mining industries. See 'Additional Information' section.) Equatorial Guinea is profiled in this paper as an oil-rich country with vast problems. Despite having the second highest per capital income in the world, it remains extremely underdeveloped. Only the political elite have benefited. In addition, extensive corruption and human rights abuses have been documented. The paper also critiques US policy toward Equatorial Guinea, which has been to play down the well known, severe governance abuses and to seek cooperation and good relations with President Obiang, in order to secure its access to the country's oil supplies. It argues that this allows for deplorable conditions to continue in Equatorial Guinea and undermines US credibility with African observers.

- Frynas, J. G., 2004, 'The Oil Boom in Equatorial Guinea', African Affairs, vol. 103, no. 413, pp. 527-546: <http://afraf.oxfordjournals.org/cgi/content/abstract/103/413/527>

This article outlines the rise of Equatorial Guinea as one of Africa's leading oil-producing countries and investigates the political, economic and social effects of becoming a petro-state. Equatorial Guinea's oil revenues have made it less reliant on foreign donors. The IMF and the World Bank have had only limited involvement in Equatorial Guinea since the beginning of the oil boom. The author argues that the absence of foreign donor expenditures and inadequate governance have had a negative social impact in the country, and fostered economic underdevelopment and further political mismanagement. The article notes, however, that the ruling regime is still keen to have friendly relations with donors and international organisations in order to confer legitimacy; and because the oil boom seems to have caused some concern recently within the ruling elite about possible social upheavals. In this context, the regime has appealed to donors for foreign technical assistance as a means of improving the functioning of the state, so that future social upheavals can be prevented. These appeals for technical assistance include:

- appeals to British government officials for assistance in improving the workings of government ministries and other arms of the state administration). The President has even expressed an interest in the Extractive Industries Transparency Initiative (EITI), a British government initiative to increase transparency over payments by mining and oil companies to host governments (see 'Additional Information' section);
- a formal request to the World Bank in 2003 for assistance in management of the oil sector, for public investment planning and for the creation of a poverty reduction strategy; and
- consultations with the IMF in 2003 [see IMF article above].

- McSherry, B., 2006, 'The Political Economy of Oil in Equatorial Guinea', African Studies Quarterly, vol. 8., no. 3, pp. 23-45: <http://www.africa.ufl.edu/asq/v8/v8i3a2.pdf>

This paper examines the 'resource curse' in the context of Equatorial Guinea. It discusses the country's history of extreme personal rule, extraordinary pervasiveness of criminality at high levels of government, regional and ethnic cleavages, and its strategic importance to the United States. The paper argues that oil has exacerbated the existing problems in Equatorial Guinea's political economy, which could lead to further underdevelopment, instability and authoritarian rule. The paper also critiques the US turning a blind eye to the regime's human rights abuses and criminal behaviour in exchange for oil access. It stresses that Equatorial Guinea remains at least as dependent on American investors as the US is on the country's oil. As such, a genuine attempt on the part of the US government to promote a more equitable development pattern or improve political and civil rights could produce results. The paper recommends that such an attempt could include the use of economic leverage, for example making oil contracts

conditional on policy changes, and monitoring these changes carefully could force positive reforms.

- Ali, S. H., 2006, 'New Oil in Africa: Can Corporate Power Positively Transform Angola and Equatorial Guinea', in W. Visser et al., eds. 'Corporate Citizenship in Africa', Greenleaf Publications, UK: <http://www.uvm.edu/~shali/OliveraAli.pdf>

This paper argues that while there are genuine concerns about governance and a 'resource curse' in Equatorial Guinea (EG), there have also been positive global changes in recent years that can contribute to positive developments in the country. The key changes identified include:

- The global movement for Corporate Social Responsibility (CSR). The paper hypothesises that a smaller more tightly dependent economy such as EG might be more amenable to positive influences from CSR.
- The strengthened involvement and influence of international financial institutions (IFIs). The need for technical assistance and massive capital influx for oil projects (particularly offshore projects) necessitates the role of IFIs. After withdrawing financial support from EG in the late 1990s due to corrupt governance, the World Bank and IMF have reengaged with EG since 2003. The paper stresses that IFIs can have considerable leverage over even despotic regimes regarding revenue management; and that the World Bank has indicated that it may adopt an influencing approach with any large-scale assistance to EG.
- Increasing effective oversight activities by non-governmental organisations: The relatively small size of EG and the authoritarian nature of the state has precluded the development of a strong civil society sector. Nonetheless, the paper remarks that indirect pressure from international NGOs on various IFIs as well as on foreign governments appears to be having an impact, for example, in getting the EG government involved with the Extractive Industries Transparency Initiative.

The paper also notes that the US, which reopened its embassy in Malabo in 2003, claims to have contributed to positive human rights developments, such as the release of detainees without charge. As reported by the US embassy, the new position of 'second vice prime minister over human rights and public administration' is designed to improve and monitor the human rights situation in EG.

### **São Tomé and Príncipe**

- World Bank, 2005, 'International Development Association Country Assistance Strategy for São Tomé and Príncipe', Report no. 32078, Country Management Unit, Africa Region, World Bank, Washington, DC: [http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/05/10/000090341\\_20050510125835/Rendered/PDF/32078.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/05/10/000090341_20050510125835/Rendered/PDF/32078.pdf)

This report details the Country Assistance Strategy (CAS) for STP from FY06 to FY09. The CAS supports the implementation of the PRSP and sets out the planned lending and non-lending activities of the World Bank and their intended results. The two principal objectives of the Bank's strategy are:

- to support the implementation of the PRSP and strengthen the areas where the PRSP needs to be improved, and
- to provide assistance to STP to ensure that it is sufficiently prepared to maximise the benefits of future oil revenues.

Towards these ends, the Bank's programme focuses on strengthening the macroeconomic and public sector context, as well as institutional development and capacity building. Specific support includes:

- continuing the implementation of ongoing activities, especially with respect to social sector service delivery, capacity-building in public finance management, and institutional support to managing the oil sector; and
- providing budget support with the objective of strengthening implementation of the PRSP and preparing the ground for managing future oil revenues into the budget.

The report notes that the government has made considerable efforts towards good governance and transparency in the oil sector by adopting a best practice petroleum revenue management law and engaging with the Extractive Industries Transparency Initiative. The World Bank and the IMF, along with UNDP, University of Columbia and other donors, provided expert assistance to STP throughout the development and adoption of the Oil Revenue Management Law. These actors are also providing support for the implementation of the law. In order to ensure that the government remains willing and able to pursue reforms, the Bank plans to work closely with the IMF and other development partners to provide concerted financial and advisory support. Gender issues in STP are also a concern. The government and the Bank worked on a Country Gender Assessment in 2004. A national workshop provided the following recommendations:

- adopt an integrated national approach to gender issues by developing a body of gender-sensitive policies that would provide for access to information, awareness raising and legislative reform;
- strengthen institutional capacity to integrate gender issues into development programmes and policies;
- establish advocacy, social mobilisation, information, education and communication programmes on gender and development issues; and
- update existing legislation and adopt new legislation that is more gender-equitable.

The Bank is supporting some of these recommendations through the IDF for Justice Capacity Building as well as the Governance Capacity Building TA Project. The UNDP, ADB and the Portuguese and Taiwanese bilateral aid programmes also support gender issues.

- Segura, A., 2006, 'Management of Oil Wealth Under the Permanent Income Hypothesis: The Case of São Tomé and Príncipe', IMF Working Paper, African Department, International Monetary Fund, Washington, DC:  
<http://www.imf.org/external/pubs/ft/wp/2006/wp06183.pdf>

This paper discusses the efforts to develop a sound institutional framework governing oil operations in São Tomé and Príncipe. It provides a review of key instruments in the legislative framework to promote transparency and accountability. Among them is the Abuja Joint Declaration, signed by the Presidents of Nigeria and São Tomé and Príncipe in June 2004, which sets transparency guidelines to which all (Joint Development Zone (JDZ) operations must adhere. This declaration also pledges adherence to the principles of the Extractive Industry Transparency Initiative. The paper singles out the Oil Revenue Management Law (ORML) enacted in December 2004 as the most promising instrument for strong governance and accountability. The law was devised in close consultation with Columbia University's Earth Institute, which was the main external advisor, and the World Bank and IMF. It sets fiscal rules by which oil proceeds are to be used in annual budgets and requires all oil-related transactions to be made public. It also sets up a Permanent Fund for Future Generations, whereby a portion of oil proceeds are to be deposited into a fund for long-term savings for future generations, in order to ensure inter-generational equity. The Permanent Fund is subject to two regular audits, one by the Auditor General's Office and another by a reputable international auditing firm. The results of both must be made public. In addition, the ORML establishes the independent Petroleum Oversight Commission to monitor general compliance with the law.

- International Alert, Publish What You Pay (PWYP), and UNDP, 2007, 'National Discussion on Oil Revenue Management in Sao Tomé and Principe (STP), and Regional Coordination Meeting of Civil society from Portuguese-speaking Countries in Africa', 29-31 October, São Tomé, STP:  
<http://www.international-alert.org/publications/getdata.php?doctype=Pdf&id=364&docs=1071>

This report documents the discussion, findings and recommendations from a roundtable on oil management organised by the PWYP coalition, International Alert and UNDP and held in São Tomé and Príncipe. The report provides a detailed overview of the various legal instruments and national and regional mechanisms that São Tomé and Príncipe has adopted. These are attempts to ensure that the country's future oil wealth is used for development through transparent management of oil revenues (see pp. 8-10). Civil society participants stressed in



discussions that despite these instruments and mechanisms, there is confusion about the specifics of how all of the mechanisms are meant to function, both individually, and together. In particular, it was unclear whether and how existing mechanisms in STP, such as the Petroleum Oversight Commission (POC) - set up in 2006 to regulate management and use of oil revenues), should combine with the Extractive Industry Transparency Initiative (EITI). Columbia University's Earth Institute has been working with the STP National Assembly to improve communication and publicity of the work of the POC. More generally, efforts are required to ensure active effective participation of civil society in the whole process of oil exploration and transparency. The report recommends that international organisations seek to help establish a culture of transparency and good governance in Lusophone Africa, as a whole, through:

- the promotion of a transparent and participatory budget processes;
  - effective revenue management framework at national and sub-national levels;
  - adherence to the IMF Guide on Resource Revenue Transparency and Codes on Fiscal Transparency; and
  - donor support for capacity building of civil society groups, media and parliamentarians to allow proper tracking of revenues and expenditures.
- Bryan, S. and Hofmann, B., eds., 2007, 'Transparency and Accountability in Africa's Extractive Industries: The Role of the Legislature', National Democratic Institute for International Affairs, Washington, DC:

[http://www.accessdemocracy.org/library/2191\\_extractive\\_080807.pdf](http://www.accessdemocracy.org/library/2191_extractive_080807.pdf)

This report identifies the challenges that African legislators face in overseeing their countries' oil and mining industries, as well as best practices in use around the world and recommendations for future engagement. It includes profiles of the legal and regulatory framework adopted by São Tomé and Príncipe, designed to ensure that oil proceeds are used to meet the country's broader development needs. It provides key details about the country's Oil Revenue Management Law (see p. 22). Columbia University's Earth Institute provided academic and legal support to help STP develop oil sector legislation through a process that included town hall meetings to encourage public debate on how oil revenues should be spent. Other outreach activities included radio and television coverage, bulletins and posters (see p. 33). The report notes that more recently, donor-supported legislative strengthening programs have experimented with ways to provide policy support in such areas as poverty reduction and health.

- Sachs, J. et al., 2005, 'Towards a Consensus Plan of Action for São Tomé and Príncipe', The Earth Institute at Columbia University, New York:
- [http://www.earthinstitute.columbia.edu/cgsd/STP/documents/TowardsConsensusPlanOfAction\\_000.pdf](http://www.earthinstitute.columbia.edu/cgsd/STP/documents/TowardsConsensusPlanOfAction_000.pdf)

This document seeks to help STP develop a consensus plan of action for sustainable economic development, covering the period 2005-2010 by informing and facilitating discussion. It suggests a number of specific public investments and policy changes – and focuses on those elements of the plan for which the Columbia University team has made a particular contribution. It also includes a discussion of implications of eventual oil revenues for the Action Plan. The document lists as priorities for action:

- Investment in public services and infrastructure, particularly health and education; and rural infrastructure, sanitation and electricity;
- A governance system to eliminate or at least restrain corruption in the event of a scale up in investments, in particular the use of competitive bidding; and strengthening of anti-bribery legislation and disclosure practices;
- Institutional strengthening, in particular the rapid development of analytical capacity and governance institutions to prevent the 'resource curse'. The document cites the government's oil-revenue law and oil commission as positive steps toward successful management of the oil sector.

In order to operationalise the strengthening of capacity building, the document recommends that the United Nations Country Team provide increased and intensive technical assistance to the

STP government to draw up the Plan of Action; and that the Columbia Advisory Project identify technical experts and help with regulatory/governance aspects of the programme.

### 3. Additional Resources

#### **Publish What You Pay**

The Publish What You Pay (PWYP) campaign aims to ensure transparency over the payment by companies and receipt and management by governments of oil, gas and mining revenues in resource-rich developing countries so that citizens can hold their government to account for the expenditure of this important income.

For more information, see: <http://www.publishwhatyoupay.org/english/>

#### **EITI**

The EITI process is part of larger framework of effective management of revenues from extractive industries: it focuses only on revenue collection, on how much money is coming into a country's budget, and on how revenues are managed and distributed. In several EITI endorsing countries, such as STP, there has been more focus on expenditure management, primarily through the creation of oil funds and sometimes a legal framework to manage them. Equatorial Guinea and STP were accepted as candidates to the EITI earlier this year.

For more information, see: <http://www.eitransparency.org/>

#### **Legislation**

The follow link explains in detail the legislative arrangements adopted in STP to manage the oil sector:

[http://www.hhlaw.com/files/Publication/93c05629-790d-4b86-a714-56757b65e2a8/Presentation/PublicationAttachment/57a7373c-84e8-47af-8812-ba8f4fa3b67e/1777\\_Bell\\_Faria\\_OGEL\\_March%202005.pdf](http://www.hhlaw.com/files/Publication/93c05629-790d-4b86-a714-56757b65e2a8/Presentation/PublicationAttachment/57a7373c-84e8-47af-8812-ba8f4fa3b67e/1777_Bell_Faria_OGEL_March%202005.pdf)

#### **Earth Institute**

Since mid-2003, Professor Jeffrey Sachs, Director of the Earth Institute at Columbia University, has led a diverse team of experts advising São Tomé and Príncipe. The three focus areas are:

- The development of **Oil Revenue Management Law**, to establish an institutional framework for transparency and accountability in public expenditure over time;
- The design and execution of a **National Forum**, through which to inform citizens about the country's oil revenues and solicit their views on how they might be spent;
- The formulation of a **Plan of Action** for sustainable economic development, through improvements in health, education, agriculture, physical infrastructure, electrification, telecommunications, and fisheries.

The Advisory Project assistance has included:

- Providing recommendations for, and drafting model language that helped inform the development of a comprehensive law governing management of oil revenues. The multi-partisan Santomean commission charged with overseeing the development of the law included representatives of the executive, the legislature and representative or ruling and opposition parties. In the lead up to the debate of the draft legislation by the Santomean legislature, the team provided legislators with a summary and explanation of the bill.
- Producing projections of oil-finance spending under various rules to help inform debate over appropriate spending rules for oil revenues.
- Supporting the government in designing and carrying out a series of public forums on the country's oil potential. A total of 55 forums were held, providing civic and political leaders as well as the general public an opportunity to discuss what oil might mean for the country and how oil revenues should be used.

For more information, see: <http://www.earthinstitute.columbia.edu/cgsd/STP/index.html>

#### **International Alert**

International Alert has been working directly in Sao Tome and Principe since 2004, with the aim of strengthening institutions and building the capacity of the media, parliamentarians and NGOs so that they are equipped to prepare for, respond to and manage the forthcoming oil revenues – thereby preventing conflict. In order to achieve this they are working closely with the Association of Sao Tome and Principe NGOs (FONG), the media and parliamentarians.

For more information, see:

[http://www.international-alert.org/our\\_work/regional/west\\_africa/sao\\_tome\\_principe.php?page=work&ext=rcwa&rc=rc](http://www.international-alert.org/our_work/regional/west_africa/sao_tome_principe.php?page=work&ext=rcwa&rc=rc)

In addition, see 'Expert Comments' section and the attached report 'International Alert'.

### **UNDP**

Several experts suggested that the UNDP is extensively involved in governance activities in STP. However, the UNDP STP website is in French; and the vast majority of their documents are also in French and Portuguese.

<http://www.undp.org/cpr/disred/english/regions/africa/saotome.htm>

<http://www.uns.st/undp/>

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### **Websites visited**

Africa Centre for Strategic Studies, Centre for Strategic and International Studies, Chatham House, Council on Foreign Relations, CRISE, Earth Institute – Columbia University, EG Justice, EITI, Google, Google Scholar, GSDRC, IMF, Ingenta journals, International Alert, International Peace Institute, Institute for Security Studies, Juristep, Oxford University, PWYP, World Bank, UNDP, USAID, USIP

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