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Equatorial Guinea Economic Update

Reforming Fossil Fuel Subsidies



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Equatorial Guinea

Economic Update

*Reforming Fossil
Fuel Subsidies*



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Abbreviations and Acronyms

| | |
|----------|---|
| ARE | Agenda for Economic Recovery; Agenda De Recuperación Económica |
| BEAC | Bank of Central African States; Banque des États de l'Afrique centrale |
| CEMAC | Economic and Monetary Community of Central Africa; Communauté économique et monétaire de l'Afrique centrale |
| COBAC | Central African Banking Commission; Commission Bancaire de l'Afrique Centrale |
| COVID-19 | Coronavirus disease 2019 |
| IDR | Indonesian rupiah |
| IEA | International Energy Agency |
| IMF | International Monetary Fund |
| INEGE | National Institute of Statistics of Equatorial Guinea; Instituto Nacional de Estadística |
| LPG | Liquified Petroleum Gas |
| NPL | Non-Performing Loan |
| RUS | Single Social Registry; Registro Unico Social |
| SDR | Special Drawing Rights |
| UNICEF | United Nations International Children's Emergency Fund |
| WCO | World Customs Organization |

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Summary

This is the first edition of the **Economic Update for Equatorial Guinea**. This report presents recent economic developments in Equatorial Guinea as well as the medium-term economic outlook and risks (Chapter 1), followed by a detailed exploration of a specific topic (Chapter 2). This edition focuses on fuel subsidies and advises on fuel subsidy reform options and mitigation measures by drawing on lessons from international experience. The objectives of the Equatorial Guinea Economic Update are to: (i) strengthen the analytical underpinnings of the policy dialogue; and (ii) contribute to an informed debate on policy options to enhance macroeconomic management and development outcomes.

Following seven consecutive years of recession on the back of low commodity prices and the COVID-19 shock, Equatorial Guinea's economic activity expanded in 2022 thanks to a rebound in the hydrocarbon sector. Economic growth is estimated to have reached about 3 percent. Stronger hydrocarbon output compared to the previous year, especially natural gas, drove the rebound. Meanwhile, the activity of other sectors was sustained by strong domestic demand fueled by the oil windfall as well as the complete removal of COVID-19 restrictions.

In 2022, the fiscal and external positions improved, and public debt remained sustainable. The rebound in hydrocarbon production, along with more favorable commodity prices, increased the fiscal surplus to an estimated 3.9 percent of GDP in 2022 from 2.8 percent of GDP in 2021. Public debt at 37.6 percent of GDP, mostly domestically owned, remained sustainable. Equatorial Guinea's current account deficit narrowed.

Owing to the monetary tightening of the Bank of Central African States (*Banque des États de l’Afrique Centrale, BEAC*), inflation is under control, but credit growth remains overly subdued. Inflation in Equatorial Guinea is estimated to have surged to 4.9 percent in 2022 from -0.1 percent in 2021, due to higher global food and energy prices, which have been exacerbated by Russia’s invasion of Ukraine. Recent inflationary pressures in countries of the *Communauté économique et monétaire de l’Afrique centrale* (Central African Economic and Monetary Community, CEMAC) led the BEAC to increase the policy rate twice during 2022. Meanwhile, the monetary tightening and persistent banking sector vulnerabilities kept credit growth to the private sector and to the overall economy negative. The non-performing loan (NPL) ratio decreased but remained high in 2022 at 57.5 percent.

Equatorial Guinea’s medium-term outlook is negative and subject to significant downside risks. Without significant diversification efforts or new discoveries of hydrocarbon reserves, Equatorial Guinea is projected to re-enter recession in 2023 with an average real GDP growth of about -4 percent over the period 2023 to 2025. The medium-term outlook is subject to downside risks, including increases in international food prices, lower-than-expected oil production and prices, and a further tightening of global financial conditions.

Considering the secular decline in hydrocarbon production, policy priorities include changing the current development model to promote economic diversification. While the government has taken positive steps in some areas, significant progress in adopting and fully implementing key reforms to boost economic diversification is needed. Policies should focus on supporting social cohesion and human development, strengthening governance, boosting trade integration, and creating an enabling business environment to promote economic diversification and inclusive growth.

The special topic of this Economic Update focuses on fossil fuel subsidies. In 2022, the sharp rise in international oil prices—against a backdrop of stagnant domestic retail prices—led to an increase in fuel subsidies in the CEMAC region, including in Equatorial Guinea. The cost of fuel subsidies at 1.3 percent of GDP in 2022 was already elevated in Equatorial Guinea and competing with higher priority spending, especially in social sectors. Yet, while fuel subsidies aim to support consumers’ purchasing power, especially that of the most vulnerable, in practice these subsidies benefit the richest segments of the population, especially groups living in urban areas. This is mainly explained by their consumption of the two most heavily subsidized fuels - diesel and gasoline - in contrast with kerosene, a fuel mostly consumed by the poorest. Furthermore, fuel subsidies introduce environmental

and market distortions, preventing an efficient use of energy and the development of renewable sources of energy or the adoption of low emitting development solutions, instead locking into a higher emission development pathway into the future. The removal of fuel subsidies (except for kerosene) would, nonetheless, have a limited one-time effect on the general price level. Such an increase would impact the purchasing power of the population, as higher fuel prices would indirectly lead to higher prices for other products and services, especially in the transport, fishing, and forestry sectors. Therefore, a fuel subsidy reform needs to be accompanied by a strong mitigation package aimed at protecting the vulnerable segments of the population.

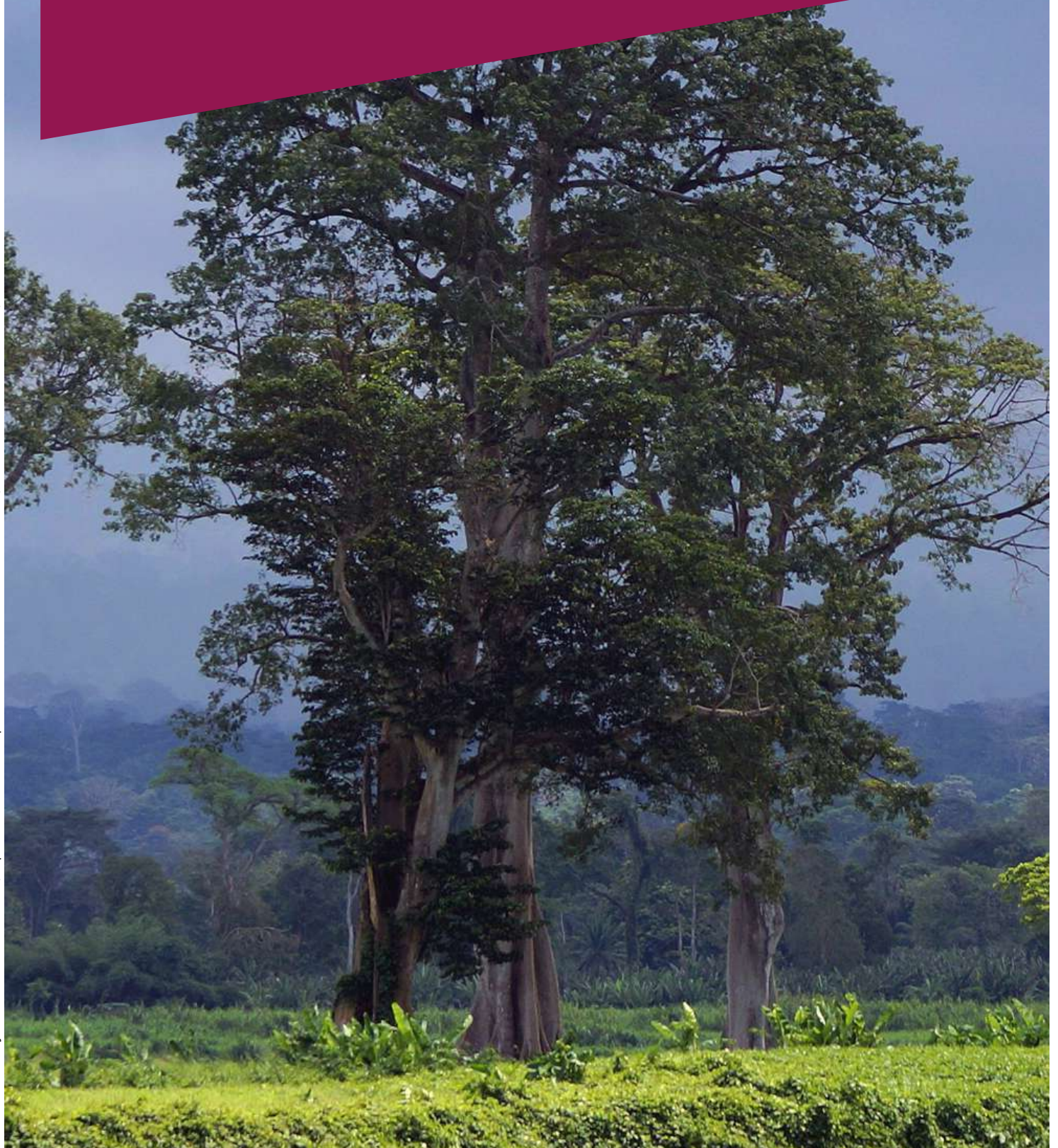
Lessons can be drawn from the experiences of countries that have carried out fuel price adjustments. Principles from international experience show four good practices when carrying a fuel subsidy reform: (i) exclude (at least temporarily) from the subsidy reform fuels that are used by the most vulnerable segments of the population; (ii) adopt a price smoothing mechanism that offers a balance between excessive price volatility and fiscal risks; (iii) stagger the reform to allow households to adjust and the mitigation measures to be rolled out; and (iv) engage in stakeholder consultations and carry out communication campaigns to address the concerns of various population groups. Moreover, targeted measures should be implemented to mitigate the impact on affected vulnerable groups and sectors. This can be achieved by reinforcing social safety nets, increasing transparency of public financial management, increasing targeted social spending, supporting strategically affected sectors such as transport, and increasing productive structural public investments. Country experiences illustrate a variety of possible accompanying measures to make adjustments in fuel prices socially acceptable. They show that there is not a standard set of actions but that these measures need to be discussed, identified, and designed to reflect the concerns and the characteristics of each country.





Chapter 1

Recent Economic Developments and Outlook



1/ Recent Economic Developments



1.1. Global and regional growth has slowed, while high hydrocarbon prices have supported CEMAC economies

The global economy grew by about 3.1 percent in 2022, a slowdown compared to the previous year resulting from tighter monetary conditions and global trade disruptions. Global growth has been slowing since its peak at about six percent in 2021, when it started to rebound from the pandemic (Figure 1). Trade disruptions caused by Russia's invasion of Ukraine and tightening monetary policies aimed at containing high inflationary pressures in different regions have been contributing to this slower growth. Advanced economies including the U.S. and Europe and most emerging markets are experiencing weaker growth. At the same time, risks of debt distress have heightened.

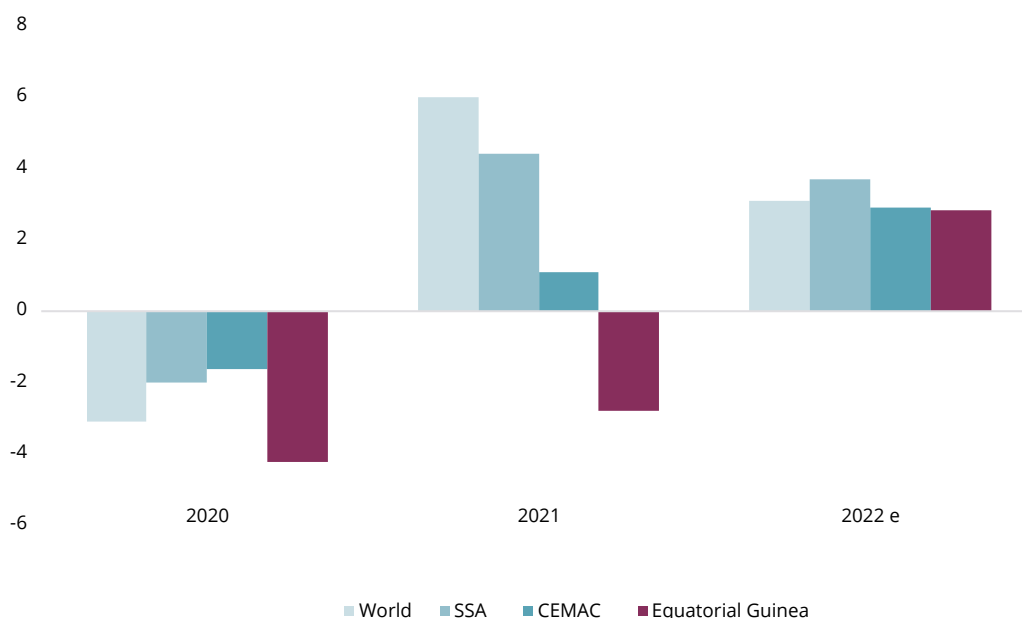
Against this backdrop, economic growth in Sub-Saharan Africa has also slowed. Economic activities in Sub-Saharan Africa slowed in 2022 to about 3.7 percent (from 4.4 percent in 2021), with the slowdown driven by weaker external demand for non-energy commodities, tightening global financing conditions, and rising inflation. The cost of living increased across the continent, as higher food and fuel prices resulted in increased vulnerability and distress.

Higher hydrocarbon prices have, however, allowed CEMAC economies to experience faster growth in 2022. Higher hydrocarbon prices, combined with the lifting of COVID-19 containment measures, have had an overall

positive impact on the terms of trade and economic growth of the region. CEMAC's economic growth is estimated to have reached 2.9 percent in 2022, up from about 1.1 percent in the previous year but below the average for Sub-Saharan Africa. However, while oil and gas exports have been contributing to improved regional fiscal and external balances, the fiscal costs of fuel subsidies have been increasingly weighing on the budgets of CEMAC countries

and limiting their ability to take advantage of rising oil prices to rebuild fiscal and external buffers (the special focus of this edition provides a more detailed discussion of the topic). Meanwhile, rising global inflation is weighing on domestic prices and real incomes while tighter global financial conditions are also constraining growth.

Figure 1. Real GDP growth (in percent), 2020-2022



Source: Global Economic Prospects, World Bank

The BEAC continued to tighten its monetary policy to contain inflationary pressures and ensure external viability. Following an extraordinary Monetary Policy Committee meeting on November 25, 2021, the BEAC increased the policy rate (*taux d'intérêt des*

appels d'offre, TIAO) by 25 basis points to 3.5 percent. Further policy rate increases were adopted, to 4.0 percent in March 2022, 4.5 percent in September 2022, and 5.0 percent in March 2023. The BEAC also decreased its weekly liquidity injections from CFAF

160 billion in April 2022 to CFAF 50 billion in December 2022. Moreover, the regional central bank continues to work towards the effective application of the new foreign exchange regulation, strengthening the repatriation of foreign exchange earnings for the extractive sector as agreed in January 2022. Against this backdrop, the CFA franc depreciated in real effective terms for most of 2022 as the Euro depreciated against the US dollar. Improved terms of trade in the region,

thanks to higher commodity prices, and tighter fiscal and monetary policies helped to support the buildup of regional gross reserves, which have been increasing steadily since early 2022 and reached CFAF 6,851 billion in December 2022 (up from CFAF 4,779 billion in January 2022). Foreign exchange reserves at the BEAC increased to reach the equivalent of 4.7 months of prospective imports of goods and services by end-December 2022 (compared to 4.1 months at end-December 2021).

1.2. Economic activity in Equatorial Guinea rebounded in 2022 supported by positive developments in the hydrocarbon sector

Over recent years, Equatorial Guinea's economic growth has been hampered by a shrinking hydrocarbon sector and external and domestic shocks. The economy has been in recession for seven consecutive years. The hydrocarbon sector has declined at an average rate of 7.2 percent per year between 2015 and 2021 amid maturing oil fields and multiple incidents at both gas and oil production sites (Figure 2). Meanwhile, the double shock of the COVID-19 pandemic and the Bata explosions of March 2021 aggravated Equatorial Guinea's macroeconomic situation (Box 1). The estimated direct losses of the Bata explosion, including substantial damages in infrastructure, reached 2.5 percent of GDP in 2021. The non-hydrocarbon sector contracted because of COVID-19 containment measures and mounting fiscal pressures amid lower oil prices.

Equatorial Guinea's growth turned positive in 2022, driven by the rebound in the hydrocarbon sector. In 2022, real GDP is estimated to have expanded by about 3 percent (Figure 3)¹. Hydrocarbon production increased sharply during the first half of the year, thanks to a rebound in gas production following the repairs carried out on the Punta Europa complex after a fire incident in September 2021. The economic rebound was, however, weaker than previously expected as another incident, this time at the country's largest offshore oil platform, Zafiro, in September 2022, stopped crude production starting from the fourth quarter of the year. Strong aggregate demand fueled by higher oil prices and the lifting of COVID-19 containment measures also led to a rebound in the non-oil sector, which marked its best performance since the end of the oil boom in 2015.

¹ INEGE estimates GDP growth rates of -0.9 percent and 3.1 percent for 2021 and 2022, respectively.

Figure 2. Equatorial Guinea - Oil and Non-oil GDP growth (in percent), 2015-2022

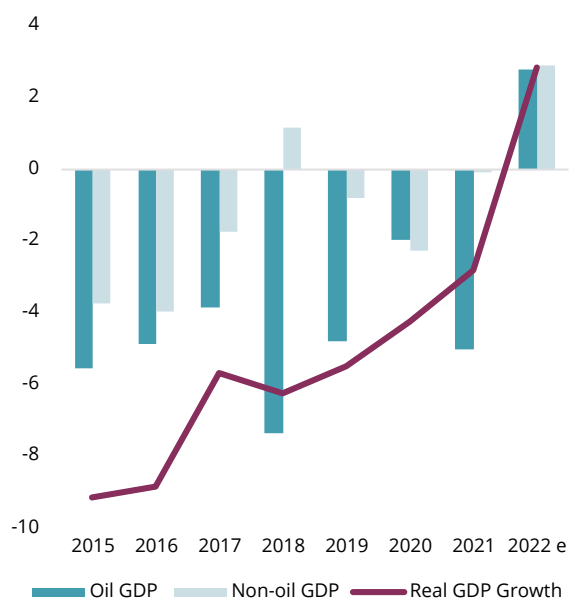
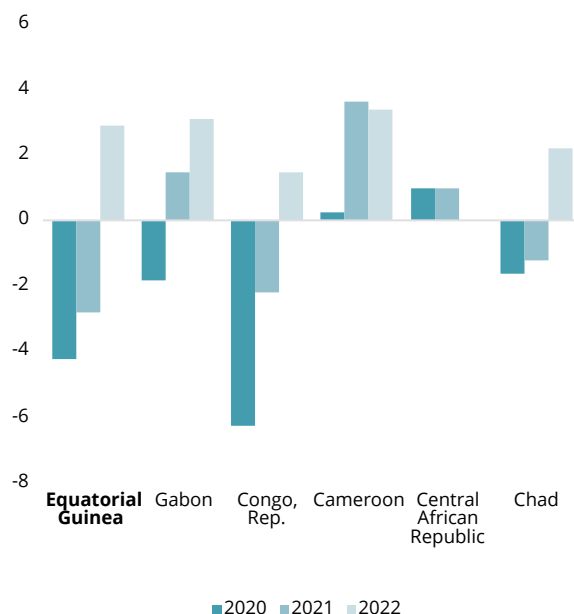


Figure 3. Equatorial Guinea and CEMAC countries - Real GDP growth (in percent), 2020-2022



Source: World Bank and Equatoguinean authorities.

Box 1. Recent shocks in Equatorial Guinea: impact and government’s response

COVID-19: While the spread of COVID-19 was relatively contained with a total of 17.2 thousand confirmed cases and 183 casualties as of end-2022, the pandemic intensified the slowdown in economic growth in 2020 and 2021. The government swiftly declared a state of health emergency in March 2020 and proactively implemented containment measures, including the closure of borders, businesses, and schools, among other restrictions. Containment measures led to a sharp deceleration in economic activity, which was exacerbated by low oil prices and the contraction of the hydrocarbon sector due to lower domestic and international demand. Despite the decline in government revenues, the government adopted a broad emergency health spending package (one percent of GDP), a social assistance scheme (0.3 percent of GDP), temporary support to the private sector (0.3 percent of GDP), and devoted additional resources to the education sector (0.4 percent of GDP). Vaccination rates remained low at 27.3 percent of total population.

Bata explosions: On March 2021, a series of explosions occurred at a military warehouse in Bata, the country's largest city and commercial capital. The explosions resulted in widespread human and physical damage, with a total of 107 casualties, over 600 people injured, and vast destruction of infrastructure throughout the city, including residences and public buildings such as schools and hospitals. The estimated direct losses were estimated at 2.5 percent of GDP in 2021. The Bata explosions occurred while a second wave of COVID-19 was still unfolding, aggravating an already challenging situation. The government increased fiscal spending for the reconstruction of Bata and provided immediate emergency support for victims. The latter included temporary shelters, targeted assistance in the form of basic nutrients, water, and hygiene supplies, and cash transfers to 300 families. The cash transfers initiative was co-led by United Nations International Children's Emergency Fund (UNICEF) and the government in coordination with non-governmental organizations. In 2021, the pandemic and Bata-related spending amounted to 0.4 percent of GDP.

War in Ukraine: The impact of the war in Ukraine on Equatorial Guinea has been felt mostly through an increase in oil and food prices. In 2022, oil prices rose to US\$ 97.1 a barrel (from US\$ 69.1 in 2021),² which boosted the country's oil revenues to CFAF 1,406 billion (17.6 percent of GDP) from CFAF 846 billion in 2021 (or 13.3 percent of GDP). While direct food imports from Russia and Ukraine amount to only 0.7 percent of Equatorial Guinea's total imports of food, the rise in food prices globally has led to higher food inflation domestically (of 5.8 percent in 2022, up from 1.2 percent in 2021). While no comprehensive data is available for Equatorial Guinea, it is likely that food insecurity has increased since the country imports about 70 percent of its food consumption needs.

The 2022 rebound in the hydrocarbon sector was driven by gas, while oil production continued declining. In 2022, gas production, including liquified natural gas, propane, and other gases, increased by 13 percent, to reach more than 170 thousand barrels of oil equivalent per day (Figure 4 and Figure 5). The increase reflected mostly recovery from depressed production at the

end of 2021, when total production amounted only to 151 thousand barrels per day because of the incident in Punta Europa, which led to a drop in gas production of 32 percent in 2021Q4 (quarter-on-quarter). Meanwhile, crude oil production contracted by more than 14 percent (year-on-year) to slightly more than 80 thousand barrels per day in 2022 (from a peak of 321 thousand barrels per day in 2004),

² World Bank Commodity Price Data (March 2023)

the lowest production level ever registered in the country. The drop in crude production in 2022 reflects maturing oil fields and the incident at the Zafiro offshore production site in September.

The non-hydrocarbon sector benefited in 2022 from high aggregate demand fueled by favorable oil prices and the total opening of land and air borders. On the demand side, government consumption was the largest driver of growth, with an increase of 18 percent in real terms. The complete lifting of COVID-19 containment measures renewed domestic confidence and boosted private-sector spending. Meanwhile, investment continued to decline, driven by lower investment in the oil sector (Figure 6). On the supply side, the secondary and tertiary sectors rebounded

thanks to the dynamism of the oil industry and associated services, as well as a small recovery in the construction sector. The removal of containment measures boosted other services in 2022, with a registered increase in hotel stays and the number of passengers flights compared to 2021 (Figure 7).

Inflation increased in 2022, driven by food prices. Inflation in Equatorial Guinea is estimated to have surged to 4.9 percent in 2022 (above the 3 percent CEMAC convergence criterion) from -0.1 percent in 2021, due to higher global food and energy prices following the war in Ukraine. Food prices peaked at 5.8 percent in 2022, up from 1.2 percent in 2021. In March 2023, the average inflation rate stood at 5.1 percent, up from 1.0 percent in March 2022.

Figure 4. Equatorial Guinea - Hydrocarbon Production (in millions of barrels of oil equivalent), 2021-2022, quarterly

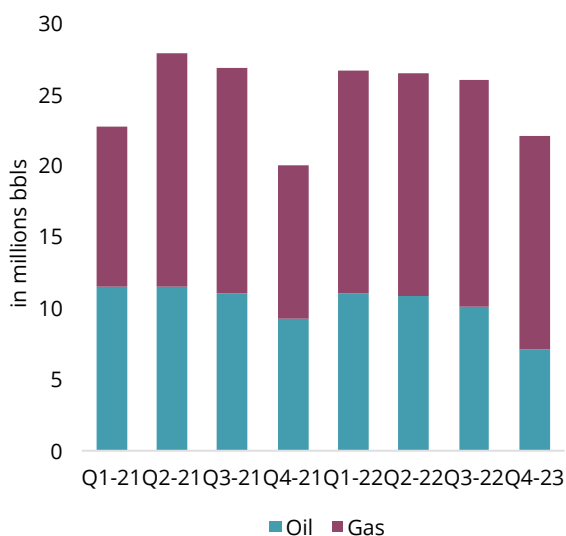
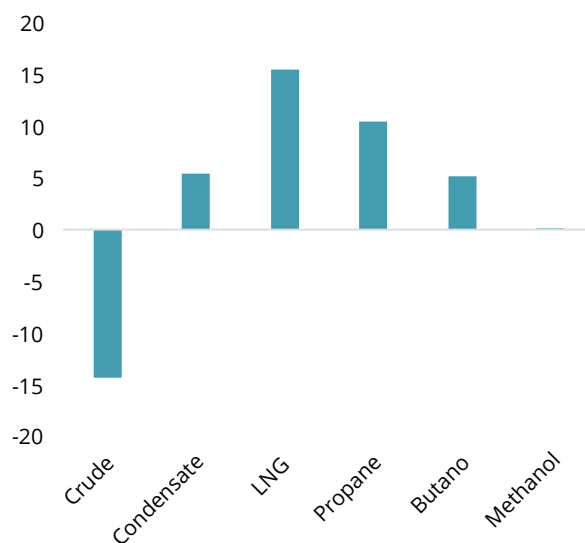
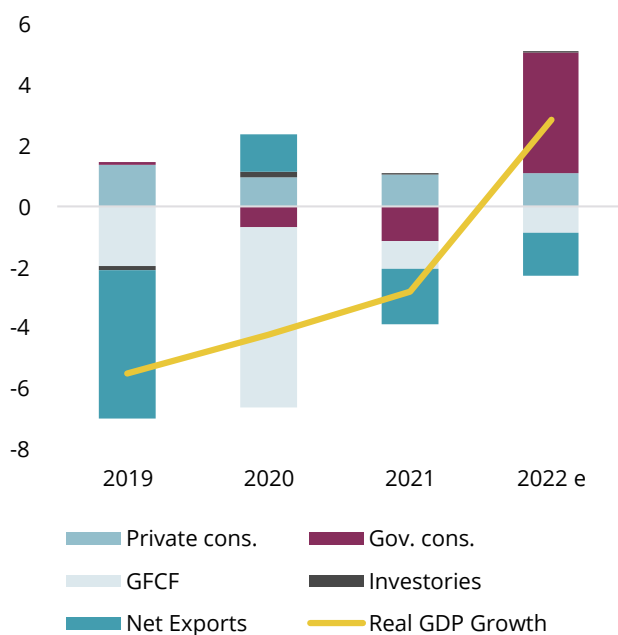
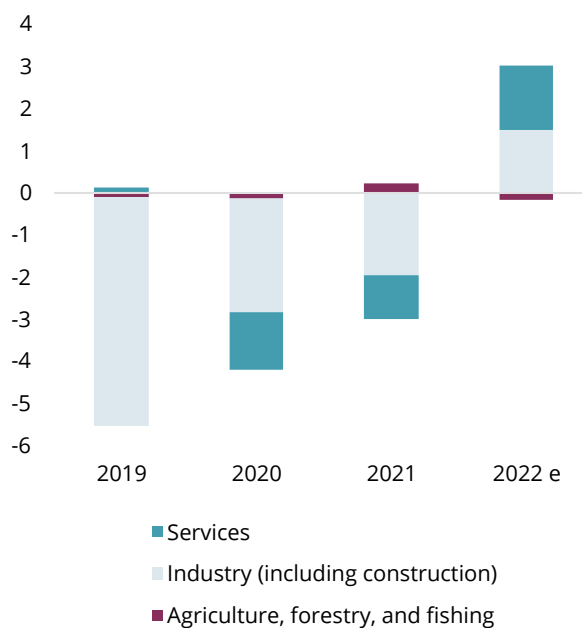


Figure 5. Equatorial Guinea - Growth in Hydrocarbon Production by Commodity (percentage points), 2022



Source: Equatoguinean authorities.
 Note: LNG is liquefied natural gas.

Figure 6. Equatorial Guinea - Contribution to Growth, demand (in percent), 2019-2022**Figure 7.** Equatorial Guinea - Contribution to Growth, supply (in percent), 2019-2022

Source: Equatoguinean authorities and World Bank staff calculations
 Note: GFCF is gross fixed capital formation.

1.3. Higher oil prices improved the country's fiscal position...

The country recorded a wider fiscal surplus in 2022 owing to the oil windfall. The overall budget surplus is estimated at 3.8 percent of GDP in 2022, from 2.8 percent of GDP in the previous year (Figure 8). The rebound in gas production during the first half of the year and higher commodity prices boosted hydrocarbon revenues to 17.6 percent of GDP (from 13.3 percent of GDP in 2021). Non-oil tax revenues also performed better compared to 2021 (with an increase of about 15 percent to

CFAF 170 billion in 2022) as the non-oil sector rebounded and tax reforms started to bear fruit. In addition, the 2022 fuel subsidy reform is estimated to have generated savings of about 0.1 percent of GDP in 2022 (see Chapter 2 for a detailed discussion on fuel subsidies).³ On the expenditure side, both capital and current spending expanded and reached 15.5 percent of GDP (from 13.8 percent of GDP in 2021).

³ IMF estimates as of August 2022 (IMF Article IV for Equatorial Guinea). Estimated savings compare spending had the authorities not increased the reference price in 2022.

Public debt has been decreasing and is expected to remain sustainable over the medium term.⁴ Public debt in Equatorial Guinea is modest at 37.6 percent of GDP in 2022 and mostly domestic (including arrears owned to construction companies), with only 33 percent of the total debt held by multilateral and bilateral foreign creditors (9). In 2022, public debt decreased (from 42.2 percent of GDP in 2021) thanks to the economic expansion and higher oil prices. In addition, the government settled a share of its domestic

arrears, including with construction companies, using 70 percent of the IMF Special Drawing Rights (SDR) allocation (equivalent to US\$ 150.5 million). Notwithstanding, outstanding domestic arrears with construction companies remain high at 10.8 percent of GDP. The government has committed to continue settling arrears using government bonds. Further progress in the clearance of arrears would, in turn, help reduce the high share of non-performing loans.

Figure 8. Equatorial Guinea - Fiscal Balance, 2019-2022

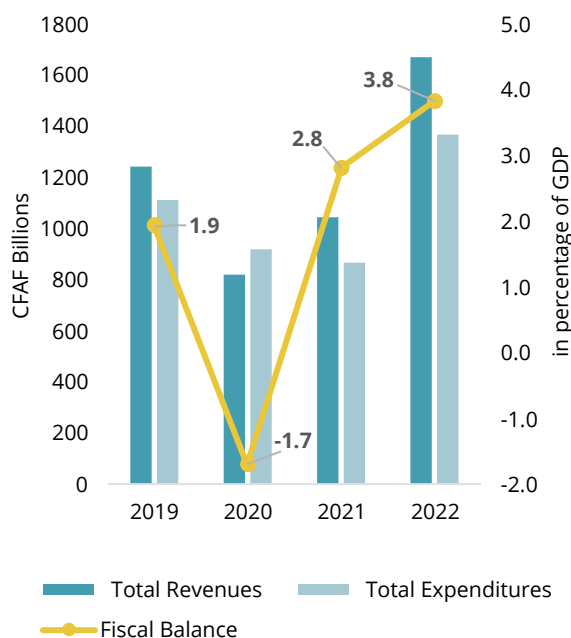
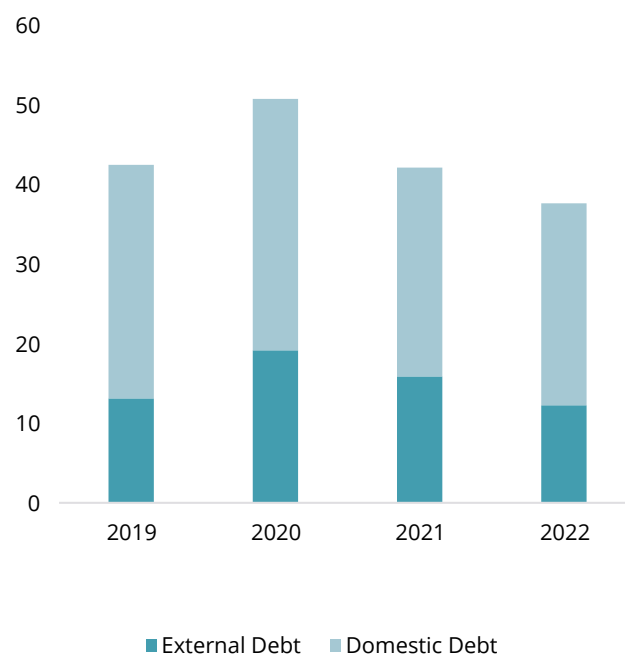


Figure 9. Equatorial Guinea - Public debt (in percent of GDP), 2019-2022



Source: Equatoguinean authorities and World Bank.

1.4. ...as well as its external position

Higher international commodity prices improved the country's export performance in 2022. Equatorial Guinea's exports value in US\$ increased by 41.7 percent in 2022, driven by rising oil and gas prices (Figure 10). Fuels and mineral oils accounted for 87 percent of the total exports value in 2021 (Figure 11). Despite the incident at the Zafiro production platform in September 2022, hydrocarbon exports are estimated to have increased by 44.6 percent in 2022 (in value), mainly due to higher prices.

As a result, the current account deficit narrowed in 2022. The current account deficit narrowed to 0.8 percent of GDP in 2022, from 2.3 percent of GDP in 2021. The improvement was mainly driven by an increase in the country's trade balance which was 11.3 percentage points higher than in 2021 (Figure 11). Imports increased by 11.7 percent compared to 2021 amid higher capital spending, but this increase was more than offset by the strong export performance discussed above. Improved export performance resulted in a trade balance of 14.5 percent of GDP in 2022 (compared to 3.2 percent of GDP in 2021).

Figure 10. Equatorial Guinea - Current Account Balance (in percent of GDP), 2019-2022

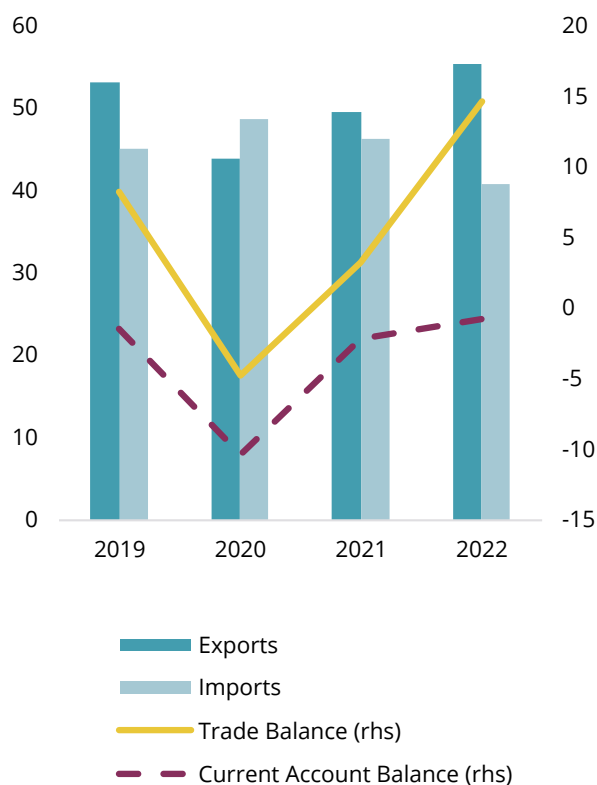
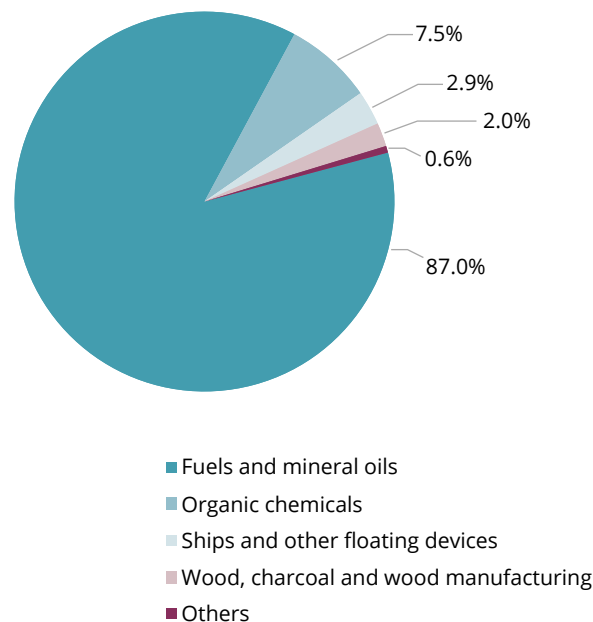


Figure 11. Equatorial Guinea - Composition of export value (in percent of total exports), 2021



Source: BEAC, INEGE, and World Bank staff calculations.

1.5. Monetary policy tightening and long-standing banking sector vulnerabilities constrained credit to the economy

Credit to the economy declined amid protracted banking sector vulnerabilities.

Despite the partial clearance of domestic arrears by the authorities, banking sector liquidity remains low, and credit to the economy declined by two percent in 2022 driven by a decline in credit to the non-financial private sector, following a three percent decline in 2021 (Figure 12). Tighter monetary conditions to curb inflation have contributed to this restrictive environment with a continued decline in credit to the private sector of about three percent in 2022.

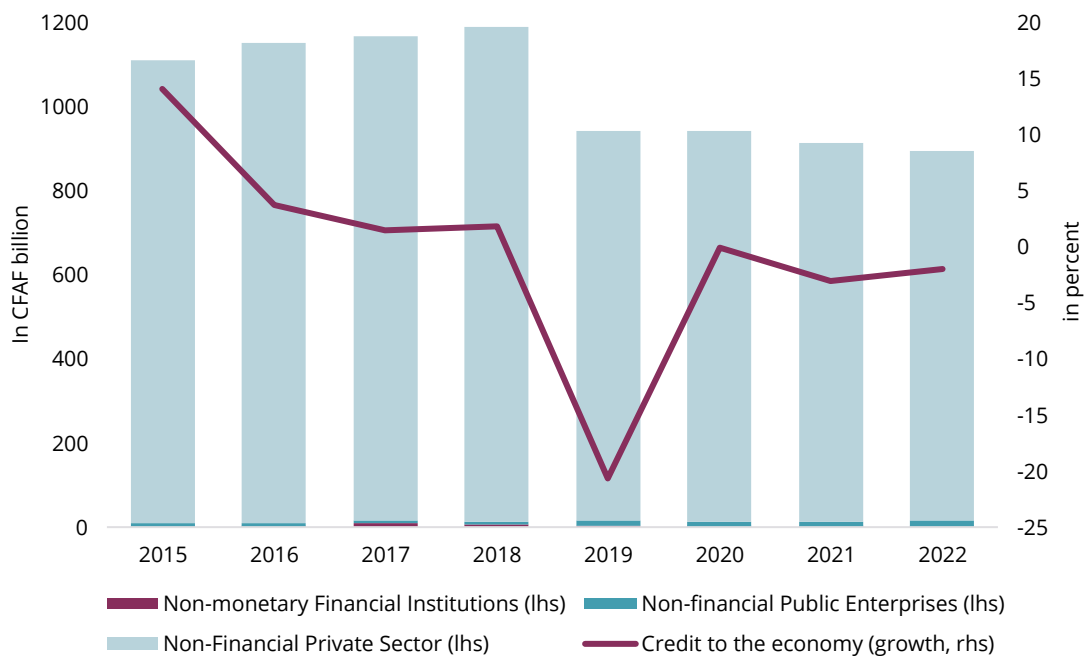
Notwithstanding a decrease in non-performing loans, Equatorial Guinea's financial sector remains subject to significant vulnerabilities.

The share of NPLs to gross loans decreased to 57.5 percent (CFAF 552 billion) as of end-September 2022 (down from 61.3 percent in September 2021) thanks to the recent clearance of domestic arrears by the authorities.⁵ Deposits increased by 8.9 percent to CFAF 1,186 billion in the third quarter of 2022, compared to the same period in 2021. The loans-to-deposit ratio also improved from 135.4 percent in September 2021 to 149.0 percent one year later. While these positive developments, combined with the recent clearance of domestic arrears, are a positive sign for the stability of the banking sector, the NPL ratio is still extremely high, indicating a banking sector subject to significant risk. Moreover, as the Central African Banking Commission (*Commission Bancaire de l'Afrique*

Centrale, COBAC), the regional banking supervisor, ended its temporary forbearance measures related to the COVID-19 pandemic in June 2022, a deterioration of asset quality (increases in overdue loans and NPL ratios) could soon become visible. In addition, as of September 2022, liquidity and capital requirements were not met by some banks in Equatorial Guinea. For instance, out of the five banks present in the country, one bank had a liquidity ratio below the regulatory minimum of 100 percent, and three banks did not comply with the minimum capital requirement as per the regulations established by the regional supervisor, COBAC.

⁵ NPLs increased significantly from 5.8 percent of gross loans in December 2012 (during the oil boom) to 21 percent in February 2015. The high level of NPLs is mainly due to domestic arrears with construction companies.

Figure 12. Equatorial Guinea - Composition and growth of credit to the economy, 2015-2022



Source: BEAC, INEGE, and World Bank staff calculations



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2/ *Outlook, Risks, and Policy Watch*



2.1. Global growth is expected to slow

Global economic activity is set to decelerate as a result of synchronized monetary policy tightening to contain high inflation, less favorable financial conditions, and disruptions from the war in Ukraine. Global growth is expected to decelerate sharply to about 2.1 percent in 2023 (from about 3.1 percent in 2022) (Figure 13). The sharp downturn in growth is expected to be widespread. The United States and the Euro area are undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging market and developing economies (EMDEs). The combination of slow growth,

tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks—such as higher inflation, even tighter monetary policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions—could push the global economy into recession.

In SSA, growth in 2023-24 is projected to remain below long-term averages in several economies. Economic growth in the region is projected to remain modest in 2023 at 3.2 percent (from 3.7 percent in 2022) before picking up to around four percent, on

average in 2024-2025 (Figure 14). Per capita income in the region as a whole is expected to grow by only about 1.0 percent a year on average in 2023-25, half a percentage point below its trend rate before the pandemic. In the CEMAC region, economic growth is projected to slow down marginally, with an average real GDP growth of 2.7 percent in 2023 and about 2.9 percent in 2024-25. Even though an expected moderation of global commodity prices should temper increases in the cost of living, tighter policy stances to address elevated inflation and public debt will weigh on domestic demand. Subdued growth will make it difficult to reverse increases in food insecurity and poverty. Meanwhile, weakening growth in advanced economies is expected to pose headwinds for external demand, particularly among exporters of industrial commodities. Risks are tilted to the

downside. A more pronounced weakness in major economies, further increases in global interest rates, higher and persistent inflation, fragility, and increased frequency and intensity of adverse weather events could further slow growth across the region, exacerbating poverty and leading to debt distress in some countries.

Figure 13. Global GDP growth (in percent), 1990-2025

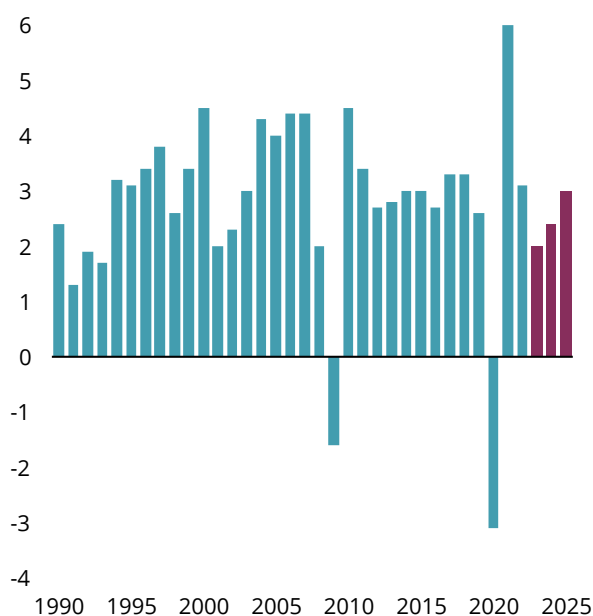
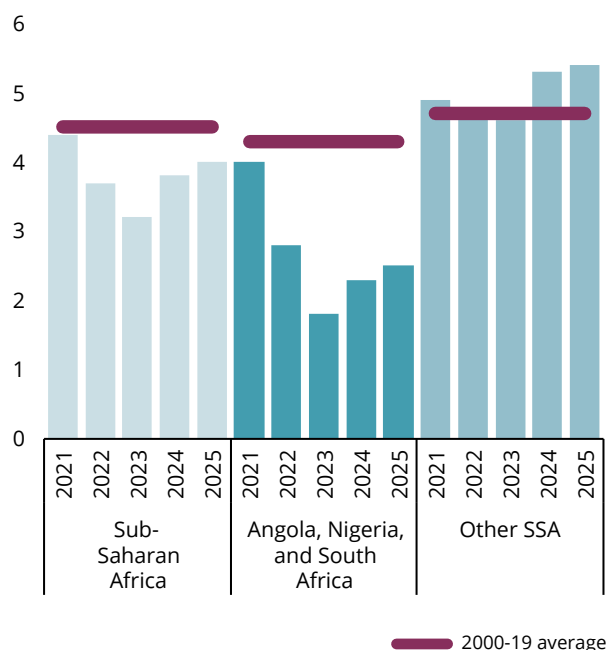


Figure 14. GDP growth in SSA (in percent), 2021-2025



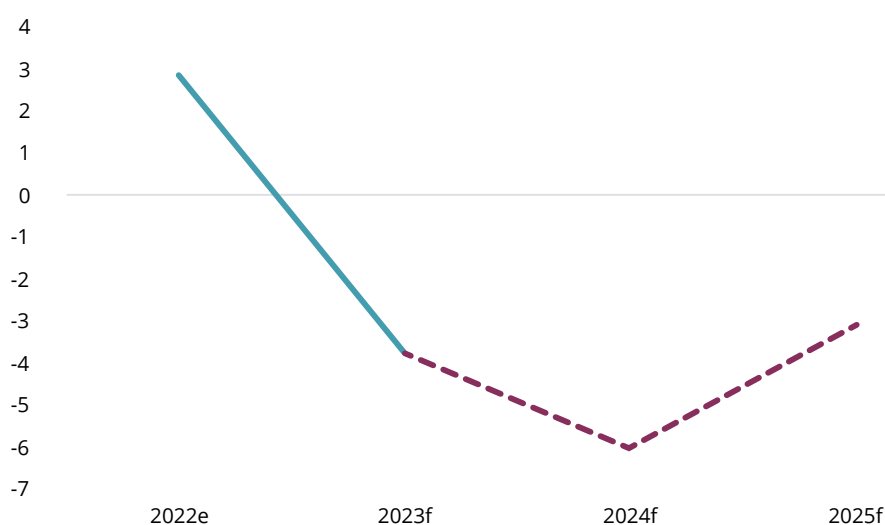
Source: Global Economic Prospects, World Bank

2.2 Equatorial Guinea's GDP growth is projected to turn negative over the medium term

Barring substantial new hydrocarbon discoveries and significant progress in structural reforms, Equatorial Guinea's economy is projected to re-enter a sustained recession. Following the positive growth observed in 2022, real GDP growth is projected to turn again negative in 2023, on the back of lower hydrocarbon production (expected to contract by 6.5 percent) and domestic demand (Figure 15). Amid a secular decline in oil production and without new investments in the hydrocarbon sector or significant diversification efforts, real GDP growth is projected to remain negative over the medium term, reaching an average negative growth of about 5 percent.⁶ The non-hydrocarbon sector is projected to grow by five percent, while the hydrocarbon sector is expected to contract by 14 percent in 2024-2025.

The overall fiscal and external positions are projected to deteriorate over the medium term. As highlighted in the 2023 Budget Law, the government is expected to continue its fiscal consolidation efforts through improved domestic revenue mobilization and contained public spending amid a projected decrease in hydrocarbon production. Despite these efforts, the fiscal balance is projected to deteriorate slightly to a smaller surplus of 2.1 percent of GDP in 2023 (compared to a surplus of 3.9 percent of GDP in 2022). The fiscal position is projected to narrow further in 2024-25 with a small average surplus of 0.6 percent of GDP. The current account balance is also projected to deteriorate gradually over the medium term to an average of -1.6 percent of GDP over 2023-2025 on the back of declining export earnings.

Figure 15. Equatorial Guinea - Real GDP growth (in percent), 2022-2025



Source: World Bank staff calculations

⁶ INEGE forecasts an average negative GDP growth rate of 5 percent in 2024-2025.

2.3 A decline in hydrocarbon production is the main risk to the medium-term outlook

The medium-term growth outlook faces significant risks that are tilted to the downside. First, given that oil represents more than 60 percent of the country's total exports, a more pronounced decline in oil prices and production than expected would further reduce fiscal space over the medium term and undermine fiscal and external stability. Second, a weaker-than-expected growth in Equatorial Guinea's top exporting countries such as China and India could negatively impact export demand. Third, a rise in food prices amid a protracted war in Ukraine would increase food insecurity, especially for the most vulnerable. Equatorial Guinea heavily relies on food imports, covering about 70 percent of its food consumption

needs. Fourth, further tightening of global financial conditions would reduce investment flows. Finally, delays in addressing structural and governance issues, as well as addressing banking sector risks amid failure to clear domestic arrears, could hinder further private investment, including into new oil or gas fields. On the upside, significant progress in settling domestic arrears could lower NPLs, decrease banking sector vulnerabilities, strengthen private sector performance, and lower the debt burden. If successful, the planned new investments of about US\$ 1.5 billion in the exploration of three oil concessions, combined with progress on structural reforms, could also present an upside to growth prospects in the medium-to-long term.

2.4 The government has made progress in some areas, but the implementation of key reforms needs to be accelerated to promote economic diversification

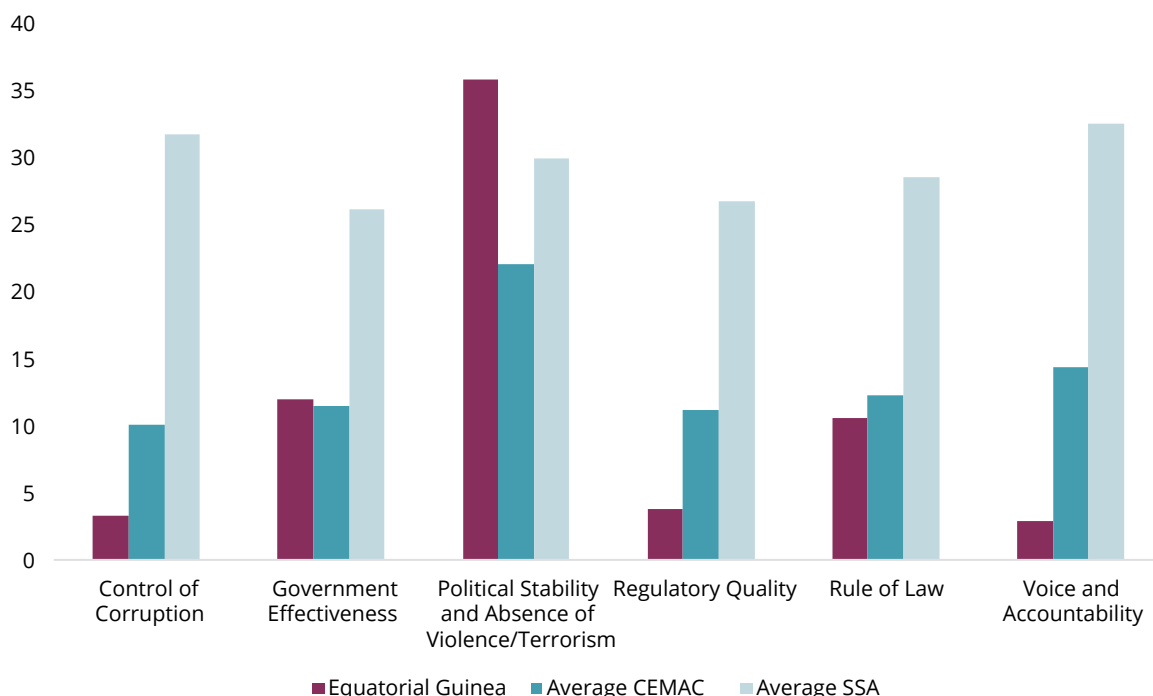
The government has adopted some reforms in recent years to improve governance, the business environment, and trade facilitation. Weak governance and high levels of perceived corruption could undermine the effective implementation of the reforms identified in the government's National Sustainable Development Strategy (AGENDA 2035), including economic diversification efforts. While Equatorial Guinea scores above CEMAC averages for government effectiveness and political stability and absence of violence, the country scores well below Sub-Saharan African averages in most

Worldwide Governance indicators, including for control of corruption, regulatory quality, and voice and accountability (Figure 16). The government has sought to improve governance with the adoption of an anti-corruption law by the parliament in 2022 and the drafting of a procurement law. The authorities have published the final audits of COVID-related expenses and the audits of state-owned oil and gas companies (GEPetrol, *Guinea Ecuatorial de Petróleos*, and Sonagas, *Sociedad Nacional de Gas de Guinea Ecuatorial*) on the Ministry of Finance website. They are also taking measures to improve the

business environment, including through: (i) the creation of a One Stop Shop to facilitate business registration, (ii) the simplification of work permits, and (iii) the implementation of a soon-to-be launched e-visa which would ease visa requests and help attract more investors and tourists. Key actions adopted or in the pipeline to improve trade facilitation and expand trade integration include the adoption of the Automated System for Customs Data

(ASYCUDA) information system in 2020, accession to the World Customs Organization (WCO) in December 2021, progress towards accessing the World Trade Organization with the completion of the Memorandum on Foreign Trade Regime in November 2022, and the enactment of a new law in 2022 to reduce import and export duties and expand operating hours at the Malabo and Bata ports.

Figure 16. Equatorial Guinea, CEMAC, and SSA - Worldwide Governance indicators (percentile), 2021



Source: Worldwide Governance Indicators, World Bank.
 Note: Higher values (up to a maximum of 100) indicate better governance ratings.

Important measures have also been implemented to strengthen fiscal and debt management. In 2021, the General Tax Unit conducted a restructuring of its services with support from the IMF, which led to more coordinated services and improved tax compliance. A system to track capital expenditures on a timely basis has been put in place, and the authorities are currently

working to improve the monitoring of current expenditures to enhance overall public spending efficiency and accountability. The government has established a single window for vehicle registration payments, and the country joined the WCO in order to improve non-hydrocarbon revenue mobilization. To strengthen the government’s capacity on debt management, the United Nations Conference

on Trade and Development (UNCTAD) launched a technical assistance activity in June 2022 (co-financed by the African Development Bank and the government), which will help implement the Debt Management and Financial Analysis System (DMFAS) and support the authorities in publishing regular debt statistics. The new debt management system and regular debt reporting are also important steps in enhancing the transparency of public finances.

Despite these efforts, much remains to be done given the country's urgent need to change its current economic model.⁷ A broad set of reforms are needed to enable economic diversification and inclusive growth and to put the country on a fiscally sustainable trajectory. First, social cohesion and human development require strengthening. The limited allocation of resources to social sectors (with only 1.9 percent of GDP in public spending in the education, health, and water sectors) is reflected in the country's human development outcomes which are below its peers and out of line with its upper middle-income status. In particular, the primary school gross enrollment rate was estimated at 61.7 percent in Equatorial Guinea in 2015, below the Sub-Saharan Africa and upper middle-income countries averages of 97.9 percent and 100.7 percent, respectively, while stunting still affects 19.7 percent of children under age five in Equatorial Guinea, hindering their learning potential and economic opportunities.⁸ While a Social Protection Law has been drafted, there is still a need for a social protection strategy with clear objectives and measures within a streamlined administrative structure. Second, to encourage private investment and broad-

based economic growth, the currently weak banking sector must be made more sound and financial inclusion expanded. Accelerating the settlement of domestic arrears would reduce the high NPL ratio and improve the liquidity of the banking sector. In addition, strengthening financial inclusion (only one third of the adult population holds a bank account) would be key to support inclusive growth going forward. In 2019, the government created the National Economic and Financial Committee to promote financial inclusion, but lack of capacity, budget and data has hindered the implementation of the Committee's initiatives. Last, reforms are needed to improve governance including to improve the efficient allocation of public resources and the mobilization of non-hydrocarbon revenue, to accelerate trade integration, and to improve the business environment.

⁷ The upcoming Equatorial Guinea Country Economic Memorandum (2024) will provide detailed information on key policies and reforms to foster long-term economic growth and promote economic diversification. The report will also provide scenario analyses using the World Bank Long Term Growth Model, including on the impact of different reforms and changes in oil prices on economic growth in the medium to long run.

⁸ Data are from the World Development Indicators. According to the Voluntary National Review 2022 for Equatorial Guinea the implementation of the new Economic and Social Development Strategy (EDES) by the government, as well as the creation of educational and professional centers, and universities at the national level, has allowed an increase in the schooling rate.

Chapter 2

Assessing the Impact of Fossil Fuel Subsidies in Equatorial Guinea and Options of Policy Reforms



This chapter provides policy options for gradually reforming fossil fuel subsidies in Equatorial Guinea. While fuel subsidies imply significant fiscal, and environmental costs, they benefit mainly the richest households. In addition, fuel subsidies divert fiscal resources from sectors, households, and firms that might need them more. International experience would suggest that the reform is most successful when fuel subsidies are phased out in a sequenced and gradual approach. This approach should be designed in consultation with key stakeholders and accompanied by compensation mechanisms that minimize potential short- and medium-term shocks on households and firms. This chapter focuses on subsidies on kerosene, diesel, and gasoline (see Technical Annex 1 for more information on their use).

1/ *Recent Developments in Fossil Fuel Subsidies*

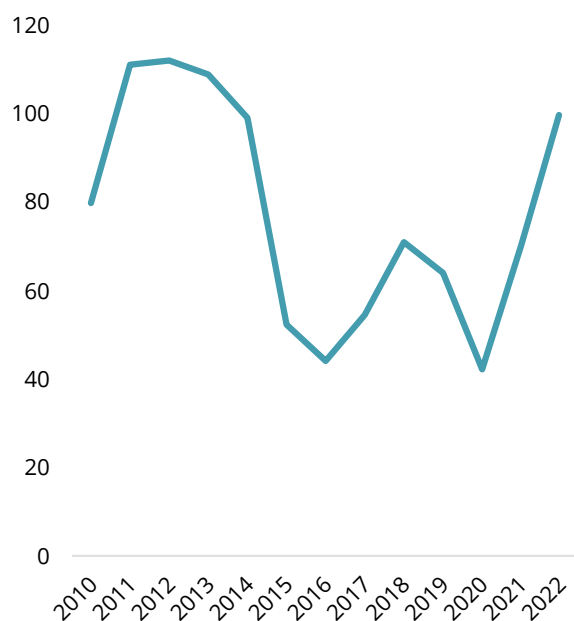
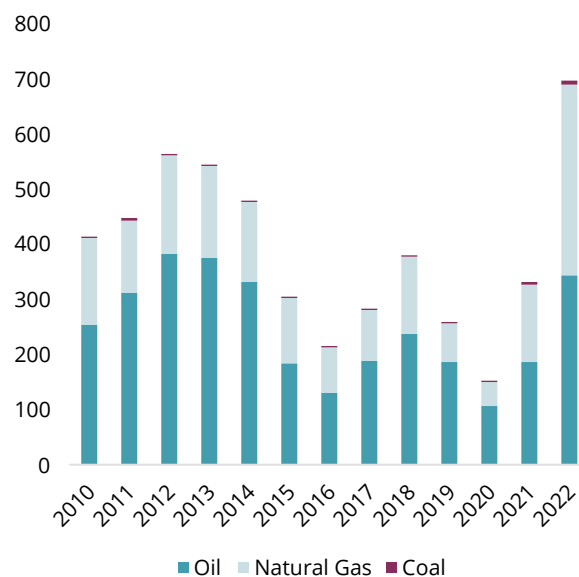


1.1 Evolution of oil prices and related subsidies – Regional overview

The recent surge in international oil prices has led to an increase in fuel subsidies across the world. After a price decline induced by slower economic activity and reduced demand due to the COVID-19 pandemic, energy commodity prices have been rising since late 2020 and reached new heights in 2022 amid the war on Ukraine (Figure 17). As governments around the world introduced

measures to ease the impact of these high energy costs on households and businesses, energy consumption subsidies rose sharply in 2022, reaching more than US\$ 700 billion for oil, natural gas and coal, the highest level ever recorded (Figure 18). These subsidies are mostly broad-based, instead of being targeted towards vulnerable groups, and come with significant fiscal costs.⁹

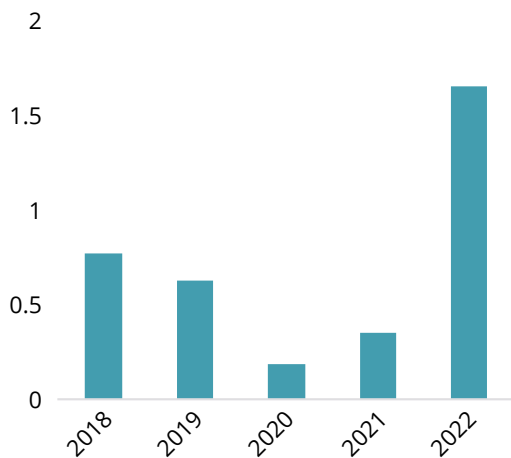
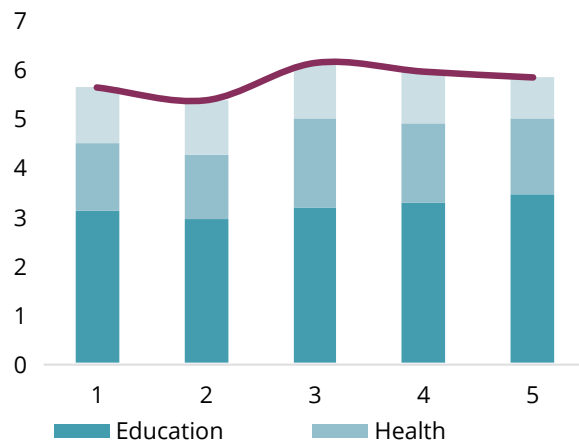
⁹ Recently published estimate from IEA based on data from 51 countries, covering the OECD, G20 and 33 other major energy consuming and producing economies.

Figure 17. Crude oil price, Brent (US\$/bbl)**Figure 18.** Fiscal fuel consumption subsidies worldwide (billion US\$)

Source: IEA (International Energy Agency) and World Bank

Countries in West and Central Africa, including in the CEMAC region, have seen a similar development. The fiscal cost of energy subsidies in West and Central Africa more than doubled compared to their pre-COVID levels (Figure 19). In contrast to rising energy subsidies, public spending on social sectors has stagnated or even decreased (Figure 20). The fiscal cost of fossil fuel subsidies in CEMAC countries reached CFAF 1,243 billion in 2022, equivalent to about 1.8 percent of the region's GDP, above the average of West African countries at 1.5 percent of GDP. While some CEMAC countries have increased retail fuel prices in early 2023, subsidies (except for CAR) are still substantial.¹⁰

¹⁰ In early 2023, Cameroon increased retail fuel prices (diesel +25 percent, gasoline +15 percent, kerosene to industries +60 percent), as well as CAR (diesel +70 percent, gasoline +50 percent) and Congo (diesel +5 percent, gasoline +5 percent).

Figure 19. Fiscal cost of fuel subsidies in West and Central African countries¹¹ (in percent of GDP)**Figure 20.** Social Spending in West and Central African countries¹² (in percent of GDP)

Source: IEA and World Bank

CEMAC economies are exposed to oil price volatility and have not managed to translate their natural wealth into sustainable development. Oil accounted in 2022 for more than 25 percent of GDP in CEMAC economies and covered roughly 80 percent of the region's exports of goods. Tax and nontax revenues related to oil contributed to about 55 percent of total revenues. Many crude oil exporters rely to a great extent on imports of refined products because of constraints in refining capacity. Given the size of the oil sector and its importance in commanding public resources, these countries are highly exposed to the volatility in international oil prices. Their fiscal space is less predictable, and they have been challenged in using oil revenues to invest in physical and human capital to lay the foundations of more sustainable and inclusive growth.

Both oil importers and exporters have increased their fuel subsidies, although oil exporters have larger buffers. Fuel subsidies have been rising in both net oil exporting and net oil importing countries (Figure 21). A share of the oil windfall in oil exporting countries has been used to finance subsidies and protect their population from the higher international prices for oil (Figure 22). These countries have nevertheless larger external and fiscal buffers than oil importing countries, with on average narrowing current account and fiscal deficits (Figures 23 and 24). However, subsidizing fuel, even for oil exporters, is a story of an expensive missed opportunity as these resources could have been used for other purposes and perhaps to a greater benefit.

¹¹ Due to data availability, in this graph, "West and Central African countries" refers to the following countries: Burkina Faso, Cabo Verde, Cameroon, Central African Republic, Republic of Congo, Cote d'Ivoire, Equatorial Guinea, Gabon, Ghana, Mauritania, Nigeria, Senegal, The Gambia, and Togo.

¹² Due to data availability, in this graph, "West and Central African countries" refers to the following countries: Benin, Burkina Faso, Cabo Verde, Central African Republic, Chad, Republic of Congo, Cote d'Ivoire, Gabon, Ghana, Guinea, Mali, Mauritania, Nigeria, Senegal, Sierra Leone, The Gambia, and Togo.

Figure 21. Fuel subsidies, by net oil importers and exporters in West and Central African countries (in percent of GDP)¹³

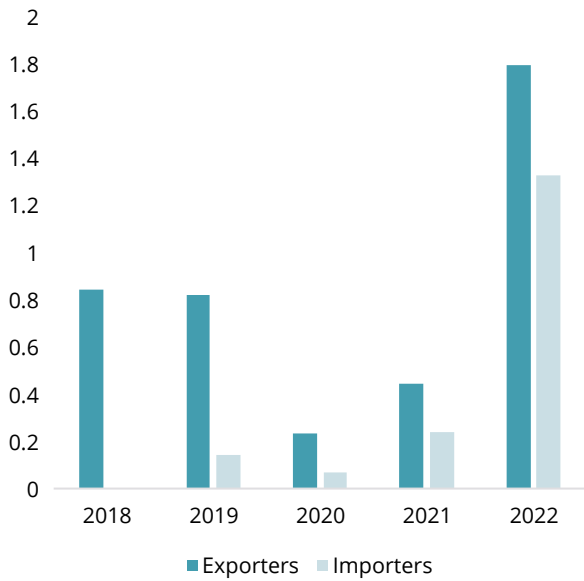


Figure 22. Oil revenues and fuel subsidies for net exporters in West and Central African countries (in percent of GDP)

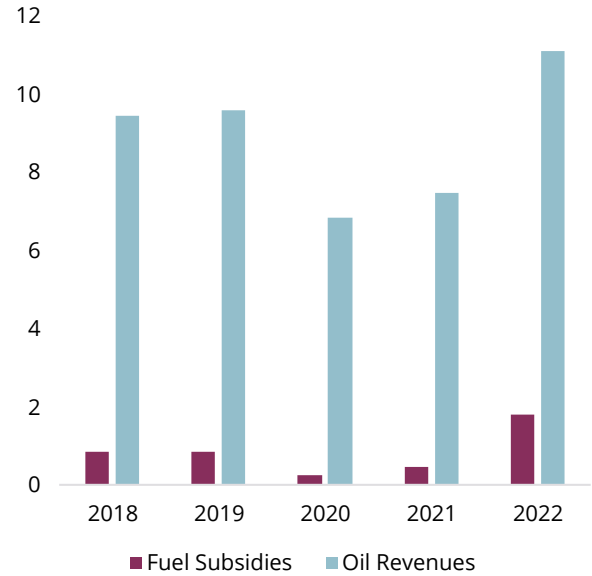
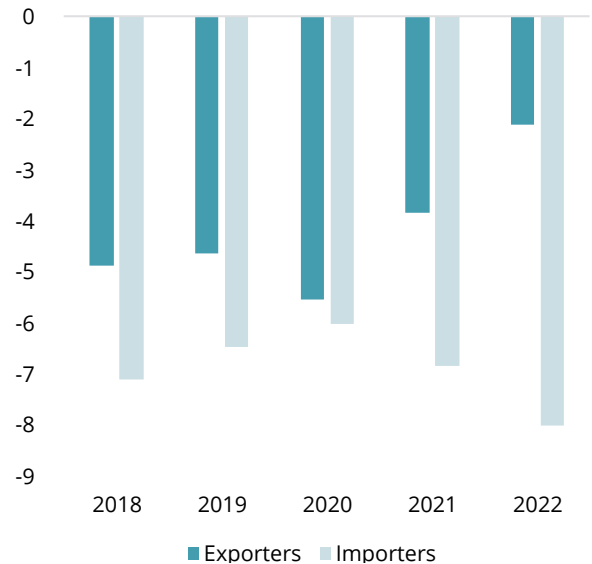


Figure 23. Fiscal balance by net oil importers and exporters in West and Central African countries (in percent of GDP)



Figure 24. Current account balance, by net oil exporters and imports in West and Central African countries (in percent of GDP)



Sources: National authorities and World Bank Staff calculations

¹³ AFW exporter countries include: Cameroon, Chad, Congo, Equatorial Guinea, Gabon, Ghana and Nigeria; importers include: Benin, Burkina Faso, Cabo Verde, Central African Republic, Cote d'Ivoire, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Senegal, Sierra Leone, The Gambia, and Togo.

1.2 The fiscal cost of fossil fuel subsidies in Equatorial Guinea

Fossil fuel subsidies have been in place in Equatorial Guinea for well over a decade to contain domestic retail prices.

In 2007, price ceilings were established for four products: gasoline, diesel, kerosene, and Jet A1 (domestic). These have been applied to households, while businesses face international market prices. Between 2010 and 2021, the fiscal costs of fossil fuel subsidies ranged from 0.2 percent of GDP to 1.0 percent of GDP, reaching a peak in 2011-2012 when international prices were significantly above domestic prices. Over the past three years, the fiscal costs of fuel subsidies averaged 0.5 percent of GDP, equivalent to about 4.1 percent of total current spending.

In 2022, the government increased regulated fuel prices for all customers.

As per Decree N. ° 139/2021 issued in November 2021, with the exception of kerosene, fuel prices increased in 2022. The price of kerosene was maintained to protect the poorest, since this fuel is mostly used for cooking and lighting by vulnerable segments of the population. The new price structure for other fuels – which became effective in March 2022 – was established to contain the fiscal burden of fuel subsidies amid ongoing efforts of fiscal consolidation and fight against clandestine distribution and commercialization of fuel in the country. Indeed, regulated prices for most fuels in Equatorial Guinea were among the lowest in the CEMAC region, which reportedly has led to cross-border fuel smuggling. Clandestine distribution is expected to be contained by restricting fuel stations from selling subsidized fuel containers (selling only permitted to vehicle gas tanks). In addition to the new regulated prices, the government also established a Price Control Committee – composed of the Ministry of

Mines and Hydrocarbons, the Ministry of Finance and Economics, and fuel distribution companies – within the Ministry of Mines and Hydrocarbons, which is expected to hold monthly meetings to monitor the application of the regulated prices.

While the reform is a positive step, the cost of fuel subsidies is still high compared to other spending, including in social sectors.

The subsidy reform increased diesel by CFAF 120 (compared to the 2007 price ceiling) to CFAF 470 per liter, gasoline by CFAF 15 and Jet A1 (domestic) by CFAF 130 (Table 1). The regulated price of kerosene remained the same as in 2007 at 215 CFAF per liter, while the selling price of Jet A1 (international) remained liberalized. With the new regulated prices and higher oil prices in 2022, the overall fiscal cost of subsidies is estimated at 1.3 percent of GDP in 2022, from 0.5 percent of GDP in 2021 (Figure 25). The weight of fossil fuel subsidies in the budget is relatively high in comparison with public expenditure on education, health, and water sectors, which combined is estimated at only 1.9 percent of GDP (Figure 26). Although regulated prices were intended to be reduced progressively and assessed annually, fuel prices in 2023 are expected to remain the same.

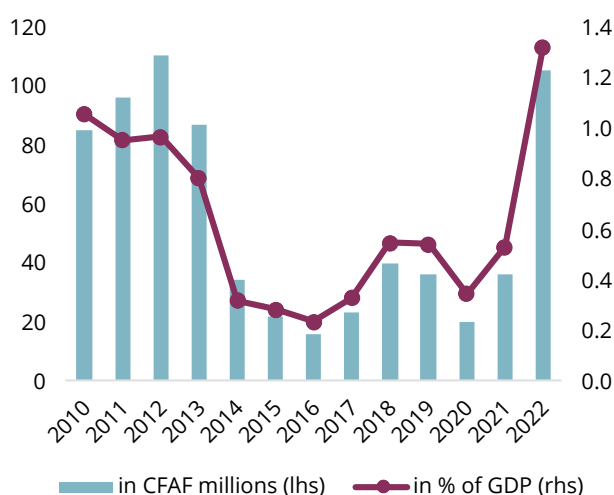
Table 1. Price ceiling: pre/post-2022 reform

| | Price ceiling 2007-2021 | New Price ceiling 2022 |
|-------------------|-------------------------|------------------------|
| Diesel | 350 | 470 |
| Gasoline | 480 | 495 |
| Jet A1 (domestic) | 300 | 430 |
| Kerosene | 215 | 215 |

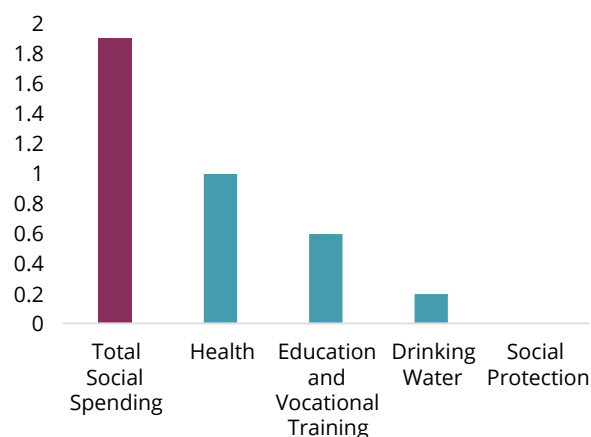
Source: Equatoguinean authorities

Fuel subsidies also introduce environmental and market distortions.

By preventing domestic retail prices from being aligned with international prices, fuel subsidies distort the actual cost of energy. This distorted pricing does not encourage an efficient use of energy, with adverse effects on the environment. Such distortions might prevent countries from reducing reliance on the subsidized fossil fuels and from developing renewable sources of energy or adopting low emitting development solutions, locking them on a higher emission development pathway in the future. In addition, such market distortions may lead to unlawful market practices, such as the creation of an informal parallel market or cross-border smuggling. Such practices could generate domestic energy supply shortages, further deteriorating the domestic market dynamic and local economy.

Figure 25. Fiscal cost of subsidies in Equatorial Guinea

Source: Equatoguinean authorities

Figure 26. Budget allocation to Social Spending (in percent of GDP)

Source: IMF (Article IV, 2021)

Note: Estimated data for 2020, economic classification of expenditures is not available.

1.3. Distributional analysis of fossil fuel subsidies

International experience shows that fuel subsidies do not benefit the poor. While sufficient data is unavailable in Equatorial Guinea to determine the regressive or progressive nature of fuel subsidies, distributional analysis for some other CEMAC countries finds that fuel subsidies tend to favor the richest segments of the population and urban areas. In Congo, for instance, the richest decile consumes 77 percent and 73 percent of diesel and gasoline, respectively, while the poorest consume less than one percent, thus, most of the subsidies are captured by the wealthiest (Figure 31). The situation in Gabon and Cameroon is similar (Figures 27 and 29). By contrast, kerosene, used mostly for lighting, is much more equally distributed across income groups. At the geographic level, kerosene is used mostly in rural areas like Cameroon (Figure 30).



Figure 27. Gabon - Distribution of fuel consumption by income group (in percentage, by decile)

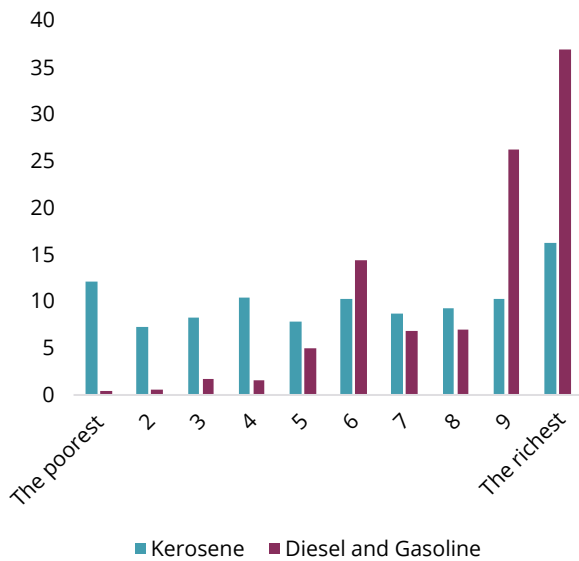
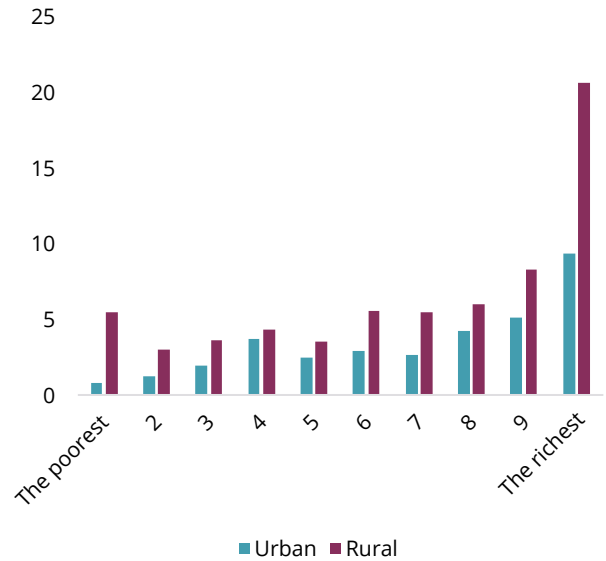


Figure 28. Gabon - Distribution of kerosene consumption, by income group and region (in percentage, by decile)



Source: Gabonese authorities and World Bank staff calculations.
 Note: These estimations are based on data from the EGEP 2017 Household survey.

Figure 29. Cameroon - Distribution of fuel consumption by income group (in percentage, by decile)

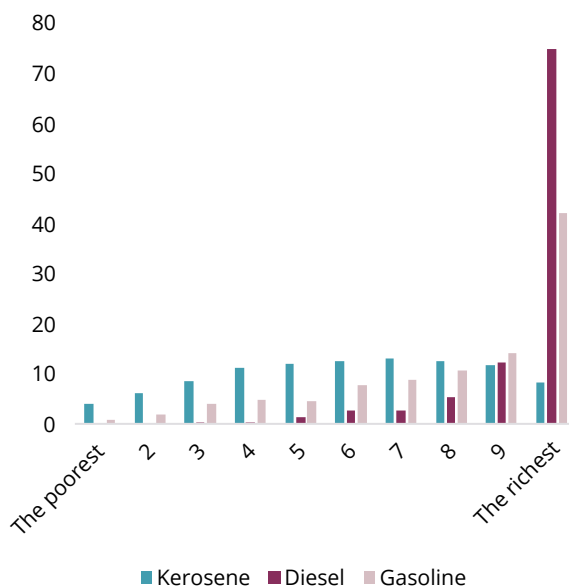
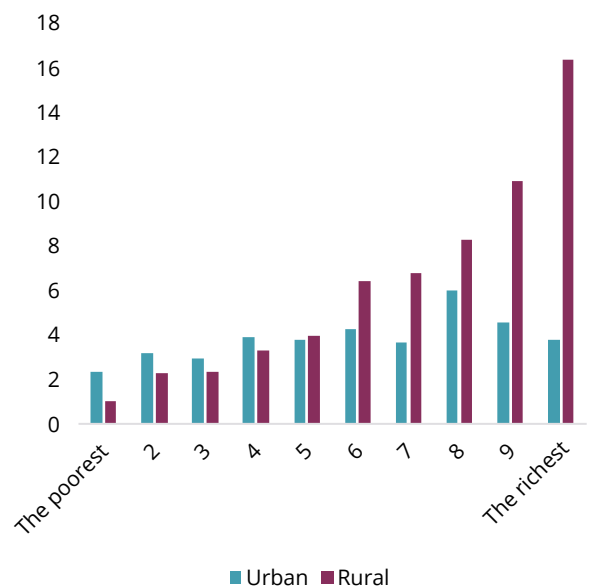


Figure 30. Cameroon - Distribution of kerosene by income group and region (in percentage, by decile)



Source: Cameroonian authorities and World Bank staff calculations.
 Note: The distribution of fuel consumption by deciles is estimated from data from the 2021-2022 household survey.

Figure 31. Congo - Distribution of fuel consumption by income group (in percentage, by decile)

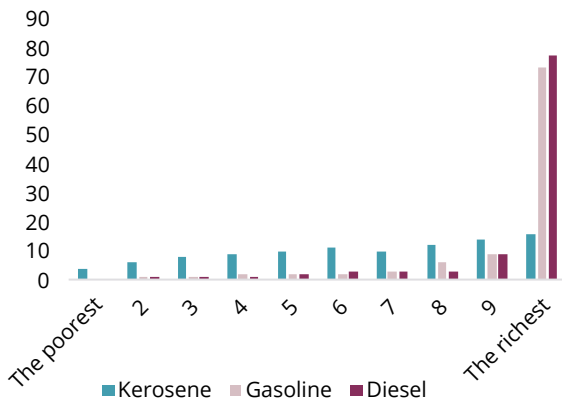
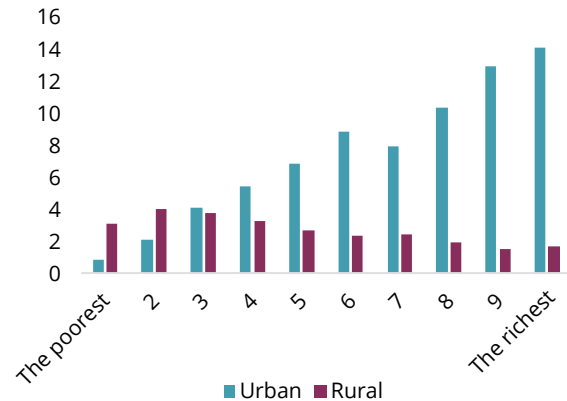


Figure 32. Congo - Distribution of kerosene consumption by income group and region (in percentage, by decile).



Source: World Bank calculations based on data from the 2011 Household survey "Enquête Congolaise auprès des Ménages pour le suivi et l'évaluation de la pauvreté" (ECOM)

Fuel subsidies are mostly captured by male-headed households. In Congo, 97 percent of both diesel and gasoline are consumed by male-headed households (Figure 37). In Cameroon, while kerosene consumption is relatively gender-neutral, other fuels such as diesel and gasoline are mostly consumed by male-headed households (Figure 35). Even in terms of people's income (estimated by their consumption), fuel subsidies do not favor

the poorest segments of the population. For example, fuel subsidies in Congo represent only about 2.2 percent of the income of the poorest decile in Congo (compared to 4.7 percent for the richest decile) (Figure 38). In Cameroon, these subsidies represent only about one percent of the income of the poorest (compared to 3.7 percent for the richest decile) (Figure 36).

Figure 33. Gabon - Distribution of fuel consumption, by gender (in percentage)

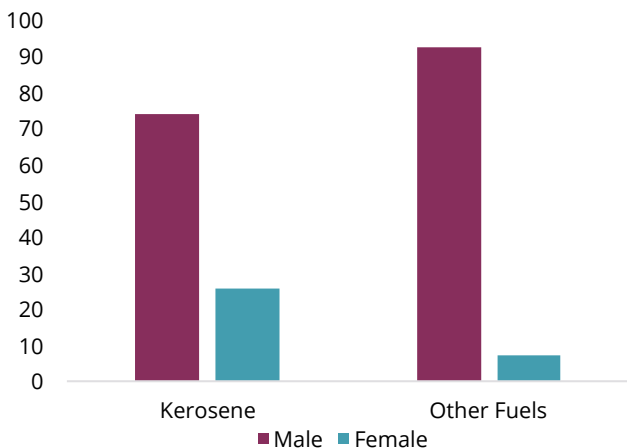
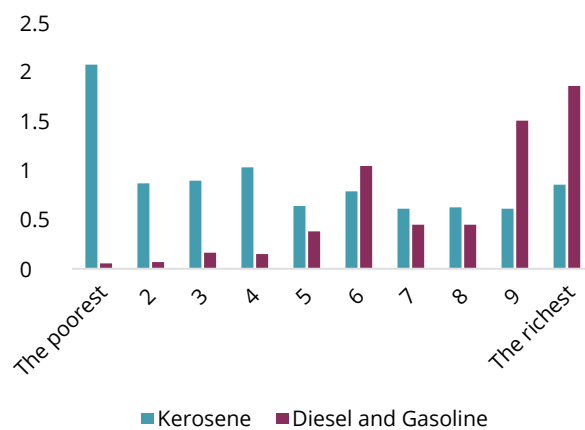


Figure 34. Gabon - Proportion of fuel consumption as a percentage of the budget share (in percentage, by income group and by fuel)



Source: Gabonese authorities and World Bank staff calculations.
 Note: "Other Fuels" includes Diesel, Gasoline and Gas butane (Liquefied Petroleum Gas, LPG).

Figure 35. Cameroon - Distribution of fuel consumption by Gender (in percentage)

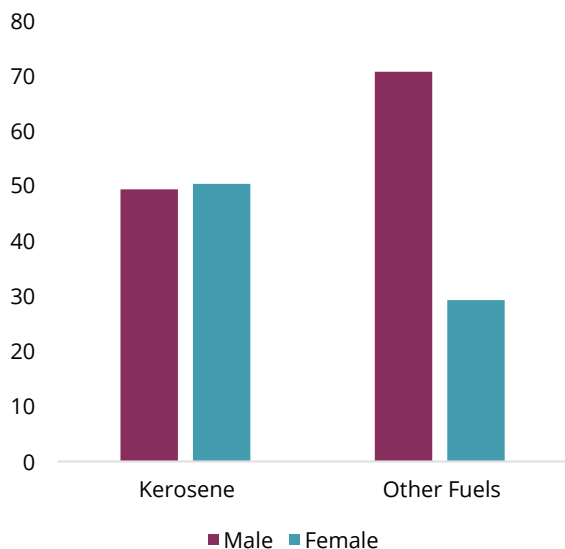
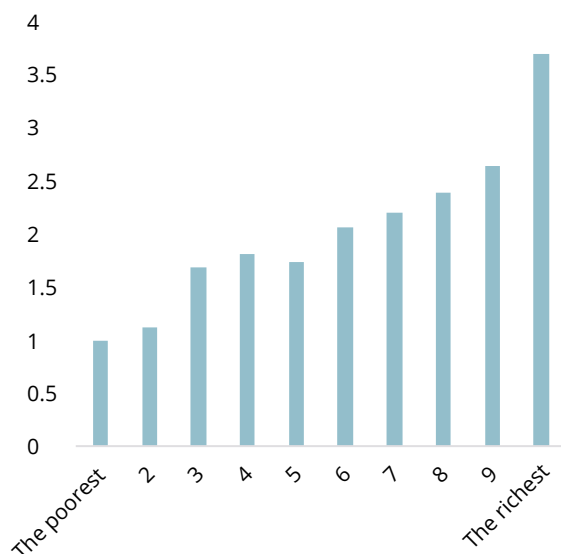


Figure 36. Cameroon - Proportion of fuel on total consumption (in percentage, by decile)



Source: Cameroonian authorities and World Bank staff calculations.
 Note: The distribution of fuel consumption by deciles is estimated from data from the 2021-2022 household survey.

Figure 37. Congo - Distribution of kerosene consumption by gender (in percentage)

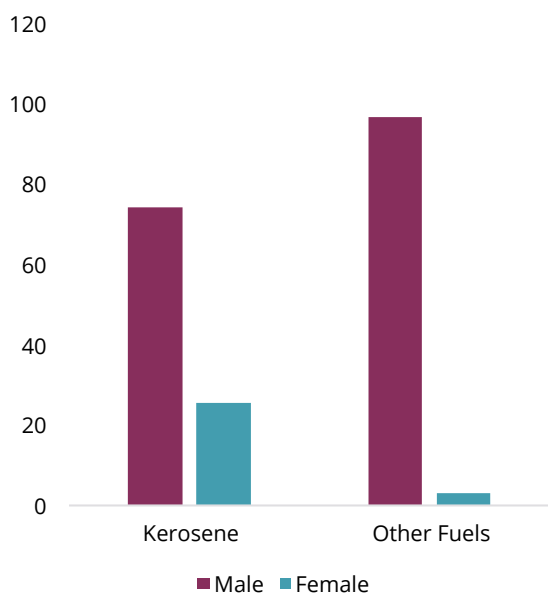
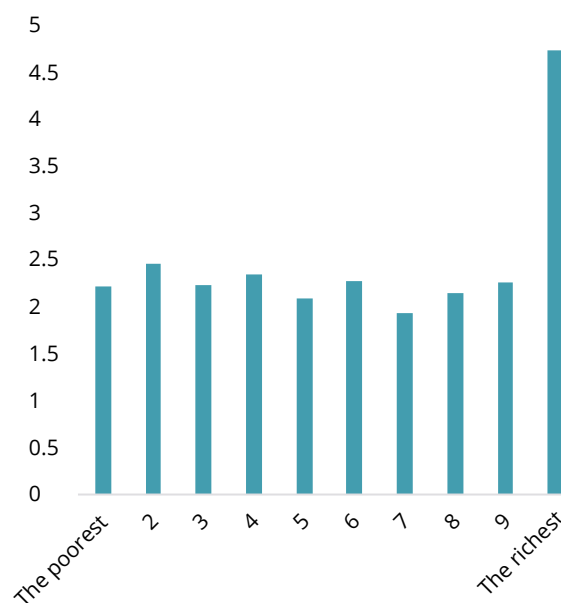


Figure 38. Congo - Share of fuel consumption over total budget by income group (in percentage, by decile)

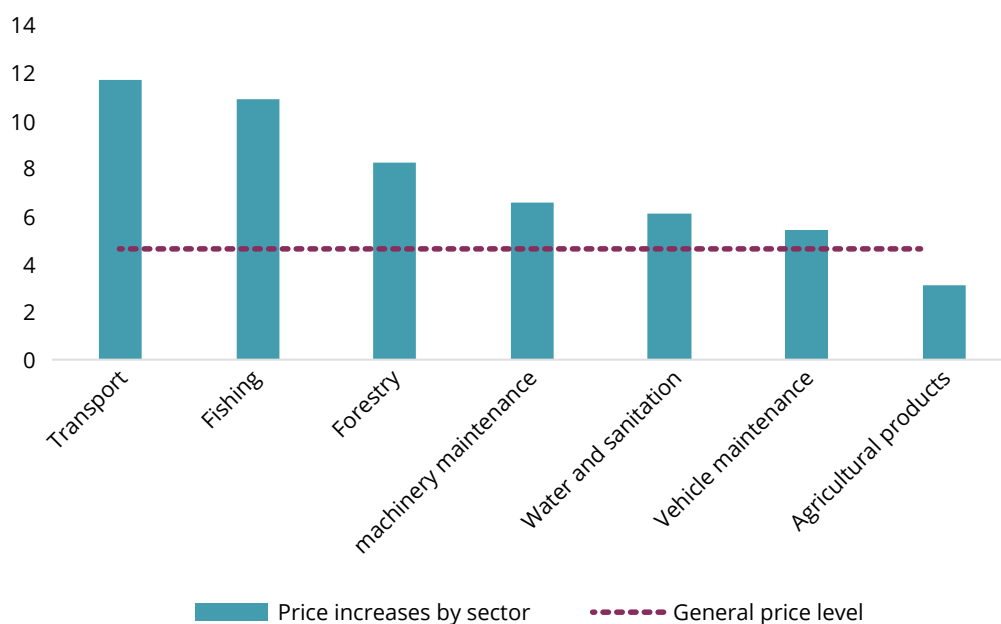


Source: World Bank calculations based on data from the 2011 Household survey "Enquête Congolaise auprès des Ménages pour le suivi et l'évaluation de la pauvreté" (ECOM)
 Note: "Other Fuels" include Gasoline and Diesel

An increase in fuel prices could have direct and indirect effects, implying a limited increase of the general price level. Directly, households are affected through their own consumption of gasoline or kerosene. Indirectly, they are also affected since petroleum products are used as intermediary products in many sectors and their higher price will feed into the price of the final good produced by these sectors. Again, data limitations do not allow for an assessment of the situation in Equatorial Guinea, but preliminary analysis in the case of Cameroon suggests that, based on the price

structure in January 2023, removing subsidies for all petroleum products except kerosene, for instance, would imply an increase of about 47 percent and 74 percent for gasoline and diesel, respectively, and lead to a one-time adjustment of about 4.7 percent in the overall price level (Figure 39). The highest increases would be observed in transport, fishing, and forestry. Because subsidies for kerosene do not account for the bulk of the fiscal costs, excluding them from a price adjustment would not erode much the potential fiscal savings of this action.

Figure 39. Cameroon - Price increase in case of withdrawal of fuel subsidies in 2022 (by sector, in percent)



Source: World Bank calculations based on data from the Cameroonian authorities (preliminary data based on 2012 calculations).

The removal of fuel subsidies would nevertheless add to the inflationary pressures in the country and, if not accompanied by mitigation measures, could push some households into poverty.

While representing a very small share of their income (as measured by consumption), the elimination of fuel subsidies erodes nevertheless the purchasing power of households. The removal of fuel subsidies could also exacerbate the severity of living conditions for those who are already poor. International experience shows that even small losses risk triggering negative coping mechanisms, such as pulling children out from school or selling productive assets, that erode human capital and contribute to the intergenerational transmission of poverty. Therefore, a fuel subsidy reform requires a strong mitigation package aimed at providing targeted support to the most vulnerable segments of the population.

The government's use of the fiscal resources freed up by the removal of subsidies is critical for the ultimate outcome of poverty, employment, and growth. Governments can reduce the fiscal burden of energy price subsidies and use the new fiscal space for more sustainable and equitable uses. The various options include paying down debt, investing in public infrastructure and in people, protecting specific population groups, and targeting assistance to certain industries. Simulations using economy-wide models tend to show that building or protecting human and physical capital lead usually to higher employment and growth rates.¹⁴ In the case of China, for instance, these simulations would suggest

that removing all energy subsidies (estimated to be 1.4 percent of GDP in 2007) without redistribution of the savings would have been detrimental to growth and employment. The more the savings from subsidy removals are reallocated to certain sectors (agriculture, services, and light industry), the greater the positive effects on these macroeconomic variables.¹⁵ Investing in a country's people, in their health, their skills, and their resilience to shocks, is critical to foster more inclusive growth, especially for CEMAC countries where the average child born today will be only 37 percent as productive as he or she could be.

¹⁴ Burns, Andrew; Djiofack Zebaze, Calvin; and Prihardini, Dinar (2018) "Energy Subsidy Reform Assessment Framework: Modeling Macroeconomic Impacts and Global Externalities. World Bank, Washington, DC.

¹⁵ Lin, B., and Z. Jiang. 2011. "Estimates of Energy Subsidies in China and Impact of Energy Subsidies Reform." *Energy Economics* 33:273-83

2/ General Principles from International Experience



International experience shows that removing fuel subsidies has been difficult. In many countries with limited social safety nets, a generalized subsidy is seen as a part of the social contract. This could be particularly true for oil producing countries. As further developed below, transparency and trust between the authorities and the population are crucial to convincing the population about a credible mitigation package. A couple of general principles could be drawn from the experience of countries that have carried out fuel price adjustments. These principles could frame a discussion for Cameroon.

2.1 Calibrating price adjustments by petroleum products

Depending on the consumer profile of each fuel (e.g., income group, area, gender, usage, etc.), it can be envisaged to prioritize the reform that benefit the richest segments of the population and represent the highest fiscal cost. For instance, some countries have decided to exclude (at least temporarily) from the subsidy reform socioeconomically strategic fuel(s) which (i) are used by the most vulnerable households and/or (ii) have a universal use (both from a geographic and a socioeconomic perspective) and/or (iii) are used in a systemic segment of the economy (agriculture, industry).

For example, kerosene tends to be consumed more by poorer households and in rural areas. In many developing countries, petrol and diesel are consumed mainly by wealthier households with private cars and/or power generators, as well as by the industrial sector. Eliminating (or substantially reducing) subsidies for the most regressive fuels could limit the fiscal cost, while mitigating the impact on low-income households.

Box 2. International country case – Indonesia

Since 1967, Indonesia had been subsidizing retail prices of fuel, a policy facilitated by its status of net oil exporter – lost in 2003 as the country needed to increase its oil imports to meet domestic demand.

The Indonesian government subsidized mainly two categories of fuel: cooking gas in the form of liquified petroleum gas (LPG), and two other petroleum products used for transportation – gasoline and diesel (the latter being used for public transportation, fisheries, and small and medium-sized enterprises).¹⁶

This fuel subsidy policy was favoring mainly the richest households, as over 50 percent of subsidized fuel was bought by the richest 20 percent of the population in 2014.¹⁷

In addition, the fiscal and social opportunity cost of energy subsidies (LPG, petroleum products and electricity) had become particularly heavy, accounting for 20 percent of Indonesia’s central government budget from 2008 to 2014, surpassing by far government expenditure on health and infrastructure over the same period.¹⁸

In November 2014, President Joko Widodo launched a reform of gasoline and diesel subsidies (prices for gasoline were increased by 31 percent and 36 percent for diesel in 2014, prices of kerosene were kept unchanged).¹⁹ The price gap was further narrowed by a decrease in international oil prices. As a result of the reform, the Revised State Budget 2015 saved US\$ 15.6 billion (IDR 211 trillion) on fossil fuel subsidies, equivalent to 10.6 percent of government expenditure.²⁰

As of January 2015, the Government fully removed the subsidy on gasoline, but introduced a fixed subsidy on diesel, because it was used by public transporters (mostly used by the most modest segments of the population) and by small and medium-sized enterprises (SMEs). Domestic diesel prices were allowed to fluctuate, while benefitting from a fixed subsidy of 1,000 rupiah per liter.

This temporary measure in favor of diesel should have been part of a longer-term agenda aimed at phasing out subsidies more broadly, but is still in place.

¹⁶ *A citizen's guide to energy subsidies in Indonesia* – IISD, Global Subsidies Initiative and IESR,

¹⁷ *Financing development with fossil fuel subsidies – The reallocation of Indonesia's gasoline and diesel subsidies in 2015* – IISD, Global Subsidies Initiative, P2EB - May 2016.

¹⁸ *Indonesia's effort to phase out and rationalize its fossil fuel subsidies* – A self-report on the G20 peer review of inefficient fossil fuel subsidies that encourage wasteful consumption in Indonesia, 2019

¹⁹ *President Jokowi's Economic and Energy Reforms: A Year in Review* – The National Bureau of Asian Research, October 2015.

²⁰ *Financing development with fossil fuel subsidies – The reallocation of Indonesia's gasoline and diesel subsidies in 2015* – IISD, Global Subsidies Initiative, P2EB - May 2016.

2.2 Adopting a mechanism to move gradually towards market-based pricing

While eliminating subsidies and allowing national retail prices to reflect international prices, many countries have opted to keep some smoothening mechanism in place to protect their population and their economy from wide swings in fuel prices.

While appealing, stabilization funds carry high fiscal risks and have faced very often financial difficulties requiring support from the budget, especially in times of steadily rising oil prices.

Adopting a mechanism to move gradually toward market-based pricing is an option to mitigate the impact of commodity price volatility while managing fiscal risks.

Limiting a full pass-through of price changes to domestic consumers entails significant volatility in tax revenues and potentially high fiscal costs, especially during periods of sustained increases in international prices. In this context, adopting an explicit fuel pricing formula that smooths price variations but allows for the pass-through of international prices to domestic consumers, both increases and decreases, may offer a balance between excessive price volatility and fiscal risks. The adoption of such automatic pricing mechanisms should be viewed as the first step towards a fully liberalized and competitive fuel market.

The first pillar of such an option is to design a fuel price adjustment formula. Several price smoothening mechanisms are possible.²¹ One of the most common price smoothening mechanisms is the establishment of a price band mechanism. This mechanism sets a cap on the magnitude of possible

retail price changes (either defined as a percentage of current retail prices or as an absolute amount). At a pre-defined interval (for example, monthly), the retail price will be determined based on the average import cost of the previous month and will be allowed to increase within the limits of this cap, either in a one-shot or in successive increases allowing prices to catch up gradually to international price levels. Another common price smoothening mechanism is the establishment of a moving average mechanism. This mechanism defines domestic retail price adjustments based on changes in the average of past import costs. The longer the average period of import costs used (for example, the past three or five months of imports), the smoother the price changes, but the higher the fiscal risk.

The second pillar of this measure is the adoption of a calendar to review the price adjustment formula. For instance, the margins defined in a formula can be updated based on the findings of studies to be commissioned regularly. *The third pillar* of this measure is the creation of a technical autonomous body in charge of the implementation and supervision of the automatic pricing mechanism. The intention is that price changes do not result from a political decision but rather reflect international market price fluctuations.

²¹ *Automatic Fuel Pricing Mechanisms with Price Smoothing: Design, Implementation and Fiscal Implications* - IMF, Fiscal Affairs Department, December 2012.

Box 3. International country case – Morocco²²

In the early 2010's, a multiyear subsidy reform strategy was launched to reform retail fuel prices in Morocco (excluding LPG, deemed socioeconomically strategic).

The strategy comprised three stages: a preparation phase characterized by incremental increases in retail prices to gradually reduce subsidies; a partial indexation phase whereby prices were defined according to an automatic pricing mechanism with smoothing rules aimed at gradually eliminating subsidies; and a final phase of price liberalization.²³

In 2013, following a preparation phase which introduced differentiated ceilings on unit subsidies (higher ceilings for diesel), the government introduced an automatic pricing mechanism for diesel and gasoline. This mechanism was based on a moving average of international prices in the previous two months. The adjustment frequency was monthly and was later adjusted to become more frequent (bi-monthly) until subsidies were fully eliminated (in January 2014 for gasoline and fuel oil and December 2014 for automotive diesel).

2.3 Staggering the reform

Many countries have not eliminated fuel subsidies in one go but sequenced and gradually implemented the reform. This allows households and firms time to adjust, which accompanied by mitigation measures, supported both groups in the transition process. A review of cases of fuel subsidy reforms shows that subsidy reforms are less subject to rejection and/or reversal when prices are raised in an incremental manner, over periods ranging from a few months to a few years. This approach slows down the passthrough of the impact, allowing the population to adjust gradually, hence

reducing risks to social stability, especially when combined with strengthening social safety nets, including temporary, targeted transfers, and supported by consistent communications to raise awareness of the benefits of reform. Transparency, including clear communication and managing expectations, is critical throughout the reform process. In a staggered reform, it opens the possibility of announcing the timing of price increases to prepare citizens, allowing them time to change their behavior, and adopting more energy efficient alternatives.

²² *The time is right! Reforming Fuel Product Pricing Under Low Oil Prices* – IMF, Fiscal Affairs Department, July 2020.

²³ *A phased approach to energy subsidy reform – The Morocco experience* – ESMAP, Practitioner's exchange series.

Box 4. International country case – The Philippines²⁴

The Philippines is an example of a successful sequenced reform, having phased out fossil fuel subsidies in the late 1990s following several policy milestones.

Before fully liberalizing fuel prices, the Philippines went through several stages ranging from (i) 1984: implementing an oil stabilization fund (intended to smooth international price volatility); (ii) 1996-1997: transitional subsidies assisted by the stabilization fund; (iii) 1996-1997: implementing an automatic pricing mechanism adjusting monthly prices, with a special attention given to the three most socially sensitive products (LPG, kerosene and regular gasoline); and (iv) 1998: market-based fuel pricing.

The impacts of these fuel subsidy reforms were mitigated using targeted cash transfers, as well as transitional targeted regulated subsidies aimed at low-income households, specific sectors, and socially sensitive fuels.

In parallel to the fuel subsidy reform, an electricity sector reform also took place as part of a comprehensive energy sector policy strategy. This reform was designed to deregulate the sector while protecting the most vulnerable customers (a lifeline rate for low-income users cross-subsidized by high-income groups, targeted subsidy providing discounted electricity prices to senior citizens, a one-off cash transfer for marginalized electricity consumers to cushion the impact of rising electricity and fuel prices).

2.4. Stakeholder consultations

Countries that have successfully reformed energy subsidies have undertaken extensive consultations and communication campaigns to address the concerns of various population groups. Consultations have helped the government

identify differentiated measures according to each group's vulnerability. Communication has stressed the urgency of the reform, as well as the government's commitment to reallocating resources made available by the reform to programs that benefit most of the population.

²⁴ *Lessons Learned: Fossil Fuel Subsidies and Energy Sector Reform in the Philippines* – GSI Report, International Institute for Sustainable Development and Global Subsidies Initiatives, March 2014.

These sessions are also the occasion to unbundle misconceptions about fuel prices, subsidies, and compensation mechanisms. They can be the opportunity to discuss the magnitude, timing, and relevant mitigation

measures of the subsidy reform. Organizing consultations with key stakeholders gives them a platform to express their views, reducing the risk for an abrupt rejection of the reform during its implementation.

Box 5. International country case – Ukraine²⁵


In 2015, Ukraine undertook a subsidy reform for gas, electricity and district heating.

In addition to providing strong mitigation measures such as strong social protection measures, the reform significantly relied on dialogue with key stakeholders (especially end-consumers) to (i) explain the objective of the reform (common good), as it was largely misunderstood; (ii) guide the sequencing of reform policy at a pace deemed acceptable; (iii) revitalize access to compensatory social safety net mechanisms, little known or understood

The communication strategy was successful in (i) mapping key stakeholders as 2,000 citizens were polled, in 20 strategic cities; (ii) informing these stakeholders through the organization of 40 dialogue groups as well as reaching-out campaigns (advertisements were broadcasted 400 times a week through 19 credible and popular TV channels); (iii) co-designing the reform with citizens.

²⁵ *Designing Communication Campaigns for Energy Subsidy Reform*, Heather Worley, Sara Bryan Pasquier, Ezgi Canpolat - Energy Subsidies – Good Practice Note 10, ESMAP and World Bank Group.

3/ Accompanying Measures



Country experiences illustrate the variety of possible accompanying measures to make adjustments in fuel prices socially acceptable and with minimized impacts to the population. They show that there is not a standard single set of actions, but that these measures need to be discussed, identified, and designed to reflect the concerns and the characteristics of each country.

3.1 Reinforcing Social Safety Nets

International experience shows that social safety nets can play an important role in mitigating the adverse effects of the subsidy reform on the poor.²⁶ Most countries spend 1–2 percent of GDP on safety net programs (excluding subsidies), Equatorial Guinea spends only 0.03 percent of GDP on social protection.²⁷ Safety nets are effective and efficient at supporting the poor and vulnerable by: (i) redistributing income, with an immediate impact on both poverty and inequality, (ii) enabling households to make better investments in their future—both in the human capital of their children and in their livelihoods, and (iii) helping households

manage risk and cope with shocks. To mitigate the immediate impact of fuel subsidy reform, measures can be designed to provide a temporary, targeted financial support to protect the purchasing power of affected groups, especially the poorest households. The success of these measures greatly depends on several factors, such as the modality of their design (scope, conditionality, roll-out) as well as their adequacy with the local capabilities (such as fiscal space, existence of a complete and up-to-date social registry, administrative management). Such support can be provided, for instance, through a social safety net system (Box 6).

²⁶ Social safety nets are non-contributory transfer programs, including cash transfers, income support through public works programs, or in-kind transfers such as school feeding.

²⁷ Data from Equatoguinean authorities and World Bank staff calculations (2021).

The 2005 cash transfer program in Indonesia shows that logistics matter. The Government of Indonesia launched a cash transfer program in October 2005 to support the poor and vulnerable adapt to the effects of higher gasoline, diesel and kerosene prices. First, the timing of the program was key in reducing protests against the reform, as the program was designed and deployed in less than five months, providing timely support to affected groups. Second, using an existing delivery system (the national postal system), the cash transfer program was able to reach those most in need with limited delay. Last, the amount provided (Rp 100,000, equivalent to 20

percent of the 2005 national minimum wage) was significant enough to improve outcomes.²⁸ The transfers were mainly used for purchasing rice, kerosene, and health services as well as repaying debt and led to slight improvements in labor, education and health outcomes. While two-thirds of the benefits went to the poorest 40 percent of the population, the cash transfer program encountered, nevertheless, several challenges, including the lack of transparency in the selection of beneficiaries (some households receiving transfers should not have been eligible), increasing the fiscal cost of the program.

Box 6. Reinforcing social safety nets as a mitigation measure²⁹

Social safety nets can play a key role in mitigating the negative effects of a fuel price adjustment. Depending on the state of development of the social safety net programs, various options are possible:

1. **Increase the benefit levels of existing social safety net programs.** This is the preferred, most direct and most effective option if - and only if - the programs already cover the majority of the poor and have the capacity to absorb a reasonable number of new eligible households. This option is particularly relevant in countries where there are existing programs with high coverage, but low benefit levels (e.g., Azerbaijan, Egypt, the Philippines, Russia).
2. **Introduce a new dedicated program directly linked to the subsidy reform.** This program should be able to expand very quickly to cover the poor and vulnerable. This is often the most difficult option, but sometimes it is the only viable strategy. Examples of the use of this option include subsidy reform in Indonesia in 2005-2008, subsidy reform in India in 2013, or, more recently, temporary compensation in Jordan as part of the 2012 and 2018 reforms. This option requires significant administrative, implementation and coordination capacity, which may not be readily available.

²⁸ *Indonesia – Trends in wages and productivity* – International Labor Organization, January 2015.

²⁹ Yemtov, R., & Moubarak, A. (2018). Good practice note 5: Assessing the readiness of social safety nets to mitigate the impact of reform. Energy subsidy reform assessment framework.

3. **Reform and extend the coverage of an existing program to cover a significant share of the poor and vulnerable.** International experience shows that this expansion and increase in benefit adequacy can happen relatively quickly: for example, programs in Tanzania, Senegal and Indonesia have moved from 5-10 percent coverage of the poor to more than 50 percent coverage of the poor within 2-4 years. The reform in the Dominican Republic is another example: a pre-existing cash transfer program was substantially expanded to mitigate the impact of the subsidy reform on the poor.

The government of Equatorial Guinea increasingly recognizes the urgent need for a social inclusion agenda. In 2015, Equatorial Guinea committed to the United Nations 2030 Agenda, and since then, the country has undertaken several actions to achieve the Sustainable Development Goals. Due to implementation challenges, however, the government adopted an interim plan - the ARE (Agenda De Recuperación Económica De La República De Guinea Ecuatorial, 2020-2022) - which has shown a growing recognition of the urgent need for a social inclusion agenda. Under the ARE social inclusion agenda, the government has expressed its intention to eradicate poverty with targeted interventions and social programs for the extreme poor. Most of these interventions relate to in-kind and food subsidies such as uniforms and school kits, school feeding, targeted health services, and housing. Other programs mentioned are universal basic pension and income support for poor families. Moreover, social protection is one of the key areas for reforms in the Equatoguinean National Development Strategy 2035 (AGENDA 2035).

In September 2022, Equatorial Guinea's congress approved the country's first Social Protection draft Law, and it is expected to have full government approval soon. The Social Protection Law - "Proyecto de Ley

Reguladora del Sistema de Protección Social de Guinea Ecuatorial" contains operating principles including a social registry (Registro Unico Social; RUS) and the establishment of a Social Protection Institution (Instituto de Protección Social; IPSO) in charge of social protection policies and strategies. UNICEF has supported the development of the Social Protection Law. The Standing Committee on Social Policy, Gender Equality, and Employment Promotion is evaluating the draft Law to ensure greater coverage and efficiency.

The Social Protection Law establishes a long-term vision for social protection and institutional arrangements with clear rules and responsibilities, as well as common guides and a planning tool for government programs. The law contemplates (a) establishing a permanent social safety nets program; (b) providing a long-term, predictable budget for key social safety net programs; (c) mobilizing regular government financing to ensure predictable payments of cash transfers to beneficiaries as per the established calendar; and (d) establishing a permanent and stable government structure to administer social safety net programs.

While the government responded swiftly to the COVID-19 pandemic and the Bata explosions, social protection remains low in

Equatorial Guinea. In 2021, the government launched the country's first cash transfer program using mobile phones. A series of explosions in a military camp in Bata killed 100 people, injured 615 people, and destroyed 300 houses in March 2021. UNICEF supported a cash transfer program to almost 100 families affected by these explosions. The transfer was three months in duration and provided families with approximately US\$ 275 per month.³⁰ Beneficiary families were encouraged, through the involvement of community leaders, health workers, and NGOs, to prioritize the use of funds for children's care and nutrition. Despite these efforts, the social protection system in Equatorial Guinea mainly includes untargeted fuel subsidies, housing support, and contributory social insurance for workers in the formal sector. Social assistance programs for the poor are provided on a small scale and primarily by non-profit private organizations. While there is a policy for targeted health fee waivers, there is yet to be a reliable mechanism to target the poor as beneficiaries of social assistance programs.

Equatorial Guinea's recent social safety net experiences are opportunities to establish the building blocks for an inclusive and sustainable social protection system. The recent ARE interim plan for 2020–22 and the government's response to the recent crisis have shown a growing acknowledgement of the urgent need for a well-functioning social protection system.

Once the Social Protection Law is adopted, the next step should be to establish a permanent social safety net program. The government, in collaboration with international and national development partners, could design, implement, and evaluate a comprehensive social safety net



program to alleviate poverty and protect the most vulnerable from the effects of future negative shocks. This program should be based on the lessons learned from the responses to the pandemic and the explosions, as well as global and regional best practices. This program, under the guidelines of the social protection law, could help build key components of a strong social protection delivery system, including a beneficiary registry and digital payments system, which are also needed to enable the country to respond to shocks.

A permanent social safety net program would require enhanced government coordination, financing and monitoring and evaluation capabilities. Currently, there are no shared administrative tools, systems and

³⁰ UNICEF (2021) "Principales contribuciones de las Naciones Unidas a las Catástrofe del 7M: Plan de Respuesta y Recuperación, Informe Final"



Credits: Freepik

no budget lines for social protection programs. The budget allocated to social programs has varied over time, with no consistent pattern, financed by private companies without any strategic plan for longer term delivery. Several institutions are involved in social protection, including the Ministry of Health and Social Welfare, Ministry of Labor and Employment and Social Security Promotion, Ministry of Social Affairs and Gender Equality, and the National Social Security Institute (INSESO). In 2008, the total resources allocated to the Ministry of Social Affairs and Gender Equality, one of the ministries that could be expected to take on a leading role in the implementation of social protection, was only 1.6 percent of the total budget. The coordination of social assistance interventions is limited, as they are provided primarily by non-profit private organizations, such as NGOs and there is currently no monitoring of social assistance programs.

A social safety net program would need to be targeted and therefore require a comprehensive social registry. Currently there is no targeting mechanism of social safety net programs. Furthermore, weaknesses in data and analysis on poverty and vulnerability mean that there is limited understanding of the problems that need to be addressed, so program benefits are not related to individual needs. The second National Household Survey (currently ongoing) will help inform current needs and assess poverty in the country. Under the context of the cash transfers coordinated by UNICEF for the support to Bata, data was collected for the first Single Social Registry (RUS), an open database maintained by UNICEF. Notwithstanding, the RUS remains limited in coverage and needs to be expanded.

3.2 Increasing transparency of public financial management

Some countries have chosen to reinforce trust in public action and public financial management. This stronger trust was achieved by promoting greater transparency as part of the mitigation measures offered in the compensation package. Concrete, attributable and monitorable actions were taken, targeting one or several segments of public resources management. Azerbaijan provides an interesting example, where fuel

subsidy reform (2006-2007) was accompanied by reforms to improve the transparency of oil revenues and investments to improve electricity services. More specifically, post-reform compensatory measures have gone hand in hand with increased transparency in the management of social safety net mechanisms, including social insurance and targeted social assistance administrations.

3.3 Increasing social public spending

An additional channel to rebuild trust between a government and its constituencies – especially during critical times of a subsidy reform – is to retarget fiscal policy towards social spending, especially in a context where out-of-pocket expenditure for social services is high. This could generate a double beneficial effect: (i) support the purchasing power of affected groups, especially low-income groups; and (ii) allow citizens to easily trace the use of savings realized thanks to the reform. Morocco, for instance, reinvested the savings it achieved through its fuel subsidy reform in the early

2010's in social sectors. These savings were redirected to (i) targeted support for poor households through several mechanisms (conditional cash transfers, free medical care for low-income groups, financial support for widows, orphans, and people with disabilities); and (ii) investment projects in the education sector. The Government of Morocco took the opportunity of these mitigation measures to also support the implementation of other sectoral reforms, by conditioning some of its aid to specific items (e.g., school enrollment, and the establishment of a social security number).

3.4 Supporting the transport sector

Providing temporary compensation for the transport sector could help prevent higher fuel prices from translating into higher prices for other goods and services. Examples of short-term measures include the temporary implementation of subsidies to carriers to limit higher fuel prices from being passed on to travelers, especially the most

vulnerable households. Such subsidies could be implemented through various mechanisms, such as direct financial support to transporters or travelers, or tax relief targeting the transport sector. Examples include the support for the adoption of energy efficient modes of transportation, the improvement of transport infrastructure which would positively impact

the maintenance cost of vehicles, and the implementation of public policies aimed at facilitating mobility (e.g., mass transportation, congestion control through transportation and urban planning). However, such measures can carry high risks of leakage. The Dominican Republic has prevented such abuses by limiting compensation to truck drivers whose

vehicles were officially registered with the tax authority. Country experiences with transfers to the transport sector also highlight the risk of capture of transfers by private operators, without the benefits being passed through to end users. As a general principle, the closer the benefit is to end user the highest chance of success of the selected measure.

3.5 Increasing productive structural public investments

As with higher social spending, allocating additional resources to productive structural public investments can serve the double purpose of reinforcing trust in public action as well as contributing to a positive structural transformation. Subsidy reform in Indonesia (2015) was combined with increased spending on health, education, and transfers to local governments.³¹ This spending

was provided through several mechanisms, such as increased budgetary allocations to particular ministries (Education, Agriculture, Transport, Public Works and Housing), capital increases of key state-owned enterprises in the transport and agriculture sectors, and investment projects in key sectors at the local level (health, mobility, local economy).

³¹ *Financing development with fossil fuel subsidies – The reallocation of Indonesia's gasoline and diesel subsidies in 2015* – IISD, Global Subsidies Initiative, P2EB - May 2016.

Technical Annex 1

Fossil fuel types and uses

| Fuel type | Sub-category | Common uses |
|-------------|---|--|
| Oil | Gasoline | Automotive (light and medium duty, including motor bicycles), aviation, and marine transportation; limited use in very small-scale electricity generation. |
| | Bioethanol | Automotive (usually blended with gasoline). |
| | Kerosene | Heating, cooking, lighting, aviation. |
| | Diesel | Automotive (medium and heavy duty), rail, marine transportation, aviation, a heavy equipment, electricity generation, irrigation. |
| | Biodiesel | Automotive and aviation (usually blended with petroleum diesel fuel), electricity generation, heavy equipment. |
| | Fuel oil | Electricity generation, industrial application, marine transportation. |
| Gas | Natural gas (Methane) | Electricity generation, industrial application, space and water heating, cooking, refrigeration, automotive, marine transportation. |
| | Liquefied Petroleum Gas (LPG, Butane) | Cooking, heating (water, space, process), lighting, refrigeration, automotive. |
| Coal | Lignite (brown coal), anthracite, bituminous and sub-bituminous | Electricity generation, industrial heat, space heating, cooking. |

Technical Annex 2

Quantifying fossil fuel subsidies in CEMAC

1.1. Defining fuel subsidies

A fossil fuel subsidy can be broadly defined as a deliberate policy action by the government that specifically targets fossil fuels and that results in at least one of the following effects:³²

- It reduces the net cost of fuel purchased
- It reduces the net cost of fuel produced or delivered
- It increased the revenues retained by those engaged in fuel production and delivery.

This definition excludes (i) government inaction (such as weak capacity to implement regulations or tax administrations); and (ii) policy actions which would affect the whole economy, such as lowering the corporate income tax rate or the general income tax rate. The cost of subsidies can be either covered by direct budgetary transfers (such as direct support to oil producers), foregone fiscal revenues (such as tax exemption at any point of the fuel supply chain), or other implicit channels (such as the underpricing of government or government-regulated inputs to the fuel production and supply chain, transfer of the cost of subsidies from one category of customer to another, as is the case in cross-subsidization, etc.). In CEMAC, fossil fuel subsidies are distributed through various mechanisms³³ such as:

| CEMAC Country | Fossil fuel subsidy provision mechanism |
|--------------------------|---|
| Cameroon | Budgetary transfers, tax exemption |
| Central African Republic | Government-induced transfers between importers and distributors, underpricing of services |
| Congo, Republic of | Budgetary transfers, tax exemption |
| Equatorial Guinea | Budgetary transfers, tax exemption |
| Gabon | Government-induced transfers between consumers, budgetary transfers, tax exemption |

This chapter focuses on the *result* of fossil fuel subsidies, taking the form of price distortions whereby the price set by the government or charged by the fuel seller (retail price) is purportedly maintained below the price that would prevail in a competitive market (reference price). This notion leaves aside indirect forms of subsidies to producers (such as credit guarantees or financial assistance, which eventually lower the production cost and/or sale price). However, it allows for an easier cross-country comparison and is commonly used throughout specialized literature.³⁴

³² This definition is based on the Energy Sector Management Assistance Program (ESMAP) Good Practice Note 1 – Identifying and quantifying energy subsidies, by Masami Kojima.

³³ These mechanisms are based on the nomenclature presented in the Energy Sector Management Assistance Program (ESMAP) Good Practice Note 1 – Identifying and quantifying energy subsidies, by Masami Kojima

³⁴ Including by the International Energy Agency and The International Monetary Fund.

