Open Financial Modelling:
The Next Stage of Contract Transparency

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Contracts: complex interlocking financial web
Gov’t revenues: which terms bring most money over project life?

1. Fiscal parameters:
   - Royalty: 3.00%
   - Cost recovery limit: 80%
   - Government share of profit oil: 30%
   - Income tax rate: 30%
   - Depreciation of development costs (years): 5
   - State participation (from development): 10%

2. Fiscal parameters:
   - Royalty: 12.00%
   - Cost recovery limit: 80%
   - Government share of profit oil: 18%
   - Income tax rate: 30%
   - Depreciation of development costs (years): 5
   - State participation (from development): 5%

3. Fiscal parameters:
   - Royalty: 5.00%
   - Cost recovery limit: 40%
   - Government share of profit oil: 20%
   - Income tax rate: 30%
   - Depreciation of development costs (years): 5
   - State participation (from development): 10%
Answer: same amount of money, different revenue streams
Financial Modelling Use-Cases

THE EXTRACTIVE POLICY CYCLE AND FINANCIAL MODEL

DESIGN FISCAL FRAMEWORKS
Simulates the revenues impacts of different fiscal options

FRAMING MODEL CONTRACTS
Appraises impact of contract clauses on short- medium- and long-term tax collection

NEGOTIATING CONTRACTS, AGREEMENTS AND CONCESSIONS
Generate real time scenarios of proposed terms and conditions to inform negotiating stance

FISCAL FORECASTING
Projects revenues generated at project or sector level for aggregation into national budget forecast

REVENUE ADMINISTRATION AND AUDITING
Tax gap analysis to highlight ‘risk areas’ deserving closer investigation

FINANCIAL MODEL FOR EXTRACTIVE PROJECTS
In EITI: next-level reconciliation

- Move from: what *has* been paid to what *should have* been paid
- The litmus of public interest financial modelling: is the model *itself* published?
- EITI countries with projects modelled:
  - Afghanistan, Ghana, Tanzania, (Guyana), Kyrgyzstan, Colombia, Mongolia, Cote d’Ivoire, Indonesia, Malawi, (Nigeria), (Philippines)
- Other EITI MSGs engaged:
  - Zambia, Senegal, Albania, Trinidad & Tobago
- Other countries with financial models published or coming:
  - Lebanon, Kenya, Argentina, Brazil, Ireland
- EITI convening power: standardisation can *massively* accelerate institutional capacity
NEITI: 1993 PSC contract review

2008 Switch to 2005 PSC terms: Gov't Revenues

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<tbody>
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<td></td>
<td>1,250</td>
<td>1,429</td>
<td>1,885</td>
<td>2,245</td>
<td>2,648</td>
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<td>1,460</td>
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Nigeria offshore: indicative gains from 2005 PSC

USD mn 2018 real

- Agbami: 4,252
- Agbami: 4,499
- Akpo: 2,758
- Usan: 352
- Etha: 3,475
- Abo: 1,073
- Okwori: 1,059
- Antan: 2,112

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Imagine an open oil industry
Guyana: Fiscal Regime Comparison

Fiscal Regime Comparison: frontier offshore oil

<table>
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<tr>
<th>Country</th>
<th>Government Take (LoP)</th>
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<tbody>
<tr>
<td>MR-Chinguetti</td>
<td>63%</td>
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<tr>
<td>Ghana</td>
<td>64%</td>
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<td>Guinea</td>
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<td>Guyana Stabroek</td>
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<td>PNG</td>
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<td>SN-Cayar</td>
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<tr>
<td>SN-StLouis</td>
<td>71%</td>
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450m barrel field size, EIA Reference price