# Potential Government Take from Oil Revenues and Likely Impact on Budget Deficit Financing: A Case of Uganda

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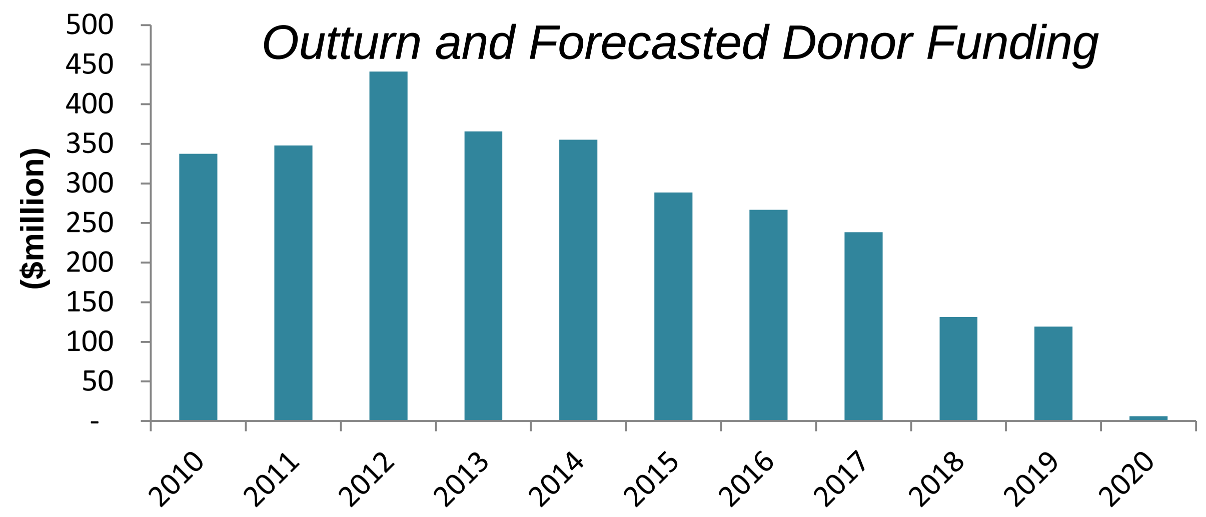
## INTRODUCTION

•Commercial oil in Uganda discovered in 2006
•Production not started. Reason mainly due to protracted negotiations over PSA terms
•Consensus reached, first production license over Kingfisher field (196mmbbl) granted 2013. First oil anticipated in 2018
•Study examines the potential government take under adopted PSA terms and likely impact of oil revenues on budget deficit financing




•Recent suspensions and expected decline in donor funding likely to widen deficit and need answer

## METHODOLOGY

• Use of spread sheet model to capture projects cash flows in both MOD and Real terms
•OLS to forecast budget deficit in the medium term

***Analyses***

•Focused more on government take statistics
•Responsiveness of government and company takes with varying profitability levels
•Comparison of expected take against projected budget deficit

***Data***

| Field (mmbbl) | Capex ($/bbl) | Opex (% Acc. Capex) |
|---|---|---|
| 50 | 14 | 6.5 |
| Kingfisher (196) | 12 | 5 |

•Two oil price scenarios: $70/bbl and $140/bbl

## RESULTS

***Government Take MOD Terms ($billion)***

| Field | 50mmbbl | | 196mmbbl | |
|---|---|---|---|---|
| Price | *share* | *%share* | *share* | *%share* |
| $70/bbl | 1.1bn | 90% | 6.6bn | 90% |
| $140/bbl | 3.7bn | 78% | 18.5bn | 88% |

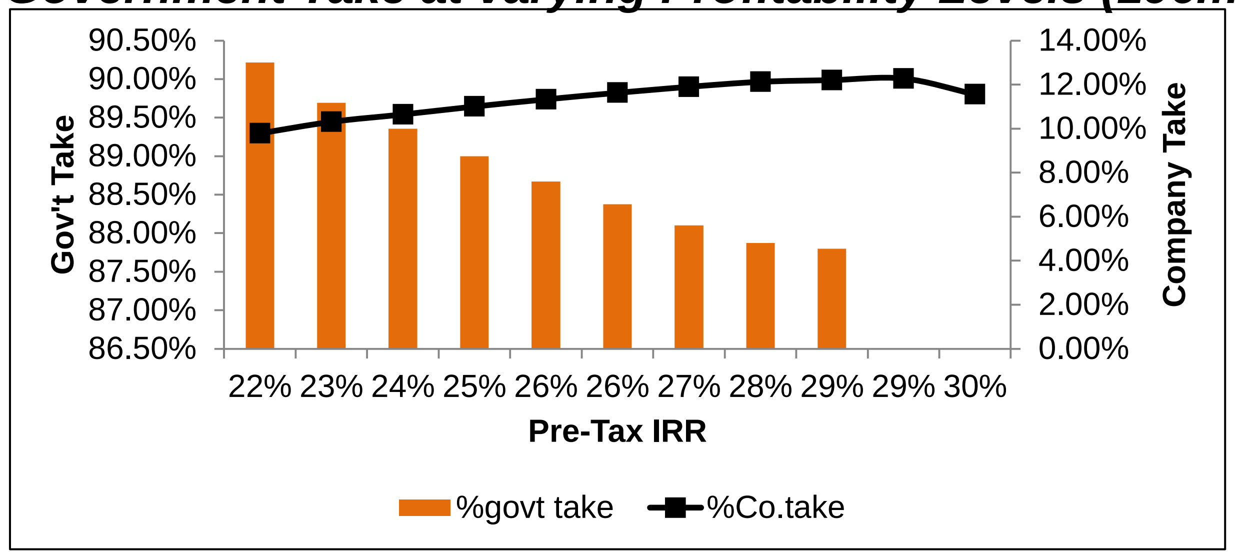
•Government take percentage high at low price but reduces at high price, reduction even more for the 50mmbbl field

***Government Take in Real Terms ($billion)***

| Field | 50mmbbl | | 196mmbbl | |
|---|---|---|---|---|
| Price | *share* | *%share* | *share* | *%share* |
| $70/bbl | 0.3bn | 210% | 2.0bn | 131% |
| $140/bbl | 1.2bn | 88% | 6.0bn | 96% |

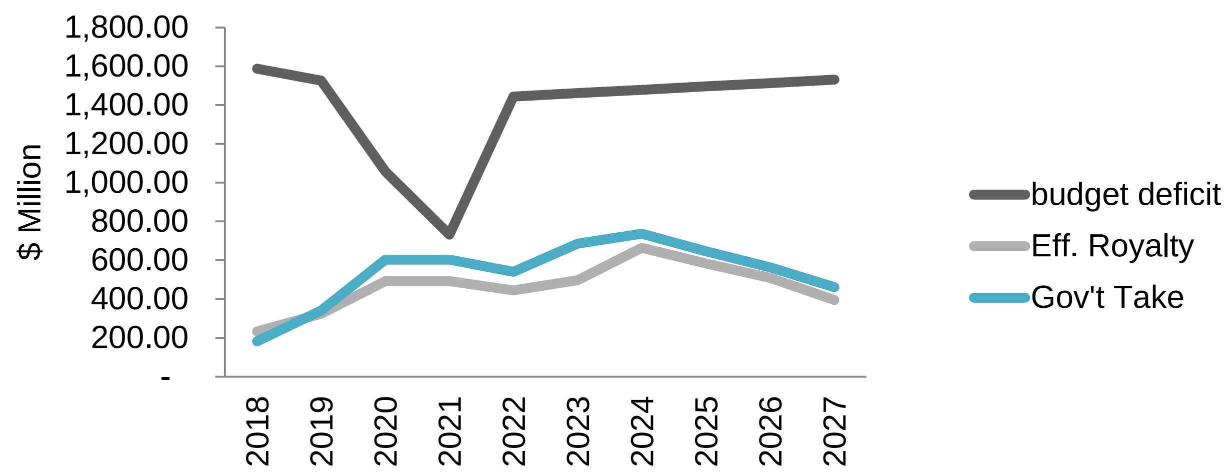
•Government take more than 100% implies project not profitable to investors
•Government take not sensitive to oil price

***Government Take at varying Profitability Levels (196mmbbl)***



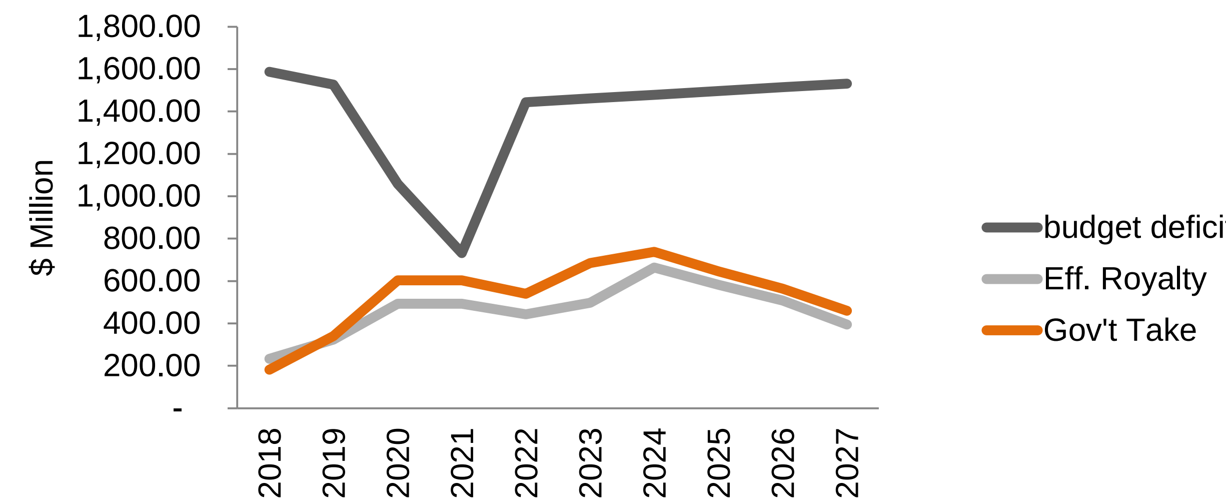

•Government take lower(higher) with higher(lower) profitability
•Government benefits less from the upside. Downside affect investor more and could make small fields uneconomic

***Government Take($70/bbl) against Projected Budget Deficit***



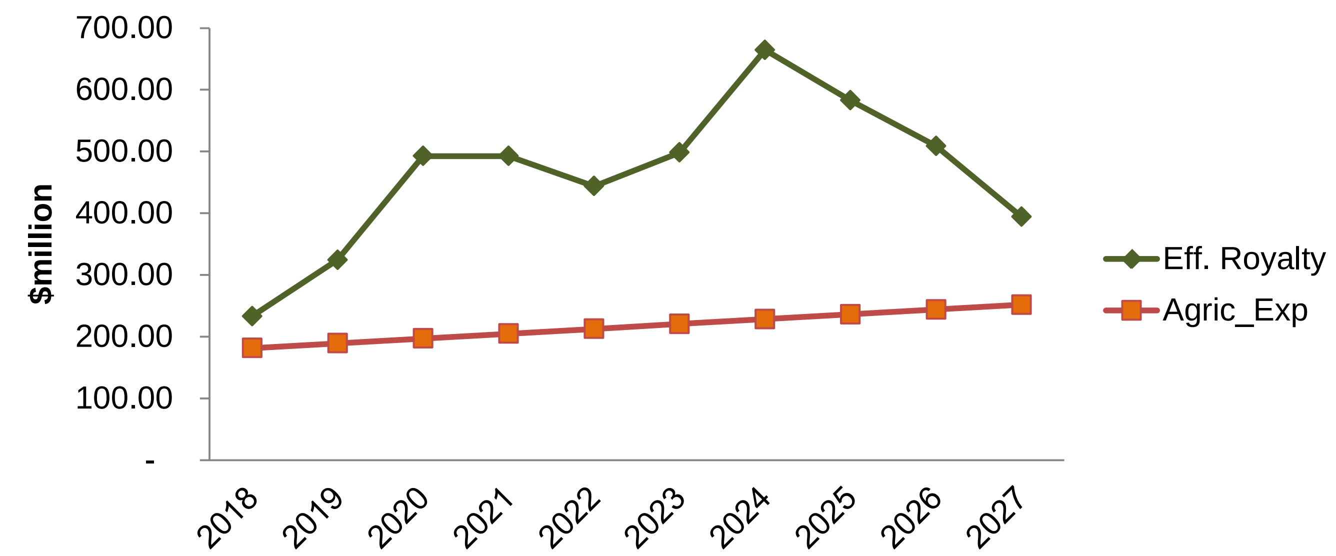

•At the conservative oil price, government take could cover up to 47.6% on average of the projected annual budget deficit

***Government Take($140/bbl) against projected Budget Deficit***




•At a high price (about $140/bbl) budget deficits could be offset by 2020 using only take from the kingfisher field

***Government Take ($70/bbl) against Agriculture Sector Projected Requirement***




•Prioritising spending on agriculture sector could be consistent with poverty reduction effort and also improve export earnings

## CONCLUSIONS

•Government could consider integrating more progressive schemes such as R-factor or ROR within existing fiscal regime, would be good for both parties
•Reinstating some previously exempted non-resource taxes to help finance budget deficit in the medium term
•If oil revenue less than projected budget deficit, government could prioritise spending it on the agriculture sector

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