A comparative study of Investment Attractiveness in deepwater offshore West Africa: An index approach to evaluating fiscal regimes

Ebenezer Koranteng Harmah

1. Basis for Study:
• West Africa is located in the famous “Golden Triangle” and analysts rate the region high in deepwater prospects.
• Fiscal regime attractiveness remains a major consideration in investment destination decisions.
• An index approach is suggested to cater for the limitations in the use of government take statistic for fiscal regime assessment.
• This provides a “single comprehensive” index to guide investors in ranking investment destinations.
• The study also tests whether fiscal regimes reflect opportunities and risk profile in provinces.

2. Methodology:
• Angola, Equatorial Guinea, Ghana and Nigeria-Sao Tome JDZ are selected for this study.
• A relative ranking index 0 – 5 is employed.

FAI = aPi + aRi + aNi + aPc

<table>
<thead>
<tr>
<th>Evaluation Criteria</th>
<th>Weight (α)</th>
<th>Component Statistics</th>
<th>Weight (α)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability Index (Pi)</td>
<td>30%</td>
<td>AETR, IRR, PI Ratio</td>
<td>33%</td>
</tr>
<tr>
<td>Risk Index (Ri)</td>
<td>30%</td>
<td>Front-end Loading Index, Payback, Cost recovery</td>
<td>33%</td>
</tr>
<tr>
<td>Neutrality Index (Ni)</td>
<td>20%</td>
<td>IRR Wedge, Econ. Cut off</td>
<td>50%</td>
</tr>
<tr>
<td>Progressiveness (Pc)</td>
<td>20%</td>
<td>Correlation to Project IRR</td>
<td>100%</td>
</tr>
</tbody>
</table>

3. Results:

4. Conclusion:
• The following should be key in assessment of fiscal regime - Profitability, Risk Sharing, Progressiveness and Neutrality.
• All regimes exhibit significant level of profitability and risk sharing to compensate for the risky nature of deepwater projects.
• Fiscal regimes are identified to reflect province’s perceived opportunities and risk profile. (eg Ghana and JDZ)
• The FAI generates the following relative ranking, order of attractiveness: Ghana, Nigeria-Sao Tome JDZ, Angola and Equatorial Guinea.
• To a large extent, risk appetite impacts on the relative ranking of fiscal attractiveness.