



**AFRICAN ENERGY AND MINERALS MANAGEMENT
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KEY ISSUES IN PETROLEUM REVENUE MANAGEMENT



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Robert Kiyosaki ably summarises the key aspects of Petroleum revenue management in his quote; “It’s not how much money you make, but how much you keep, how hard it works for you and how many generations you keep it for!”. Petroleum revenue management is broadly understood as the manner in which a Government allocates natural resource revenue to the different government institutions, programs and/or citizens in order to yield the maximum benefit to society. This definition also caters for the different uses that the resources revenue may be utilised for including consumption through provision of services for current generations such as health care, education; investment in infrastructure provision and savings for future generations through natural resource funds. Special treatment for natural resource revenue is essential due to the distinctive attributes of the extractive industries.

Revenue management is imperative not only due to the fact that petroleum resources are essential in meeting the long term developmental goals of many developing countries, but also the nature of these resources is unique. Extractive industries like Oil, gas and mineral resources are exhaustible (there is a limited quantity in existence), face volatile international prices (and costs), require large capital investments with long repayment periods and generate substantial revenue which could negatively impact widely sectors of the economy. Furthermore, these resources have often been the source of conflicts and wars with various political groups fighting to have control over the resources and the resultant revenues. These unique attributes warrant tailored systems to manage the resultant resource revenues in order to meet the short, medium and long term goals of the resource rich nation.

Tax planning and administration of resource ventures are some of the internal challenges resource rich developing governments face. Additionally, internal governance and budgetary issues, coupled with transparency and accountability, also have to be put into consideration for effective revenue management and distribution. Besides the internal challenges, we can not underestimate external challenges including tax evasion by International Oil companies, likely to utilise the significant information asymmetry to under declare the resultant taxes and royalties.

Revenue management and distribution is indeed a common challenge for various resource rich countries in Africa including Nigeria, South Sudan and many others. In this article the focus will be on Uganda, briefly exploring the developments in the sector. The current Joint Venture partners (Tullow, CNOOC and Total E&P) in Uganda are estimated to spend about \$20-24 Billion dollars on Upstream infrastructure and wells prior to first oil and \$3.55 Billion Dollars on the World's longest Heat traced crude export pipeline measuring 1,443km traversing from Hoima to Tanga port. From the above developments it is evident that the technocrats within the Government of Uganda have successfully attracted and managed the required investment to aid the development of the Oil sector. The current projects have been estimated to produce 200,000 barrels of Oil per day. At an assumed realised price of USD \$50 per barrel, this will yield USD \$ 6 million to Uganda per day and over USD \$2 Billion annually (assuming a 60% Government take during peak production). However, this is largely subject to the international industry environment and characteristics highlighted above.

Nevertheless, there are very high public expectations from petroleum resources relating to significant employment creation and quicker economic growth, and this has become a big challenge for various governments as they often fail to meet such high public expectations. In this regard, some of the key issues to look out for are:

- ❖ Taking advantage of the state owned petroleum institutions and national budgets to ensure that the resource revenues are utilised in critical sectors with large multiplier effects and to the benefit of the majority of the people
- ❖ Enforcement of the various laws concerning resource revenues and establishing a regulatory environment that fosters transparency and accountability
- ❖ Enforcing high standards of corporate responsibility and compliance on the part of investing companies