6

Conclusions and Recommendations

6.1 Introduction

Oil and gas resource endowments are a source of wealth and can be expected to support growth and development if well managed. This involves converting the wealth into physical and human capital, increasing and sustaining economic growth, and alleviating poverty. This report has clearly outlined that the successful pathway to fully harnessing the benefits of oil and gas resource wealth in Africa is nested in good institutions and governance, trade links, sound economic policies, and heavy investments in exploration technology, legislative framework, and human capital development.

Historically, oil and gas resource endowments in Africa have *not* yielded positive economic and development results for many countries. The experience has been more positive recently, and there are encouraging signs of better management and governance. Only history will tell whether this is a lasting change; the challenges are clearly still considerable for oil- and gas-rich Africa.

Oil and gas resources can be advantageous to economic development by providing a platform for three critical wealth elements:

1. Diversification away from dependence on agricultural primary products;
2. Investments in human capital development; and
3. Infrastructure development.

6.2 Sustainable Management of Oil and Gas Revenues

African leaders, regional institutions, and all key stakeholders have stated unequivocally that good governance is a key prerequisite for development. One of the key objectives of the African Union is to promote democratic principles and institutions, popular participation, and good governance. Furthermore, the African Union's New Partnership for African Development (NEPAD) identifies good governance as a basic requirement for peace, security, and sustainable growth and development.

Accountability and transparency in the management of public resources is critical in ensuring positive development results impact—and perhaps nowhere more so than when significant natural resource wealth such as oil and gas are present. As outlined clearly in this report, having rich oil and gas resources is not in itself a "problem" or an obstacle for development in African countries. While there are often clear linkages between resource abundance, on the one hand, and conflicts and relative underperformance, on the other hand, the real issues include fragile institutions, poor policy choices, inappropriate government practices, and inappropriate utilization of resources, especially inefficient investment of revenues.

6.2.1 *Economic and Social Measures for Maximizing the Benefits of Oil and Gas Resources*

The objective of maximizing oil and gas resource revenues and benefits for current and future generations can be broken down into four key elements, which correspond to different stages, from extraction through revenue flows to expenditure:

1. The first concerns contracts with exploration companies and appropriate fiscal regimes;
2. The second, transparency in natural resource payments and spending of the resulting revenues (including suggestions for more effective public sector financial management);
3. The third, the timing of natural resource expenditures, in particular, how this can benefit the general population and future generations; and
4. The fourth, investment and consumption decisions.

6.2.1.1 CONTRACTS AND FISCAL REGIMES

This is a crucial stage where the government has to ensure that the contracts reflect state interest and support environmental principles and sustainable extraction. Furthermore, the social responsibility of the companies has to be well expressed in the contracts in order to guarantee that communities will directly benefit from exploitation of the resources. The contracts also have to ensure the participation of local companies and investment of part of the revenues back in the country. In Africa, experiences and better practices that lead to equitable distribution of oil and gas revenues are gradually gaining momentum. In order to succeed, countries need to equip themselves with appropriate expertise, and with facts and data that can argue in favor of the state interest.

Oil and gas companies inevitably have better access to information on their specific business than African governments do. This information gap is sometimes compounded by an "agency" problem, which may occur when a deal is struck between the representative of a company and the representative of a country. Companies are in a better position to ensure that their representatives are acting in the interests of the company; whereas it is difficult for governments to ensure that their representatives are acting in the interests of the country. The information gap and the agency problem, combined, reduce the benefits that countries derive from their resources.

How can these information problems be addressed? An auction is an attractive option in a simple environment, since competition between firms will secure both efficiency—maximization of net revenues—and maximum net transfers to the government. Auctions also have the great merit of ensuring transparency, if conducted appropriately. Historically, exploration rights were attributed on the basis of public tenders where preselected companies were invited to present their proposals. These procurement procedures are slowly being abandoned in favor of auctions. In the oil and gas sector, it has almost become standard practice that exploration blocks are auctioned (for example in Angola, Chad, and Mozambique). An auction of the rights to exploration oil and gas blocks is the institutional practice that generally maximizes government revenues. The huge advantage of an auction, compared with other ways of selling rights, is that it uses competition between companies to reveal the true value of the rights. This redresses the informational disadvantage of the government and also addresses the government agency's weaknesses. A well-conducted auction vastly reduces the scope for government officials to put private gain before national interests (see AfDB, 2007*a*; Collier, 2007).

6.2.1.2 REVENUE TRANSPARENCY

In oil- and gas-rich countries, the general public perception is that the country harnesses large amounts of money from royalties, taxes, and contract signature bonuses, and that the governments mismanage such revenues or that the revenues benefit only a small part of the population. Sometimes this is, indeed, a verifiable perception, but not always. Regardless of the actual status, the perceptions can be more informed, and management can be improved significantly if the government and the companies decide to participate in public accountability and transparency initiatives.

As outlined earlier in the report, some of these initiatives include the Extractive Industries Transparency Initiative (EITI), the African Peer Review Mechanism (APRM), and Publish What You Pay (PWYP).

6.2.1.3 THE FLOW AND COMPOSITION OF EXPENDITURES

It is normally a function of governments to define the priority sector where the oil and gas revenues will be allocated. Researchers on natural resources have elaborated on the best way to use the accrued revenues and suggest the following approaches:

1. Accumulation of foreign assets;
2. Domestic investment—public or private;
3. Domestic consumption—public or private; and
4. Savings or investment funds.

The choice—or combination of choices—the government makes has to be based on sound information on resource reserves, future prices, and rates of return, as well as on the political economy of the country at the time of the decision.

6.2.1.4 ESTABLISHMENT OF STABILIZATION FUNDS

The governments or regions should establish and maintain stabilization funds using revenues from oil and gas resources. This is currently the case in Norway, São Tomé, the United States, Thailand, the Republic of Azerbaijan, and Nigeria. Such action will address the challenges of volatile prices. A nation can thus also spread the benefits of its oil and gas resource wealth over a long period and safeguard the interests of future generations (intergenerational benefits). Indeed, oil funds should be established to serve the purposes of stabilization, investment, and intergenerational equity enhancement. However, such funds should be integrated with the budget to strengthen fiscal policy coordination and public spending efficiency. They should not have the authority to spend. Financing funds should be preferred to funds with rigid rules. These funds devolve the focus of fiscal policy design and implementation to the budget and highlight the importance of non-oil balance for fiscal programming. Expenditure decisions should be reflected in non-oil fiscal indicators and in the net accumulation of assets in the oil fund, which, in some cases, may make fiscal policy more transparent (IMF, 2007). In addition, stringent mechanisms should be implemented to ensure transparency, good governance, and accountability; prevent the misuse of resources; and provide assurance that government assets are properly and prudently managed.

Channeling fiscal revenues from oil towards pro-poor investments: Some countries—such as Norway and the

Gulf (Middle Eastern) countries—have successfully used their oil wealth to stimulate growth for poverty reduction. They have done this by levying taxes on the extraction of natural resources and channeling the proceeds to poverty-reducing investments. This may include earmarking certain oil resource revenues for marginalized groups—often those living near the oil fields themselves or people from the oil-bearing communities.

Maximizing the productivity of existing natural capital through complementary public investments: Most types of natural resources require complementary investments to effectively generate growth. Many such investments are unlikely to be financed by the private sector and require public support. Examples include physical infrastructure such as irrigation facilities, which can sharply increase agricultural productivity, and transport infrastructure, which can provide access to markets and inputs.

Promoting diversification away from oil: Developing a successful modern economy based on natural resource exports is, in principle, feasible, given the right institutions and policies, as demonstrated by OECD countries such as Canada, Australia, or the Scandinavian countries. However, it is critical to use oil resources to develop a more diversified economic structure. Some policies are helpful in fostering diversification. These include establishing a conducive business environment and providing sufficient incentives to invest in non-oil sectors. A conventional measure is to use the tax system to assist the development of non-oil sectors. In addition to tax policy, there is also need for structural reforms, including financial sector and administrative reforms, to facilitate the diversification of economic activity. In many oil-dependent African economies, there is a large scope to reduce the burdens imposed by heavy regulation and an often corrupt bureaucracy, which, in addition to strengthening the financial system, would help create a more level playing field and decrease barriers to entry.

Development of alternative energy sources—Case for renewable energy: Over the past decades, conventional energy options, largely based on fossil fuels, were seen as economically more attractive than renewable energy options. However, the economic case for various forms of renewable energy is improving rapidly. According to OECD (2008), this is mainly due to three important trends: *First*, the volatile world market prices for conventional energy sources, in particular, oil, pose great risks for large parts of the world's economic and political stability, with sometimes critical effects on energy-importing developing countries. Concerns have been expressed that the rising cost of oil, which exceeded $147 per barrel in July 2008 before falling drastically in the last quarter of the year, may slow down recent economic progress in Africa and lead to tighter financial constraints. Moreover, dependence on imported fuels leaves many oil- and gas-importing countries vulnerable to disruption in supply, which may pose physical hardships and an economic burden for others. This situation has made it urgent for many countries to look for alternatives in order to make them less vulnerable to shocks in the fossil fuel markets.

Second, in the last few years, renewable energy technologies have experienced substantial improvements in cost, performance, and reliability, making them competitive today in a range of applications. Evidence shows that the cost of generating electricity from renewable energy sources has dropped significantly over the last 25 years and is expected to decrease further in the coming years. This steady fall in renewable energy prices has considerably improved the cost competitiveness of several renewable energy options, making them better placed to compete on the energy market. According to the OECD/IEA, small hydro power and biomass, are already competitive in many wholesale electricity markets, whereas in certain regions, such as in Africa, wind and geothermal energy are cheaper than conventional energy sources on the retail consumer market. Other technologies, such as solar PV, solar water heaters, and biomass, are often the most cost-effective options for providing energy services in off-grid areas in developing countries.

Third, there is increasing evidence that human activity, especially the combustion of fossil fuels, is responsible for the global warming trend which has been observed over the past decades. Also, evidence is increasingly showing that, particularly in Africa and other developing countries, climate change will drastically reduce economic growth. As the Stern (2006) report shows, the benefits of strong, early action on climate change, among other things, through the promotion of renewable energy, will outweigh the cost of dealing with the effects of climate change in the future.

Thus, despite the abundance of renewable energy resources (wind, sunshine, biomass and hydro) and the clear benefits for stimulating (pro-poor) growth, renewable energy has not yet realized its potential on the ground. The main reason is that the existing energy markets include a number of obstacles that frustrate the development of mature markets for the application of renewable energy. Some policies that will help harness the potential benefits of using renewable energy include: creating the right environment for attracting foreign direct investment (FDI); establishing a pro-poor playing field for decentralized energy technologies; developing renewable energy sector policies and measures; creating small-scale financing systems for renewable energy; and bridging the gap between development projects and small local entrepreneurs (OECD, 2008).

Improving and increasing intra-African trade in oil and gas: There is relatively little oil trade among African countries. Reducing transport costs within the continent is key to stimulating trade. Estimates indicate that shipping a car from Japan to Abidjan, Côte d'Ivoire, for example, costs \$1,500, whereas shipping the same car from Addis Ababa, Ethiopia, to Abidjan costs \$5,000 (ECA, 2004). In general, each additional day a shipment is in transit is equivalent to an extra 0.8 percentage point increase in applied tariffs. Africa needs to devote more resources to regional infrastructure. Such investment is also necessary to enhance domestic competition in an integrated regional market. The second key area relates to strengthening cross-border cooperation. The cost of

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crossing a border in Africa can be equivalent to the cost of traveling more than 1,000 miles inland, whereas in Europe the cost is equivalent to traveling 100 miles. African countries could also cooperate in a range of other areas, such as energy, water resources, research and education, environment management, and the prevention and resolution of regional conflicts. Unlike preferential trade agreements, such cooperation does not lead to trade diversion.

The third area is streamlining regulatory requirements regarding the technical specifications of oil products. The specifications tend to vary from country to country, forcing oil refineries to produce relatively small amounts of different types of products (at high cost), and reducing the potential for regional trade. There is much scope for coordinating taxation and pricing policies (at the very least, this may make part of the existing oil trade visible in government statistics). However, one of the key obstacles to larger intra-African oil trade relates to counterparty risk. Exporters from one country are simply unable or unwilling to take on the counterparty and sovereign risks for a buyer from another country. Instead, they prefer to sell on cash to a developed country trader, who then takes the risk on the foreign buyer. Structured financing techniques can help overcome credit risk problems. These techniques can go from the relatively simple (for example, one can "discount," or forfait (the seller makes a one-time arrangement with a bank to take over responsibility for collecting the accounts receivable) the payment obligation of the buyer/importer with

Afreximbank, the Cairo-based African trade finance bank set up by the African Development Bank, receiving immediate cash while Afreximbank takes on the payment risk on the buyer/importer), to the more complex (for example, certain export receivables from the importing country can be assigned for payment of the oil purchases) (Rutten, 2001).

Political reforms and good governance: Future oil management must be based on deepened reforms, expanded energy access in support of the Millennium Development Goals (MDGs), increased domestic value-added, transparency, and a long-term vision. The key international oil revenue management initiative, the EITI, is concerned with the generation of revenue and not the use of revenue. There is a need for transparency and accountability all along the supply chain and on the spending side. A lot of revenue leakage occurs during the building of infrastructure and execution of other government projects. Indeed, experience on how to manage fluctuating incomes with price volatility is needed. However, without government will, effective oil revenue management will never happen. Public dialog and local management of resources with inclusion of civil society is also crucial, as is a political and social contract for managing oil revenues, based on democratic participation and transparent economic governance. The success of such governance will depend on political stability, government legitimacy, a long policy horizon, high domestic savings and, in particular, powerful non-oil political constituencies.

6.3 Implications for the AU, the AfDB, and Other Development Partners

Successfully harnessing resource windfalls to make a significant contribution to Africa's economic growth and development is naturally a major task for governments, but also a central concern for the African Union (AU), the African Development Bank (AfDB), and all other development stakeholders. The analyses presented in this report reveal the existence of a unique opportunity for donors, multilateral financial institutions, and others to influence the role of resource wealth in addressing Africa's development challenges.

6.3.1 *Implications for and Role of the African Development Bank*

The AfDB has been involved in the extractive industries (EI) sector—including the oil and gas sub-sector—for nearly three decades. However, according to recent assessments by a commissioned task force, the contribution of the AfDB to the development of the sector is relatively modest and falls short of the sector's potential. The cumulative volume of the Bank's lending in the EI sector only represents a very small share of the Bank's total lending (3.4 percent). In addition, the Bank's activities in the sector have not been implemented within the framework of a comprehensive and coherent strategy. Furthermore, it is only quite recently that the Bank has devoted full attention to governance issues in its EI activities and has taken transparency considerations into full account in respect of its internal procurement rules and procedures (AfDB, 2007*a*). A guidance note for the EI sector has also been approved to provide operational guidance on sound and sustainable management of natural resource sectors in the Bank's lending operations, particularly in private sector operations.

Given the sector's high potential to contribute to economic and social development in Africa, particularly in resource-rich countries, the AfDB Task Force recommended that, for these countries, the Bank consider making EI development a strategic priority and increase its involvement in the sector (internal AfDB documents). To effectively and efficiently play this role, the Bank must define a clear set of development objectives for the EI sector. This is particularly important for resource-rich fragile states and post-conflict countries, where EI sector revenues could potentially play a large role in speeding up economic and social development. To this end, the Bank is developing *a comprehensive strategy* for its increased engagement in the sector. The strategy will cover all aspects of EI sector development (lending as well as non-lending activities), including investment, capacity building, governance, contracts, negotiations, legal and regulatory frameworks, as well as environmental and social impacts. Moreover, to improve corporate effectiveness, the strategy will enhance internal synergies between Bank departments and sectors and mainstream governance, transparency, and accountability concerns into sector interventions (infrastructure, energy, and so on).

The following specific recommendations constitute the backbone of the full strategy and will thus (with refinements and relevant additions) form the basis for AfDB support and engagement in the oil and gas sector:

1. ***Mainstream EI sector issues into Bank operations***. The Bank should ensure that policy dialog with RMCs, and the relevant Bank diagnostic and related analytical work (such as Governance Profiles) address EI sector issues in a systematic and comprehensive manner.
2. ***Enhance internal capacity and intra-Bank coordination***. To increase its involvement in the EI sector, the Bank must build appropriate expertise while promoting greater coordination between the different units of the Bank involved in EI sector activities.
3. ***Complement financial and technical assistance activities in the EI sector with policy dialog and non-lending activities***, including economic and sector work, enhancement of knowledge and dissemination of information, advocacy, and promotional initiatives.
4. ***Work in partnership with other development partners involved in the EI sector***. This will help ensure greater synergies and complementarities in development partners' interventions in the EI sector.

5. ***Strengthen legal and regulatory frameworks***. Fundamental to attracting meaningful investments and developing beneficial relationships for all stakeholders is the need to have sound legal and regulatory frameworks in which EI projects are designed, negotiated, implemented, and managed. This entails having appropriate and reasonable investment guidelines, taxation regimes, environmental guidelines, labor laws, and enforcement mechanisms. The Bank should thus provide technical support to RMCs to develop such frameworks.
6. ***Build human, institutional, and technical capacity in relevant policy ministries and agencies***. There is a need to strengthen capacity in the EI sector in most resource-rich RMCs. This is particularly urgent for fragile states and post-conflict countries, as well as for countries that have only recently become producers of extractive resources. Strengthening the capacity of these countries will help them guard against the mistakes of others, improve chances that the extractive resources will be properly managed and that revenues can contribute to the sustainable development of the country. The Bank can play a major role in this regard by providing support to strengthen oversight bodies, such as boards of concessions; anti-corruption agencies; ministries of finance, trade, mines, and petroleum and environment; and other agencies involved in the management of the EI

sector. Within the framework of technical assistance, the Bank should collaborate with other partners to provide support for contract and concession negotiations, improve information relevant to the EI sector, and enhance the capacity of RMCs to regulate and manage the environmental and social impacts of EI projects. In particular, the Bank can play a crucial role in defining and promoting "best practices."

7. ***Improve governance and promote transparency and accountability in the development and management of EI sector operations***. Extractive resources can contribute to sustainable development only if revenues derived from their exploitation are properly managed and used primarily to support development priorities. Promoting good governance, transparency, and accountability in the management of EI revenue should be at the center of the Bank's involvement in the sector. The Bank should pay greater attention to governance and revenue management issues in its EI sector operations. For instance, the Bank is already helping countries to improve the quality of public financial management (PFM). Encouraging transparency in the management and use of EI revenue will complement the Bank's efforts to enhance the quality of PFM in RMCs.
8. ***Adapt the nature of the Bank's interventions to the governance situation*** in RMCs and tailor

interventions to the specific requirements of each country. In particular, where the governance (macro or sectoral) situation is weak, the Bank should help strengthen governance while supporting the expansion of the EI sector, and, at the same time, adopting a rights-based approach.[1] This implies that the Bank should systematically assess the governance context and risks, as well as the social impact and poverty reduction potential, in all EI operations, especially in areas such as management and use of EI revenues.

9. ***Support EI sector initiatives***. In line with the proposed role of the Bank regarding governance and transparency in the EI sector, the Bank should support broad initiatives in the EI sector. In particular, it should encourage RMCs to adopt EITI principles, including helping them develop capacity in accounting for EI revenues, and help them publish information about these revenues in a transparent, consistent, and useful way. In this regard, the Bank *is* providing both financial and technical assistance to support implementation of the EITI and collaborating closely with selected countries and, where appropriate, other development partners, throughout the implementation process.

[1] A rights-based approach to development sets the achievement of human rights as an objective of development. It invokes the international apparatus of human rights accountability in support of development action and is concerned not just with civil and political rights (the right to a trial, not to be tortured), but also with economic, social, and cultural rights (the right to food, housing, a job).

10. ***Catalyze private investment in the sector***. While addressing the challenges associated with the EI sector (governance, legal and regulatory frameworks, capacity, and so on), the Bank should proactively support private investment and be more engaged in the sector. In other words, although the Bank's interventions in individual projects may sometimes be limited in terms of size, it should generally play an important catalytic role by leveraging large amounts of funds from other sources.
11. ***Build information and geological data***. The lack of adequate geological data is one of the major constraints to the development of the EI sector in many RMCs. The Bank should provide support to RMCs to improve their knowledge as well as information capacity about their extractive resource wealth, including offshore resources. In this regard, the Bank should provide funding for geological surveys and join other partners to support the establishment of an African geological databank.[2] Through the creation of such a databank, African countries will gain access to more accurate information about their extractive resources and the associated costs of exploration, thereby considerably strengthening their negotiating positions in the award of concessional agreements and contracts. The databank will also improve the capacity

[2] For example, the Africa-Europa Georesource Observation System (AEGOS) or a Regional Oil and Gas Data Center, as proposed by the World Bank.

to provide technical, economic, and environmental information that can facilitate the assessment of EI development projects by potential investors.

12. ***Establish a rapid response advisory facility for RMCs, in collaboration with other development partners***, capable of providing legal and non-legal advice and other support related to the EI sector on short notice. Such assistance is being provided within the framework of the Bank's African Legal Support Facility established by the Bank.[3] The work of the Facility would contribute to capacity building in RMCs over time, especially in the area of contract negotiation. In particular, the Bank can also act as a resource institution for the new oil- and gas-producing countries (or countries with prospects for future production).

13. ***Support for alternative energy resources***. The Bank also needs to position itself to support projects on alternative energy sources, which range from renewable sources to low carbon emission alternative energy technologies such as clean coal technology. The development of these alternative solutions could help eradicate continental poverty, create new jobs, ensure the security of energy supply, and combat global warming, thus contributing to global justice, security, and peace. The Bank can provide this support through African initiatives on infrastructure

[3] This Facility is particularly useful for fragile and post-conflict states, where human capacity is scarce.

for alternative energy sources, including NEPAD's Short-Term Action Plan (STAP), which focuses on priority physical investments in energy, transport, water and sanitation, and information and communications technology (ICT), complemented by capacity building, policy, regulatory, and institutional measures aimed at improving the efficiency of the existing infrastructure on the continent.

14. ***The Bank will play a key role in operationalizing the envisaged African Petroleum Fund***, in cooperation with the African Union. The Fund will mobilize the international community and African nations to provide resources to assist net oil importers that are experiencing balance-of-payment problems.
15. ***Finally, the Bank needs to analyze and position itself with regard to the increasing Asia–Africa trade partnerships, with*** focus on empowering oil-producing countries to understand and address different options and implications in pursuing loans, investments, and business cooperation where oil and gas resources are at stake.

6.3.2 *Implications for the African Union*

The African Union plays an important political role in financial resource mobilization and implementation in the oil and gas sector. The political backing for financing the energy future of the region lies with the AU mandate and its institutions. Promoting new financing options for sustainable energy systems needs strong and credible political backing of the highest order. The AU should use all available international and regional fora to sensitize potential donors and other stakeholders to support the proposed African Petroleum Fund Initiative. As promising as this initiative may be, the initial costs, over $1 billion at least, may lead some stakeholders to adopt a wait-and-see attitude. Without a conscientious effort by the AU to push the Fund Initiative, Africa's energy and development future—through expanded energy access at affordable prices and oil and gas wealth sustainability—may remain an elusive goal.

The African Peer Review Mechanism (APRM) provides an avenue for monitoring governance in the sector as part of the overall peer review of member countries under NEPAD. The AU should also provide strong support to strengthen weak political, economic, and institutional frameworks for proactive sub-regional and regional approaches to economic and energy development.

6.3.3 *Implications for Other Development Stakeholders*

The role of other development partners include: assistance in financial resource mobilization, capacity building in the oil and gas sector, including training in the use of innovative oil and gas financing options, energy infrastructure management, governance issues in the industry, and policy strengthening at the country, sub-regional, and regional levels. Such development partners include the United Nations, United Nations Environmental Program (UNEP), Organization for Petroleum Exporting Countries (OPEC), OPEC Fund, International Monetary Fund (IMF), World Bank, European Union, United States Agency for International Development (USAID), the UK's Department for International Development (DFID), Agence Française de Développement (AFD), Swedish International Development Cooperation Agency (SIDA), and other bilateral and multilateral institutions. Nevertheless, as clearly outlined in this report, the main responsibility for transforming oil and gas wealth into other "capital" and for addressing high oil prices lies with the national leadership and governments in Africa.

6.4 Recommendations

The analysis in this report suggests a number of recommendations at the national, regional, and continental levels.

6.4.1 *At the Continent Level*

At the continental level, it is important that pan-African institutions, mainly the AU and the AfDB, become more engaged in the management of oil and gas resources in Africa. These resources represent a crucial element and contribution to the economic and social development of the continent.

At this level, a solid understanding of the multifaceted nature of Africa's oil and gas challenges and opportunities—as outlined in detail in Chapter 5—is called for. Indeed, in a multi-ethnic and often polarized and impoverished society, the management of oil and gas resources will remain an important factor for social and political stability.

It is likewise very important that the continental bodies, together with other international donors and stakeholders, provide new or prospecting oil and gas producers with technical and financial assistance. This will help these producers negotiate fair and pro-development contracts where environmental, social, and revenue distribution is an integral part of the management of oil and gas.

The AfDB and the AU are urged to pool human, political, and financial resources to help both oil-producing and oil-importing countries improve exploitation of resources and seize the various opportunities at hand.

6.4.2 *At the Regional Level*

Regional economic blocs such as Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), and Economic Community of West African States (ECOWAS) can likewise play a key supporting and coordinating role, and are urged to become more proactive in the oil and gas sector, notably through the following actions:

1. Promote regional integration in the exploitation of oil and gas.
2. Promote regional infrastructures (such as oil and gas pipelines) for sustainable exploitation of oil and gas.
3. Promote regional economies of scale in the sector, especially with focus on the downstream industry (for example, refineries).
4. Encourage countries to adhere to principles of good governance and transparency initiatives for revenue management.
5. Promote regional sharing of experiences.
6. Promote intra-regional trade in the oil and gas sector.
7. Support and promote the African Petroleum Fund.
8. Establish regional fora for sharing experiences on oil and gas issues, especially those related to contract negotiations and technology transfer.
9. Promote the use of regional experts in the sector.

6.4.3 *At the Country Level*

At the country level, it is important to distinguish between oil producers and net oil importers. The following recommendations are proposed for the following specific categories of countries.

Oil-Producing Countries: The experience of African countries reveals that natural resource endowments, especially in non-renewable resources, come with opportunities, but also with substantial risks. The key challenge for harnessing natural resource opportunities is to design the right strategic policies in a context that supports fiscal prudence and minimizes macroeconomic distortions. This should be backed by adequate institutional capacity and national and local-level participation in oil and gas management.

Getting the policies wrong, disregarding their sequencing and alignment with the rest of the economy, or ignoring absorptive capacity and good governance issues may transform a natural resource boom into a curse that could effectively stall economic growth, worsen the poverty situation, and become a recipe for social and political instability.

While recognizing that countries have specific backgrounds and circumstances, the following recommendations can nevertheless apply to most of the oil-producing countries:

1. Develop knowledge of verified and potential oil and gas resources (geological data and resource estimation, etc.). Establish an oil and gas information database.
2. Manage oil and gas resources sustainably and value high standards of environmental protection, including rehabilitation.

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3. Secure optimal rents (royalties, taxes, shares, and other revenues), based on sound, fair negotiations (auctions recommended) and "best practices" for contracts.
4. Engage in and promote good governance, accountability, and transparency in oil and gas revenue management. This also entails engagement in initiatives that can reduce corruption (EITI and APRM) and secure added transparency and engagement of civil society.
5. Promote revenue distribution that reaches local people in the oil fields. Make public awareness on the revenue distribution a way to accommodate public speculations. Design and implement pro-poor policies to ensure equitable distribution of benefits.
6. Engage in social policies that promote harmony and well-being in the communities affected by oil and gas production.
7. Promote economic diversification as a way to avoid commodity dependence (investment in the future).
8. Promote policies and ensure fiscal regimes that prevent market distortions—such as the "Dutch disease."
9. Strengthen the human, technical, and institutional capacities of the relevant institutions.
10. Design policies that encourage investment in non-oil sectors.

11. Manage income for optimal intergenerational benefits, for example, by establishing sovereign wealth funds or other savings and investment funds.
12. Seek advice from regional and continental stakeholders and supporters (such as the AfDB and the AU), especially in contract negotiations.
13. Support regional and continental initiatives that seek economic, social, and political improvements in oil, gas, and energy-related initiatives—encompassing regional integration and the African Petroleum Fund initiative.
14. Support regional infrastructure for the sustainable exploitation of oil and gas.
15. Support regional economies of scale in the downstream industry.
16. Support intra-regional trade of oil and gas.
17. Share countries' good and bad experiences with regional and continental stakeholders.

Net Oil-Importing Countries: The following recommendations apply to net oil-importing countries:

1. Identify and recognize the direct and indirect impacts of high oil prices.
2. Engage in alternative fuel sources such as biodiesel.
3. Find adequate mechanisms for mitigating/smoothening the effects of high oil prices. Such mechanisms may include

- Price-based policies (comprising full passing on of price increases and granting targeted subsidies to some vulnerable end-users);
- Policies to reduce the cost of supplies (hedging, economies of scale, security of stocks);
- Quantity-based policies (reduce demand and oil consumption, for example, by increasing use of public transport);
- Diversification into non-petroleum sources of energy, from fossil fuels to renewable power sources; and
- Increasing domestic supply.

4. Support the African Petroleum Fund and, when it is fully established, subscribe and contribute to its operation.
5. Identify potential downstream industries where the country has a competitive advantage (for example, a refinery in an accessible location).