The Oil & Gas business in Africa

Drilling for success…

Africa has never been considered an easy destination to do business in relation to many of the other continents globally. Often fraught with terms like ‘nationalisation’, ‘politically risky’, ‘poor infrastructure’, ‘skills scarcity’ and ‘corruption’. Yet Africa is now being thrust onto the global Oil and Gas centre stage, as an untapped resource. The NG Oil &Gas Summit delegates examined the industry and Africa’s ever increasing importance.

Africa’s General Challenges

Africa has no shortage of challenges when it comes to international companies looking to invest. However, with Africa’s vast untapped reserves and the growing demand from India and China overcoming these challenges is becoming imperative. The legacy associated with resource extraction has been a significant obstacle to international investment in the oil and gas industries. Despite these vast reserves, Africa remains poor, driving the perception that international oil companies (IOC’s) have profited whilst host countries have suffered. This has forced IOC’s to assume more social and environmental responsibility in the countries in which they operate, forcing these companies to play the role of de facto government in isolated areas. To further add to this, many countries in Africa remain quite militaristic and are faced with significant unrest, further straining the social and environmental responsibilities placed on IOC’s.

Implications surrounding Exploration

The initial challenges faced by IOC’s in the exploration phases of Oil or Gas project are a good pilot for an IOC in gauging the level compliance required. However, exploration costs remain high, as lack of infrastructure and remote areas prove difficult to access. Africa’s infrastructure services remain nearly twice as expensive as other developing economies, reflecting both diseconomies of scale in production and high profit margins as a result of the lack of competition[1]. Lack of infrastructure is often a development factor coupled with IOC investment, where these companies will build infrastructure for their own and public use. This is further fuelled by escalating costs in both regulatory compliance and community investment. Coupled with these socio political risks are the risks regarding the capital efficiency lifecycle. The emphasis on getting these projects right in their initial stages regarding return on investment is not made any easier, given the plethora of challenges when investing in Africa.

Geo Political Risks and the Security of Supply?

As China and India's demand thrusts Africa into the oil and gas limelight, political risks continue to make investment in Africa a challenge for both host country and IOC. Africa often ranks poorly if not last on factors such as corruption, ease of doing business; political stability, governmental transparency and militant behaviour are all factors to be considered when investing. However, given these factors, ensuring security of supply will be a significant challenge even once the investment has been made. Africa specific disrupters of supply are often identified as a skills scarcity and retention, low indigenous skills utilisation, inconsistent and unfair regulatory frameworks, multi-stakeholder friendly solutions, low beneficiation investment and a lack of infrastructural development. When viewed in entirety, a seemingly impossible and unfeasible task, yet once mastered, and many have, the rewards are infinite.

How to approach doing business in Africa?

Whilst Africa poses many challenges to doing business on the continent, there are a number of these concerns that can be mitigated through good business practice. The following were factors that could alleviate the above mentioned challenges:

- License to operate – a multi-stakeholder, all inclusive approach is required when discussing investment and operations in Africa. By ensuring community, government and business involvement in solutions, IOC's will be well positioned to reap the benefits.
- Cost containment – driving smart decisions around cost containment is essential given entry, infrastructural and remote area costs associated with doing business in these regions. Ensuring cost reduction in regulatory compliance and community costs and driving optimal technology can assist in effective end to end cost containment.
- Regulatory frameworks – fair and consistent regulatory frameworks that can balance attraction of investment, expertise, technology with social upliftment. Through solidifying internal compliance measures, many of the criminal aspects of doing business in Africa can be circumvented.
- Best in class – those wishing to enter should leverage the experience of those IOC's that have attempted to or successfully entered countries in Africa before.

[1] Agence Française de Dévelopement and World Bank: *Africa's Infrastructure: A Time for Transformation*

- Indigenous skills – by developing and investing in local talent and avoiding long term dependency on expat, will promote local job creation, entrepreneurship and community development. A vital component in securing community project buy-in.

Conclusion

The oil and gas riches of the African continent are the next major driver of global growth and African upliftment. Although there are some challenges in achieving this objective, it can be achieved. The key to unlock the oyster of the world lies in a number of critical success factors. These are the establishment and implementation of fair and consistent regulatory frameworks that can be implemented and governed, the establishment of an inclusive approach to licensing operators and effective cost containment through smarter approaches and lessons learnt. Best in class practices, use the lessons learnt by others.

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