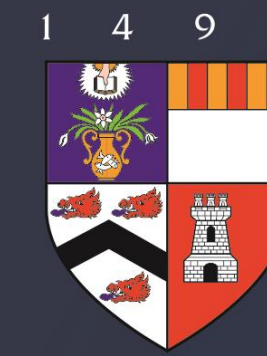


THE RECOURSE CURSE

A comparison between Nigeria and Norway's Fiscal system of Resource wealth generation

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INTRODUCTION

- Natural resources are important source of revenue for resource-rich countries
- Exploitation of these resources involves huge investment and technicalities, mostly introduced in by investors.
- The investors aim for maximum profit from resource exploitation while the host government focuses on obtaining a large share of the economic rents.
- An Optimal fiscal system balances both objectives. Hence eliminates treats of distortion and incentives to cheat, which might cause the resource curse.

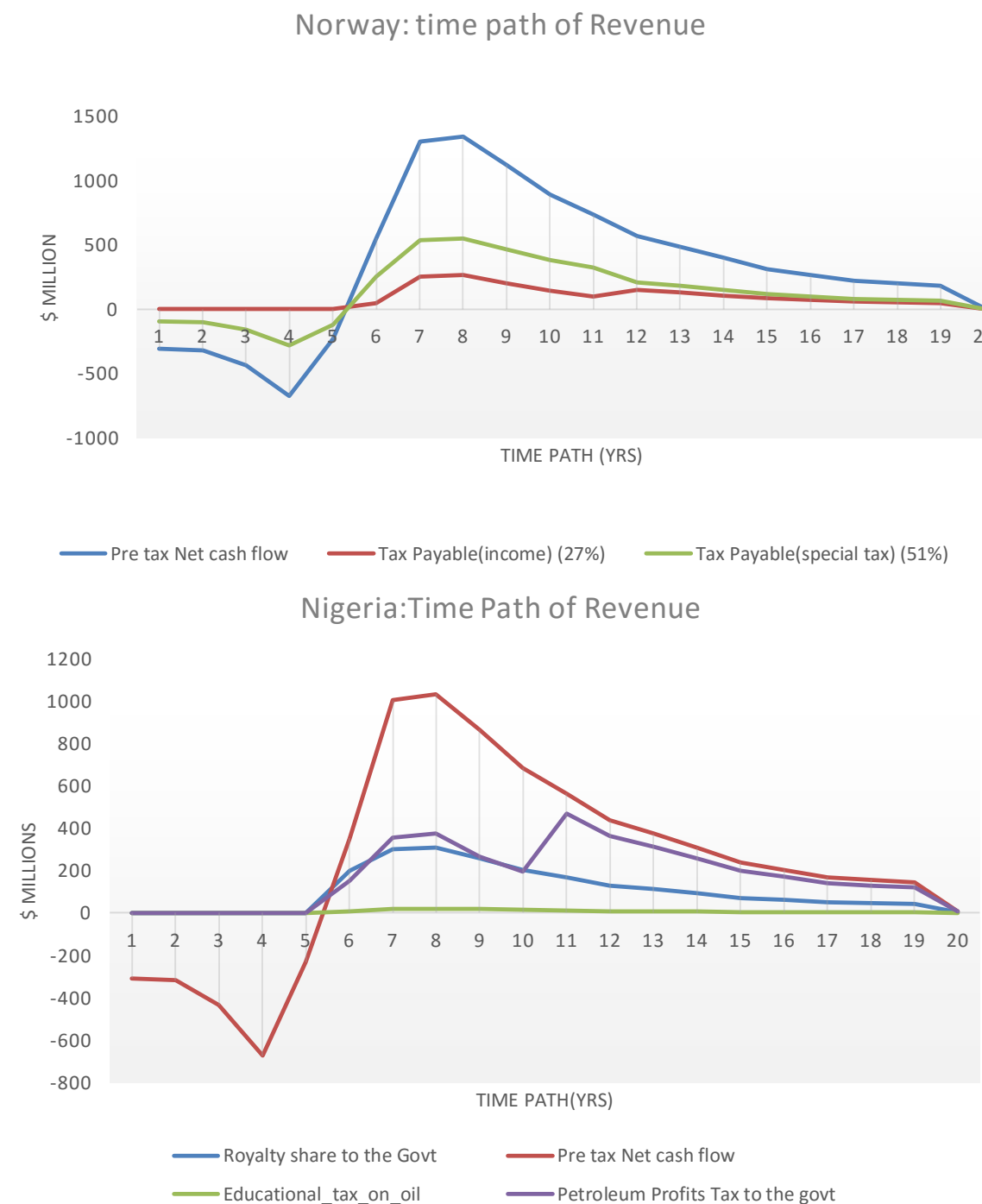
OBJECTIVES

- The study highlights the importance of an optimal fiscal regime in alleviating the resource curse.
- Nigeria's fiscal system was compared to Norway's fiscal system in determining which is more prone to the resource curse

METHODOLOGY

- Deterministic analysis based on a discounted cash flow spread sheet.
- Probabilistic evaluation using Monte Carlo Simulation.

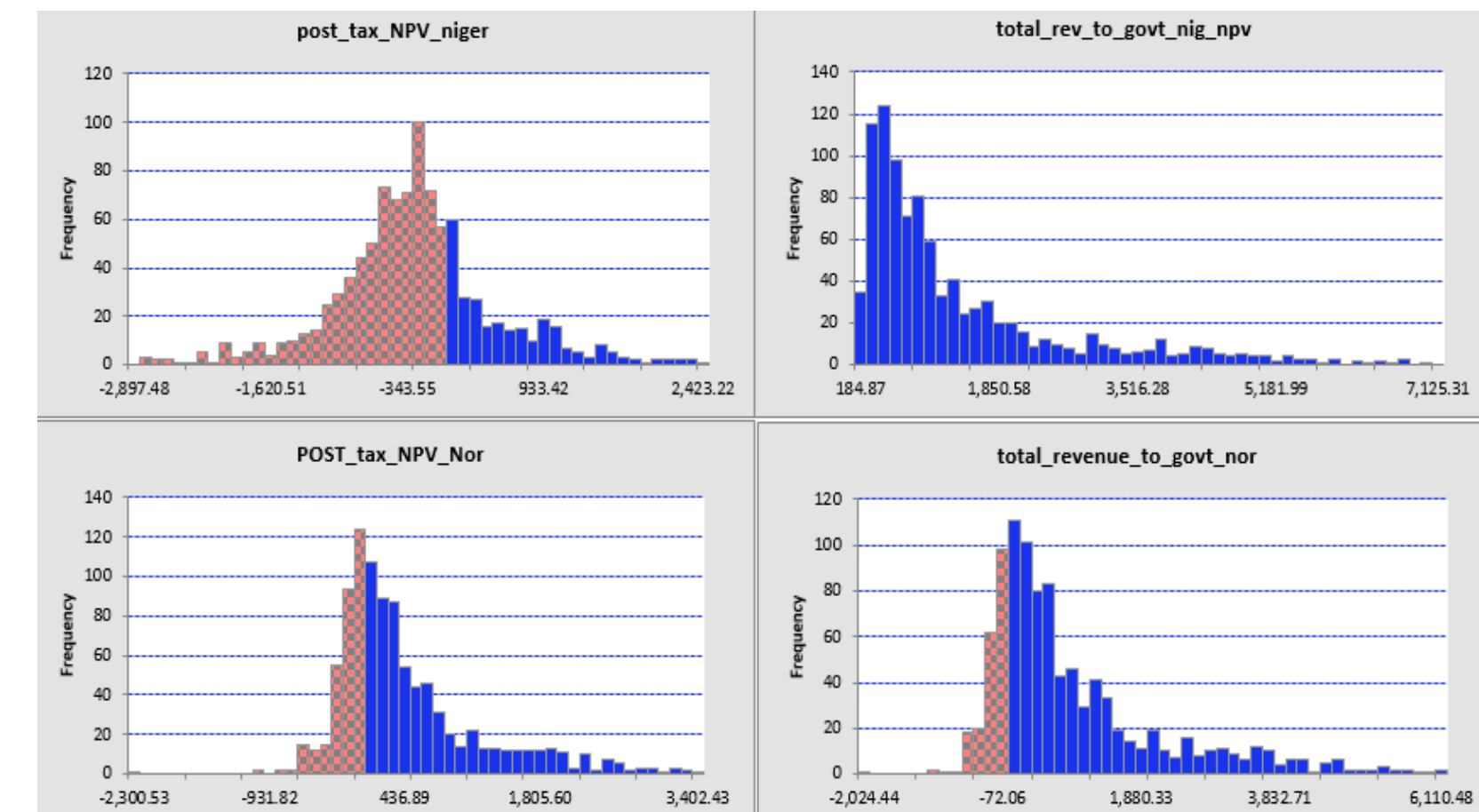
RESULT



Summary Output	Nigeria	Norway
Pre Tax Net Present Value (\$)(Million)	1176.346	2071.131
Post Tax Net Present Value (\$)(Million)	-28.5617	878.0762
Post Tax Internal Rate of Return	0.096269	0.28906
NPV Capex	2203.464	2203.464
Post Tax NPV Capex Ratio(INCOME)	-0.01296	0.398498
Approximate Simple Payback (years)	8	6
Pre Tax Internal Rate of Return(INCOME)	0.199834	0.258682
total_rev_to_govt_npv (\$)(Million)	2247.846	1615.629
% of government take to pre tax NPV (%)	191.0871	78.00706

All Result presented at 10% discount rate

- Monte Carlo simulation was conducted using stochastic variables like the oil price, development cost per barrel, operating cost per barrel, total field production and discount factor.



CONCLUSION

- Nigeria earns more than 50% higher than Norway from a similar oil field but still remains characterised by the resource curse.
- The results show that the Norwegian fiscal regime is more favourable to investors than that of Nigeria.
- The Nigerian fiscal regime has over 70% chance of causing distortion. Hence increases the chances of cheating to avoid losses.
- The corrupt Nigerian economic environment with low institutional quality makes it favourable for corrupt investors. Hence amplifies the curse.