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**REPORT ON ECA CONTRIBUTIONS TO THE REVIEW OF THE WORLD BANK
REGIONAL STUDY OF PETROLEUM SUPPLY AND DISTRIBUTION IN
SUB-SAHARAN AFRICA**

October 1991

ECA REGIONAL ADVISORY SERVICES ON ENERGY

**REPORT ON ECA CONTRIBUTIONS TO THE REVIEW OF THE WORLD BANK
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IN SUB-SAHARAN AFRICA**

BACKGROUND

Early in 1990 the World Bank had made preparations for commissioning a consultancy study of rationalization of petroleum supply and distribution in Sub-Saharan Africa. The main purpose of the study was to gain insights into, and make realistic estimates of the potential savings that could be gained if the 46 countries of the region were to collaborate in appropriate sub-regional groupings, to rationalize petroleum products supply and distribution arrangements and procedures now organized and conducted nationally at excessive cost. Rationalization measures, would among other things include, (a) bulk purchasing of the aggregate total of comparatively modest national requirements, (b) improving the operating efficiency of refineries run much below capacity to meet only national needs through bulk refining of sub-regional requirements, and (c) efficient sub-regional distribution arrangements.

The launching of the study was however, delayed until the Bank concluded an agreement with the Italian Government in April 1991 for funding the study. In his letter of 14 May 1991, Mr. Miguel Schloss, Chief of the Industry and Energy Division of the Africa Technical Department at the World Bank, informed the ECA

Secretariat that the Italian consulting firm selected to undertake the study had already started analysis of the copious data available at the Bank. He would consult the secretariat and keep it informed on the progress of the study as well as seek its advice thereon from time to time. In conclusion he affirmed the conviction prevailing at the Bank, that the study has the potential "to make a positive real difference in the currently distorted energy economy of this hard pressed region."

In its reply of 29 August 1991, the secretariat requested that the study cover the countries of the Economic Community of Great Lakes Countries (CEPGL) which had recently sought ECA assistance on the study of strategies for supplying petroleum products on reliable and least cost basis.

Invitation to the 17 September review of the study - Phase I

The 6 September 1991 invitation to the secretariat to participate in a review on 17 September, at the World Bank, of the report on the planning phase of the study, was directed on 11 September to the writer of this report. He was instructed to examine the 125 page study enclosed with the invitation and prepare to participate at the review meeting in Washington D.C.

Significance and objectives of the study

The significance of the study for Sub-Saharan Africa is summarized in the report as follows:

1. The current cost of supply and distribution of petroleum products in Sub-Saharan Africa is very high and represents a fundamental obstacle to the economic development of the region.
2. Petroleum products are the most important source of commercial energy in Sub-Saharan countries.
3. Petroleum is of major importance in the foreign exchange flows of most of these countries.
4. There appears to be a correlation between petroleum imports and (low) per-capita GDP.

The objective of the study is stated to be "to identify options and recommend optimum solutions for reducing the costs and enhancing the reliability of petroleum supply and distribution in Sub-Saharan countries."

Estimate of annual savings

The report indicates the preliminary estimate of total potential annual savings to be achieved through rationalization in the region , to be 1.9 billion or 30 percent of total of current costs of petroleum product supplies and distribution as practiced at each national level. The consultants expect that the major components of the savings are likely to be gained from rationalization of supply of both crude and products (about 50 percent), refining (25 percent) and distribution (25 percent).

Identification of the test-area

On the basis of a set of relevant criteria, the report identifies seven sub-regional groupings of the Sub-Saharan countries for in-depth field data gathering and subsequent analysis.

The South East Africa subregion selected as the test area in which to carry out and formulate specific rationalization action plans includes the seven countries Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia. It has been selected because of high potential savings, urgent need for rationalization and ready access to field data.

The study in the context of sub-regional economic cooperation

Even if only a substantial fraction (say half) of the US\$ 1.9 billion estimated annual savings were achieved by implementing rationalization proposals emerging from the study, this would be a significant benefit. It would provide very welcome easing of the pressure that petroleum imports exert on meager national foreign exchange resources especially to the 28 LDCs in Sub-Saharan Africa.

Cooperation in the energy sector among neighbouring African countries is frequently advocated for spreading the benefit of rich hydro-energy resources in a country to its less well endowed neighbours.

While this is important in itself, it should be recalled that

electricity accounts for only a small fraction (usually less than 10 percent) of commercial energy in most of Sub-Saharan Africa. Petroleum on the other hand provides the bulk of commercial energy (more than 50 percent) in these countries. Furthermore it is used mainly in the transport sector in which petroleum products are indispensable and without viable substitutes. The savings as it would accrue from rationalization of supply and distribution of these products would also be all the more valuable and of immediate benefit, on a "current account" basis.

Lack of travel funds for participation at the review

The invitation to the review meeting was received long after Section 24 budget resources for the second half of 1991 had been fully committed for the approved programme of regional advisory services on energy to be provided up to the end of 1991. In its search for extra budgeting resources, the secretariat in the first instance addressed a request by facsimile letter to the World Bank.

This was followed up with a telephone call on 13 September when the Bank response proved to be negative. Travel to the review meeting was abandoned when it eventually turned out that ECA overhead resources could not be resorted to either.

ECA contributions to the review

At this juncture dispatch by facsimile became the only means by which ECA comments on the phase 1 report could be conveyed to the Bank before the review meeting convened on 17 September in Washington D.C. Accordingly the various draft comments that were to have been made at appropriate stages of the review meeting, had now to be consolidated for a facsimile letter. The three page letter containing the secretariat's consolidated comments on key aspects of the Phase 1 report were transmitted to the Bank on 16 September.

The principal issues raised in ECA comments were the following:

Confirmation of even a sizable fraction of the US\$ 1.9 billion preliminary estimate of annual potential savings by field data validation and analysis, would make the rationalization study of great importance to the Sub-Saharan countries. The level of savings could be expected to grow with both the rise of oil demand in the countries and with the inevitable increase in future oil prices. The benefits of the savings would constitute solid building blocks for economic cooperation and integration in the subregions.

It is crucially important that the study:

1. Provides estimates of each of the major cost components of implementing the rationalization action plans;

2. Categorizes the components and sub-components into low-cost and substantial cost measures;
3. Indicates the lead-time in which specific savings may be expected to accrue;
4. Tentatively suggests how major investment costs of specific rationalization proposals may be shared among beneficiary countries;
5. Indicates how countries may collaborate to overcome constraints that presently force them to follow inefficient procedures in purchasing crude and/or refined products, especially their low credit worthiness and scarcity of foreign exchange resources;
6. In estimating potential savings based on current ex-refinery prices properly takes into account the price distortion introduced when Government arbitrarily sets ex-refinery prices;
7. Includes common source of present supplies as one of the criteria to be weighed for identifying possible subregional groupings.
8. Safeguards that its results are above major challenge and reproach by exercising all care necessary in data gathering and analysis and in formulation of rationalization proposals and to this end
9. Allows time in the field visit scheduling for unexpected difficulties and unforeseen delays that may arise.

The report of the review meeting

Mr. Miguel Schloss has enclosed the report of the review meeting with his letter of 19 September to the secretariat.

The meeting report indicates that government representative participated in the meeting as did Bank staff. It specifically mentions that the representative of Guinea- Bissau and Nigeria as having recommended that "the study should continue to be conducted without political interference and its conclusions should be presented as a series of recommendations to the African governments, clearly stating the available optional solutions for improving efficiency in oil supply and distribution."

Two of the consultant's staff are reported to have presented the results of the study planning phase, explained the methodology used in estimating potential savings and the justifications for selecting South East Africa as the test area.

ECA comments presented at the review

The major issues reported to have been discussed in the meeting are substantially the same as the comments ECA has raised under 1,2,3,6 and 7 above.

The 19 September letter states that ECA concerns in the comments transmitted with its facsimile letter were presented to the meeting and expresses much appreciation for ECA's thoughtful comments. Mr. Schloss says he considers it most important that

exchange of information on the subject matter continues between the Bank and ECA and requests to be informed of forthcoming ECA activities in the energy economics field that would be of interest to the project.

RECOMMENDATION

In view of the contributions which may emerge from the study (a) easing the pressure which petroleum imports currently exert on the slender foreign exchange resources of the majority of Sub-Saharan countries, and (b) strengthening subregional economic cooperation and integration with its immediate benefits; the ECA secretariat may wish to closely follow progress in the conduct of the study by correspondence with the World Bank and by actively participating in subsequent reviews.

The aim of the secretariat's involvement would be to safeguard that the study results serve the genuine interests of the Sub-Saharan countries.

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