ECONOMIC EVALUATION OF UGANDA'S FISCAL REGIME AND PROPOSALS FOR REFORM

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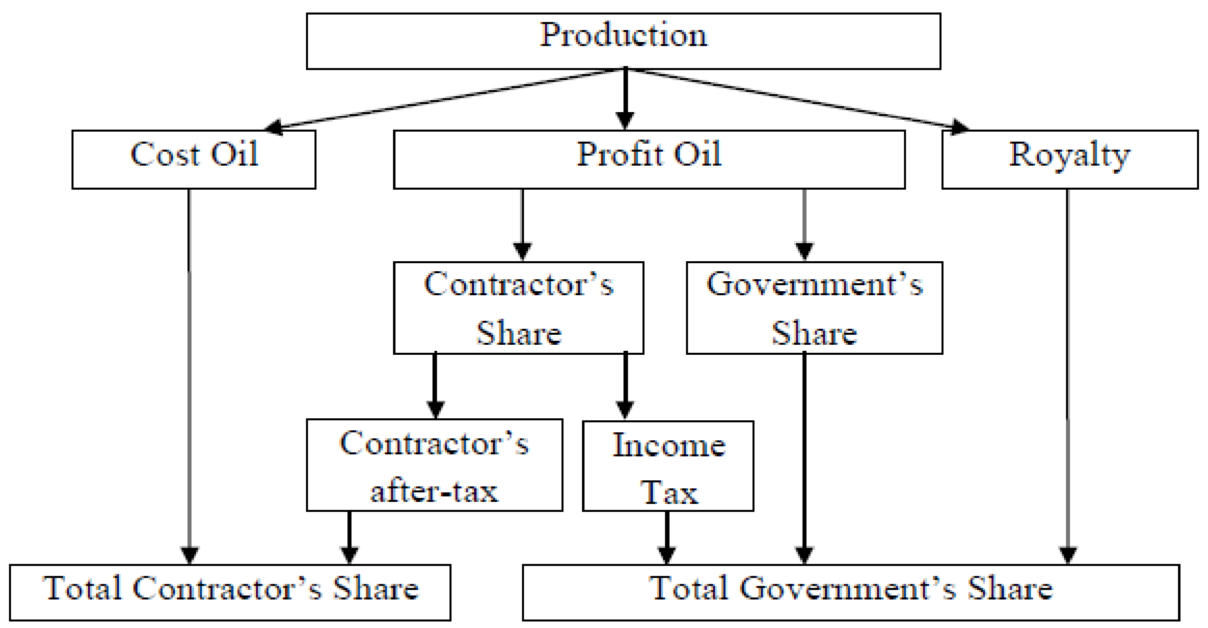
INTRODUCTION

- The Uganda petroleum fiscal regimes is based on hybrid fiscal arrangements in its Upstream petroleum industry.
- The study evaluated Uganda's petroleum regime against the key features for an effective fiscal regime such as neutrality, progressivity, stability and risk sharing. It further evaluated the target of the fiscal regime on the economic rent.
- The study also compares the fiscal regime of Uganda to Nigeria and Ghana.

METHODOLOGY

- The DCF MODEL was constructed using three oil exploration areas. Very small, small and very large.
- The main fiscal devices included; Royalty, income tax , cost oil, VAT, Government profit oil
- Project performance measures : NPV, IRR, NPV/I
- Sensitivity Analysis and Monte Carlo simulation

FLOW OF THE MODEL

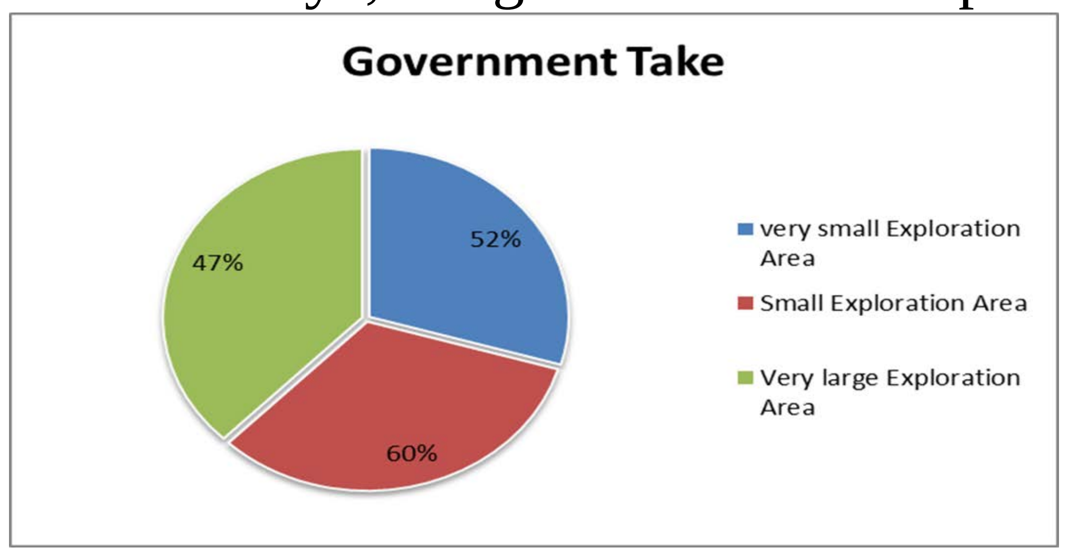


Share for the Economic Rents

Summary	Exploration Area (EA)		
	Very small field (Kaiso-Tanya)	Small field (Kingfisher)	Very large field - Buliisa
Reserves	39	196	819
Pre-Tax NPV	1382.96	6954.56	28477.80
Post-Tax NPV	733.81	3590.86	12322.92
NPV/I	30	28	24
IRR	36%	24%	21%
Gov't Take	47%	52%	60%

RESULTS

a) Uganda's fiscal regime has the potential to maximise the collection of economic rent for the State. For instance, the study found that government take was 47%, 52% and 60% for Kaiso-Tanya, Kingfisher Buliisa respectively.



b) Petroleum projects in Uganda are profitable for IOCs because the NPV for all the three fields are positive.

c) The study also ascertained that the Hurdle rates surpass the economic hurdle rate used by investors in making decisions to invest in any petroleum projects.

d) The study found that there is 100% certainty that both the government and the investor have a sizeable share of the profits from the three exploration areas.

RECOMMENDATIONS

The Government should:

- Reform its fiscal regime to ensure there is maximum long-term collection of economic rents rather than just focusing on incentivising investment in its embryonic petroleum sector.
- Consider developing a flexible fiscal regime since petroleum projects are dynamic and evolve according to economic uncertainties and so should fiscal regimes of any given country. The Government can achieve this by using progressive tax rates (income tax, CRL), which can be applied on the profits, and profit oil split under production sharing agreements.

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