

DIFFICULTIES IN IMPLEMENTING THE NATIONAL PLAN OF EQUATORIAL GUINEA FOR ATTRACTING FOREIGN CAPITAL - INVESTOR CONCERNS AND INTERCULTURAL GAPS

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DOI: 10.24193/subbeuropaea.2019.1.02

Published Online: 2019-07-01

Published Print: 2019-07-15

Abstract

This paper analyzes the difficulties of the government of Equatorial Guinea to fulfill an essential objective of its national development framework, i.e., the diversification of the economy through the private sector. This paper begins with a brief history of the country and its economy. The paper then moves to describe the efforts made by the government to attract foreign investors and outlines their concerns on the socio-political environment and business uncertainty. Equatorial Guinea, today one of Africa's most important oil producers, used to be one of the world's poorest countries with an economy mainly based on the growth of coffee and cocoa. In the mid-1990s, significant deposits of oil and gas were discovered, leading to a substantial economic change. In the following years, the government, supported by international organizations, decided to launch a national program. Its goals were building modern infrastructure, strengthening human capital, diversifying the economy through the private sector and maintaining efficient governance. As of today, attempts to attract foreign investors have not yet succeeded, and the economy continues to base on oil and gas revenues. The paper concludes by arguing that the way the locals perceive the governmental efforts and the market conditions is entirely different from the way potential investors view it, and this gap must be bridged.

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Keywords: Equatorial Guinea, Intercultural Gaps, Foreign Capital, Natural Resources

Introduction

In the morning of February 3, 2014, the president of Equatorial Guinea (EG) took his place at the new conference hall of Sipopo, and inaugurated, in the presence of government members and representatives of three hundred companies, a symposium on economic diversification. While addressing the foreign investors, the president said: "the environment of peace and stability enjoyed in EG offers the most favorable conditions for creating a good business climate."¹ Equatorial Guinea, a former Spanish colony, used to be one of the world's poorest countries until the discovery of oil and gas in the mid-1990s. The change in the country's economy was enormous, and a few years later it was clear that the challenge is to use the oil wealth to achieve sustainable growth and improved social situation. To meet this challenge, the government prepared a national plan "Horizon 2020"² aimed to diversify the economy. The first phase of the plan included the construction of infrastructure and was concluded in 2012. The second phase, diversification of the economy through the private sector, faced difficulties.³ Despite government efforts, foreign investors did not arrive as expected. The Guineans view is that there are good conditions for investments in their country and the socio-political environment is stable, while foreigners might have a different impression. This paper analyzes the situation with particular attention to cultural aspects. It begins with a brief history of the country and its economy. The paper then moves to the efforts made by the government to attract investors and describes investors' concern of the socio-political environment, bureaucracy and business uncertainty. The paper concludes by arguing that the way the locals perceive the national

¹ Government of Equatorial Guinea, 2014. The Symposium on Economic Diversification was inaugurated. [Online]. Available at: <http://www.guineaecuatorialpress.com/noticia.php?id=4776> [Accessed 30 March 2018].

² Ministerio de Planificación, D. E. E. I. P., 2007. Plan Nacional de Desarrollo Económico y Social. Bata: s.n.

³ African Development Bank, 2013. Republic of Equatorial Guinea - Country Strategy Paper 2013-2017, s.l.: African Development Bank.

efforts and the market conditions is different from the way potential foreign investors view them, and this gap must be bridged. The purpose of this paper is to highlight the country's difficulties to attract foreign investors, discuss its cultural aspects, and is not an economic analysis.

Historical and economic background

Equatorial Guinea is a small country in Central Africa, with a land area of 28,051 square kilometers and a population of 1,222,442 inhabitants.⁴ EG gained independence in 1968 after 190 years of Spanish rule. During the 19th century, Britain and Spain had mutual claims for ownership of the continental part of EG, and in Berlin Conference in 1884 it was decided that the region would be given to Spain.⁵ In 1968, after pressure from local movements and the international community, EG was granted full independence. The deputy prime minister of the transition government, Francisco Macias Nguema, was nominated as President. In 1979, After ten years of harsh attitude and human rights violation, he was replaced in a military coup by his nephew Teodoro Obiang Nguema Mbasogo, which is still in power today. Obiang was reelected in 2016 for another period of 7 years.⁶ Until the mid-1990s, EG used to be one of the world's poorest countries with a GDP of less than 700 USD.⁷ The economy was mainly dominated by the export of cocoa and coffee with a small service sector. The majority of Guineans remain as subsistence farmers with almost no integration into the market economy. EG was on the fringes of the global agenda and did not get much international attention. In the mid-1990s, significant oil and gas deposits were discovered, transforming EG to the third largest oil exporter in Africa. EG today is well integrated into the international community and, among others, is an OPEC member since May 2017⁸ and a non-permanent member of the UN

⁴ UNDP, 2018. Human Development Report- Equatorial Guinea. [Online] Available at: <http://hdr.undp.org/en/countries/profiles/GNQ> [Accessed 31 March 2018].

⁵ Birmingham, D. & Martin, P. M., 1983. History of Central Africa. 1st ed. London: Longman.

⁶ CIA, 2018. The World Factbook: Equatorial Guinea. [Online]

⁷ Ibid

Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/ek.html> [Accessed 1 April 2018].

⁸ OPEC, 2018. Equatorial Guinea facts and figures. [Online]

Available at: http://www.opec.org/opec_web/en/about_us/4319.htm [Accessed 17 April 2018].

Security Council since January 2018.⁹EG inhabits five main ethnic groups, each one with different cultural characteristics. Historical tensions are existing between the Fang and the Bubi tribes, Fang from the mainland and Bubi from the island, who together make up ninety-percent of the country's population. The ethnic composition is complex for such a small political unit.¹⁰

The change in the country's economy

After the discovery of the oil and gas, the country has experienced significant progress in many areas including infrastructure, education, health, housing and more. Since the mid-1990s the country has been one of Africa's fastest-growing economies. However, the economy is still mostly dependent on oil, and traditional industries, such as coffee and cacao, were almost entirely abandoned. There was also a significant increase in the number of employees in the government sector. With the improvement of the economy, EG became a commercial destination for countries and business entities. Economic diplomacy starts to work, and different powers are operating in the country. American oil companies operate in EG and are responsible for all drilling rigs activity, Chinese companies are doing massive infrastructure projects, and other factors are trying to take part in the economic boom. The government, supported by international financial institutes, understood that the primary challenge of EG is to use its oil wealth to achieve sustainable and more inclusive growth to improve the country's social status. Despite the sustained growth and its natural resources, the country is lagging on the improvement of social indicators. Three-quarters of the population is considered poor, and job creation in the private non-oil sector is low.¹¹ In an attempt to change the situation the government prepared in 2007 its "Horizon 2020"¹², the national plan to diversify the economy until the year 2020.

⁹ UN Security Council, 2018. Current Members. [Online] Available at: <http://www.un.org/en/sc/members/> [Accessed 17 April 2018].

¹⁰ Liniger-Goumaz, M., 2000. Historical Dictionary of Equatorial Guinea. 3rd ed. Lanham: Scarecrow Press.

¹¹ African Development Bank, 2013. Republic of Equatorial Guinea- Country Strategy Paper 2013-2017, s.l.: African Development Bank.

¹² Ministerio de Planificacion, D. E. E. I. P., 2007. *Plan Nacional de Desarrollo Economico y Social*. Bata: s.n.

Horizon 2020 National Strategic Development Framework

Months of government work came to an end in November 2007 in the city of Bata, where a national conference was held and the national plan “Horizon 2020” was launched. The plan, aim to transform EG into an emerging economy by the year 2020, diversify the sources of growth, reduce poverty and dependence on oil and gas revenues, had four main components¹³⁻

1. Building world-class infrastructure.
2. Building human capital and improving quality of life.
3. Diversifying the economy through the private sector.
4. Instituting good governance at the service of the citizens.

The first phase of Horizon 2020, focused on infrastructure development was concluded in 2012. The second phase will focus on economic diversification, targeting strategic new sectors such as fisheries, agriculture, tourism, and finance. As the country moves into the second phase of the national development plan, the government is planning to redirect public funds towards the development of the new economic sectors.¹⁴ To advance the second phase of the national program, the government’s efforts are aimed at two target audiences- encouraging local entrepreneurship of businesses and attracting foreign investors.

Encouraging local entrepreneurs

The government invests efforts to support local entrepreneurs and has established a dedicated Ministry for this purpose. One of the main challenges is the local mentality, as there are not many Guineans who prefer to start their own business rather than work as employees for others, and there is no tradition of independent entrepreneurs in the country.¹⁵ The ministry of trade and promotion of small and medium-sized businesses is trying to encourage local entrepreneurs and cross this obstacle, but so far

¹³ *Ibid.*

¹⁴ World Bank, 2018. Equatorial Guinea Overview. [Online] Available at: <http://www.worldbank.org/en/country/equatorialguinea/overview> [Accessed 31 March 2018].

¹⁵ No tradition of entrepreneurs- no family history of independent business and market economy.

with limited success. According to a senior official in the ministry of planning¹⁶, the roots of this issue can be found in the local culture. People who have financial resources prefer to avoid making investments because they do not want to expose their financial ability, due to the fear well established in the local mentality, that people will talk about possible illegal sources for this money. Another reason is the bureaucratic system that requires to provide information and obtain approvals from officials who might be of acquaintances or even family members. Another challenge is the banking system, that is not fully accessible to the private sector. Despite high bank liquidity, commercial banks appear unable to transform deposits into loans effectively. The banks extend about 80 percent of loans to large enterprises and construction firms depending on government contracts.¹⁷

Efforts to attract foreign investments

Foreign investments are essential to advance the second phase of Horizon 2020. The government is making efforts to attract investors, but so far, success is less than expected. In February 2014 the government initiated a symposium on economic diversification. In his opening speech¹⁸, president Obiang said about Africa that "African countries must divorce ourselves from under development," and in particular for investments in EG "the environment of peace and stability enjoyed in EG offers the most favorable conditions for creating a good business climate." In his words, the president expressed the Guinean point of view- "all the conditions are in favor of the investors, we offer stability and good opportunities and you, the investors, are warmly invited"¹⁹. To make theory become a reality, the government established the "Holding Guinea Ecuatorial," a national entity to support and co-finance investments in new sectors. The holding includes a professional mechanism to evaluate projects, coordinate between

¹⁶ Anonymous. Interview with a senior official at the Ministry of Economy, Planning and Public Investments. Malabo, November 2017.

¹⁷ International Monetary Fund, 2016. The Republic of Equatorial Guinea- Selected Issues, Washington: International Monetary Fund.

¹⁸ Government of Equatorial Guinea, 2014. The Symposium on Economic Diversification was inaugurated. [Online] Available at:

<http://www.guineaecuatorialpress.com/noticia.php?id=4776>

[Accessed 30 March 2018].

¹⁹ Ibid

government bodies, assist with local bureaucracy, and offer state participation up to 49% of the project budget.²⁰ According to a senior official in the ministry of planning,²¹ two other considerations have led to this policy: first, the state is usually being asked to self-finance projects of its budget. The Guineans want to change this and to have an external credit. They refuse to accept a situation in which their country has no other options but to support projects out of state budget. Also, the Guineans want to avoid a situation in which a company completes a project, and within the time it becomes "white elephant."²² The government wants foreign companies to be obliged to the achievement of the project objectives. There is an understanding that due to a lack of knowledge and professional workforce, the locals, for now, are not able to take over complicated projects without support.

The foreign investors perspective

In *Doing Business 2018*, the annual World Bank report ranks the ease of doing business, EG is ranked 173 out of 190 countries. The most problematic issue is enforcing contracts.²³ According to the report, it is more challenging to start a business in EG than in most sub-Saharan countries. A foreign manager at a company working in EG²⁴ described the prevailing view among business people: "To do business with the government is one thing since it has the money. As for the private sector, the risk is huge. There is not enough information in the local markets, the level of certainty is low, and bureaucracy is not clear enough."

²⁰ Holding Guinea Ecuatorial, 2017. Holding Guinea Ecuatorial- Mision. [Online] Available at: <https://www.holdingequatorialguinea.com/espa%C3%B1ol/holding-guinea-ecuatorial/misi%C3%B3n/> [Accessed 2 April 2018].

²¹ Anonymous. Interview with a senior official at the Ministry of Economy, Planning and Public Investments. Malabo, November 2017.

²² "White Elephant- "A possession that is useless or troublesome, especially one that is expensive to maintain or difficult to dispose of." (Oxford Living Dictionary, 2018)

²³ The World Bank, 2018. *Doing Business 2018- Economy Profile Equatorial Guinea*, Washington: The World Bank.

²⁴ Anonymous. Interview with a senior manager of an Israeli firm. Malabo, February 2018.

The potential investor will probably find himself in a welcoming environment in the relevant government ministry. However, in the end, he will have a business plan with many question marks, and no one who is willing to participate in the risk. He will need to trust the political system. At the same time getting credit from local banks can be complicated. The business plan will rely on estimates and not on real market indicators. The fact that the locals do not invest in the domestic market is also a factor that increases the concerns of foreign investors.

Intercultural gaps

To gain success, both sides should be familiar with each other's culture and be able to practice intercultural management. Intercultural management is the combination of knowledge, insights, and skills which are necessary for adequately dealing with national and regional cultures, at the several management levels.²⁵ In the foreigners perspective, business management in this part of Africa has different characteristics than in other places in a variety of aspects, including, among others, managing and motivating employees, ethics and law, time management, negotiation and compliance with agreements. On the other side, locals should understand the different mentality and work methods. According to Hofstede²⁶, the shorthand definition of culture is "The collective programming of the mind that distinguishes the members of one group or category of people from others." According to Hofstede's theory, in at least three dimensions EG is at an extreme point, indicating possible cultural differences between the local society toward others. The dimensions are power distance, which has been defined as the extent to which the less powerful members of organizations accept and expect that power is distributed unequally. By its characteristic, the Guinean society is a case of large power distance. Another dimension is Individualism vs. Collectivism, in which the community of EG is characterized by collectivism: People are born into extended families or clans which protect them in exchange for loyalty. The third dimension is masculinity vs. femininity, in which the EG society is

²⁵ Burggraaf, W., 1998. Intercultural Management. Interview on cultures and the multicultural organization.

²⁶ Hofstede, G., 2011. Dimensionalizing Cultures: The Hofstede Model in Context. Online Readings in Psychology and Culture.

very patriarchic unlike the trend in the developed world. These cultural differences might lead to a situation being interpreted differently by each of the parties. Also, there is a shortage of available information about starting businesses, and cooperation with the authorities is limited²⁷. The next table summarizes the main perspective differences:

	Locals (EG) perspective	Foreigners perspective
Socio-political environment	Very stable	Not stable
Investors' confidence	high	low
Business certainty (market conditions)	high	low
Bureaucracy	reasonable	Complicated, unclear

As can be seen from the analysis, there are differences in the cultural worldview between locals and foreigners who wish to operate in EG, and both should understand the intercultural environment. These cultural differences constitute a significant barrier, delaying the implementation of the national plan, and impair the realization of the potential for economic growth.

What can be done to change the situation?

Given the complexities arising from the fact that EG is a developing economy and a market characterized by uncertainty and cultural differences, there are some steps that the government can consider to encourage investors.²⁸ It is vital to improving the country's international image since most available information is not accurate and can create a distorted picture of reality. The government can supply information as a supplement to the data published by external factors. The government should professionally manage the relations with financial institutions openly and

²⁷ See detailed information in *Doing Business- Economy Profile Equatorial Guinea*, Washington: The World Bank.

²⁸ According to interviews with ministerial officials and businessman.

transparently, and position itself as a reliable source of data.²⁹ Another issue is international credit ranking. The dialogue with ranking agencies should be continuous and transparent, so they can serve as another tool to evaluate risks and recruit capital. An essential component will be the establishment of a reliable statistic system.³⁰ The government should be active in the search for capital, and initiate contacts, for example with institutional investors who are not familiar with the country and its potential.³¹ The government may consider establishing local teams that will be trained to identify cross-cultural gaps, as well as professionals who can instill values of intercultural management in the local bureaucracy. The government should try to lower risks and uncertainty for investors, and part of it is to support them through state contracts and tenders. Finally, it is essential to allow free access to the country and to ease the mechanism to get entry permits.

Conclusion

EG has made a long way from one of the world's poorest countries to the third largest oil producer in Africa. Today the country's main challenge lies in transforming its oil-producing economy into a more diversified one. In 2007 the government issued the Horizon 2020 agenda aimed to diversify the economy. The first phase of building necessary physical infrastructure to assist the economy was concluded, but in the second phase, diversification of the economy through the private sector, there are obstacles. Despite the government's goodwill and efforts, there are very few external factors which are willing to risk and work in EG. One main reason for this is cultural differences. The way the Guineans perceive the national efforts and the market conditions is different from the way potential investors view it. The government should first understand the external point of view of the business risks and market deficiencies and

²⁹ African Development Bank, 2013. *Republic of Equatorial Guinea- Strategy Paper 2013-2017*.

³⁰ Ibid

³¹ See also- The Economist, 2015. Private equity in Africa- Unblocking the pipes. [Online] Available at: <https://www.economist.com/news/leaders/21640349-africa-needs-lot-capital-private-equity-offers-lessons-how-get-it-there-unblocking> [Accessed 10 April 2018].

may consider training local teams to identify cross-cultural gaps and instill appropriate practices in the public sector. The government has the option to increase the level of transparency and actively recruit potential investors. There is a great interest among the international business community to work in the region, and local governments can attract them and create a real change in the economy.

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