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Pragmatic Joint Venture Financing Options in Nigeria: Implications on Economic Metrics and Government Take Statistics

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Abstract

The design of fiscal regime by oil producing government is usually tailored to capture high economic rent for the maximization of their citizen's welfare. This has been the case of the royalty/tax system practiced in Nigeria, also known as the joint venture arrangement. The fiscal incentives under this system have been espoused to yield higher government take compared to the other fiscal systems practiced. Nevertheless, government participation in the joint venture arrangement through its NOC requires the government to provide funds for project development with cash call obligation. However, the NOC has defaulted, severally, in fulfilling its cash call obligations which has delayed several project developments. Thus, the recent government exit from JV cash call agreement is a favourable development that have created a vacuum as to how the joint venture operations would be funded and the impact on the economic metrics and the government take. It is against this background that we employed the use of a deterministic and stochastic cash flow model under 3 funding scenarios for the R/T system. Our empirical result shows that the impact of capital cost recovery yields a decrease in government take. The price of crude oil, royalty and profit petroleum tax were shown to have the highest impact on the government take. We concluded that despite the impact of the joint venture financing option on the government take statistics, the economic metrics yield higher profitability index thus making the project viable. Hence, we recommend that government considers a pseudo PSC or an overriding royalty funding arrangement in order to retain its participatory interest in the JV agreement without the obligation of cash call. Given that this funding option will impact the government take as shown in our analysis, the fiscal incentives used under this system should be reviewed and revised.

Keywords: Acquisition and Divestiture, government, economic metric, asset and portfolio management, Upstream Oil & Gas, cash flow, operation, arrangement, government take, Project economics

Subjects: Asset and Portfolio Management, Acquisition and divestiture, Project economics/valuation

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