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## Declaration

I, Anette Kristin Steinbakk, declare that this thesis is a result of my research investigations and findings. Sources of information other than my own have been acknowledged and a reference list has been appended. This work has not been previously submitted to any other university for award of any type of academic degree.

Signature *Anette K. Steinbakk*

Date *24/7 - 2014*

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## Abstract

South Sudan is the world's youngest nation, gaining its independence from Northern Sudan in 2011. Independence was preceded by two phases of civil wars, which combined lasted for almost four decades. At independence, 75 percent of Sudanese oil reserves fell to the territory of the South, which meant that Sudan lost a major part of its oil income. At the same time, South Sudan relies on Sudanese infrastructure in order to export its oil. While the two countries remain economically interdependent, several disagreements remain, such as those related to border demarcations and sharing of oil revenues.

The government in the newly established Republic of South Sudan is faced with the enormous task of building a state from scratch. The country remains underdeveloped in terms of infrastructure, communication and social services, and poverty is widespread. Whereas the era of civil war with neighbouring Sudan is over, violence in the form of inter-communal violence and guerrilla activities continues to threaten the internal security situation. This thesis follows a qualitative research approach in the form of a case study of main developmental challenges in South Sudan, which is brought into a conversation with a broader literature that examines the phenomena of the so-called *resource curse*. According to the resource curse theory, countries rich in natural resources tends to experience negative developmental outcomes, such as poor economic performance, conflict, and low levels of democracy.

The resource curse hypothesis is adopted in the *Oil for Development program*, a Norwegian aid program that aims at assisting recipient countries in sound management of petroleum resources. The main research objective of the thesis is to explore the program's potentials and limitations in terms of confronting the resource curse in South Sudan. According to the study's findings, potentials include assistance in the development of oil-related legislation, and various capacity building activities within the country's oil ministries. These efforts have the potential to strengthen the state's ownership over its oil resources, equip people in the ministries with necessary oil revenue management skills, and to help establish a culture of transparency in the country's oil sector. However, the program insufficiently addresses underlying problems such as patronage structures, corruption and the weak position of South Sudanese civil society. The program also comes short in terms of certain long-term objectives, such as diversifying the South Sudanese economy, initiating a broad and inclusive political process, ensuring equal distribution of the country's oil wealth, and establishing a condition of sustainable peace.



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# Chapter 1: Introduction

South Sudan is the world's youngest country, as it gained independence from the Republic of Sudan on July 9, 2011. The split of Sudan was preceded by two phases of civil wars, which combined lasted for almost four decades. In January 2005, a peace agreement between the Government of Sudan (GOS) and the opposition group, represented by the Sudan People's Liberation Movement/Army (SPLM/A), put an end to a the second war, which had lasted for more than twenty years (Ahmed 2009). During the conflict, 2, 5 million people were killed and over 5 million externally displaced (Hamilton 2012). After decades of conflict and political instability, South Sudan's independence brought hope for a brighter future.

## 1.1 A Troubled Beginning

The high expectations among the people of South Sudan after the signing of the peace agreement was soon replaced by disillusionment, as the new government has been unable to deliver a peace dividend to its people. The leadership of the ruling party, Sudan People's Liberation Movement (SPLM), has been marked by internal factionalism. Coupled with continuing disputes with neighbouring Sudan, the process of state deliverance has been delayed.

At independence, 75 percent of Sudanese oil fields fell into the territory of South Sudan. Unresolved issues related to oil resources and border demarcation between the two new states led to South Sudan's decision to shut down its oil production in January 2012 (McNamee 2012). Tensions peaked in April 2012, when armies from both sides launched attacks across the border (Toit 2013). After months of intermittent border clashes, the two states finally came to agreements and South Sudan decided to resume oil production in April 2013 (EIA 2013).

The internal security situation in South Sudan is also fragile, marked by political divisions, inter-communal fighting and the spread of small arms (Wheeler 2012). On December 15, 2013, fighting broke out in Juba, the country's state capital, between factions within the political leadership. The dispute is between factions of the Sudan People's Liberation Army (SPLA) loyal to President Salva Kiir and forces allied to his former deputy, Riek Machar. According to the United Nations, the conflict has intensified ethnic divisions and political tensions in the country (Dieng and Welsh 2013). The violence has led to thousands of people being killed and an estimated 1, 5 million being displaced from their homes (UN 2014b).

Having obtained independence from the North, the government in Juba is determined to succeed as an independent state (Natsios 2012). However, the challenges linked to building a state from scratch is enormous. According to the World Bank (2012), South Sudan comprises over 200 ethnic groups, making a comprehensive and cohesive policy difficult. The risks of corruption and mismanagement is high, threatening the chances of rebuilding the country and creating development. According to Global Witness (2012), corruption is one of South Sudan's greatest challenges. Due to the many political and humanitarian challenges, a number of international actors are contributing with aid relief and peace and reconciliation initiatives in the country, Norway being one of them.

## 1.2 Norwegian Involvement

Norway has had a strong involvement in Sudan for over thirty years, both politically and humanitarian. The long-standing support through Norwegian People's Aid (NPA) and Norwegian Church Aid (NCA) has created credibility and trusted relationships within the Sudanese and South Sudanese governments as well as local communities. Norway, together with the UK and the US, played a leading role in the peace process that ended in the Comprehensive Peace Agreement (CPA) in 2005 (Kelleher 2006). In relation to the recent outbreak of violence in South Sudan, Norway sent a special envoy to Addis Ababa where peace talks were held between representatives of the two warring parties<sup>1</sup> (Holm 2014). In January this year the Norwegian Foreign Minister, Børge Brende, met with various top politicians and mediators during his visits to Sudan and South Sudan, where he participated in direct talks with President Kiir and former Vice-President Machar (Brende 2014).

The Norwegian funded aid program Oil for Development (OfD) started its institutional cooperation with South Sudan in October 2012. The program's aim is to transfer experience regarding oil management to developing countries, with the goal of promoting "economically, environmentally and socially responsible management of petroleum resources which safeguards the needs of future generations" (Norad 2013a: 7). Assistance through the program is provided and financed under an agreement with the Norwegian Ministry of Foreign Affairs (MFA) and the Norwegian Agency for Development Cooperation (Norad). Through the program, Norway aims at addressing the political and developmental challenges related to South Sudan's petroleum sector management (Norad 2013a).

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<sup>1</sup> Interview with Gunnar Holm, Senior Adviser in the Ministry of Foreign Affairs, on January 31, 2014 in Oslo. Holm was the Norwegian special envoy to South Sudan during the recent unrest (VG 2013).

## 1.3 Problem Statement, Objectives and Research Questions

This thesis will deal with the particular political and economic challenges in South Sudan while examining the role of Norwegian assistance and institutional cooperation through the OfD program. The specific challenges that South Sudan faces in relation to its oil resources will be brought into a conversation with the broader literature that examines the political and economic challenges associated with natural resource abundance.

The term ‘resource curse’ is often used in this literature, referring to the paradox that resource rich countries are commonly experiencing negative growth and development outcomes. In general, it is expected that countries rich in natural resources, such as minerals and oil, are likely to experience poor economic performance, low levels of democracy and civil war. Main sources that deal with the resource curse utilized in this thesis include Sachs and Warner 1995: *Natural Resource Abundance and Economic Growth*, Collier and Hoeffler 2005: *Resource Rents, Governance, and Conflict*, Karl 1997: *The Paradox of Plenty*, Karl 2007: *Oil-led Development: Social, Political, and Economic Consequences*, Humphreys et al. 2007: *Escaping the Resource Curse*, Gary and Karl 2003: *Bottom of the Barrel*, Rosser 2006: *The Political Economy of the Resource Curse: A Literature Survey*, and McNeish and Logan 2012: *Flammable Societies*.

As noted by Norad, the importance of assistance in petroleum management is greater than ever, as challenges related to the oil sector are rising all over the world. The OfD program emphasises that good governance and responsible management of the oil sector is the key to achieve sustainable development and to avoid the negative outcomes associated with the resource curse.

### 1.3.1 Problem Statement

South Sudan has a turbulent history, with two long-lasting civil wars, the last one resulting in the autonomy of the South and finally its independence from the Republic of Sudan in 2011. As a newly established state, South Sudan now faces various political and developmental challenges. The country is in possession of significant oil reserves, and the state derives an estimated 98 percent of its income from oil. Many of the country’s challenges are related to the so-called resource curse; a phenomenon associated with countries rich in natural resources. Norway, a country with more than four decades of oil and gas experience, aims at assisting South Sudan in its oil sector management, with the overarching goal of establishing a foundation for good governance in the country.

### 1.3.2 Objectives and Research Questions

The overall objective of the thesis is to critically examine the theory of the resource curse, and to study South Sudan's main political and developmental challenges stemming from its reliance upon oil as its major export. The aim is further to examine how Norway, through the Oil for Development program, can help the country avoid a potential resource curse.

*Objective 1: To analyse political and developmental challenges in South Sudan, and discuss the country's development prospects.*

**Research Question 1:** What are the main political and developmental challenges in South Sudan?

**Research Question 2:** What are the country's development prospects?

*Objective 2: To explore debates around the concept of the 'resource curse', and to analyse the risk of a resource curse in South Sudan.*

**Research Question 3:** What are the debates around the resource curse theory, and what are the policy implications for confronting the curse?

**Research Question 4:** What are the risks of a resource curse in South Sudan?

*Objective 3: To discuss the relevance of the Norwegian experience of oil sector management in South Sudan.*

**Research Question 5:** What is meant by the "Norwegian experience"?

**Research Question 6:** What parts of the Norwegian experience are relevant in the case of South Sudan?

*Objective 4: To discuss the potentials and limitations of Oil for Development in terms of helping South Sudan avoiding the resource curse.*

**Research Question 7:** What are the potentials of Oil for Development in terms of helping South Sudan avoiding the resource curse?

**Research Question 8:** What are the limitations of Oil for Development in terms of helping South Sudan avoiding the resource curse?

## 1.4 Structure of the Thesis

This section outlines the structure of the thesis. Chapter 2 will present the research methods, design and philosophical positioning adopted for the study. The aim of the chapter is to outline strategies, procedures and data collection methods. Finally, the chapter addresses a few ethical considerations and issues related to research trustworthiness. Chapter 3 provides the historical background of the emergence of South Sudan as an independent state, as well as the context of oil developments in the country. The chapter also presents an outline of the OfD program, its structure and objectives, and the initiation of the program in South Sudan. Chapter 4 is a discussion of main developmental and political challenges in South Sudan. Some insight into the country's development prospects is also given. The purpose of chapter 3 and 4 is to contextualise the situation in which the OfD program currently operates in South Sudan to serve as a background for the discussion of the program's potentials and limitations in the country.

Chapter 5 is a presentation of the resource curse theory. The resource curse literature entails a broad debate around various explanations for the negative relationship between natural resource wealth and development. The chapter further discusses some of the theory's problems and weaknesses, as well as the various policy solutions that the literature provides. In chapter 6, the resource curse theory is brought into a discussion around the risk of a resource curse occurring in South Sudan.

Before the thesis' main discussion regarding potentials and limitations of Oil for Development in South Sudan in chapter 8, chapter 7 explores the meaning of the Norwegian experience of oil sector management, and discusses the relevance of the experience in the context of South Sudan. Chapter 9 concludes main findings and arguments.





# Chapter 2: Methodology

This chapter will deal with the specific methods, research design and philosophical positioning adopted for this thesis. It will also give a section about the trustworthiness of the research, as well as relevant ethical considerations. The aim of the chapter is to outline strategies, procedures and data collection methods that have been implemented in order to answer the specific research questions. A qualitative research approach is adopted. In contrast to quantitative approach, where the focus is on collecting and working with data that is structured and can be represented numerically, qualitative research is concerned with stories and accounts of subjective understandings, opinions and beliefs (Matthews and Ross 2010). Choice of research approach has implications for the specific methods, design and strategies selected.

First, it should be noted that there is a high level of uncertainty regarding the current condition in South Sudan. The security situation might go through sudden changes, as demonstrated by the recent turmoil that erupted in December 2013. The instabilities have led to uncertainties regarding the work of OfD advisors in the country. Since the conflict broke out, no Norwegian advisors have been present in the country (Norad 2014a). Furthermore, the existing OfD agreement runs out in 2014, making the future of OfD assistance in South Sudan unclear. Further cooperation with South Sudan is currently under evaluation<sup>2</sup> (Christophersen 2014).

Challenges also relates to the fact that the state structures in the country have just started to emerge, which means that access to government records and documents is not easily obtained. Some official documents have been made available to the author through contact persons in Norad, who provided copies of the OfD Program Document and Institutional Cooperation Agreement between Norway and South Sudanese authorities, as well as the draft Petroleum and Revenue Management laws.

## 2.1 Philosophical Positioning

Choice of research approach is linked to the researcher's ontological and epistemological positioning, which relates to assumptions about knowledge and the nature of social reality. (Matthews and Ross 2010, Bryman 2012). However, as noted by Bryman, it is important to

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<sup>2</sup> Email interview with Hans Peter Christophersen, Senior Advisor in Oil for Development at Norad, on March 24, 2014.

keep in mind that research methods are more “free-floating” in terms of ontology and epistemology than is often presumed (Bryman 2012: 619). Some distinctions, however, are often discernable. A few ontological and epistemological reflections considered for this paper are given below.

### 2.1.1 Ontological Reflections

Qualitative research is often associated with the ontological position called constructivism (Bryman 2008). In contrast to the objectivist view, which holds that the reality of the social world exists independent of social actors involved, constructivist researchers believe that reality is a social construct, made up by social actors who reflect on it (Matthew and Ross 2010). In the context of Oil for Development in South Sudan, there are different actors, perceptions and perspectives that need to be taken into consideration. Different social actors, such as politicians, aid workers and civil society have their own perceptions of the Oil for Development, and contribute to shape the program and the environment in which the program operates. Various perceptions about the situation in South Sudan, about the role of Norway, and the strengths and weaknesses of the OfD program need to be taken into account.

Viewing the world as a social construct does not necessarily imply that the existence of a material reality is ruled out. For example, oil is part of a material reality with real world implications in the South Sudanese society. For instance, if the international oil price goes through a sudden drop, this will have serious consequences for the economy and developmental prospects in South Sudan. This view relates to the philosophical position called *critical realism*. Critical realists acknowledge the reality of the natural world as well as the discourses and events of the social world. Critical realism thus adopts an ontological realism, by claiming that “an entity can exist independently of our knowledge of it, while also asserting that the social world is always mediated and thus subjective” (Bryman 2012: 616). This thesis considers the existence of a social reality that is constructed and interpreted by social actors, but that also exists independently of these constructs and interpretations.

### 2.1.2 Epistemological Reflections

When it comes to epistemological considerations, the following questions are posed: “What is the relationship between the knower and what is known? How do we know what we know? What counts as knowledge?” (Tuli 2010: 99). The two main epistemological positions are

positivism and interpretivism. While the positivist position holds that knowledge of social phenomena is based on what can be observed by the senses rather than subjective understanding, the interpretivist position asserts that social research should be based on subjective interpretations and understandings of social phenomena (Matthew and Ross 2010). Interpretivism shares similarities with constructivism: “An interpretivist or constructivist paradigm portrays the world as socially constructed, complex, and ever changing in contrast to the positivist assumption of a fixed, measurable reality external to people” (Tuli 2010: 103).

Linked to the constructivist position adopted in this thesis, is the interpretivist understanding that subjective experiences of various actors are relevant to the study of Norwegian oil management assistance in South Sudan. For example, the perception of the OfD program of a Senior Advisor at Norad might be very different from the perception of a South Sudanese citizen. Regretfully, the author did not have the possibility to travel to South Sudan and carry out interviews of people on the ground directly affected by the OfD program. Interpretations of various actors’ experiences are also based on secondary data, which will be described further below.

## 2.2 Research Strategy

Choice of research strategy have implications for how the research is conducted, how theory is dealt with and how data is collected and analysed. While data collections and analysis in quantitative methodology emphasizes quantification, the qualitative methodology is more involved in words. When it comes to the relationship between research and theory, qualitative research adopts an inductive approach with the aim of generating theory (Bryman 2008). An outline of the methodological implications for implementing a qualitative approach is given below.

### 2.2.1 A Qualitative Approach

In methodological literature, quantitative research is commonly linked to the positivist paradigm while qualitative research is linked to the interpretivist paradigm. “Qualitative methodologies are inductive, that is, oriented toward discovery and process, have high validity, are less concerned with generalizability, and are more concerned with deeper understanding of the research problem in its unique context” (Tuli 2010: 100). The present research attempts to provide an in-depth inquiry of the current situation in South Sudan, and an understanding of

historical processes and the social, cultural and economic context in which the OfD program operates.

It is important that the researcher familiarizes herself with existing studies that have been done in the area. Investigating existing research provides the researcher with a set of ideas and theories that she finds relevant to her own study. By choosing an inductive approach the researcher is working on the basis of research, and then gathers data from which she derives her explanations (Matthews and Ross 2010). A literature review on the resource curse theory forms a basis for a discussion around the role of oil and Norwegian aid policy in South Sudan. Findings and explanations are ultimately attached to the provided theory.

## 2.3 Research Design

A clear and organized research plan is important in order to assure that the research questions can be answered as clearly and correctly as possible by the evidence collected. According to Yin (2009), case studies are appropriate as a research method in studies focusing on contemporary events rather than historical events, and when the research involves explanations. This thesis takes a case study approach as it mainly focuses on current political, social and economic events in South Sudan. However, the historical context needs to be taken into consideration in order to understand current events and the various challenges and opportunities related to oil management and development.

### 2.3.1 Case Study

Case studies are often context-specific, and findings might not be generalizable. Rather, it is about doing an intensive investigation of one or a few specific cases, where the quality of theoretical analysis is important. The goal of case studies is often to expand or contribute to general theories (Yin 2009). A case study is a proper design for narrowing down a broad field of research into an in-depth exploration of one or a few specific cases. The subject of a case might for example be an organisation, a community, a situation or a country (Matthews and Ross 2010). The unit of analysis for this study is South Sudan. Being the world's youngest state, and being in possession of large oil reserves, South Sudan makes an interesting case for a study on economic and political challenges related to oil sector management. The case allows detailed exploration of social, political and economic opportunities and challenges in a newly established oil country, a critical examination of the theory of the resource curse, and of the

limitations and potentials of a Norwegian aid program directed at the country's oil sector. In order to explore some of the program's limitations and challenges, a World Bank-funded development project in Chad, with the aim of promoting good governance and institutional capacity in the Chadian oil sector, will be used as a case of comparison.

## 2.4 Data Collection

A researcher who adopts an interpretivist approach collects data that enables him to “capture and interpret the meanings and understandings attributed to a social phenomenon through a consideration of the way the data is constructed and the language used within a social context” (Matthews and Ross 2010: 52). Data can be both in the form of primary data (data that the researcher has specifically collected for her own research) and secondary data (data that has been gathered by other researchers) (Matthews and Ross 2010).

In primary data collection, the researcher chooses her collection methods and tools, such as a questionnaire or an interview guide, usually designed by the researcher herself (Matthews and Ross 2010). For this study, primary data was collected through qualitative interviews with professionals and politicians with different expertise and opinions on the subject of Oil for Development in South Sudan. A semi-structured setup for the interview was applied, including a set of pre-prepared questions (i. e an interview guide), while at the same time allowing for follow-up questions and elaboration. A mix of open-ended and more specific questions were included in the interview guide. According to Bryman, it is important to be able to vary the order of questions, follow up leads and clear up any inconsistencies during the interview. A semi-structured setup allows this kind of flexibility while at the same time enabling a clear focus by using the interview guide with specific issues and topics to be covered (Bryman 2008).

A diversity of opinions and perspectives were captured through interviews with people in different positions and with different professional backgrounds. Interviews have been conducted with Senior Advisors in the OfD program at Norad, and with one of the consultants working towards the South Sudanese government in Juba. Other interviewees include the Director at Fridtjof Nansen Institute, who previously worked in the OfD program; a Senior Advisor at the Extractive Industries Transparency Initiative (EITI); and a Senior Advisor at the Norwegian MFA. An interview was also conducted with a PhD student at the University of Oslo, who has written an article with a critical perspective on the OfD program. Most of the interviews were carried out in person, a couple of others via email and Skype. All interviews

were recorded. The researcher also went to a debate arranged by the Norwegian Institute of International Affairs (NUPI) in Oslo, where the panellists were discussing the current situation in the South Sudan, and the challenges related to building state institutions from scratch.

In addition to the primary data collected for this study, secondary data in the form of books, refereed articles, theses and online newspapers have been utilized. There are several benefits of employing secondary data for one's research. Among the main advantages is saving time and money by utilizing data that already exists, allowing the researcher to spend more time on analysis. Further, reanalysis of existing data might offer new interpretations and insights. There are, however, limitations connected to using other researchers' data. These include lack of familiarity with the data and not having control over data quality (Bryman 2008). When working with data, whether primary or secondary, the researcher must be concerned with the quality of his data and research in general. This relates to the research *trustworthiness*, which will be discussed in the section below.

## 2.5 Trustworthiness

Principles related to trustworthiness are different in quantitative and qualitative research. In quantitative studies, emphasis is put on criteria of reliability and validity. Four criteria are proposed in relation to the trustworthiness of qualitative research: *credibility*, *transferability*, *dependability* and *confirmability* (Guba 1981).

### 2.5.1 Credibility

Considerations of credibility relates to the awareness of the existence of multiple accounts of social reality. Relating to credibility is procedures such as triangulation, thick descriptions and respondent validation (Bryman 2012). Triangulation is the process of using data from different sources. This is a way of cross-checking information, strengthening the truthfulness of the sources (Locke et al. 2007). For this study, primary as well as secondary data has been used. Furthermore, interviews of different people with different positions, perspectives and expertise has helped to ensure variable representation. Frequent meetings between the researcher and her supervisor, Bill Derman, and learning from his experience and feedback has enabled the researcher to acquire new knowledge and insight. These procedures have helped the researcher explore the research subject from different angles, build up her arguments and strengthen the credibility of her research.

Respondent validation implies that respondents are given the opportunity to review one's research findings, making sure the findings correspond to the respondents' perspectives (Bryman 2008). People in political agencies and organizations might not have time to meet the researcher for interview more than once, but might be able to confirm their answers and respond to follow-up questions via email. For this study, any uncertainties regarding respondents' answers were followed up, either by second meeting or via email.

### 2.5.2 Transferability

The findings in qualitative research, especially in case studies, are often context-specific, and might not be transferable to contexts beyond the one under study. There is a challenge regarding generalizability relating to case studies, as they are often very context-specific. However, in qualitative study one is often more concerned about the contextual uniqueness of a social setting, giving a rich, detailed account of the setting at hand. Given the rich understanding of details in the specific case, readers are able to make judgements about the transferability of findings to other cases (Guba and Lincoln 1994 in Bryman 2008).

### 2.5.3 Dependability

The principle of dependability is comparable to the concern of reliability in quantitative research. Keeping complete records of all phases of the research process helps the researcher maintain an 'auditing' approach, enabling other researchers to repeat the same research, though different results might be gained (Bryman 2008). In order to meet the dependability requirements, a complete record of logs, interviews, transcripts and other documents are kept, accessible for auditing.

### 2.5.4 Confirmability

The last principle, regarding confirmability, relates to the objectivity of the study. Even though complete objectivity is not possible in social research, it is important to at all times strive for neutrality (Bryman 2008). It is essential to be aware about one's own position, background and personal values, and to make sure the research outcome is as un-biased as possible. The researcher must at all times be aware of her preconceptions, making sure it does not affect the research process and outcomes.

## 2.6 Ethical Considerations

Ethical considerations relating to openness, truthfulness and honesty are essential when doing social research. Without honesty, there can be no accumulation of reliable knowledge, and hence no science. One of the crucial ethical considerations related to writing is avoiding plagiarism. Plagiarism implies theft of other people's ideas, by failing to credit material found in other scholars' work. Examples are omission of citation and quotation marks, or carelessness in preparing a reference list (Locke et al. 2007). Further, it is important to reflect on one's own role as a researcher in the field. The researcher must present herself and the purpose of her research in an open and honest way (Scheyvens et al. 2003).

One of the more formal principles when it comes to ethics in social research is the principle of *informed consent*. Interview respondents need to be informed about the terms and goals of the research. This implies that "a potential participant freely and with full understanding of the research agrees to be part of the project. It is premised on the notion that the person has a complete and thorough understanding of the aims and processes of the research project, what the research will be used for, such as policy formation and publication, and who will have access to the information gathered" (Scheyvens et al. 2003: 142). The participants must also be given the freedom not to participate, or to withdraw at any time. The researcher is obligated to make sure that no harm is caused to the participants. The researcher is responsible of keeping participants' identity private, if they so wish. Fieldnotes, transcripts and other data from the field have to be stored in a safe place, so that information intended for the research is not lost or misused (Scheyvens et al. 2003). Before interviews conducted for this research, respondents were given proper information about the aims and purposes of the study. When recording of the interviews were intended, the researcher always asked the respondents of their approval.



# Chapter 3: Background

Two brutal civil wars have been fought between the North and South of Sudan; the first one taking place from 1955 to 1972 and the second from 1983 to 2005. If we go back to the days before the first civil war broke out, it becomes evident that the conflicts between the two regions have deep historical roots (Natsios 2012). The wars have to be seen in light of a wide variety of factors, including economic exploitation, perceptions of social status and race, religious identity, state formation and colonial as well as post-colonial interventions (Johnson 2003). The following section will be an outline of the events leading up to the wars and the final breakaway of the South into an independent state.

## 3.1 The Early Nile Valley and Sudanic States

According to Johnson (2003), the development of states and state power along the Nile and across the East-West Sudanic belt has had the most prominent influence on economic, political and social relations within Sudan. State power in the early Egyptian valley states depended on armies of slave soldiers, slave trading and slave raiding. The Muslim rulers gained control and influence through increased commercial contact throughout Sudan, leading to a gradual introduction of Islam and Arabic into Northern Sudan. Southern Sudan was not subjected to slave raiding by the central Nile kingdoms until the nineteenth century, when it came under exploitation of a state centred at Khartoum. With the Egyptian conquest of Sudan from 1820 and onwards, commercial exploitation reached the South (Johnson 2003). From 1898 to 1956, Sudan was under joint colonial rule by Britain and Egypt. Administrative divergences between the Muslim, 'Arab' dominated North and the non-Muslim, 'African' South, deepened with the British colonisers. In line with the colonisers' 'Southern Policy', local administration in the South was to be based on indigenous law and custom in an African rather than Arab tradition (Johnson 2003).

The Sudanese nationalist movement against the colonisers was marked by uncertainties about the status of the Southern region in an independent Sudan. In 1954, Southern leaders organized a conference where they voted for independence from Egypt and autonomy within a federal system, with the possibility independence from the North. Southern politicians' claim for a federal system was rejected by the central government and political parties in the North, who feared that federalism would be the first step towards Southern separation (Johnson 2003).

## 3.2 The Outbreak of Civil War

The refusal by the central government to implement a federal system that would grant relative autonomy in the South, coupled with the fear of continued Arab North-domination among the Southerners, led to the outbreak of a Southern mutiny in 1955. This was the start of the first civil war. The forceful attempts by the Northern government to suppress the mutineers resulted in the formation of a guerrilla section among the mutineers, later named Anyanya (a vernacular name for a type of poison (Johnson 2003, Omeje 2010)).

When Sudan gained its independence from the colonisers in 1956, Southern demand for autonomy continued to be ignored. At the same time, Northerners were given overwhelming control within the new rule of Sudan (Natsios 2012). The first civil war ended with the Addis Ababa peace agreement in 1972, where the South was granted an autonomous government and executive council that would administer its territory (Behrends 2011). There were important issues, however, that the peace agreement failed to resolve. The Southern regional government was not given the authority to exercise power in matters of economic planning. Security issues were especially contentious. The South's proposal for two regional armies and one national army was rejected by the Northern government, as they feared the formation of a new Southern garrison made up by former guerrillas. Another sensitive topic was the border issues. Some of the areas that had belonged to the South before independence were supposed to be automatically transferred back to the region. In other areas, such as the Dinka district of Abyei, a referendum were supposed to be held in order to decide whether it should remain in the North or be included in the South. No referendums, however, were scheduled (Johnson 2003).

None of the successive governments in Khartoum were able to ensure political stability or come to a diplomatic settlement with the South. Moreover, all of the governments pursued a policy of Islamization and Arabization, which did not go well with the Christian majority of the South. The South stayed isolated and underdeveloped, with low literacy rates, little infrastructure and lack of institutional capacity (Natsios 2012). By the late 1970s, the Northern government intensified its efforts to tighten the control over the South. When oil was discovered in the Southern provinces, it provided an additional motivation for war. The central government wanted to keep control over the new oil wells. Boundaries were redrawn so that the oil fields ascribed to the North, and an army was stationed in the South to protect the fields (Behrends

2011, Kobrin 2004). Autonomy that had been granted the South under the Addis Ababa agreement was abrogated, and the whole country was declared an Islamic state (Kobrin 2004). These events triggered nationalist sentiments and militancy in the South, and also led to the foundation of the main resistance movement, the SPLM/A (Adar 1998). The second civil war resulted in more than two million deaths, internal displacement of over four million people and about 500 000 international refugees (Large 2009).

### 3.3 Social, Cultural and Religious Divisions

Arabization in Sudan began with the influx of Arab nomads in the early Nile valley and Sudanic states (Johnson 2011, Sharkey 2008). A religious and racial divide between Muslim and pagan people emerged by the increasing exploitation of the South, as certain segments of the Muslim Arab-speaking population got a personal stake in subjugation and slave raiding of non-Muslim territories (Johnson 2003). The social stratification between high status ‘Arab’ and low status ‘black people’ was maintained, and even amplified under the British colonisers, who favoured Arabs in administrative positions (Sharkey 2008). The divide was also a social one, as socio-economic development was mainly concentrated in the central areas of the former Sudanic states, while the old pagan hinterlands remained underdeveloped (Johnson 2003, Toit 2013). The development of the Northern provinces in terms of education, administration and infrastructure compared to the South contributed to strengthening the divergences between the North and the South (Toit 2013).

Although regional administration in the South was based on traditional custom and religion as part of the colonisers’ Southern Policy, the establishment of Christian mission was permitted. This was mostly because of the missionaries’ provision of schools. Christianity in the South gained influence as Christian converts achieved strategic positions in administration and politics during the periods of late colonisation and early independence. Conversions accelerated in the 1960s as a result of Khartoum’s Islamization policies and expulsion of foreign missionaries (Johnson 2011).

### 3.4 Internal Factionalism in SPLA

The SPLA (SPLM’s military wing), led by Dr. John Garang, had been fighting the national army and central government in Khartoum since 1983. Something that had started as a split in the Southern military leadership, and a discontent by some Southern commanders with Garang’s autocratic leadership, exploded into a full-scale conflict between two political factions

(Jok and Hutchinson 1999, Kelleher 2006). After a failed coup attempt against Garang, Dr. Riek Machar, an ethnic Nuer from Upper Nile, and several other SPLA officers, broke away from the SPLA. Garang, an ethnic Dinka from Bor, rallied his own supporters (Jok and Hutchinson 1999). Both sides attempted to mobilize civilian opposition, which resulted in the country's two main ethnic groups, the Nuer and the Dinka, being pitted against each other (Jok and Hutchinson 1999, Kelleher 2006).

### 3.4.1 The Bor Massacre

The civilian population in the Southern regions, which was already experiencing harassment by government-backed militia from the North, became victims of the fighting between the Southern factions, who were targeting the civilians along ethnic lines (Johnson 2003, Jok and Hutchinson 1999). In 1991, Nuer civilians joined the Machar forces in a brutal attack on Dinka communities in Bor, Garang's home territory. After several months of fighting, 70 percent of the Bor Dinka in Southern Upper Nile had been displaced, while hundreds of civilians had been killed or wounded (Human Rights Watch 1994 in Jok and Hutchinson 1999).

In addition to the discontent with Garang's leadership, some Southern commanders dismissed Garang's agenda for a united, secular Sudan, and wanted to fight for the South's independence. The Northern government took advantage of Southern factionalism by supplying arms and funding to local commanders, and by offering peace agreement with groups in the South that broke away from the SPLM and Garang (Johnson 2003, Kelleher 2006). Through this policy, Khartoum achieved its immediate goal, which was to create splints between ethnic groups, destroy much of the Southern region's assets, and weaken Southern resistance (Kelleher 2006).

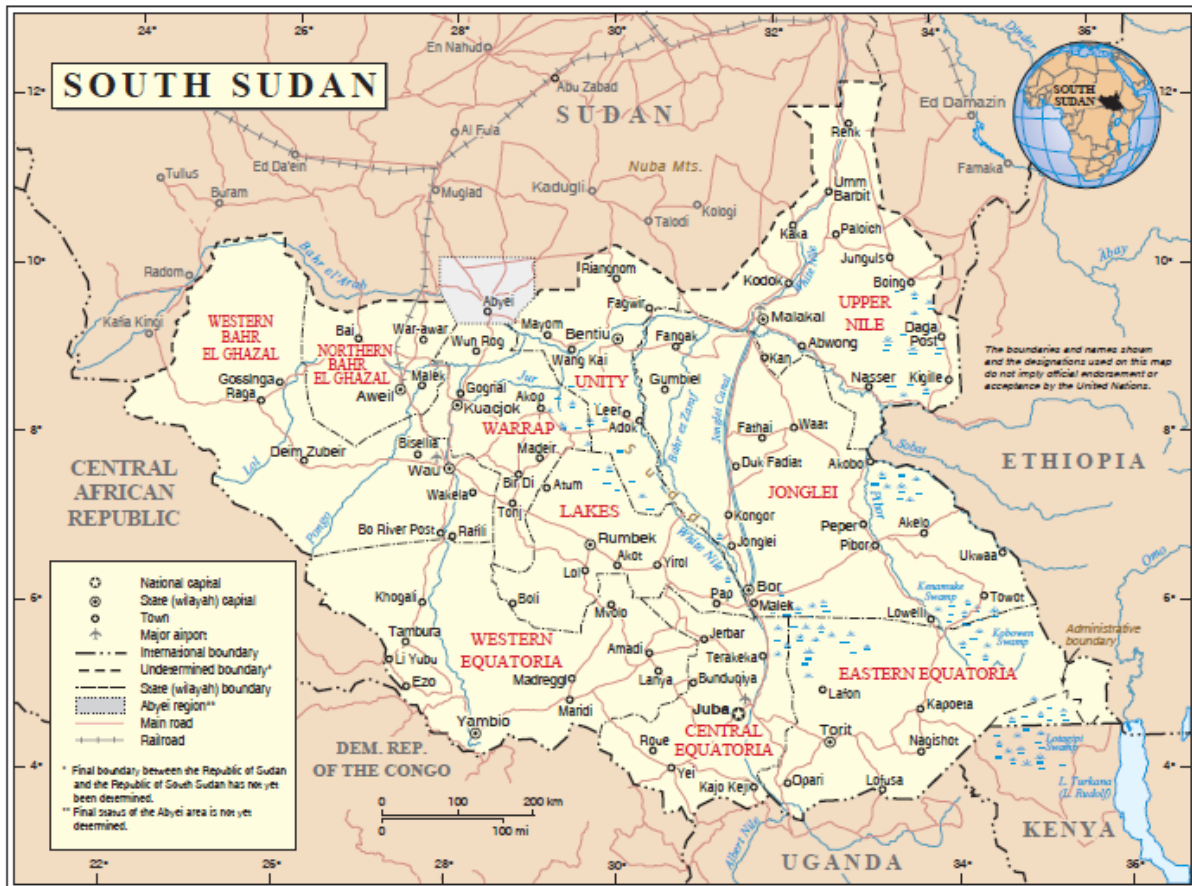
## 3.5 The CPA and Southern Secession

The negotiation process that finally led to the signing of the CPA in 2005 was marked by numerous setbacks and difficulties. However, both the GOS and the SPLM/A showed commitment in participating in the negotiations, and there was a mutual interest in reaching an agreement. Whereas the emergence of an oil industry contributed to boosting the Sudanese civil war, the escalation of the conflict in turn hampered the country's capacity to export oil, which was one of the factors that led to the signing of the peace agreement (Toit 2013). The two sides were pushed into dialogue by leaders of neighbouring countries such as Eritrea and Ethiopia, and by the wider international community. Furthermore, the leaderships of both the Northern

government and the SPLM/A were experiencing internal legitimacy crisis, which encouraged the two sides to participate in the peace process in order to rehabilitate their image (Ahmed 2009). In addition to calling an end to the violence, the CPA represented a transition to democracy by stipulating the holding of national elections during the interim period. A self-determination referendum was to be held in the South after a six-year period (Ahmed 2009, Omeje 2010).

Around 3,9 million people were registered to vote in the referendum (including those residing outside the country), which was held in January 2011. An estimated 3,8 million people participated in the poll, with 98,8 percent voting for secession (Dagne 2011). The former deputy of Garang and one of the founders of SPLM, Salva Kiir Mayardit, had become the leader of SPLM/A after the death of Garang in 2005. In 2011, Kiir became the first President of an independent South Sudan (Dagne 2011, Toit 2013).

**Map 1: States of South Sudan**



Source: UN (2011)

### 3.6 Oil Developments in Sudan and South Sudan

Oil exploration in Sudan started in 1959 in the Red Sea by Agip, an Italian oil company, and was followed by various French and American companies. The first oil discovery was made by the American company Chevron in Unity State in 1978 (Behrends 2011). Oil development was coupled with the unrest and human right violations that came with decades of civil war. This made investment difficult for international actors. Chevron had to cancel its production plans in the 1980s due to the unstable situation in oil areas. In 1996, Sudan received large-scale investment from China. Investment by China National Petroleum Corporation (CNPC), Malaysian-owned Petronas, and the Indian-owned Oil and Natural Gas Corporation Limited (ONGC), enabled the development of Sudan’s oil sector, as it financed construction of pipelines, refineries and export terminals (Shankleman 2011). CPNP became the operating

company in the country. It also became the largest shareholder in Greater Nile Petroleum Operating Company (GNPOC), with Malaysian Petronas, Canadian Talisman Energy and the Sudanese national oil company Sudapet as the other shareholders. CNPC also holds a share in the Petrodar consortium, which together with GNPOC accounts for the largest share of Sudanese and South Sudanese oil production (Toit 2013). When South Sudan gained independence in 2011, Sudapet's shares in GNPOC and Petrodar were taken over by Nilepet, which is the national oil company of South Sudan (ICG 2012a).

**Map 2: Sudan and South Sudan Oil Fields, Pipelines and Refineries**



Source: BBC (2012a).

After independence, oil fields were divided between Sudan and South Sudan according to territorial position. While 75 percent of oil fields fell to South Sudan, all pipelines and refineries are located on Sudanese territory. Several oil fields, such as the Heglig, are situated in the disputed border areas between the two countries (Toit 2013). South Sudan has three producing oil consortia, situated in blocks 3 and 7, 1, and 5a (Global Witness 2012). The producing areas contain fields of different production trajectories and oil of different quality and value. Block 5a produces the high quality crude called Nile Blend, which is sold at a good price in international markets, while the producing areas of block 3 and 7 produces the lower-value Dar Blend. Blocks 1, 2 and 4 fall on both sides of the Sudan - South Sudan border, yielding the Nile Blend crude oil. Output from this area is on a higher scale than in 5a, but is on a declining trend (Shankleman 2011). Being a landlocked country, South Sudan depends on Sudan for export infrastructure and processing facilities. Crude oil is being shipped from South Sudan across the Sudanese border to an export-processing facility in Heglig. From there it is transferred to Port Sudan on the Red Sea through the GNPOC export pipeline (see map 2) (Bariyo 2013).



### Map 3: Sudan and South Sudan Oil Blocks



Source: ECOS (2010)

Most of Sudan and South Sudan’s oil is exported to Asia. China is the largest economic investor in Sudan’s oil industry and is also the largest buyer of Sudanese oil. After the separation between the North and South, China has remained the top buyer and main actor in both countries’ oil industries (ICG 2012a). In 2011, China imported 66 percent, followed by Malaysia, Japan, the United Arab Emirates, India at and Singapore (Kuo 2012: 3). Since 2013,

oil production in South Sudan has been in the range of 150 000 to 200 000 barrels a day (Norad 2014a). Estimates of oil reserves in South Sudan vary from 4, 2 billion to 7 billion barrels (Toit 2013).

### 3.7 Environmental Impacts of Oil Activities

South Sudan faces several environmental challenges, resulting from the long-lasting conflict and unregulated exploitation of natural resources (AEO 2012). Poor environmental law enforcement during the development of Sudanese oil industry has resulted in severe environmental damage, especially in oil producing regions. Environmental mismanagement includes water contamination, farmland degradation and deforestation (ECOS 2010).

Oil development in the oil producing areas of Upper Nile, Unity and Abyei is situated in fragile savannah and wetland ecosystems which provide habitat to a diversity of migrating birds and animals. Infrastructure used for oil activities has had significant environmental impact. Some locals have reported that roads have led to undesirable inundation during wet season, as landscape fragmentation caused by road construction stopped the water from following its natural draining path. Animals and birds have been observed near skimming and retention ponds, and concern has been raised about these animals' exposure to oil residues in the water. Large bioremediation projects (for produced water treatment) have great impact on habitats, turning seasonal wetland and arid or semi-arid savannah into permanent wetlands. People who are depending on these ecosystems are also negatively affected. Oil projects are located in areas that traditionally have been used by pastoralists and nomads. These communities are facing health risks, as the water available near production sites often contains toxics, even after it has gone through treatment (Norwegian Directorate for Nature Management 2009).

Since independence, South Sudan has taken steps towards addressing environmental concerns. The government has committed itself to follow principles of sustainable development by drafting an environmental policy, endorsing international environmental treaties and conventions, and implementing environmental and social impact assessments in relation to development projects (AEO 2012).

### 3.8 The Oil for Development Program

The OfD program was launched by the Norwegian government in 2005. Currently working in close to 20 countries, the program represents a “thematic broadening of the petroleum sector development assistance that Norway had provided since the early 1980s through an increased focus on revenue management and environmental management” (Norad 2013b: 3). Considerations of environmental concerns, revenue management and improved democratic control are central parts of the program’s aim to address oil sector management in line with principles of good governance. The focus on good governance and institutional capacity building lies behind the program’s three pillars:

In the resource pillar, legislation and regulatory regimes are focused on open and equitable processes for access to resources, standardised rules and contracts to ensure predictability and fairness in sharing costs, risks and benefits. The revenue pillar [...] is to ensure that the host country gets its fair share of the resource stream, and that this is fully accounted for in publicly available budget and expenditure documents. The environment support is to provide the country with safeguards, policies and instruments to prevent and address environmental disasters, help decision makers balance opposing interests and concerns when deciding on petroleum exploitation, and in general ensure that interventions are as benign as possible (Norad 2013a: 73).

Norad states that governance is a key concern in OfD, but also the greatest challenge. The program focuses on addressing macro-economic instabilities and political distortions associated with the oil sector. Problems such as corruption, tax evasion and fraud are often intensified in cases of fragile and conflict-ridden states. Amongst anti-corruption efforts are risk analyses, efforts to improve control of Norwegian funding, and support to transparency efforts like the EITI. OfD support to civil society goes through funding of Norwegian and international non-governmental organizations (NGOs) that work actively towards civil society, such as NPA, Global Witness and Revenue Watch Institute<sup>3</sup> (Norad 2013a, Holm 2014).

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<sup>3</sup> Interview footnote 1, page 2.

### 3.8.1 Program Structure and Funding

The OfD program's steering committee consists of representatives from the MFA, the Ministry of Finance, the Ministry of Climate and Environment, and the Ministry of Petroleum and Energy (MPE). The role of the steering committee is to formulate strategies and guidelines for the secretariat, decide on project proposals and provide an overall quality control (NPD 2007). Norad has the secretariat, and is responsible for overall administration and coordination of the program. Central implementing agencies include the Norwegian Petroleum Directorate (NPD), the Norwegian Environment Agency, the Petroleum Safety Authority, the Norwegian Coastal Administration, and the Norwegian Oil Taxation Office (Norad 2014a). Funding goes to selected consultancy companies, civil society organizations and multilateral actors such as the International Monetary Fund (IMF) and the World Bank (Norad 2013b). Much of OfD assistance coincides with IMF's work on fiscal regimes in extractive industries<sup>4</sup> (Kvarsvik 2013). In addition, a variety of research institutions, consultancies, NGOs and staff from relevant ministries are involved, while the Norwegian oil and gas industry contribute with competence and knowledge transfer (NPD 2007). The program's main sources of funding are the MFA, (which allocates funds to various OfD initiatives), the Norwegian Embassies (which provide funding to country level programs) and Norad (which allocates funds to various civil society organisations, international initiatives and the Norwegian public institutions).

One of the institutions that receive funding is Petrad, a non-profit Norwegian government foundation. Once a year, Petrad runs two eight-week programs in Norway, called 'Petroleum Policy and Resource Management' and 'Petroleum Development and Operations'. The programs focus on ways in which national authorities can manage and develop their countries' oil resources in ways that benefit the whole of society (Norad 2014a). In 2013, delegates from South Sudan and other OfD partner countries participated in the programs, where the aim was to provide participants with the skills and tools needed for the management and monitoring of petroleum operations and development (Norad 2014a).

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<sup>4</sup> Interview with Trond Kvarsvik, Senior Advisor in Oil for Development at Norad, on October 24, 2013 in Oslo.

### 3.8.2 Program Objectives and Activities

The OfD program has three main objectives: first, the development of sound policy and legal frameworks; second, ensuring institutional capacity in terms of implementing these policies and frameworks; and third, that the institutions are held accountable to the country's citizens (Norad 2011: 6). The program's assistance in resource management involves technical support to develop administrative mechanisms, systems for fiscal metering and licensing processes, and legal frameworks for oil exploration and production. It also involves development of policies that encourage technical development, education, vocational training and involvement of local industries. Revenue management includes assistance in the development of fiscal policies, such as tariffs, tax treaties and petroleum funds. Environmental management involves the development of legislation, regulations and guidelines related to environmental dimensions of oil development, and of systems for monitoring the domestic and international oil industry. It further involves environmental impact assessments, risk reduction measures, and strategies to reduce accidental pollution (Norad 2011).

With over 40 years as an oil producer and exporter, Norway holds valuable experience in sustainable management of petroleum resources. As stated by Norad: "Strong and stable legal frameworks, responsible resource management, co-operation with the private sector, technical expertise, development of accountable government institutions and building of a competitive national industry base are central elements in the Norwegian experience and its management system for petroleum. Additionally, regard for the environment and focus on health, safety and environment is an integrated part of the Norwegian approach to its natural resources" (Norad 2011: 6). Establishment of accountable institutions, good governance, and transparency is integral to reducing the risk of corruption and mismanagement in the oil sector (Norad 2011).

### 3.9 Oil for Development in South Sudan

Norway has provided support to the petroleum sector of Sudan, including the regional government of Southern Sudan, since the signing of the CPA in 2005 (Norad 2011). OfD funding has been given separately to the two countries since 2012 (Norad 2014a).

South Sudan is listed as one of the core countries of the OfD program (Norad 2013a). The country received 18, 3 million Norwegian Krone (NOK) in funding through the program in

2013 (whereas Sudan received 26, 1 million for the same year) (Norad 2014a). Norwegian implementing institutions in South Sudan are the NPD, the Norwegian Environment Agency, the Petroleum Safety Agency, the Ministry of Finance, and the MPE. South Sudanese implementing institutions include the South Sudan Ministry of Finance, Commerce, Investment and Economic Planning (MoFCIEP), the South Sudan Ministry of Petroleum, Mining and Industry (MPMI) and the South Sudan Ministry of Environment (MoE) (Norad 2014a).

### 3.9.1 Institutional Cooperation between Norway and South Sudan

A Program Cooperation Agreement between the Norwegian MFA (represented by the Norwegian Embassy in Juba) and the Republic of South Sudan (represented by the South Sudanese MoFCIEP), was signed on October 18, 2012. Institutional cooperation with the government of South Sudan was formally agreed at October 31, 2012, with the signing of the Institutional Cooperation Agreement between the Norwegian MPE and the South Sudan MPMI. Acting on the behalf of the Norwegian MFA, Norad acts as an advisor to the Norwegian Embassy in Juba, and is responsible for the overall quality assurance of the program (MFA 2012). Under the agreement, a grant not exceeding NOK 48 000 000 is made available for financing technical assistance (MFA 2012). The program is planned for a three year period; from 2012 to 2014.

The OfD Program Cooperation Agreement in South Sudan currently covers the resource and environmental pillars of the program. A proposal for a formal agreement on revenue management cooperation is currently under consideration (MPE 2012). So far, OfD support in revenue management has involved macro-economic assistance from Norwegian consultants working within the South Sudan MoFCIEP. Norad has contract with the Norwegian-based Pöyry Consultancy Company. Pöyry applies economic models and income simulations, providing the South Sudanese authorities in developing economic prognoses for oil revenue. The Norwegian Ministry of Finance is the main actor in Norwegian assistance within finance and revenue, but does not have the capacity for heavy involvement in South Sudan. It has thus requested Norad to cooperate with the IMF for further cooperation within revenue management in South Sudan<sup>5</sup> (Kvarsvik 2013).

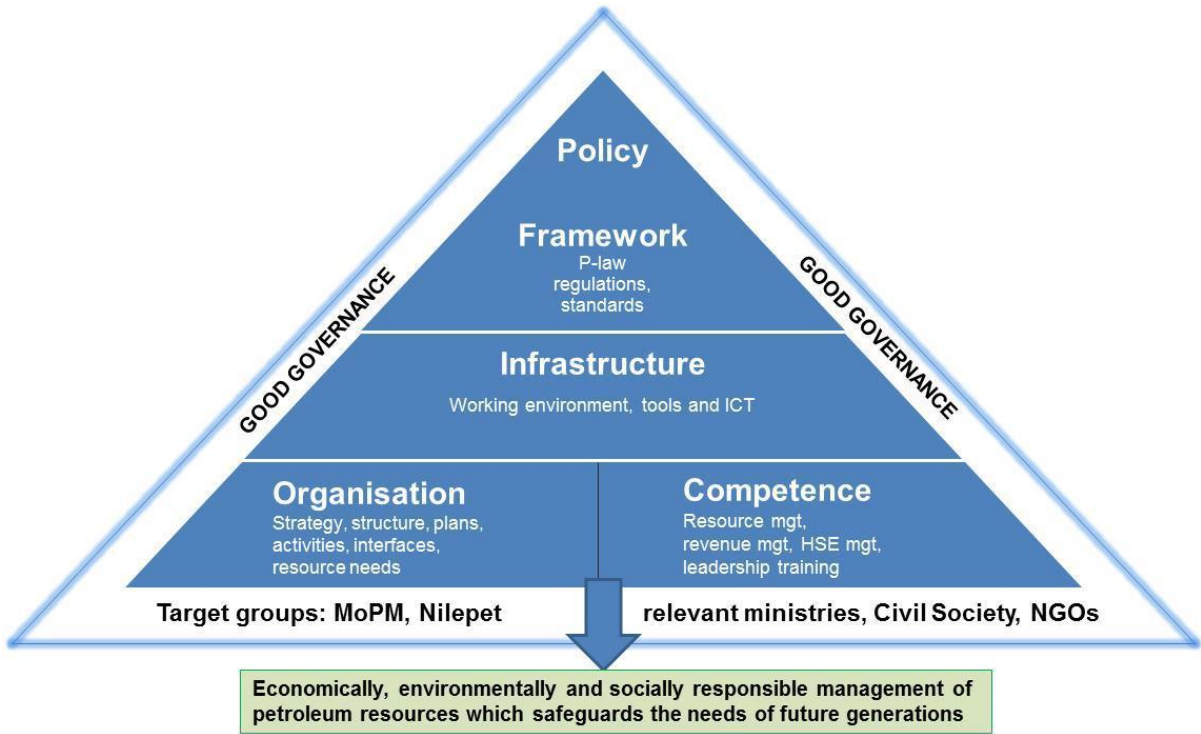
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<sup>5</sup> Interview footnote 4, page 26.

### 3.9.2 Program Elements

Within the overall objective of contributing to “further development and strengthening of governance systems for the petroleum sector in South Sudan that fosters efficiency, transparency, anti-corruption, and which is in compliance with the principles of good governance” (MFA 2012: 2), main elements of the program includes policy and framework, infrastructure, organization and competence. Main target groups are the MPMI and Nilepet. Other target groups include various relevant governmental institutions, as well as civil society. As part of the program’s initial phase, efforts include training activities, building office facilities, and development of a legal framework. Principles of good governance, such as transparency, anti-corruption and gender issues are continually addressed through the program’s activities (see figure 1) (MPE 2012).

**Figure 1: Oil for Development Program Elements**



Source: MPE (2012)

Policy and framework involves the establishment of petroleum policy, regulations, guidelines, and contract transparency. The drafting and implementation of the Petroleum Act is one of the important accomplishments of OfD program in South Sudan<sup>6</sup> (Christophersen 2013). The Petroleum Act includes provisions for preventing corruption and mismanagement, such as publishing and reporting of oil contracts, revenues, and production data. It also contains instructions regarding open and competitive oil contract allocation (GOSS 2012a). A Petroleum Revenue Management Bill has also been drafted with support of the program, containing instructions on how revenues from oil will be collected, audited and reported. The Bill was approved by Parliament and awaits the signature of the President for enactment (Norad 2014a).

In addition to policy and framework, the other program elements include infrastructure, organization and competence building through various training programs. Infrastructure involves setting up office facilities and computer systems for MPMI staff. Development of competence includes training in resource management (such as resource assessments, licencing, data management and fiscal metering), revenue management, as well as Health, Security and Environment (HSE) management, such as emergency preparedness, occupational health, management of pollution, and environmental and social impact assessments (MPE 2012).

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<sup>6</sup> Interview with Hans P. Christophersen, Senior Adviser in Oil for Development at Norad, August 20, 2013 in Oslo.



# Chapter 4: Development Challenges in South Sudan

The challenges that the OfD program encounters in South Sudan are substantial. As a new country, South Sudan has to build its institutions from scratch. Core administrative and political systems are still at the beginning-stage, and the government is incapable of delivering basic services to the population. The South Sudanese health ministry is barely functioning. The oil ministries work reasonably well, but oil production lies well under its potential. It never reached top-level after the shutdown in 2012<sup>7</sup> (Holm 2014). According to The Economist (2013), one of the main obstacles for development lies in the lack of a functioning political leadership and administration. As much as 75 percent of the country's national budget is currently being spent on salaries to civil servants (The Economist 2013).

## 4.1 Main Political and Developmental Challenges

According to Kvelland (2013), poverty levels have gone up despite the inflow of oil revenues to the state. Oil wealth has failed to trickle down to the poorest sections. Public service delivery systems are weak, especially in rural areas (AEO 2012). This section presents some of the main political and developmental challenges in South Sudan, beginning with issues related to poverty.

### 4.1.1 Poverty

Compared to its neighbouring countries, South Sudan is relatively underdeveloped. The country lacks proper roads and infrastructure, and less than one percent of the population has access to electricity (The Economist 2013). In a country twice the size of Norway, the lack of proper roads is an enormous challenge (Norad 2014b). According to BBC, a lack of investment in essential areas such as infrastructure, social facilities, agricultural productivity and trade has resulted in adverse poverty amongst the South Sudanese people (BBC 2012b). A little over 50 percent living below the national poverty line (AEO 2012).

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<sup>7</sup> Interview footnote 1, page 2.

School enrolment and literacy rates are low. In 2010, the net enrolment rate for primary education was 46 percent (AEO 2012). More than 70 percent of the population that are over 15 years of age is illiterate (Norad 2014b). Government spending is insufficient in order to achieve universal basic education. Curriculum development is poor due to limited resources, and around 40 percent of teachers are untrained. When it comes to health indicators, the country is amongst the worst. Access to healthcare, sanitation and safe water is low (AEO 2012). One of seven women die in labour in South Sudan, which is the highest maternal mortality rate in the world (Kvelland 2013). The child mortality rate stands at 102 per thousand new-borns (Norad 2014b). According to the Food and Agriculture Organization/World Food Programme, the biggest threat to child mortality is malnutrition (FAO/WFP 2013).

Poverty is more pronounced in rural areas, where an estimated 83 percent of South Sudan's population live (Dagne 2011, Norad 2014b). Whereas 53 percent of the adult population in urban areas is literate, the percentage stands at only 22 for the rural adult population (AEO 2012). South Sudan has large land areas and great possibilities for agricultural development. Unfortunately, decades of war have undermined the potential for agricultural development and rendered the country dependent on food imports. Most of the agricultural sector is based on traditional farming, though commercial farming is spreading<sup>8</sup> (Corneliussen 2013).

#### 4.1.2 Security Situation

Since independence, peace in South Sudan has been fragile. Frequent outbreaks of fighting between armed forces along the Sudan-South Sudan border, as well as between various rivalling groups, severely affect the country's security situation.

##### *4.1.2.1 Conflict with Sudan*

Oil issues have been prominent in the conflict between South Sudan and Sudan. After South Sudan gained independence, several issues have remained unresolved. Key issues include ownership of oil fields across the border, oil revenue sharing, and disagreements over what price South Sudan should pay for using export pipelines running through Sudan (Shankleman 2011). In spite of agreements between the two countries to respect each other's sovereignty

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<sup>8</sup> Interview with Hans I. Corneliussen, Senior Adviser at Norad, October 24, 2013 in Oslo. Corneliussen worked in the Norwegian Church Aid in Khartoum during the North-South civil war, and was one of the founders of the Norwegian General Consulate in Juba after the peace agreement.

over territories, clashes between Sudanese Armed Forces (SAF) and the SPLA in the form of air attacks and occupation of oil fields has led to escalating violence along the border (UNSC 2012b). In January 2011, South Sudan decided to shut down its oil production. The shutdown was a reaction to incidents where Sudan had been confiscating portions of South Sudan's oil shipments as a compensation for unpaid transit fees. After almost 15 months of negotiations, oil production resumed (EIA 2013).

The status of the border-region of Abyei remains a source of great tension between the two countries, as it is situated in an area with significant oil reserves. The region is also of great symbolic importance to the region's two main communities, the nomadic Arab Misseriya who move through the area to graze their cattle herds during dry season, and the settled Ngok Dinka with connections to the South. In the oil-producing states of Southern Kordofan and Blue Nile, various factions and rival nomadic tribes backed by either side of the border are fighting for control (McNamee 2012). Fighting between SAF and rebel groups stationed in the South has been going on in the border areas of Southern Kordofan and Blue Nile (Dagne 2011). Sudan has accused SPLM of supporting the rebel groups in attempting to overturn the Khartoum government. The fighting has spill-over effects in the form of refugees and violence which has spread to other bordering states, especially Unity and Upper Nile (Toit 2013). As part of attempts to prevent resupply to the rebel groups, SAF has carried out attacks and bombing of towns and refugee camps in South Sudan (ICG 2012b). Despite the cessation of cross-border attacks, the hostile relationship between the two countries remains and continues to threaten the security situation in disputed border areas (UNSC 2012b).

#### *4.1.2.2 Internal Conflicts*

In addition to the disputes with its neighbour to the North, South Sudan is struggling with internal tension and rivalry. By the end of the civil war there were around 55 militia groups operating in South Sudan<sup>9</sup> (Corneliussen 2013). The spread of small arms, frequent occurrence of inter-communal violence, and a general lack of security provisions has led to a highly insecure situation (Wheeler 2012). According to the UNSC, around 350 000 people were displaced as a result of inter-communal violence in 2011 (UNSC 2012a).

The recent outbreak of fighting between forces loyal to President Kiir and a rival army group led by former Vice-President Machar, illustrates the fragility of the internal security situation.

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<sup>9</sup> Interview footnote 8, page 32.

The political rivals are using loyal soldiers and armed civilians in a struggle for political power. The current crisis is linked to the internal factionalism in SPLA evolving in the second phase of the North-South civil war, and to the Bor Massacre where forces loyal to Machar carried out attacks on Dinkas in the town of Bor. Much of the current tension between Kiir and Machar dates back to this incident<sup>10</sup> (Holm 2014, Dockins 2014). Discontents are also linked to the political dominance of Dinka in SPLM, which continues to be contested by other ethnic communities (Ahmed 2009).

The conflict has had serious consequences for the civilian population, especially in the North-Eastern part of the country, where the war has been most brutal. More than one million people have been displaced, and over three million are suffering from food shortage across the country (Norad 2014b, Davison 2014). A ceasefire and peace process was agreed between Kiir and Machar on May 9, 2014, which was an important step towards peace as it laid the foundation for a broad national dialogue and reconciliation process. However, the situation is still tense, and true peace can only be achieved if the agreement is properly implemented by both sides (Norad 2014b).

#### 4.1.3 Oil Dependency

Amounting for 98 percent of government revenues, South Sudan is heavily reliant on its oil resources. A disruption of oil incomes will have serious implications for the country's development prospects. When oil production came to a halt in January 2012, this meant an almost total loss of revenues. The government had to make major cuts in public spending and institution building, while food and fuel prices soared (Global Witness 2012).

There are several reports claiming that the country's oil might already have peaked and is now declining (Kvelland 2013). According to Shankleman (2011) there is little certainty about the prospects of new oil discoveries in South Sudan. Oil production peaked in 2009, standing at 360,000 barrels a day. According to Barajas (2011), this number is likely to be halved by 2020.

## 4.2 Development Prospects

As a newly established oil nation, South Sudan faces various political and socio-economic challenges. Yet, the country has great potential to develop. In addition to oil, it is rich in resources such as farmland, cattle, timber and minerals (including copper, silver, gold, iron,

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<sup>10</sup> Interview footnote 1, page 2.

zinc, and uranium, among others) (The Economist 2013, Kvelland 2013). According to Corneliussen, South Sudan is in a better position than in 2005 (when the civil war ended), as a number of state institutions are now up and running. Infrastructure is improving, which means more opportunity for trade<sup>11</sup> (Corneliussen 2013).

#### 4.2.1 Government Efforts

In the years before the upcoming independence, the government of Southern Sudan took a number of steps to improve the country's development situation. More towns got access to electricity, and higher priority were given to health and education sectors. Business activity has expanded, both locally and with neighbouring countries (Dagne 2011). Particularly in Juba, transformation is visual, with the emergence of new roads, electric lines, commercial banks, hotels, and ministry buildings. Other cities are also going through changes, where fired-brick houses are replacing the traditional mud-brick houses (Natsios 2012).

The government of independent South Sudan is taking steps toward achieving long-term development and benefit from the country's oil wealth. An emerging legal framework covers areas such as contract allocation, public reporting and revenue management standards based on 'international best practice' (Global Witness 2012). As oil revenues have been flowing in, the government has encouraged private sector investment by running a low-tax, minimum business regulation policy (Natsios 2012). The government has committed to increase spending on infrastructure and public service delivery. Tax reform measures have been taken in order to increase non-oil revenue. Measures to improve fiscal discipline and macroeconomic stability involves strengthening public expenditure control and predictability (AEO 2012).

Although social and human development is given high priority in South Sudan's national development plan, implementation remains limited due to budget constraints (Toit 2013). The fragile security situation in the country constitutes a major challenge to budget execution and discipline, and expenditures in the security sector remain high (AEO 2012). Much of the development within infrastructure and social services has been made possible by the support of international NGOs and the United Nations<sup>12</sup> (Corneliussen 2013). The internal political tensions constitute a great obstacle to socio-economic development. Reconciliation with Sudan in regard to contentious post-independence issues is crucial in order to achieve sustainable development and progress (AEO 2012). In the following chapters, the political and

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<sup>11</sup> Interview footnote 8, page 32.

<sup>12</sup> Interview footnote 8, page 32.

developmental challenges in South Sudan (particularly those related to the country's oil wealth), will be brought into a discussion with a literature that deals with the resource curse theory.

# Chapter 5: The Resource Curse Theory

The resource curse literature dates back to the late 1980s, suggesting that countries rich in natural resource are more likely to experience political and socio-economic problems than their counterparts (Logan and McNeish 2012). The argument is that mineral and oil-led development leads to slow economic growth, high levels of poverty, negative economic, health and environmental effects at the local level, high incidences of conflict, corruption and poor governance. Oil-dependent countries can be found all over the world, but are often associated with the Middle East and, increasingly, Africa (Karl 2007).

The idea that natural resource abundance is bad for development and economic performance has attracted widespread attention from researchers, international financial institutions and NGOs around the world (Logan and McNeish 2012). The chapter begins with exploring the literature dealing with the resource curse from different angles and perspectives. It then outlines some policy implications on how to confront the curse, before discussing some weaknesses of the theory itself. The chapter ends with a section on how the resource curse is defined in the OfD program. The resource curse literature constitutes the theoretical and conceptual framework for the following discussion on Oil for Development in South Sudan.

## 5.1 Debates around the Resource Curse

The literature falls into two main camps; economics and political science. The economics literature concentrates on the negative economic consequences of the resource curse and how natural resource dependent countries are more likely to face civil war. Political science, on the other hand, focuses on the connection between natural resources and weak institutions (Collier and Hoeffler 2005).

The main causal link between natural resources and poor economic performance is commonly assumed to be that the rents generated from the resources allows governments to stay in power through repression, patronage and buying off opposition. This reasoning corroborates with observations from certain development countries, making a case for the resource curse hypothesis. Nevertheless, in many countries resource wealth has had positive outcomes for economic as well as institutional development, implying that natural resources also can be a blessing (Brunnschweiler and Bulte 2008b). The resource curse theory has triggered debate within the literature; both over the explanations for and consequences of the curse, as well as

the actual validity of the resource curse hypothesis. There are also debates about of which types of natural resources that are particularly associated with negative economic, political and social outcomes. Many researchers argue that it is the so-called ‘point source’ resources, such as oil and minerals, which are the most problematic ones (Rosser 2006). According to Karl (2007), economies dependent on agricultural commodities tend to perform better with respect to poverty than mineral based economies, while oil dependency in particular is associated with poverty indicators such as high levels of malnutrition and low life expectancy (Karl 2007).

Whereas the resource curse literature generally deals with all types of natural resources, the distinct characteristics of oil has made this commodity of special interest to many scholars within the field. The following sections deal with discussions about natural resources in general, but where oil in many cases is given special reference.

### 5.1.1 Resource Rents, Shocks and Economic Performance

This section reviews the resource curse literature focusing on the negative relationship between natural resource abundance and economic growth. The negative effects of natural resources are attributed to the combination of various factors. First, windfalls from natural resources are seen to have the tendency to render other exports, such as manufacture and agriculture, uncompetitive. This is the effect of the so-called “Dutch disease”. The basic argument is that natural resource booms lead to appreciation of a country’s exchange rate, resulting in rising costs for other sectors of the economy. The ultimate result is poor economic performance (Pegg 2005). Second, oil dependent economies are often associated with a culture of rent-seeking and corruption, with devastating consequences on economic performance. Furthermore, due to the price volatility associated with primary commodities in the international market, resource dependent economies are susceptible to economic shocks and boom-bust cycles, with negative effects on budgetary discipline, state planning, income distribution, investment and poverty alleviation (Karl 2007).

The negative relationship between natural resource abundance and economic growth is often particularly associated with minerals and oil. Oil is a resource with special features, including its depletable, its high capital intensity and technological complexity, its price volatility, and its exceptional generation of rents (Karl 2007: 662).



#### *5.1.1.1 Dutch Disease Effects*

One of the early influential papers dealing with natural resources and their effects on economic performance is the study by economists Sachs and Warner (1995), who used cross-country analysis with data from 97 developing countries to explore the negative relationship between resource endowments and economic growth. Their results show that countries with high natural resource dependence tend to have slower growth rates than non-resource based economies (Sachs and Warner 1995). Countries rich in resources are often high-price economies, with a negative effect on export-led growth (Sachs and Warner 2001).

The results from Sachs and Warner largely support earlier versions of Dutch disease findings. Corden and Neary (1982) illustrate how a booming extractive sector puts a country's traditional manufacturing sector under pressure, and Bruno and Sachs (1982) find that wealth rising from resource discoveries or rising energy prices have the effect of squeezing the tradable good sector in oil exporting countries. According to Auty (1994), resource poor countries are less prone to Dutch disease. Because the resource sector constitutes a relative small part of the economy, the country cannot afford to undermine its manufacturing industry. Manufacture thus tends to be competitive in these countries (Auty 1994). In a similar manner, Auty and Gelb (2001) maintain that resource poor countries tend to diversify their economies in an early stage, which helps sustain a rapid and egalitarian growth (Auty and Gelb 2001). In their study of Africa's oil boom, Gary and Karl (2003) argue that the Dutch disease provokes rapid growth of services, construction and transportation associated with the oil sector, while industrialization and agriculture becomes undermined (Gary and Karl 2003).

#### *5.1.1.2 Rent-Seeking*

Another way in which resource abundance is seen to put a halt to economic growth is through the links between natural resource abundance and rent-seeking behaviour and corruption. According to Tornell and Lane (1999) the combination of weak institutions and the positive price shocks associated with Dutch disease results in "distortionary redistributive activity" (Tornell and Lane 1999: 24) and rent-seeking by powerful groups. The outcome is a decline in economic growth. As natural resource rents are concentrated and in some cases easy to acquire, government officials might be drawn towards rent-seeking and corruption rather than growth-generating activities (Sachs and Warner 2001). According to Auty resource abundant countries

tend to engender a factional or predatory state that engages in rent-seeking, and that uses the rents for sectional interests at the cost of social welfare and a coherent economic policy (Auty 2001).

Problems of transparency and accountability are further exacerbated as oil revenues decrease reliance upon non-oil taxes. This happens as governments are 'freed' from citizen demand for fiscal transparency and accountability that arise in a situation where taxes are paid directly to the government (Gary and Karl 2003). Karl (1997) applies the term petro-states on countries that are highly dependent on oil rents, and where the rents accrue directly to the state. Petro-states lack fiscal accountability towards their citizens, as they have not been forced to levy taxes. The fiscal dependency on petrodollars removes the state's responsibilities towards its citizens, encourages rent-seeking by state officials and other interest groups, and impedes effective state capacity and economic development (Karl 1997).

#### *5.1.1.3 Economic Instability*

Also associated with resource-led growth is the exposure to oil booms and economic instability. Gelb and Associates (1988) illustrate the consequences of oil booms on oil exporting economies. The oil shock in 1980 was followed by a dramatic fall in world oil markets. Governments in oil exporting countries were not able to compensate for slumping prices and unexpected fall in export revenue, with government deficits and current account deterioration as the result. Gary and Karl (2003) explain how oil booms create high expectations and unrealistic revenue projections. This leads to increased public spending, decreasing quality of public spending, declining work ethics and sinking productivity. Booms also lead to excessive and unwise investments, maldistribution of resources and corruption. In the context of this, oil booms are followed by the loss of fiscal control and less transparency in the management of oil revenues. The result is price instability, loss in budgetary stability and inflation in government accounts. Further, as pressure on spending rises, governments borrow more. Thus, in most oil-exporting countries, foreign debt has grown sharply (Gary and Karl 2003).

#### 5.1.2 Oil, Authoritarianism and the Rentier State

This section will present the part of the resource curse literature that supports the claim that there is a casual relationship between natural resource dependency and authoritarianism. The main argument is that resource rich states are living from the resource rents rather than from

taxation, which makes them disconnected and unaccountable to the general population. Moreover, natural resource abundance leads to patronage structures, which further undermines democracy and transparency. Oil is often used as an explanation for the political problems in oil exporting countries such as Nigeria, Venezuela and Indonesia. Area specialists claim oil is the reason behind the undemocratic regimes in the high-income Arab Middle East countries (Ross 2001). These ideas have their origin in the work of Mahdavi (1970) who claimed that oil revenues provided governments in Middle East countries with an external source of rents that made them unaccountable to their citizens. “A government that can expand its services without resorting to heavy taxation acquires an independence from the people seldom found in other countries. [...] In political terms, the power of the government to bribe pressure groups or to coerce dissidents may be greater than otherwise” (Mehdavi 1970: 466-467).

#### *5.1.2.1 The Rentier Effect*

The correlation between resource dependency and authoritarianism is investigated by Lam and Wantchekon (2002). They explain how resource booms typically benefit a country’s political elite, enabling them to consolidate their power. Resource abundance strengthens the elite’s distributive influence over the populace and increases their ability to gain political support through patronage networks (Lam and Wantchekon 2002). Ross (2001) explores the claim that oil has antidemocratic properties by analysing data from 133 countries between 1971 and 1997, while testing three causal mechanisms linking oil and mineral wealth to authoritarianism. The first possible explanation for authoritarianism is the “rentier effect”, where governments of resource rich countries use low tax rates and high spending to avoid popular pressures for democracy and accountability. The second explanation is the repression effect, in which governments use resource wealth to develop strong internal security forces, enabling them to block democratic pressures from below. The third explanation is the modernization effect, which involves that oil- and mineral led growth does not bring about the social and cultural changes that make people mobilize and push for democracy. Examples of such social and cultural changes are urbanization, occupational specialization and higher levels of education. According to his findings, the claim that oil impedes democracy is valid and statistically robust (Ross 2001: 356).

According to Karl (1997), all petro-states are rentier states. Oil exploitation fosters regime stability based on a “predatory relationship between the state and the perpetuation of oil dependence” (Karl 1997: 58). A continuing flow of revenues removes the state’s dependency

on society and market and enable it to resist demands and pressures from below, thus impeding democracy. Using the case of Venezuela, Karl (1997) illustrates how the inflow of petrodollars and the ‘petrolization’ of the country’s economy both encouraged and enabled the Venezuelan state to centralize and consolidate its power.

#### *5.1.2.2 Examples from the African Context*

In their study on links between resource abundance and authoritarianism in the African context, Jensen and Wantchekon (2004) find that resource rich countries were less democratic and more likely to experience collapse of democracy after democratic transition. While the democratization process has been successful in resource-poor countries like Senegal, Benin, Mali and Madagascar, the resource-dependent states of Nigeria, Libya, Cameroon, Gabon, Algeria and the former Zaire struggled in consolidating democracy due to “executive discretion over the distribution of resource rents” (Jensen and Wantchekon 2004: 817). Resource rents increase competition for state control, often involving political violence and the use of rents by ruling parties to consolidate their power. According to the authors, nowhere is this relationship between natural resource abundance and dictatorship clearer than in Nigeria, a highly oil dependent country with an increasingly oppressive and centralized state. More than half of the oil rents go directly to the federal government, which is in charge of further allocation of revenues to the states. The result has been a “system of institutionalized patronage” (Jensen and Wantchekon 2004: 819), with regional and ethnic competition over oil revenues (Jensen and Wantchekon 2004).

#### 5.1.3 Greed and Grievances: Oil in Conflict

The debate over the relationship between natural resource abundance and conflict broadly consists of two main arguments. The first argument emphasises the motives of rebel groups in civil war. It claims that civil war is a result of grievances such as economic inequalities, ethnic or religious divisions or lack of political rights. In many resource dependent countries, the tight control of the resource sector by the ruling elite creates frustration amongst marginalized groups, who see violence as the only route to political change (Le Billion 2001). The other argument is focuses on the economic incentives of rebel groups, and assumes that rebellions are motivated by greed (Rosser 2006). The latter argument is prominent in the work of economists Collier and Hoeffler, who emphasise that primary commodities increase the risk of

conflict due to the opportunities and attractiveness associated with extorting such resources, thus increasing the likelihood of rebellion (Collier and Hoeffler 2004). They also suggest that the looting and selling of primary commodities enables rebel groups to fund their initial costs of buying arms and hiring soldiers (Collier and Hoeffler 2000). In the case of secessionist motivation, rebels not only claim ownership over resources, but also accuse national authorities and elites for misappropriating resource rents (Collier and Hoeffler 2005).

In his study on natural resources and civil war in Indonesia, Ross (2005), argues that natural resources contributed to conflict through other casual mechanisms than those suggested by Collier and Hoeffler. Conflict was a result of the grievances that was created over the distribution of the resource revenues. Resources also increased the risk of conflict as it led to a more aggressive response from the government to suppress early signs of unrest. The government feared that grievances over distribution of resource revenues would be a national security threat (Ross 2005). Other scholars emphasise on state weakness rather than the greed and grievances in resource abundant countries. Auty (2004) claim that the predatory state structures associated with resource wealth eventually result in poor economic performance and growth collapse, which is one of the necessary conditions for the onset of civil war (Auty 2004).

## 5.2 Weaknesses of the Resource Curse Theory

The resource curse literature constitutes various theoretical weaknesses. Whereas the studies about developing countries and their likelihood of experiencing poor economic growth, civil war and authoritarian rule provide evidence that clearly give support to the resource curse hypothesis, the literature should still be treated with caution. While studies give evidence of a correlation between natural resource abundance and bad developmental outcomes, there is no proof that the former actually *causes* the latter (Rosser 2006). The literature has by some been criticized for being reductionistic, as it bases explanations exclusively on a country's natural resource endowments while failing to account for social forces, historical factors, and external political and economic conditions that contribute in shaping a country's developmental outcomes (Rosser 2006). In the words of Logan and McNeish (2012), "Rather than seeing resource politics as a prism of historical temporality, the hypothesis of the resource curse tends to stereotype national politics and flatten out critical social and historical evaluation". [...] The effect is to forestall the multiple ways in which historical, social and economic struggles are articulated in the present" (Logan and McNeish 2012: 7-8). Much of the research also fails to explain why some resource abundant countries have done quite well (Rosser 2006).

### 5.2.1 Making the Wrong Connections?

The negative relationship between natural resources and democracy is rejected by Haber and Menaldo (2011). They analyse the long-standing relationship between countries' resource reliance and their type of regime, showing that oil and mineral dependency does not promote dictatorship in the long run. "This is not to say that there may not be specific instances in which resource rents might have helped to sustain a dictatorship. It is to say, however, that there is a big difference between pointing to these instances and making sweeping, lawlike statements" (Haber and Menaldo 2011: 25). Herb (2005) reasons that resource wealth alone cannot sufficiently explain the lack of democracy in rentier states. While oil wealth might fail to bring about democracy in rentier states, it is important to consider the fact that political outcomes in the absence of resource wealth would probably not have been very much better. The fact is that rentier states tend to be situated in regions (such as the Middle East or Sub-Saharan Africa) where countries typically suffer from authoritarianism, corruption, and economic stagnation. Thus, it is important that the regional context is taken into consideration (Herb 2005). Similarly, Dunning (2008) challenges the conventional claim that oil and mineral wealth promotes authoritarianism. For instance, in countries with high levels of inequality, resource rents have a stronger democratic effect. A growth in oil rents might reduce the costliness of maintaining democracy, thus reducing incentives for coup attempts by elites (Dunning 2008).

According to Logan and McNeish (2012), the claim for a rather straightforward correlation between natural resource wealth and increased risk of conflict has been critiqued as a "simplistic and possibly misleading formulation" (Logan and McNeish 2012: 13). Studies that centre on greed (economic incentives of rebel movements in looting natural resources), rather than grievances (economic inequalities, political oppression etc.) as the explanation for increased risk of civil war prevail in international policy circles, and have significantly influenced projects of the World Bank and other multinational initiatives (Logan and McNeish 2012). Cramer (2002) argues that mainstream economic theories linking primary resources and conflict are "extremely reductionistic, highly speculative, and profoundly misleading" (Cramer 2002: 1845). While studies often focus on rebellious groups whose aim is to topple the government and draw monopoly profits from the resources, he argues that attention should be given to the fact that violence is often forced upon poor people, and that it is often their last resort rather than their comparative advantage (Cramer 2002).

### 5.2.2 A Problem of Causation?

Brunnschweiler and Bulte (2008a) challenge the validity of the resource curse literature by arguing that the methodology applied ignores issues of reversed causality. A positive correlation between resource abundance and conflict might actually imply that conflict pushes countries into resource dependency when other economic activities breaks down. “The correlation between resource dependence and slow growth and conflict, therefore, does not imply causation from the former to the latter. Instead, causality appears to be running from weak institutions and conflict to resource extraction as the default sector, which produces resource dependence as the final outcome. Resource dependence appears as a symptom, rather than a cause of underdevelopment” (Brunnschweiler and Bulte 2008a: 617).

### 5.2.3 Potentially a Blessing Rather than a Curse?

Brunnschweiler and Bulte argue that resource wealth can in fact be a blessing for institutional and economic development (Brunnschweiler and Bulte 2008b). Resource abundance might indirectly reduce the risk of conflict, as resource wealth leads to higher incomes, which in turn lower the risk of conflict (Brunnschweiler and Bulte 2008a). According to Stijns (2005), saving and investment rates are higher in countries abundant in oil, gas and mineral reserves, and that economic policies in these countries tend to be more market-oriented (Stijns 2005). Polterovich et al. (2010) find that resource abundant countries do not appear to grow less rapidly due to their resource wealth. This is because they apply good policies in certain areas and enjoy the benefit of having resource rent (Politerovich et al 2010). Similarly, Davis and Tilton (2005) claim that, in some development countries, mineral wealth can be a positive force to development, as it provides opportunities that these countries otherwise would not have. Hodler (2004) concludes that “theory, empirical evidence and casual observations suggest that natural resources tend to be a blessing with respect to incomes in homogenous countries, but a curse in fractionalized countries” (Hodler 2004: 13).

Many scholars agree that the relationship between resource wealth and development outcomes cannot be seen outside political and social context, and that governance institutions and structures around extraction and management of the resources determine the successfulness of resource-led development (Rosser 2006). Stijns (2005) comments that one should not expect resource wealth to have the same effect everywhere. The experience with natural resource



booms is different in developed countries than in least developed countries (LDCs). The chances of conflict, rent-seeking and rising inequalities following a resource boom are higher in societies where well-functioning social infrastructure and economic policy are lacking (Stijns 2005). Karl (2007) notes that the resource curse is mainly a political problem rather than an economic one, and that the development outcomes generated by oil dependency are determined by “preexisting political, social, and economic institutions available to manage oil wealth as it comes onstream” (Karl 2007: 662). The high probability of policy failure in oil exporting countries is due to the fact that nearly all proven oil reserves are located in less developed countries with weak pre-existing institutions (Karl 2007).

The literature dealing with the resource curse is complex, consisting of a variety of opinions regarding explanations behind the curse as well as suggested solutions and policy implications. While some authors argue that their findings support the theory, other writers question the theory’s relevance and validity. There is also no consensus on the degree to which oil is different from other resources, such as diamonds or coal. Nevertheless, what is established is the fact that there are many challenges related to the management of natural resource wealth, especially in countries that lack the institutional capacity to deal with such wealth.

#### 5.4 How to Confront the Resource Curse: Policy Implications

Despite the several weaknesses of that have been pointed out in connection with the resource curse literature, Norad seems to have accepted the theory as an integral part of the OfD program framework. According to Norad 2013a, “the ‘resource curse’ was an important starting point for OfD: natural resources ought to represent a blessing to a poor country and not a curse” (Norad 2013a: 73).

The resource curse literature comprises a broad variety of recommendations on how to combat the curse, many of which are focusing on appropriate economic policy choices for resource abundant countries. The most common prescriptions include macroeconomic policies, economic diversification, transparency in the natural resource sector, direct distribution of rents, and focus on state institutions and good governance. The content of these propositions will be outlined next.



### 5.4.1 Macro-Economic Policy

Resource rich states are encouraged to take into account the inherent volatility associated with natural resource rents. Prospects of resource booms and Dutch disease effects must be considered in the countries' public investment strategies. States are advised to accumulate budget surpluses such as foreign assets, and avoid large-scale foreign debt. This helps protect the economy from appreciation of the local currency generated by the mineral sector, while smoothing out expenditures during boom periods (Weinthal and Luong 2006). Budget stability is seen as one of the essential conditions for avoiding the negative effects associated with the resource curse. An outline of the most common recommendations is given below.

#### *5.4.1.1 Budgetary Planning and Investment*

Economic stability and resilience against price shocks requires fiscal discipline. Public expenditure must remain stable in order for budget deficits to remain small. Sachs (2007) recommends budgetary planning on a year-to year basis combined with long-term planning. The government needs to have a plan on how its revenue base will be substituted in the event of future oil income depletion. He further recommends using oil earnings to cover public spending while spreading earnings across generations (Sachs 2007). Another strategy that help cushion against price shocks is the implementation of extraction contracts that ensure that more of the price risk is covered by the companies rather than the government (Collier and Hoeffler 2005).

Auty and Gelb (2001) stress the importance of avoiding overoptimistic projections, and of keeping spending levels relatively stable. They recommend slowing down spending when resource prices are high (Auty and Gelb 2001). Using the case of Botswana, Sarraf and Jiwaji (2001) illustrate how the country largely escaped the economic problems related to resource booms by adopting sound economic management during boom periods. Strategies included accumulation of international reserves and earmarking of budget surpluses for years of economic downturns (Sarraf and Jiwaji 2001).

Sachs (2007) advises that national development strategies should involve investment of oil earnings in the non-traded goods, such as food production for local use and local services (Sachs 2007). Usui (1997) compares the case of Mexico and Indonesia during oil boom periods, and suggests that the reason why Indonesia performed better economically was that the Indonesian

government used oil revenues to strengthen its tradable non-oil sector. It also built up budget surpluses and upheld a conservative foreign borrowing policy (Usui 1997).

Macroeconomic planning of oil earnings must be based on the context of the country in question. In the poorest countries basic needs such as food, basic education and health services should be of high priority in public spending. These are “quick win” areas with high return, promoting economic growth in short and medium term (Sachs 2007: 191). In high income countries, where infrastructure and developed systems for higher education and science are already in place, oil incomes might contribute to social insurance like pensions and low-income support (Sachs 2007).

#### *5.4.1.2 Establishment of a Natural Resource Fund*

The volatility associated with oil revenue streams, and the fact that these resources are non-renewable, has led to propositions that oil economies should establish a natural resource fund. A share of government revenue from resource exploitation is set aside for potential declines in revenue, as resulted either by a fall in prices or by resource depletion (Davis et al. 2001). Natural resource funds consist of stabilization funds, which aim to stabilize spending patterns and reduce the effect of commodity price volatilities on the economy, and savings funds, which are to ensure that some of the wealth is saved for future generations (Weinthal and Luong 2006). The Norwegian Government Pension Fund is often served as an example of a successful natural resource fund (Stevens and Dietsche 2008). However, in order for such funds to work as intended, states must already be in possession of strong government institutions (Weinthal and Luong 2006, Humphreys and Sandbu 2007).

## 5.5 Ensuring Transparency

Responsible economic management of resource revenue calls for transparency and honesty in the public sector, which includes open and reliant information about sources and spending of oil revenues (Sachs 2007). According to Global Witness, an oil sector can be defined as truly transparent if “detailed information on revenues, accounts, production, operations, contracts, and companies are published” (Global Witness 2012: 5). Transparency needs to take place in the reporting of revenues, at the expenditure side of the budget, and in the process of negotiating and signing of new oil deals (Global Witness 2012). Stiglitz (2007) notes that corruption does not only occur in the public sector. Experiences from around the world show that multinational

oil companies contribute to corruption and undermining democracy in resource rich developing countries. It is important that the state hold companies to high standards, while carefully evaluating contract terms (Stiglitz 2007).

Bell and Faria (2007) emphasize that any oil revenue management law should include a list on all items subject to public disclosure, and of all parties responsible for making information public. An example is the Sao Tome and Principe Oil Revenue Law, which applies in the joint zone governed by Nigeria and Sao Tome and Principe. The law mandates direct public access to individual company data and to contracts signed by the authorities and oil companies. In this way, information becomes easily accessible to other government branches, interested international groups and civil society. Among international efforts that focus on transparency in natural resource management are the EITI campaigns and the IMF Guide on Resource Revenue Transparency (Bell and Faria 2007). By conducting an audit in accordance with EITI, the government of Nigeria detected losses of more than 560 million USD, which was owed by companies in royalties and taxes (Global Witness 2012).

## 5.6 Diversifying the Economy

One of the important factors that is presented as an explanation to the negative relationship between natural resource abundance and economic growth is the high reliance upon one specific resource in an economy, such as oil. Karl (2007) makes the point that “the failure to diversify from oil dependence into other self-sustaining economic activities, especially agriculture and labour-intensive industry, becomes a significant obstacle to pro-poor development” (Karl 2007: 664). Resource rich countries are advised to diversify their economies in order to reduce their reliance on natural resources (Rosser 2006). Economic diversification helps prevent the booming extractive sector from crowding other sectors of the economy, and to protect the economy from market volatilities (Weinthal and Luong 2006). Investing in alternative export sectors (such as food production) and education might help sustain economic growth and diversify risk (Sachs 2007). Observing the link between an economy’s share of primary commodity export and the risk of conflict, Collier (2000) proposes that the international community should assist countries in diversifying their economies. Aid assistance can help reduce poverty and promote growth, which also reduce the risk of conflict (Collier 2000).

## 5.7 Direct Distribution of Rents

Direct distribution of natural resource rent to the population is by some scholars suggested as a way of combating corruption and avoiding Dutch disease effects (Rosser 2006, Weinthal and Luong 2006). This has been done in Alaska, where the population receives an annual payment from oil and gas earnings via state investments in the Alaska Permanent Fund. The basic principle underlying the argument that the population should receive the benefits directly is that the population will make better investment choices and have greater incentives for saving the rents (Weinthal and Luong 2006). According to Sala-i-Martin and Subramanian (2003) mismanagement of resource revenues are less likely to happen if first distributed to citizens and then taxed by the state. This will lead to the right incentives for governance and help reduce the risk of corruption. Sandbu (2006) argues that leaving some of the rents directly in the hands of the population has great potential benefits especially in low-income countries, giving the poor people access to a larger disposable income (Sandbu 2006). However, as noted by Weinthal and Luong, direct distribution of rents requires a high level of institutional capacity which most resource-abundant countries do not possess (Weinthal and Luong 2006).

## 5.8 Focus on State Institutions

Several scholars within the resource curse literature focus on the importance of building state capacity and promoting institutional reform in order to prevent misrule and conflict in resource abundant societies (Rosser 2006). In contrast to neoliberal perspectives, where privatization has been viewed as the solution to corruption and economic inefficiency, state-centred viewpoints emphasize the importance of a strong state in economic management. According to Karl (1997), the need for strengthening the state's authority in many resource abundant countries has been undermined by the neoliberal agenda of shrinking the jurisdiction of the state (Karl 1997). Stiglitz (2007) notes that the neoliberal advocates of privatization in the natural resource sector were preoccupied about economic efficiency, rather than corruption or the government getting a fair share of the resources' value (Stiglitz 2007). Leite and Weidmann (1999) emphasize the importance of strong institutions following natural resource discoveries in order to reduce the negative growth outcomes associated with corruption (Leite and Weidmann 1999). Strong government institutions are presented as a device for combatting the 'predatory behaviour' commonly associated with power holders in resource rich economies (Stevens and Dietsche 2008: 59).

Today, international aid effort is much about supporting state building in developing countries, where good governance is seen as an important means to poverty reduction (Solli 2011). The Chad-Cameroon Pipeline Project is an example on how international development efforts focused on changing the pattern of the resource curse by promoting good government policies and capacity (Gary and Karl 2003). The project includes the governments of Chad and Cameroon, a consortium of multinational oil companies, and the assistance from the World Bank and other lenders (Pegg 2005). The project involved the construction of a pipeline which runs from land-locked Chad to Cameroon for the exportation of oil. The project's aim is to encourage social- and environmental friendly oil production, transparency, and poverty reduction through targeted use of oil revenue (Pegg 2005, Weinthal and Luong 2006). In order to receive funding, the government of Chad had to comply with certain requirements, such as adopting social and environmental standards and a revenue management plan (Weinthal and Luong 2006).

Critics of the resource curse theory have pointed to the weaknesses of the policy recommendations offered to resource rich developing countries. Rosser comments that recommendations are mostly based on analyses suggesting a quite deterministic relationship between resource abundance and negative development outcomes (Rosser 2006). Weinthal and Luong (2006) note that the recommendations in themselves are limited, as they presume strong state institutions in countries where institutional capacity is still weak.



# Chapter 6: Risk of Resource Curse in South Sudan

This section will be an analysis of the risk of a resource curse in South Sudan. The findings are based on interviews with people in Norad as well as secondary data about the history as well as current situation in South Sudan. Whereas it is of difficult to predict the effects of oil developments in South Sudan, the analysis presents indications based on the country's historical experiences as well as current events. The section will start by analysing the risk of poor economic performance, followed by a discussion of the risk of authoritarianism, and finally of the role of oil in conflict.

## 6.1 Oil and Economic Performance

According to the resource curse theory, availability of natural resource rent is often negatively associated with economic performance. This is due to effects associated with the Dutch disease, incentives created for rent-seeking behaviour and budgetary mismanagement, over-optimistic resource revenue expectations, and lack of incentives for public investment in human capital. This part will focus on resource curse tendencies in the South Sudanese economy. However, to what extent negative growth performance can be linked directly to the country's oil wealth, or what the country's economy would look like without the oil, is difficult to assert with absolute certainty.

### 6.1.1 The Risk of Dutch Disease

As a newly established economy, it is too early to tell to which degree windfalls from South Sudan's oil sector will affect other productive sectors of the economy. However, with limited oil reserves and the expected decline in production levels, the country might not have a choice but to start looking for other sources of income, such as manufacturing and agriculture. In addition to petroleum the country is rich in other natural resources, including water and hydropower, hardwoods, various minerals including gold, diamonds, limestone, iron ore, copper, silver, zinc, amongst other, and fertile agricultural land. Additionally, the country's protected area, the Bandingilo National Park, hosts the world's second-largest wildlife migration, which could mean a potential for international tourism (AEO 2012). South Sudan's economy is however still largely based on income from the oil sector. According to data from

African Economic Outlook (2012), South Sudan's current account balance was positive in between 2009 and 2012. This was largely due to the strong position of oil exports. Exports from non-oil sectors were minor, amounting for around 1, 5 percent of GDP (AEO 2012).

According to the resource curse literature, one of the long-term effects of the Dutch disease is a reinforcement of a country's dependency upon its oil resources. With oil revenues accounting for 98 percent of South Sudan's public spending, more than 70 percent of GDP and 99 percent of export revenues (UNSC 2012a), the country is fully dependent on its oil. According to Global Witness (2012), South Sudan became, at its establishment, the most oil reliant country in the world. When oil production shut down in 2012, this had a severe effect on the government's fiscal position, as a major source of income was lost. The shutdown impacted the country's economy in terms of trade deficit, inflation and balance of payments. Further, the fragile security situation in the country also contributes to weakening budget execution and discipline, as security spending comes at the expense of public services. In 2011, security and military expenses accounted for 38 percent of the budget, whereas 21 percent were assigned to education, health and infrastructure combined (Lacher 2012: 29).

With weak state capacity, a vulnerable security situation and heavy reliance on continued inflow of oil revenues, short-term as well as long-term consequences of Dutch disease effects will probably have serious implications for the South Sudanese economy.

### 6.1.2 The Risk of Corruption

According to the resource curse literature, the combination of a weak state and easy accessible resource rents leads to corruption and rent-seeking behaviour by powerful groups. UNSC reports that corruption is a great problem in South Sudan. State institutions are characterized by patronage structures, financial mismanagement and dishonest conduct by some state officials (UNSC 2012a). President Kiir has stated that corruption had cost the government over 4 billion USD during the past six years (Global Witness 2012). Since independence, several oil deals have been negotiated without an open and competitive bidding process, and oversight institutions such as the National Legislative and the Audit Chamber are lacking support (Global Witness 2012). Corneliussen notes that there is no doubt that corruption is an extensive problem in South Sudan, but that is important to keep in mind that corruption is the result of weak state structures and lack of knowledge and experience<sup>13</sup> (Corneliussen 2013).

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<sup>13</sup> Interview footnote 8, page 32.



According to Toit (2013) the absence of skilled civil servants to form capable state institutions dates back to the time before independence when the South was marginalized in terms of education and socioeconomic development by the government in Khartoum. Patronage structures have been formed in order to compromise for the lack of public service delivery in areas such as education, electricity and water (Toit 2013). Thus, the relationship between patronage and weak state capacity goes both ways. Corruption and mismanagement contributes to further weakening state capacity, impeding economic growth and development in the country.

### 6.1.3 The Risk of Oil Booms

According to IMF, global oil prices are likely to remain high for the near future, as global oil markets are in a period of increased scarcity. However, any changes in global oil scarcity, prices and its effects on global growth is hard to predict, and “threats to oil supplies, including geopolitical risks, imply that oil scarcity could be more severe and may materialize in large and abrupt changes” (IMF 2011). A recent report from the International Energy Agency (IEA) predicts higher oil prices by the 2020s if global investment in energy supplies does not increase. The report asserts that “meeting long-term oil demand growth depends increasingly on the Middle East” (IEA 2014: 51). There is, however, the risk that investment in the Middle East “fails to pick up in time to avert a shortfall in supply, because of an uncertain investment climate in some countries and the priority often given to spending in other areas. The result would be tighter and more volatile oil markets, with an average price \$15/barrel higher in 2025” (IEA 2014: 51).

According to the resource curse literature, the instability associated with world oil markets makes economic and budgetary planning difficult in oil exporting countries. Oil booms might generate high expectations and unrealistic revenue projections leading to increased budgetary spending, excessive investments and maldistribution of wealth. The result is loss of budgetary stability, inflation and increasing foreign debt. South Sudan’s high reliance on oil incomes effects its resilience against external economic shocks.

In addition to the instabilities related to oil incomes, a continuous situation of conflict and insecurity also has great effect on South Sudan’s economy. The government has committed to follow through with tight fiscal and monetary policy, and some improvements in regard budgetary spending have been made. Yet, the country lacks a comprehensive macroeconomic plan covering all economic sectors, and the government has limited capacity to predict key

macroeconomic changes (AEO 2012). If the government is not careful in its fiscal planning and budgetary spending, South Sudan's economy can be seriously affected by global oil price instabilities.

#### 6.1.4 Conclusion: Risk of Poor Economic Performance

The economic challenges South Sudan faces are substantial. Wise and responsible management of the country's oil revenues is crucial for long-term economic growth. Another concern in terms of long-term growth is whether the country manages to diversify its economy, as oil discoveries are expected to decline.

## 6.2 Oil and Authoritarianism

The literature that links natural resource abundance and authoritarianism resonates that resource abundance leads to the creation of patronage networks. Oil wealth is often controlled by government, and access to the wealth can be achieved through acquiring high positions within the state. In addition, the large inflow of resource rents enables the ruling elite to remove itself from its accountability towards society. Resource rents might also enable the elite to consolidate their power base by buying political support or buying off opposition. Further, rents increase struggle for state control, which often involves use of violence. In sum, resource abundance is seen to result in more oppressive, more centralized and less accountable state structures. The following section discusses some issues regarding the risk of authoritarian rule in South Sudan.

### 6.2.1 The Risk of Authoritarian Rule

Characteristic for rentier states is that "economic influence and political power are especially concentrated, the lines between public and private are very blurred, and rent seeking as a wealth creation strategy is rampant" (Karl 2007: 663). In the case of South Sudan, the 'blurred lines' between public and private can be seen in the close relations between the state and the oil industry. Community projects run by oil companies have often been seen as part of the attempt to build strategic relationships with local authorities, rather than building social support for the communities. Thus, projects help create patron-client relationships between the companies and the authorities (ECOS 2010).

As discussed earlier, the South Sudanese government is highly reliant on oil revenues, and the problem of corruption is pervasive. As of today, taxation of the population is minimal<sup>14</sup> (Corneliusson 2013). According to Lacher (2012), South Sudan risks becoming a rentier state if it does not manage to establish a tax administration system that provides for public services and reduces the country's reliance upon oil revenues. He points out that the weak position of today's government, led by the SPLM, is partly because of the political factionalism with roots in the civil war. The country's legacy of state weakness and the lack of a national identity is going to affect possibilities for state building for years to come. The current situation is marked by political instability and factionalism, and demands of numerous rival groups for political inclusion. These circumstances have weakened the South Sudanese leadership and made consistent development policy and decision-making difficult, and contributed to a situation where the state has become an arena for clientelist structures based on tribes, ethnic groups and clans (Lacher 2012).

### 6.2.2 Conclusion: Risk of Authoritarianism

According to Corneliusson, the South Sudanese state might be characterized as semi-authoritarian. The President has great power, and the military has a strong position after several decades of civil war. At the end of the civil war, a security strategy was to include the guerrillas that had been fighting in the war into the SPLA<sup>15</sup> (Corneliusson 2013). Today, employees in the various ministries, courts and commissions in different parts of the country are former guerrilla soldiers (Norad 2014b). Whereas oil revenues add to the risk of authoritarianism, as they increase incentives for state control, rent-seeking, and clientelism, there are various historical and societal factors that have contributed to shape the political scene in South Sudan.

## 6.3 Oil and Conflict

The connection between natural resource wealth and the occurrence of war and conflict is central in the resource curse literature. As Karl (2007) sums up: "Countries dependent on oil are more likely to have civil wars than are their resource-poor counterparts; these wars are more likely to be secessionist and they are likely to be of even greater duration and intensity compared to wars where oil is not present. [...] Both governments and rebels can use oil rents to finance their armies" (Karl 2007: 670). Oil wealth might lead to coup attempts by populist movements,

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<sup>14</sup> Interview footnote 8, page 32.

<sup>15</sup> Interview footnote 8, page 32.

as resource rents represents ‘the prize’ of state control (Le Billion 2001). In order to look at the risk of oil-induced conflict in South Sudan, it is useful to start with a look at the role of oil in the history of civil war on the Sudanese continent. Further, the role of oil in current conflict in South Sudan will be explored.

### 6.3.1 The Role of Oil in the North-South Civil Wars

In the second phase of the North-South civil war, the discovery of oil in the Southern provinces changed balance of power within the country, created an additional motivation for war, and intensified the brutality of the conflict. The central government’s attempt to redraw boundaries of territories in order to gain control of oil fields, centralize governance and undermine the South’s autonomy angered the Southerners and fuelled Southern opposition (Kobrin 2004). According to Kelleher (2006), the oil discoveries motivated the government to intensify its efforts in clearing the land and terrorizing local populations and in pitting Southerners against each other. These efforts were part of the government’s tactic of removing SPLA’s ability to occupy oil-producing areas (Kelleher 2006). Not only did the oil become a major motive for war, it also provided the central government with financial means to build up its military strength. Oil income from export sales enabled the government to intensify its war efforts in the last stages of the civil war (Kelleher 2006, Patey 2007).

Whereas the oil revenues enabled increased public spending, most of the development projects took place in areas around Khartoum (Toit 2013: 41). Southern grievances grew as Southern provinces continued to be ignored. Grievances were also due to the forced evacuations linked to the development of oil fields, which expanded the war to new fronts. The development of Sudan’s oil industry was coupled with violence in the form of large-scale forced displacements of local populations living on oil-rich lands. Oil companies are facing accusations by the United Nations and several NGOs for committing forced evacuations of local people, and for keeping company facilities available for government attacks against villages close to the oil concessions (Thomas 2011). During the violent fights for control over oil territories, tens of thousands of people were killed and hundreds of thousands brutally displaced (ECOS 2010). Local grievances also grew as a result of the spread of mechanized agriculture during the 1970s, which had serious consequences for many pastoralists and subsistence farmers. Conflict has been linked to seizure and control over land and resources, as customary land rights and local control over resources were increasingly undermined (Johnson 2003).

Thus, oil has clearly played a major role in the history of conflict in Sudan. Discoveries of oil in the Southern provinces raised the stakes of the war. Conflict cannot be explained by fights over oil resources alone; they have to be placed in the wider historical context. The North-South discrepancies have its roots in the colonial area, which marked the beginning of a dominance of the North over the South, which generated resentment among the Southerners. The discoveries of oil created further incentives for fighting, added to the grievances in the South, and provided the Northern government with extra supplies for its war machine. Oil thus contributed to the continuance and intensification of the conflict.

### 6.3.2 The Role of Oil in Current Conflicts

Much of the current conflicts in South Sudan has taking place in oil rich areas, such as Abyei, Unity and Blue Nile. Conflict is the result of multiple factors, including a Sudan's long history of violence, ethnic confrontations and struggle over rights to land and resources. The continuing disputes over oil rich border areas, oil assets and transit fees with neighbouring Sudan remain a great source of tension. The unresolved status of Abyei, and the conflict between the two main ethnic groups living in the area, is still pressing. After decades of civil war and conflict, there are large quantities of weapons available in the area (Agence France Presse 2013). The current conflict between political factions started as a political disagreement within SPLM, which soon escalated into clashes between various ethnic groups and clans<sup>16</sup> (Tørres 2014). The conflict reflects how weak the country's political structure is, and how easy it is to mobilize along ethnic lines. The fact that so many people have experienced violence and assaults from the 'other group' makes it easy to stir emotions<sup>17</sup> (Holm 2014). According to McNamee (2012) the internal conflicts between competing factions and tribes have been more brutal and subverting of the country's stability than the recent skirmishes with Sudan. Conflict over water sources, grazing areas and cattle is often driven by deeper causes, such as marginalization and poverty, which is most prominent amongst the smaller ethnic minorities. Many of the minorities feel left out from the political privileges, which often go to the bigger ethnic groups such as the Dinka (McNamee 2012).

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<sup>16</sup> Liv Tørres, Secretary General at the Norwegian People's Aid, was one of the panellists at the debate "How to Build a Nation from Scratch" on February 5, 2014 in Oslo.

<sup>17</sup> Interview footnote 1, page 2.

Oil plays a direct as well as indirect role in the conflicts of South Sudan. Disputes over oil shares and territories between Sudan and South Sudan constitutes a direct threat to the security situation and relationship between the two countries. Indirectly, oil plays a role in the sense that oil expansion and development has been associated with grievances among affected local populations. The Sudanese development of oil industry has a history of war and violence, and ECOS (2010) reports that the industry is still regarded as an enemy by many people in the South. Discrimination of Southern workers is commonplace. The oil companies have been accused of leading a top-down policy, while social project delivery, such as building of schools and clinics, has been insufficient. Local grievances are also linked to the lack of compensation for victims of oil-induced violence, and to the fact that the economic benefits from oil only reaches a small part of the population (ECOS 2010).

### 6.3.3 Conclusion: Risk of Oil-Related Conflict

The link between conflict and resources are linked to specific historical and social processes, while the “specific geography and political economy of these resources lent themselves to the exacerbation of conflicts, often as a result of the level of resource dependence created in societies” (Le Billion 2001: 581). Oil is not the single explanation for the fragile security situation in South Sudan. The conflict with its’ neighbour to the North has deep historical roots, and while oil has been one of the motivations for war, many other factors played in. Ethnic conflict is part of the current conflict situation, and so is internal power struggles among political rivals. The question from here is whether this type of unrest could transform into secessionist conflict. According to Corneliussen (2013), the risk of secessionist rebellion in South Sudan is not significant. One could perhaps envisage a secessionist movement emerging in the troubled border-areas, and that Khartoum would support such a movement. There are however no militia groups that are close to matching the military strength of the SPLA<sup>18</sup> (Corneliussen 2013). As a significant part of Sudanese history of conflict, oil will most likely continue to have a major effect on South Sudan’s security situation. One of the factors that come into play is the ways in which oil wealth will be distributed among the population. Fair distribution of the wealth will lower the risk of local grievances to spur into violent conflict.

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<sup>18</sup> Interview footnote 8, page 32.

# Chapter 7: The Norwegian Experience of Oil Sector Management

According to Norad, Norway, with its unique expertise in petroleum management, is able to share the experience with Oil for Development partner countries (Norad 2011). The Norwegian experience is explained as follows:

Strong and stable legal frameworks, responsible resource management, co-operation with the private sector, technical expertise, development of accountable government institutions and building of a competitive national industry base are central elements in the Norwegian experience and its management system for petroleum. Additionally, regard for the environment and focus on health, safety and environment is an integrated part of the Norwegian approach to its natural resources (Norad 2011: 6).

Whereas the Norwegian experience is seen as important, Norad (2012) emphasizes that the OfD program is not about imposing a Norwegian “model” on partner countries. This can be seen as in line with Norway’s general development policy, where recipient countries’ responsibility for implementation and decision-making is emphasized. OfD also underlines the importance of international best practice, rather than the Norwegian experience alone (Norad 2013a). However, there is the underlying idea that Norway did something right, and that there are important areas in which recipient countries can learn<sup>19</sup> (Solli 2013). Moreover, Norwegian experience and expertise in oil sector management is regarded as a valuable aspect by many OfD partner countries (Norad 2013a).

## 7.1 The Norwegian Oil Experience: Discovery, Development and Management

Before discussing of the relevance of the Norwegian experience in South Sudan, the various explanations for the Norwegian success with oil sector management will be explored. The section starts with presenting the background of oil discovery and development in Norway.

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<sup>19</sup> Interview with Audun Solli, PhD student at the University of Oslo, on September 17, 2013 in Oslo. Solli (2011) has written the article “From Good Governance to Development? A Critical Perspective on the Case of Norway’s Oil for Development”, which is referred to throughout the thesis.

### 7.1.1 Oil Discovery and Development

When the first international oil companies arrived in Norway in the 1960s, national sovereignty was already built into the country's concession regime. Norway's hydropower production, which existed before any oil discoveries, was publically owned and operated. When oil was discovered along the Norwegian continental shelf, the government declared national sovereignty over all exploration and exploitation along the shelf. International oil companies were welcomed as long as they followed rules about the state's right to intervene and regulate the companies' practice. In the first concession round, international companies were granted large allocations (Ryggvik 2010). International oil companies were given licenses for conducting seismic surveys along the coast. In 1969, the first oil was discovered by the American oil company Phillips Petroleum. The oil was found in the North Sea, at what is known today as the Ekofisk field (Kvelland 2013).

In 1972 the state-owned, operational oil company Statoil was formed in order to secure governance and state control of oil activities (Ryggvik 2010). Alongside Statoil was the establishment of the NPD, which was established as a regulatory agency, responsible for resource administration and environment and safety regulations. In 1990 was the establishment of the Pension Fund, which is a fund based upon oil revenues. The fund enabled the government to accumulate assets into the fund from its budget surpluses, which was to help smooth out volatile revenue spending and stabilize the economy (Stevens and Dietsche 2008). Coupled with the fund is the so-called 'spending rule', which restricts public spending to the financial returns on the fund. The establishment of the Pension Fund and the spending rule was part of a policy of shielding the domestic economy against pressure arising from Dutch disease effects (Larsen 2005).

### 7.1.2 Oil Sector Management

This section will discuss some of the factors that have contributed to the success of oil management in Norway. As noted by Ryggvik, "The Norwegian oil policy is regarded by many as the only successful example where a country, after discovering oil, has built a competent national oil industry, yet still has managed to maintain an egalitarian welfare state" (Ryggvik 2010: 1). Since oil was discovered, the country's aggregate output ranks among the highest in



the world, and its riches have continued to grow (Larsen 2005). Over the last 40 years, the Norwegian petroleum industry has generated an excess of 800 billion NOK (Kvelland 2013).

#### *7.1.2.1 Well-Established Systems of Governance and Administration*

Several factors have contributed to the success. Firstly, Norway had a good starting-point. Prior to oil discoveries in 1969, the country had well-established governance and juridical systems, and an efficient system of civil service. Well-developed systems of education, industrial research and technical advancement were also in place (Kvelland 2013). Continued success in oil sector management lies in the early establishment of a legal framework, which has been safeguarding the country's interests at all levels. This included the declaration of national sovereignty of oil resources, and the establishment of a concessionary system. Through this system, oil companies get the right to extract oil and are then taxed by the government<sup>20</sup> (Christophersen 2013).

The integration of an efficient public oil administration has been essential to national competence and position vis-à-vis international oil companies (NPD 2007). In the first years of oil production, international companies played a major role. However, the state remained in control of investment and issuing of licenses. A diversity in licenses has ensured efficiency and prevention of monopoly of a small number of companies in the Norwegian oil sector (Kvelland 2013). The efficiency of Norwegian oil industry has been maintained by ensuring clarity of roles within the oil administration. Policy and legal framework has remained in the hands of the ministries and parliament, with underlying ministries, agencies and various directorates providing technical assistance and serving as advisory bodies. The oil companies deal with commercial matters and perform their task, which is to produce oil (NPD 2007).

#### *7.1.2.2 Securing Government Incomes*

The state made sure that it would receive a share if companies were to discover significant amounts of oil and gas (Ryggvik 2010). Licenses for exploitation and production are awarded for a small fee to domestic and international oil companies. In addition to taxes and fees, the state maintained a direct involvement in the developments in the oil and gas field, thus securing a larger share of production and other revenues from the fields (Gylfason 2004).

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<sup>20</sup> Interview footnote 6, page 30.

### *7.1.2.3 Prudent Development of the Oil Industry*

Strong government intervention enabled a modest and balanced development of the oil sector. Extraction was to happen in a moderate pace in order to secure that the resources would last for a long period of time (Ryggvik 2010). With the creation of the government Pension Fund, Norway has prevented its economy to become overheated by the oil wealth, while buffering against economic decline and future decrease in oil and gas revenues (Kvelland 2013). The fund maintains a focus on the inter-generational aspects of oil activities, while preparing for future pension requirements (Stevens and Dietsche 2008). Aims regarding social benefit and environmental protection were part of early planning. A protectionist policy ensured that Norwegian contractors were favoured, and foreign oil companies were requested to use Norwegian labourers, goods and services as much as possible (Ryggvik 2010). Foreign companies were required to transfer expertise to Norwegian companies, which reduced the chances of being exploited by the international oil industry. It also enabled Norway to build up its own competence (Kvelland 2013).

### *7.1.2.4 Public Oversight*

The success of public oversight over the oil sector in Norway lies in the establishment of independent oversight councils and well-developed political parties and Parliament, which together have ensured that public spending and oil extraction contracts have been properly monitored (Weinthal and Luong 2006).

In sum, the success of the Norwegian oil sector management includes the early establishment of a legal framework, successful public oversight mechanisms, strong government intervention and ownership, clarity of roles in oil administration, strong emphasis of social and environmental concerns, accumulation of national competence, and focus on sustainable development and long-term benefits from oil resources.

## 7.2 Relevance of the Norwegian Oil Experience in South Sudan

The favourable position Norway found itself in the beginning of its oil adventure, coupled with sound and transparent management of its oil resources, has enabled the country to avoid the negative effects related to the resource curse. In exploring the risk of a resource curse in South

Sudan, the question arises to which extent the country can learn from the Norwegian experience, and which policy features are replicable to the South Sudanese context.

### 7.2.1 Contextual Differences between Norway and South Sudan

South Sudan today finds itself in a very different position compared to Norway at the onset of oil discovery. Thus, the Norwegian experience cannot be directly transferred to the South Sudanese context. While Norway enjoyed a condition of peace and stability, with extensive government systems and institutions already in place, South Sudan recently came out of a devastating civil war, and has had to build its institutions from the ground. In contrast to South Sudan, Norway has a relatively homogenous population, a common language and no conflicting religious divisions. When oil was discovered, Norway had systems of good national communication, a well-developed civil service and a well-functioning education system, all of which South Sudan is lacking. Additionally, Norway has a considerable smaller population, standing at a little over 5 million compared to an estimated 11, 3 million in South Sudan (World Population Review 2014).

### 7.2.2 Areas in which South Sudan can Learn from the Norwegian Experience

Despite the contextual differences, there are some areas in which South Sudan can learn from the Norwegian experience with oil sector management. A discussion of some of the important areas is given below.

#### *7.2.2.1 Dealing with Oil Companies*

One of the key sources of interest in the Norwegian experience is how Norway managed to balance strong government ownership with a good structure for involving international companies. According to Lunde (2013), this is a difficult balance to strike. It involves organizing and managing a tendering and licencing process, and defining the laws and terms in which international oil companies are invited<sup>21</sup> (Lunde 2013). Christophersen notes that many countries have the tendency of awarding very large areas because they want the income as quickly as possible. Norway's advice to OfD partner countries is to take one step at the time, ask the right questions and set requirements to the oil companies<sup>22</sup> (Christophersen 2013). In

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<sup>21</sup> Interview with Leiv Lunde, Director at Fridtjof Nansen Institute, on September 29, 2013 in Oslo. Lunde was one of the founders of the Oil for Development, working in the program in 2006-07.

<sup>22</sup> Interview footnote 6, page 30.

Norway, Statoil was established in order to secure governance and state control of oil activities, and to ensure that Norwegian oil fields would not be fully operated and controlled by foreign companies. Statoil's strong position became crucial in the further course of Norwegian oil developments (Ryggvik 2010).

#### *7.2.2.2 Developing a Legal System*

In Norway, a culture of transparency and predictability has been maintained through a democratic tradition where the oil industry is held accountable to the public. In South Sudan, the problem of corruption and lack of transparency is a result of the absence of a proper legal system<sup>23</sup> (Christophersen 2013). South Sudan can benefit from Norway's expertise in developing a legal system that safeguards national interests and control, and ensures that all parts involved in oil operations and activities are being held responsible at equal terms.

#### *7.2.2.3 Revenue Administration and Fiscal Regime*

As a resource-rich country, South Sudan must carefully manage its oil revenues in order to stabilize its economy and avoid Dutch disease pressures. Among the strategies in Norway in this regard was the establishment of the Pension Fund. Lunde comments that the question of how much should be saved depends on the needs and capacity of the government, and the needs of the people. Whether it is a good idea to establish an oil fund in South Sudan is thus an empirical question<sup>24</sup> (Lunde 2013). Accumulation of oil income into a fund further requires a strong state with the ability to acquire the rents (Larsen 2005). In South Sudan, where the state's capacity is still weak, and where there is an enormous need for spending in social services and infrastructure, putting money aside is not a straightforward matter.

Another important area to consider is what type of fiscal regime South Sudan should have, i.e. how the money from oil is shared between the state and the oil companies. In Norway, the companies do not have to pay for licenses, but tax-rates are quite high. This is not necessarily the best model for South Sudan<sup>25</sup> (Kvarsvik 2013). In South-Sudan, they have so-called Production Sharing Agreements (PSAs), where companies recover initial costs and operational expenditures, while remaining profits from oil are shared with the government (IMF 2012). In

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<sup>23</sup> Interview footnote 6, page 30.

<sup>24</sup> Interview footnote 21, page 65.

<sup>25</sup> Interview footnote 4, page 26.

contrast to a system where the companies pay tax to the state, PSA means that the authorities are in possession of physical oil that they have to sell in the market<sup>26</sup> (Klev 2013). In addition to PSAs, South Sudan has a system of royalties, which means that companies have to pay a charge for extracting the oil. This provides the government with some revenue from the start of production (Kvarsvik 2013, IMF 2012).

#### *7.2.2.4 Splitting of Roles*

According to Lunde, South Sudan can learn from the way Norway managed to gradually split roles within oil management and administration. For instance, Norway let its national oil company, Statoil, become privatized, so that it would not get involved in law making and in running of the oil sector<sup>27</sup> (Lunde 2013). In the early stages of oil explorations, however, Statoil remained under the state's control; a strategy that proved to be crucial in the further course of Norwegian oil development (Ryggvik 2010). Nilepet, the national oil company in South Sudan, is still a weak institution, lacking in experience and trained staff (Toit 2013). Thus, the South Sudanese state will probably remain in control of Nilepet in the foreseeable future. According to Stiglitz (2007), full privatization of government run oil companies should not be rushed, as it might actually intensify problems of corruption, especially in countries lacking systems of good corporate governance. Privatization typically entails a series of payments from the private sector to the government in the form of taxes and royalties, with potentials of diversion in every transaction (Stiglitz 2007).

In conclusion, the Norwegian experience is complex and multiple integrated. Not all parts are relevant in the context of South Sudan. It is not possible for South Sudan to replicate a 'Norwegian model'. There are however several areas in which South Sudan can learn. Yet, it might take time to establish the institutions that are supposed to implement the policy features proposed (Larsen 2005). Many of the implementations require a stable political situation. With the lack of a well-established legal system and a transparent, well-functioning state apparatus, it might be a while before South Sudan is able to apply the strategies that are offered through Norwegian expertise.

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<sup>26</sup> Email interview with Jørgen Klev, consultant in Pöyry, on November 26, 2013.

<sup>27</sup> Interview footnote 21, page 65.



# Chapter 8: Potentials and Limitations of Oil for Development in South Sudan

The political, economic and social challenges that South Sudan faces are immense. Main challenges include widespread poverty, political incoherence, weak state capacity and a fragile security situation. In the discussion regarding the risk of a resource curse in South Sudan, it was illustrated that the challenges have to be seen in light of historical context, and that they cannot be explained by oil wealth alone. There are, however, great challenges linked to the development and management of the country's oil resources. The idea about the resource curse was an important point for the initiation of the OfD program. Norad lists several aspects of the oil sector causing problems to the society, including the size of the oil revenues relative to the rest of the society and the fact that governments in oil-exporting countries are funded by public assets rather than taxes. Other factors include the volatility of world oil prices, and the secrecy associated with the oil business where governments and international oil companies collude in order to conceal transactions (Norad 2013a).

This chapter explores the limitations and potentials of the OfD program in terms of confronting the challenges associated with the resource curse in South Sudan.

## 8.1 Potentials

The OfD program's main objective for South Sudan is "the development of a capable and transparent management of the petroleum sector to the benefit of the economy and the people in South Sudan" (MFA 2012: 4), and to "contribute to the further development and strengthening of a governance system for the petroleum sector in South Sudan that fosters efficiency, transparency, anticorruption and which is in compliance with the principles of good governance" (MPE 2012: 8). Norway's special expertise in oil sector management includes establishment of governance structures, administration and legislation. Capacity building in revenue administration and fiscal policy are central components of OfD involvement in the country. According to Holm (2014), the South Sudanese state is lacking the capacity and skills to negotiate and deal with big international oil companies. An important objective of the

program is supporting the state in eventually becoming capable of dealing with these companies on their own<sup>28</sup> (Holm 2014).

### 8.1.1. Building a Strong State: OfD Assistance in Developing Legislation

Resource rich countries often seek the involvement of international companies for expertise in exploiting and marketing their energy resources. Once they start going into negotiations, the governments find that they are in a weaker position than the major oil and gas companies, which often possess more financial resources, superior knowledge and more experience in contract negotiation (Radon 2007). In this context, the importance of improving the state's position and capacity is evident. Essential government institutions need to be in place, including systems to collect taxes, structures for fair and competitive auctions of oil deals and the capacity to enforce contracts (Stiglitz 2007).

Oil for Development emphasizes the centrality of strong government and legislation in their program document for South Sudan. "A governance system based upon a national petroleum policy, improved petroleum legislation, regulations and model contracts will facilitate the work of the institutions in the sector to create a level and competitive playing field for the industry and protect the national interests with due considerations to health, safety and environmental issues" (MPE 2012: 8). Development of guidelines and procedures is a central to the program's objective of supporting South Sudan in capable and transparent oil sector management in adherence to good governance principles (MPE 2012). The following sections deal with the potentials of OfD assistance in development and implementation of laws and regulations regarding state ownership, government accountability, HSE and transparency.

#### *8.1.1.1 State Ownership*

One of the factors that contributed to the success of oil sector management in Norway was the development of a legal system that ensured strong state ownership and control over national oil and gas resources. Through the OfD program, Norway advises countries on how to make the most profits from their oil resources by establishing systems for taxing and tendering processes with licensing rounds. OfD advisors are available to support the government in dealing with international oil companies. Christophersen notes that there were some negative comments from Chinese companies at the hearing about the Petroleum Act. This was because some of the

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<sup>28</sup> Interview footnote 1, page 2.



companies felt that requirements regarding health, safety and transparency in all transactions were too ambitious<sup>29</sup> (Christophersen 2013).

According to the Petroleum Act, drafted with the assistance of OfD advisors, agreements regarding exploitation, production and development of petroleum is to be entered into following an “open, transparent, non-discriminatory and competitive tender process conducted in accordance with applicable law governing public procurement” (GOSS 2012a: 9). An open and competitive bidding process in the allocation of oil deals is important for ensuring that the deals are granted the best possible companies and on the best possible conditions, and that the government gets the best possible terms (Global Witness 2012). Oil companies must meet requirements regarding competence, experience, history of compliance, financial capacity and ethical conduct in compliance with the petroleum agreements and applicable laws and requirements set by the MPMI (GOSS 2012a). The MPMI is, according to the Act, obligated to develop a model contract in coordination with the MoFCIEP. Model contracts is a useful tool for setting a general standard for contract terms, and for assessing the bids of the various oil companies (Global Witness 2012).

Central to consolidating the ownership of the state is strengthening the South Sudanese government’s position vis-à-vis foreign oil companies and ensuring that the state acquire the skills required for running and managing its oil sector. In the early stages of oil development, Norway decided to own and run its own oil company, while taking the advantage of learning how to manage its resources from a range of international oil companies (Stiglitz 2007). Moreover, the strategic state ownership through Statoil was also a way in which the state secured considerable shares in concession rounds (Ryggvik 2010).

Lacking in technology, experienced staff and competence, South Sudan is still highly dependent on foreign companies to operate its oil industry (Toit 2013). As noted by Stiglitz (2007), a key objective for the state should be “the transfer of technology, skills, and understanding of organisational structures to enable the creation of an honest and efficient public sector extractive industry” (Stiglitz 2007: 44). Nilepet, as the “technical operational and commercial arm if the MPMI, and which was formed to “build the national technical capabilities of the government of South Sudan to maximize government take of oil profit”. OfD assistance in the development and implementation of the Petroleum Act, and the program’s work with MoMP and Nilepet staff in terms of competence building and training in resource management can

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<sup>29</sup> Interview footnote 6, page 30.

help strengthen the South Sudanese state's ownership and control over its oil resources. The establishment of proper systems for contract terms and production sharing between the government and oil companies is central to increase the government's chances of getting a fair share of the country's oil resources, which then should be distributed in a way that ensures development and well-being of the South Sudanese population.

#### *8.1.1.2 Government Accountability*

Global Witness defines accountability as “the government's obligation to take full responsibility for, and to report, explain, and be answerable to stakeholders about the management of the sector, both internally (e.g., audits and parliamentary oversight) and externally (e.g., citizens, civil society, and the press)” (Global Witness 2012: 5). They recommend that the government of South Sudan prioritize the Petroleum Revenue Management law, which gives requirements regarding public reporting, accounting and auditing. Frequent reporting and auditing of oil revenues are to ensure that the revenues are subject to public scrutiny and that they are independently verified (Global Witness 2012). In order to ensure that the oil sector is effectively and independently audited, audits should be conducted by the National Audit Chamber as well as an independent, international firm. The Petroleum Revenue Management Bill requires that both the Audit Chamber and the independent auditor have access to “any account, books, minutes, records and any other document, information and data related to the management of the Petroleum Revenue Account and the Reserve Funds” (GOSS 2012b: 23). The Petroleum Act establishes that all agreements, licenses and authorisations should be maintained in a Petroleum Registry, which is open to the public (GOSS 2012a: 36). With OfD assistance, PSAs are now made publicly available in South Sudan, and a website is established with updated petroleum policy, production and revenue information (MPE 2012).

The credibility of the South Sudanese state can be strengthened through means of improving government accountability. Government accountability is important in order to create the economic and political stability that is necessary for an attractive investment climate. It is vital that companies that want to invest in the country are assured that their operations will not be affected by insecurity, corruption or undue political interference (Global Witness 2012).

### *8.1.1.3 Health, Security and Environment*

Norad's support regarding environmental management includes "assistance to develop basic legislation, regulations and guidelines covering environmental dimensions of petroleum sector management" (Norad 2011: 9). Indicators for "economically, environmentally and socially responsible management of petroleum resources" include oil recovery rates in the country's producing fields, the quantity of polluting produced water and quantitative measure of serious incidents. Advancements so far includes endorsement of key regulations by the MPMI and the establishment of a number of environmental monitoring programs (MPE 2012).

The Petroleum Act contains several provisions that will, if adhered to, have positive HSE outcomes. A contractor has to submit an application containing a drilling program as well as an environmental and social impact assessment to the MPMI. Oil activities must be carried out in a manner that prevents waste, promotes safety and environmental protection, taking into consideration the rights of adjacent communities, occupants and landowners. South Sudan nationals with the required expertise or qualification are entitled to be offered training and employment opportunities in oil producing areas. The government is, after consultation with local communities, obliged to make a community development plan with strategies for improving the lives of the communities living in contract areas (GOSS 2012a).

Activities must be conducted, maintained and developed according to international best practice and applicable legislation on health, safety and labour. The contractor or licensee is responsible for maintaining emergency preparedness in order to deal with hazards, risks and accidents in regard to human lives, pollution and damage to property or to the environment. Oil production and development shall be conducted in a manner that ensures maximum recovery of oil (GOSS 2012a). According to the OfD Program Document, a number of environmental monitoring programs have been established in South Sudan. Other accomplishments include conduction of a number of independent safety audits, as well as a number of inspected installations regarding compliance of environmental and safety standards (MPE 2012).

Implementation of legislation regarding HSE is important in the face of the many social and environmental challenges related to oil exploitation and production in the country. OfD consultants have a role to play in supporting the government when requirements regarding safety, environmental protection, community development are being set. Whereas companies

are required to contribute with financing to development projects (GOSS 2012a), the main responsibility for development should lie with the South Sudanese government. A key objective is thus to consolidate the position of the state, while ensuring that laws and regulations are followed by both the companies and the state.

#### *8.1.1.4 Transparency*

The OfD program's efforts to build transparency is mainly through the legal system, and involves development of laws and regulations regarding reporting, auditing and open tendering. Transparency issues are addressed through a focus on openness and fairness in access to resources and issuing of contracts, systems of taxation, and accountability through publicly available budget and expenditures (Norad 2013a).

The Petroleum and Petroleum Revenue Management laws contain guidelines on how oil revenues should be reported and audited in order to promote transparency. Records of petroleum revenue, transfers to the Reserve Funds, and all other transfers shall be published and made available to the public. Reports about incomes and transfers have to be submitted to the MoFCIEP authorities<sup>30</sup> (Klev 2013). The Petroleum Revenue Account and Reserve Funds shall be audited by an internal audit entity of the Central Bank of South Sudan, as well as an internationally recognized independent auditor firm (GOSS 2012b). A contractor or licensee is obligated to disclose all information related to petroleum activities, such as payments to the government. At the government side, all records on petroleum activities must be made accessible to the public (GOSS 2012a). In accordance with the Petroleum Revenue Management Bill, a quarterly report with an overview of petroleum revenue payments and transfers has now been prepared (Norad 2014a).

The OfD program coordinates its activities with EITI, which currently has a process with South Sudan<sup>31</sup> (Christophersen 2013). The South Sudanese government has on several occasions made public announcements on its intention to implement the EITI standard (Global Witness 2013), which requires that all payments from petroleum operations are published in an annual EITI report that should be made available to the public (EITI 2011). The government will have to report what it has received, and the companies what they have paid. An independent reconciler compare the figures in the report and explores discrepancies. In principle, the figures

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<sup>30</sup> Interview footnote 26, page 67.

<sup>31</sup> Interview footnote 6, page 30.

from government side and companies' side will be the same. In practice however, this is not always the case. Errors such as delayed payments or disappearing funds might occur<sup>32</sup> (Reitmaier 2013). The report can be used as a reference on how the country can better manage its oil revenues. The process will be supervised by an EITI multi-stakeholder group with representatives from the South Sudanese government, extractive companies and civil society organizations (EITI 2011).

In order to ensure that laws are being followed, government staff must be provided the necessary technology and training (Global Witness 2012). Norad has had a team of five to six persons stationed in Juba, working towards the government regarding implementation of the legal framework<sup>33</sup> (Christophersen 2013). Proper implementation of the EITI standard, the Petroleum and Petroleum Revenue Management Acts will have positive impacts in terms of transparency and anti-corruption in South Sudan's oil sector. Transparency makes corruption more risky, creates good incentives to public officials, and makes politicians more accountable to the public (Kolstad and Wiig 2009b).

### 8.1.2 Building Capacity: OfD Assistance in Revenue Management

Challenges related to large rents from the oil industries include unpredictability in the oil market, corruption, and Dutch Disease. South Sudan has gradually assumed control of its newly independent oil industry. As Barajas (2011) notes, there is a "small window of opportunity" to put the windfall from oil into good use (Barajas 2011: 15). This relies on the country's capacity to create a strong macroeconomic policy framework, including wise and gradual investments while saving some of the wealth (Barajas 2011).

In line with Norwegian Foreign Policy concerns the OfD program's aim is to "assist vulnerable societies avoid the 'resource curse' by helping set up credible regimes for managing expected inflows of resource rent" (Norad 2013a: 110). OfD support within revenue management include implementation and monitoring of legislation and capacity-building activities within MoFCIEP<sup>34</sup> (Kvarsvik 2013). Klev explains that there is often a lack in clarity of roles between the different departments. Ideally, the people working within the ministries should understand the whole value chain, from the point when oil is produced to the point when the revenues come

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<sup>32</sup> Skype interview with Jurgen Reitmaier, Senior Adviser at EITI, on November 28, 2013.

<sup>33</sup> Interview footnote 6, page 30.

<sup>34</sup> Interview footnote 4, page 26.

into the account. Most importantly, however, is that they know the issues related to their specific work tasks<sup>35</sup> (Klev 2013).

Capacity building within the MoFCIEP, in which the responsibility of oil revenue and account management lies, is key to steering developments within oil sector management in a positive direction. The further discussion deals with the potentials of OfD assistance in revenue management in terms of confronting the resource curse in South Sudan.

#### *8.1.2.1 Fiscal Policy*

In order to achieve the overall objective of reducing poverty, the OfD program aims at guiding governments in partner countries to secure income from the petroleum industry for them to use in their state budget and distribute to the benefit of the people<sup>36</sup> (Christophersen 2013). OfD aims at supporting South Sudan in developing a fiscal regime that ensures that the state acquires a fair share of the resource rents<sup>37</sup> (Kvarsvik 2013). With a fiscal regime based on PSAs, the authorities are left with around 60 to 65 percent of the incomes, while the rest goes to the companies. The companies are required to cover all field costs, i.e. costs associated with the daily operation of the oil fields, or related to investments<sup>38</sup> (Klev 2013).

Under PSAs, every oil field is assigned with its' own tax arrangement, which is based on the size of the field. A signed PSA seldom changes. In countries with political instabilities, a system based on PSA is thus often preferred, as it minimizes the risk of changes in the country's national tax system (Klev 2013). PSA is thus a preferable system in South Sudan, where the political situation is highly unstable. In addition to the incomes that the government acquires through PSAs, the royalties that companies are required to pay provide the government with some revenue from the start of production (IMF 2012).

#### *8.1.2.2 Tracking Revenues*

Pöyry has been involved in the training of government staff in how to manage oil revenue. Training includes the use of computer systems that collects information about all oil related payments. These systems also calculates how the money should be distributed, such as how much should be transferred to Sudan, how much should be spent on the local society, and how

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<sup>35</sup> Interview footnote 26, page 67.

<sup>36</sup> Interview footnote 6, page 30.

<sup>37</sup> Interview footnote 4, page 26.

<sup>38</sup> Interview footnote 26, page 67.

much should be saved. The Directorate of Accounts, which lies under MoFCIEP, uses a database called Oil Revenue Tracking Tool, which enables structured and orderly storing of all oil payment information<sup>39</sup> (Klev 2013). Tracking of revenues is not only important in order to ensure transparency in all transactions, but also in order to maintain a culture of responsibility and honesty within the MoFCIEP.

#### *8.1.2.3 Establishment of Revenue Account and Reserve Funds*

The Revenue Management Bill gives instructions regarding the establishment of a Petroleum Revenue Account and two Reserve Funds. The Reserve Funds consist of The Oil Revenue Stabilization Account and the Future Generation Fund. The funds are created for the purposes of buffering the economy against volatilities in oil revenue, financing unexpected shortfalls in revenue, and providing long-term saving and ensuring the welfare of future generations (GOSS 2012b). According to the OfD annual report for 2013, the Central Bank and MoFCIEP has now entered into an agreement for the establishment of the Petroleum Revenue Account, in which all oil-related revenues shall be transferred (Norad 2014a).

The South Sudanese authorities needs experts who evaluate and give advice on how much should be saved and how much should be invested<sup>40</sup> (Kvarsvik 2013), which is among the important areas in which OfD advisors are involved<sup>41</sup> (Klev 2013). Successful implementation of the funds will help maintaining a balanced economy while cushioning against price instabilities and economic downturns. When global oil prices are high, excess revenue can be placed in the Stabilization Fund. When prices are low, revenue is taken out from the fund in order to make up for budgetary deficits (Weinthal and Luong 2006). The Future Generation Fund will ensure that future generations in South Sudan will enjoy some of the wealth, perhaps even after the oil resources are depleted.

#### *8.1.2.4 Revenue Transfers to the Districts*

Proper implementation of the Petroleum and Petroleum Revenue Management Acts will entail significant increases in revenue transfers to the district capitals of the country. According to the Bill, two percent of national oil incomes should be transferred to oil producing states. Local

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<sup>39</sup> Interview footnote 26, page 67.

<sup>40</sup> Interview footnote 4, page 26.

<sup>41</sup> Interview footnote 26, page 67.

Government Councils within the states shall allocate its share of the amount to capital development projects. The respective communities shall be included in the Council's development planning process (GOSS 2012b). If the provision of the law is followed, this would imply more than a ten-fold increase of today's transfers. Current transfers amount to USD 10- 15 million a year<sup>42</sup> (Christophersen 2013).

#### *8.1.2.5 Revenue Projection*

Development of appropriate prognoses on oil income is important in budget planning and long-term macro-economic calculation. For instant, the budget department needs good prognoses on incomes in order to plan next year's budget<sup>43</sup> (Klev 2013). Pöyry uses an economic model, which simulates incomes based on estimations of oil prices and tax levels<sup>44</sup> (Kvarsvik 2013). Under this model, the economics of each block is modelled. Each block is then given an estimate on historical and future value in terms of production, costs, prices etc. Projections on how much money will go to the companies and how much will go to the state in the form of tax, are made. An aggregation of all blocks gives the combined amount of oil revenues to South Sudan within a certain period of time (Klev 2013). Projection of future incomes and expenses will help maintain the fiscal discipline that the resource curse literature recommends for the establishment of resilience against economic instabilities such as sudden changes in oil prices and incomes. Revenue projections are also key in avoiding over-optimistic projections, which could lead to unwise investment and overspending.

OfD support in terms of capacity building and development of legislation has great potential in South Sudan, because it equips the authorities with necessary skills and technology, and helps ensure that the government receives a fair share of the country's oil rents. The capturing of the resource rents by the state is important in order to limit spending levels and avoid the negative economic outcome associated with the Dutch disease (Larsen 2005). In the next section, there will be a discussion of some of the limitations of OfD involvement in South Sudan.

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<sup>42</sup> Interview footnote 6, page 30.

<sup>43</sup> Interview footnote 26, page 67.

<sup>44</sup> Interview footnote 4, page 26.



## 8.2 Limitations

Norad's adoption of good governance through the Oil for Development program entails a broad range of issues, including gender-equality, anti-corruption, democracy, revenue management, environmental management and civil society support. At the heart of good governance is the capable and transparent management of the oil sector. The program's ultimate goal is to "secure democratic control of the resources and eradicate poverty, while making sure we leave a better environment for our children" (Norad 2011: 3). This is an ambitious goal, and cannot be achieved by sound management of the oil sector alone. South Sudan is faced with many challenges, many of which are not directly tied to the country's oil resources. The OfD program is a targeted effort to improve governance in recipient countries' oil and gas sectors<sup>45</sup> (Lunde 2013), and is without a doubt an important contributor within its field of expertise. However, the program might not have the influence to significantly alter the political and social structures that keeps South Sudan from achieving positive development outcomes. This section explores the limitations of the OfD program's good governance approach in terms of helping South Sudan turn its oil wealth into a blessing rather than a curse.

### 8.2.1 Scratching the Surface: Limited Impact on Underlying Problems

The task of building a state almost from scratch is enormous. The challenges that South Sudan faces today are closely tied to its complex history of social, religious and ethnic fragmentation, which has led to the major political incoherence that is seen today. State institutions are the products of a country's social history. Eggen (2014), explains how international development efforts directed at institutional reform and capacity building are about exporting a state model which is based on the donor countries' own societies, well divided into civil society, with clear boundaries between private and public, and between ethnicities. When models on how institutions should work are exported to countries with very different societies, to be staffed with people having very different experiences, results will likely end up different from what was intended<sup>46</sup> (Eggen 2014). According to Coning (2014), international aid efforts directed at state building are often motivated by the need for having a formal state to interact with, which

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<sup>45</sup> Interview footnote 21, page 65.

<sup>46</sup> Øyvind Eggen, Policy Director for the Evaluation Department at Norad, was one of the panellists at the debate "How to Build a Nation from Scratch" on February 5, 2014 in Oslo.

creates a strong focus on recipient countries' formal institutions. The often very technical approach in state building efforts takes the focus away from underlying problems<sup>47</sup> (Coning 2014). The next section explores some of the underlying problems that the OfD program is faced with in South Sudan.

#### *8.2.1.1 Informal Power Structures*

In light of the international good governance discourse, aid-supported state reform has been presented as a non-political, straight-forward expert issue (Solli 2011). Yet, obstacles to reducing poverty and achieving democracy are largely political (Gary and Karl 2003). A major challenge in South Sudan is the internal political factionalism. Both SPLM and SPLA are marked by patronage structures, and state resources are being used to maintain these structures (Lacher 2012). The informal power structures constitute one of Norad's main challenges, as they undermine the formal structures that they work with. Solli (2013) explains that part of the problem is that the government is not one single entity. It consists of different people and branches. There will always be powerful people who feel like implementing the laws and regulations is not in their personal interest<sup>48</sup> (Solli 2013). Oil sector management is thus not solely a question of ability, but of political will (Solli 2011). Informal power structures get in the way of institutional change, not only because of lacking capacity, but because powerful elites resist changes that are not advantageous to themselves (Kolstad and Wiig 2009b).

Improving institutions is thus not simply a question of technicalities, such as drafting a petroleum law or changing bureaucracies. Institutional change needs to involve a change of interests among government officials in a way that coincides with those of the population (Kolstad and Wiig 2009b). As noted by Gary and Karl, "technocratic fixes help, but they are not enough. [...] For example, the government must quickly develop "allocative efficiency," but the experience of other petro-states shows that public contracts are often massively inflated as a politically desirable practice, the better to serve apolitical patronage system. Insiders close to the ruling circle establish enterprises to gain contracts funded through the allocation of oil

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<sup>47</sup> Cedric de Coning, Head of Research Group for Peace Operations and Peacebuilding at Nupi, was one of the panellists at the debate "How to Build a Nation from Scratch" on February 5, 2014 in Oslo.

<sup>48</sup> Interview footnote 19, page 61.

wealth. Thus the tightening and strengthening of procurement procedures requires political support” (Gary and Karl 2003: 74).

One of the shortcomings of OfD in terms of addressing the problem of patronage is the lack of emphasis on expenditures. Christophersen (2013) notes that, although there might be a lot of corruption at the spending side, it has not been Norad’s mandate to go into that. For example, the implementation of the Petroleum Revenue Management Bill will entail an increase in revenue transfers to district authorities<sup>49</sup> (Christophersen 2013). However, OfD does not have the mandate to influence on how the revenues will be spent from there<sup>50</sup> (Christophersen 2014). OfD is concerned with revenue management in the sense that they are directed in the right way to the government (Christophersen 2013). Whereas much of the focus in EITI and other transparency initiatives is on revenues, Kolstad and Wiig maintain that more emphasis should be put on the expenditure side, where much of the patronage politics in resource-rich countries occur. In resource-rich countries, patronage is as much about the allocation of funds and positions to political supporters as it is about rent-seeking (Kolstad and Wiig 2009a).

The OfD program does not have the capacity to deal with the wide spectrum of issues that are linked to the informal power structures in South Sudan. Solli believes that OfD can be a positive force in terms of combatting rent-seeking within the government. However, the large amounts of money linked to the oil industry means that there are very strong interests linked to oil money. In comparison, the money and assistance that OfD contributes with is rather insignificant<sup>51</sup> (Solli 2013).

The effect of transparency on corruption relies on the ability of agents to process the information that is available, and to hold public officials accountable. The level of education of a population, an electorate, or a group of key stakeholders whose job is to process and act on information is thus a key precondition for reducing corruption in resource-rich countries (Kolstad and Wiig 2009a). Thus, supporting civil societies should be among the main priorities in international aid efforts aiming at good governance in oil rich developing countries.

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<sup>49</sup> Interview footnote 6, page 30.

<sup>50</sup> Interview footnote 2, page 7.

<sup>51</sup> Interview footnote 19, page 61.

### 8.2.1.2 Weak Civil Society

Strong involvement of civil society organizations is stated by Norad as one of the important conditions for enabling good governance in partner countries, as the program recognizes their “advocacy and watch-dog functions” within oil sector governance (Norad 2013a: 84). If sound management of the oil sector is a question of political will, a country’s civil society has an important role to play. The political will is created only when societal actors have the ability to hold those in power accountable for their actions. It thus requires an active civil society that is able to organize, speak and publish freely and participate in civic debates (Gary and Karl 2003, Weinthal and Luong 2006).

Civil society in South Sudan is in general weak. This is due to the country’s long history of conflict, and because of the low level of education among citizens<sup>52</sup> (Corneliussen 2013). Illiteracy is especially high amongst women, and women’s position is generally weak (Norad 2014b). Conditions for a free media are poor, and journalists who criticize the authorities are often imprisoned (Norad 2014b, Corneliussen 2013). Since the OfD program is mainly directed at government structures, it does not deal with civil societies directly<sup>53</sup> (Holm 2014). Solli (2013) believes that Norad’s strategy of outsourcing civil society support to other actors, such as Norwegian NGOs, might have adverse implications in a country like South Sudan. “When you come in with external money and make one actor stronger than other actors, you make an artificial power-balance. You don’t necessarily support the organizations that have the most popular support. And since the funding probably will last for a few years only, it will lead to a boom and bust cycle of civil society organizations”<sup>54</sup> (Solli 2013).

In order to avoid such adverse effects, Norad should carefully consider which organizations or parts of civil society to support. Eggen (2014) maintains that international donors in South Sudan should build institutions on the social structures that already exists in the country<sup>55</sup> (Eggen 2014). Examples of social organizations include local women’s groups, youth groups, farmers’ associations and small income generating enterprises in rural areas. The church communities represent an important social actor, and constitutes the only part of civil society that is well developed<sup>56</sup> (Corneliussen 2013).

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<sup>52</sup> Interview footnote 8, page 32.

<sup>53</sup> Interview footnote 1, page 2.

<sup>54</sup> Interview footnote 19, page 61.

<sup>55</sup> Interview footnote 46, page 79.

<sup>56</sup> Interview footnote 8, page 32.

The importance of the church communities and other social institutions should not be undermined. During the civil wars, the church communities played an active role by drawing attention to human rights abuses against local populations, and they were also a positive force in the peace process (Corneliussen 2013). In cases when official authorities are unable to provide effective security provisions, informal institutions and civil society groups could constitute an important support network for the people of South Sudan. If positive change can only come about when the South Sudanese population has the ability to speak up, talk freely, and exert pressure on the authorities, a more direct involvement with South Sudanese citizens and church communities should perhaps be considered in the OfD program.

### 8.2.2 The Way Ahead: Lack of a Long-Term Agenda

With the current program agreement for South Sudan running out in 2014, further OfD involvement in the country is not clear. The program's assistance so far constitutes an important contribution to the development of an oil sector in its starting-phase. However, the work should not stop here. Capacity building within the ministries in terms of revenue and resource management is a long-term process<sup>57</sup> (Klev 2013). As noted by Norad (2014): "In the coming years, substantial efforts will be required to ensure adherence to and implementation of the legislation" (Norad 2014a: 28). An even more ambitious goal is to establish an oil sector that produces long-term benefits for the South Sudanese population, and that ultimately leads to poverty reduction and a lasting condition of security and peace.

#### *8.2.2.1 Sustainable Oil Development*

A key objective in the OfD program is to "transfer Norwegian experience with petroleum governance/management in a way that contribute to lasting reduction of poverty in developing countries" (UD Prop. 1S (2010-2011) in Norad 2013a: 3). Improved capacity in the oil ministries is expected to have a trickle down-effect on the wider good for the society, in terms of poverty reduction and democracy (Solli 2011).

The drafting of the Petroleum Revenue Management Bill has been portrayed by Norad as one of the key achievements in South Sudan (Norad 2014a). A case for comparison is the World Bank's Revenue Management Plan in Chad, which was part of the Chad-Cameroon Pipeline

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<sup>57</sup> Interview footnote 26, page 67.

Project described earlier. Chad, like South Sudan, is landlocked, and depends on massive investment for exporting its oil. The country has a tragic history of conflict and repression. Almost three decades of civil war have resulted in severe institutional weakness and corruption. The populations in Southern Chad has suffered from repression from the Northern-dominated governments, and it has been reported of massacres of civilians living in oil-producing areas (Gary and Karl 2003).

In order to receive World Bank funding, the Chad government had to comply with certain requirements, one of which was to pass a new revenue management law. The law, however, has been criticized for having several weaknesses. One of the criticisms is that the law's allocation of five percent of revenues to affected communities in oil producing areas are inadequate (Michell 2010, Gary and Karl 2003). As Gary and Karl (2003) notice, oil communities are usually the ones who have to bear the brunt of the negative effects of oil developments. Whereas the issue of compensation arrangements falls outside the OfD program's area of expertise<sup>58</sup> (Christophersen 2013), the implementation of the Petroleum Revenue Management Bill in South Sudan would imply a significant increase in revenue transfer to oil-producing areas. However, the amounts transferred might still not be enough in terms of compensating people who have had their lives severely affected by the oil industry.

According to Gary and Karl (2003), "Translation of oil revenues into equitable, effective economic development and poverty reduction extends well beyond budget allocations and the auditing and control of public expenditure. It also requires effective democratic institutions" (Gary and Karl 2003: 70). Experiences from Chad and other oil rich developing countries illustrate that obstacles to reducing poverty are mainly political. Solli (2013) comments that the OfD program is right in the sense that people within the ministries should be able to handle technicalities, such as managing databases and looking at figures relating to the oil sector. There is, however, a distance between these very concrete activities and the overall goal of creating social development. There are so many other factors that come in and make the poverty reduction part difficult, the informal power structures being one of them<sup>59</sup> (Solli 2013). "If poverty reduction and democracy indeed are to be the main aim, it is not a given that African oil ministries are the right place to begin [...] There is a long way from training reformists in the oil ministry to poverty reduction in rural areas" (Solli 2011: 80).

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<sup>58</sup> Interview footnote 6, page 30.

<sup>59</sup> Interview footnote 19, page 61.

Because of the uncertainties about future oil discoveries in South Sudan, it is important that the country is able to maximize short-term benefits of oil revenues while at the same time diversifying the economy in order to secure long-term economic growth. The country has the potential for developing other sectors of its economy, such as agriculture, tourism, mining and hydropower<sup>60</sup> (Lunde 2013, Kvelland 2013). Diversifying South Sudan's economy is however not something that can be done technically through the OfD program (Lunde 2013).

#### *8.2.2.2 Sustainable Peace*

Some of the biggest challenges in South Sudan are security-related. The latest outbreaks of violence is tied to the conflict between two political factions that was forced together in one political movement during the civil wars<sup>61</sup> (Coning 2014). The state institutions in South Sudan are the product of decades of civil strife<sup>62</sup> (Eggen 2014). The people sitting in the highest positions are the same people who fought in the civil war. According to Corneliussen, the military mentality pervades most of what is done in government offices<sup>63</sup> (Corneliussen 2013).

According to Wheeler (2012), the absence of a peace dividend is one of the biggest disappointments in post-independent South Sudan. After the peace agreement, people expected that schools, hospitals and roads would be build. Due to the continuing fragile security situation, these expectations have largely remained unmet. The OfD program does not comprise strategies of dealing with long-term security solutions in South Sudan. However, the program's support to the NPA is an important indirect contribution to peace-building in the country. The NPA, as one of the biggest Norwegian humanitarian organizations in South Sudan, has worked with local movements and organizations both during the civil wars and after the peace agreement (NPA 2014).

In many cases, the task of implementing new laws and regulations is not straightforward. In the case of Chad, ambiguities in the new revenue management law regarding regional allocation of revenue might "sow seeds for future conflicts over distribution of oil rents" (Gary and Karl 2003: 69). The risk of such conflict is particularly high in countries with histories of ethnic and regional discrimination, which is certainly relevant in the case of South Sudan. The fact that the OfD program does not interfere with how the governments of recipient countries spend their

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<sup>60</sup> Interview footnote 21, page 65.

<sup>61</sup> Interview footnote 47, page 80.

<sup>62</sup> Interview footnote 46, page 79.

<sup>63</sup> Interview footnote 8, page 32.

revenue might be an obstacle in terms of supporting fair distribution of South Sudan's oil wealth. The program's support to the South Sudanese government should not be considered as entirely non-political or unproblematic. According to Lacher (2012), international donors should implement precautionary measures to ensure that aid does not reinforce local conflict over land and resources (Lacher 2012).

Social and economic development cannot be achieved without dealing with security issues. Coning (2014) maintains that consolidation of peace is at the core of state building. Conflict leads to deaths, displacements and further breakdown of services like health, education and basic law and order. Development is interrupted and economic growth set back<sup>64</sup> (Coning 2014). Furthermore, a truly peaceful society entails more than just the absence of violence. Johan Galtung (1969) introduces the concept of 'positive peace' as the absence of *structural violence*, or in other words, absence of social injustice. As defined by Barash and Webel (2009), positive peace represents the "simultaneous presence of many desirable states of mind and society, such as harmony, justice, equity, etc." (Barash and Webel 2009:4). They also emphasize human rights as a condition of positive peace (Barash and Webel 2009). Oil for Development and other international aid efforts should include in their programs the objective of contributing to a positive peace in the countries in which they are involved, where issues of economic equality, environmental security, social justice and human rights are all at the top of the agenda.

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<sup>64</sup> Interview footnote 47, page 80.



# Chapter 9: Conclusions

The overall objective of this thesis has been to examine the theory of the resource curse, and to study South Sudan's main political and developmental challenges stemming from its reliance upon oil revenues. In this context, the potentials and limitations of Norwegian assistance in oil sector management through the Oil for Development program was explored.

## 9.1 Main Challenges and Obstacles to Development

Many of the challenges in South Sudan are related to the country's oil wealth, and it has been a strong factor in the economics and politics of both Sudan and South Sudan since it was first discovered in the late 1970s. Oil played a major role during civil war, and the sharing of oil wealth has been an important issue in the peace process and post-war negotiations (Shankleman 2011). Today, major challenges in South Sudan include widespread poverty, internal political turmoil, border-clashes and disputes with neighbouring Sudan, and high reliance upon oil revenues – a declining resource. The country's weak state capacity is due to a long history of civil strife, socioeconomic neglect of the South by the government in Khartoum, and a society marked by ethnic and social divergences. Barriers to social and economic development include political incoherence, corruption, and the absence of skilled civil servants (Dagne 2011). The shutdown of oil production in 2012 had a severe effect on the country's economic performance. Due to the high reliance upon oil revenues, another shutdown of production could have serious consequences on the already vulnerable economy.

Major tasks ahead includes provision of social services, infrastructure and communication, while ensuring that social and economic development reach all parts of the country and all sections of society. These tasks not only require high government capacity, but also a high degree of political will amongst government officials.

## 9.2 The Resource Curse Theory: Validity, Relevance, and Political Feasibility

The social, economic and political challenges in South Sudan was brought into a discussion around the concept of the resource curse, which entails a broad literature that examines the relationship between natural resource wealth and economic performance, regime type, conflict,

and other developmental outcomes. The literature consists of a broad set of explanations for the curse, as well as suggestions on how to avoid the curse. The literature has also been criticized, with scholars pointing to various theoretical and methodological weaknesses, such as those related to causality. One of the key problems with some of the policy recommendations that the literature proposes is their political feasibility in countries where institutional capacity is lacking. For example, there is a chance that the Stabilization and Future Generation funds in South Sudan will not have the intended effects, because the successful implementation of such funds requires strong state institutions (Weinthal and Luong 2006). In countries with weak institutions, lack of transparency, and deep political divisions, incentives for overspending of resource revenue will persist whether or not a natural resource fund is in place (Humphreys and Sandbu 2007).

Despite the weaknesses of the resource curse literature, the theory should not be dismissed entirely. As Pegg (2006) notes: “While there is nothing inevitable about the resource curse, its established track record shows that it is a compelling force to be reckoned with” (Pegg 2006: 383). Whereas the curse can be seen as a global phenomenon, its manifestations are, according to Pegg (2005), particularly strong in sub-Saharan African oil states. “Whether it is the Angolan government’s use of oil revenues to fund its civil war efforts, oil company involvement in security and human rights abuses in Nigeria’s oil-rich Niger Delta, the role of oil in shaping the contours of Sudan’s civil war, massive corruption in Equatorial Guinea, or the appearance of resource curse-like effects in the new petro-state of São Tomé e Príncipe, the negative effects of oil in sub-Saharan Africa are widely noted” (Pegg 2005: 2). If not carefully managed, valuable natural resources can have negative development outcomes, especially in countries where government is weak. Resource wealth can add to a country’s existing problems, such as creating incentives for rent-seeking or financing a looming insurgency or weapon industry. Problems of pollution related to resource extraction are harder to combat in countries where proper systems for environmental regulation and monitoring are absent.

Although oil is far from the only explanation to South Sudan’s problems, there are several indicators that the country risks being affected by a resource curse, at least in some areas. These include the risks of corruption, authoritarianism, Dutch disease and a volatile global oil market. It is difficult to predict to what extent oil windfalls will have negative effects on the South Sudanese economy. The country’s high reliance upon oil revenues increases the risk of negative economic outcomes. Furthermore, the relationship between oil dependency and poor economic performance works both ways. A long-term effect of Dutch disease might be a reinforcement

of the country's dependency upon its oil. In terms of political consequences caused by resource dependency, South Sudan risks ending up in the same situation as other resource dependent African countries, as described in the study by Jensen and Wantchekon (2004). Nigeria, Libya, Cameroon, Gabon, Algeria and the former Zaire are examples of countries that struggled to consolidate democracy due to political oppression and regional and ethnic conflict linked to competition over natural resource rents.

In the discussion of connections between natural resource wealth and conflict, one of the topics of debate is whether conflict arises because of motivations based on greed, or because of local grievances related to unjust distribution of wealth. According to Le Billion (2001), "The transformation of nature into tradable commodities is a deeply political process; involving the definition of property rights, the organisation of labour, and the allocation of profits. Access to the commodity value chain is often closely linked to social identities, articulating in particular entitlements and horizontal inequalities along ethnicity, class, or religion with the political economy of a resource" (Le Billion 2001: 568). In South Sudan, where political incoherency and clientelist politics are linked to ethnic tensions, there is the risk that ethnic favouritism gets in the way of policy solutions that benefit the population as a whole (Kvelland 2013). In this setting, the type of conflict that is most likely to occur is social struggle rising from local grievances over the distribution of oil wealth.

### 9.3 Prospects for Oil for Development in South Sudan

South Sudan is in a very different position than Norway was at the onset of oil developments. Yet, despite the contextual differences, there are areas in which South Sudan can learn from the Norwegian experience. Important areas include strong government ownership and accountability, systems of monitoring and public oversight of the oil sector, and sound economic policy that emphasize on keeping spending levels stable and saving budget surpluses. Among important contributions is the establishment of legislation that ensures that oil developments take place according to HSE standards and international best practice. OfD capacity building efforts through cooperation with consultancy companies and organizations such as Pöyry, Petrad and IMF are important in terms of preparing the South Sudanese authorities in managing the country's oil in a way that generate development and wealth. Ensuring that individuals working in oil revenue administration and management acquire the necessary knowledge and skills is essential for the further development of the country.

As emphasized by Kvarsvik, when it comes to combatting the resource curse, much can be done through the establishment of a proper fiscal regime and a good economic policy<sup>65</sup> (Kvarsvik 2013). Economic prognoses and tracking of revenues are important tools in budgetary planning, as they help maintain economic stability and predictability. Getting in place a proper fiscal regime helps the state obtain a fair share of the oil wealth. PSAs are often the preferred system in countries lacking in expertise or capital to develop their industries, and that wish to attract international companies to do so. Although these agreements can be very profitable for the companies involved, they often involve significant risk. PSAs are desirable to developing states, as more of the price risk is covered by the companies rather than the government.

There have been some advances in terms of public oversight of the South Sudanese oil industry, the preparation of a quarterly report on oil payments being one important step. Implementation of the EITI-standard is currently under consideration. If properly followed through, these implementations could help establish a higher degree of transparency in the country's oil sector.

In order to illustrate some of the limitations and challenges of the OfD program in South Sudan, a development project in Chad was used as a case of comparison. The World Bank funded Chad-Cameroon Pipeline Project was in its early stages presented as a new model for oil-led poverty reduction (Michell 2010, Gary and Karl 2003). One of the reasons why the project failed to bring about the intended poverty reduction achievements was because the physical pipeline construction, and the inflow of revenues to the government, began before sufficient institutional capacity was in place (Michell 2010, Gary and Karl 2003). In South Sudan, there is an urgent need for spending in priority areas such as health care, infrastructure and education. Oil production should however not surpass the establishment of essential government capacity. Oil extraction and investment should take place in a moderate pace to ensure that the oil sector does not grow at the expense of other economic sectors.

The World Bank has been unable to prevent the Chadian government from diverting revenues from priority areas to other areas such as security and territorial administration (Michell 2010, Weinthal and Luong 2006). Kolstad and Wiig (2009b) maintain that capacity building interventions of international donors are likely to increase the power of officials within natural resource bureaucracies that are “created and directed by patrimonial governments” (Kolstad and Wiig 2009b: 5322). If aid money goes into a state that is marked by patronage structures, the assets that were supposed to strengthen the state might end up strengthening the patronage

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<sup>65</sup> Interview footnote 4, page 26.

system instead. Solli (2011) notes that the OfD program represents the ideological consensus that good governance embodies everything ‘good’ with development – such as human rights, democracy and poverty reduction – and that it can be seen independently from politics and ideology (Solli 2011). Yet, working towards corrupt governments requires judgments at many levels. For example, how is the program planning to interact with the South Sudanese authorities if corruption persists, or even worsens? Will OfD assistance and funding to the government continue at any cost?

One of the arguments of this thesis has been that capacity building within South Sudan’s oil ministries does not necessarily have trickle-down effects on the wider society in terms of poverty reduction. Whereas the OfD program has a rather technical approach to state building, the fundamental obstacles to poverty reduction are largely political, and must be solved politically. One of the challenges is corruption and ethnic prejudice within the state apparatus. The fact that the program has no influence on how South Sudan uses its oil revenues constitutes one of the main weaknesses of the program. Lunde (2013) agrees with the observation that the program does not necessarily improve democracy and living conditions of poor people immediately, or maybe not even in the long term. “I think the ambitions and goal structures of Oil for Development have expanded a bit too much, because it is totally unrealistic to fulfil these ambitions. [...] If you compare with other development cooperation priorities, the actual funding that goes through Oil for Development is very small”. He maintains that the program is not without flaws, but that it is important to judge it on its own merits rather than unrealistic expectations<sup>66</sup> (Lunde 2013).

The challenges that Norad and other international donors face in South Sudan are profound. Addressing underlying political problems requires long-term commitment and determination. With Norway’s long-time experience with oil sector management, Oil for Development should continue its assistance within South Sudanese oil ministries. Whereas there might be limited scope of action in the current situation in the country, the program has the potential to be a positive force that help counteract some of the adverse effects related to oil abundance.

#### 9.4 Towards a Peace Dividend in South Sudan?

Despite the many difficulties that have persisted in South Sudan since it broke away as an independent state, there are areas in which things have been moving in the right direction.

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<sup>66</sup> Interview footnote 21, page 65.

According to Norad, the country's relationship with Sudan has improved, infrastructure and central trade routes have expanded, economic development and establishment of new businesses are happening in the bigger cities, and agricultural production has increased (Norad 2014b). When oil production was interrupted from January 2012 to April 2013, the country managed to get through the crisis much better than anyone had expected. This illustrates a certain robustness in the country's state structures<sup>67</sup> (Corneliusson 2013).

There are however major challenges that remain, the political turmoil in the country being one of the most pressing issues. In relation to the recent violence, suspicion has been raised about the involvement of Sudan. South Sudan's military spokesman has claimed that forces of Machar have received arms and assistance from militias funded by the Khartoum government. Furthermore, South Sudanese analysts question Kiir and Machar's control over local commanders on the ground, which further undermines a lasting ceasefire (Davison 2014). The UN reports about gross human rights violations, where civilians are being targeted and killed along ethnic lines. Forces from both sides of the conflict are involved in atrocities, which includes mass killings, torture, rape and enforced disappearances (UN 2014a). According to The Guardian, the country is now under the threat of a 'double disaster' of famine and genocide. It reports that an estimated 3, 7 million people are currently facing hunger at severe levels, while more than a million people have been forced to leave their homes (Lustig 2014).

Finding long-term solutions for South Sudan's many political and social challenges requires thorough comprehension of the country's history. The church communities historically have a strong position in the South Sudanese society. The churches reach the smallest villages, have great legitimacy in the population, and are respected by the authorities<sup>68</sup> (Corneliusson 2013). The role that these communities played during the civil wars has led to their current position and influence, which offers great potential in terms of long-term socio-economic development and peace. Norad and other international players should direct their efforts towards helping the church communities and other civil society groups establish an arena in which they can operate freely, and where they can work as a counter-balance to politics that are founded on clientelist arrangement and ethnic favouritism.

Working towards a peace dividend goes beyond efforts to confront the resource curse. It necessitates gathered efforts to neutralize internal political relations and improve the country's

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<sup>67</sup> Interview footnote 8, page 32.

<sup>68</sup> Interview footnote 8, page 32.

security situation. It requires pressure from international actors on South Sudanese authorities so that oil revenues are channelled into food production, education, hospitals and other basic social services. The focus should be on building a safe and socially just society, where human rights are respected, and where systems for compensating oil- and war affected local communities are in place. In relation to the environmental hazards associated with resource extraction, the government must ensure protection of local communities and the ecosystems in which they live. Finally, a long-term goal is to initiate an inclusive political process, where a broad section of the society is participating in the tasks of nation-building. With a long-term commitment of national authorities and international donors to address the country's underlying problems and challenges, then hopefully, in the future, the country's oil wealth will become a source of prosperity and growth, and not of grievances and war.

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## Appendix 1: List of Acronyms

CNCP	China National Petroleum Corporation
CPA	Comprehensive Peace Agreement
ECOS	European Coalition on Oil in Sudan
EIA	Energy Information Administration
EITI	Extractive Industries Transparency Initiative
FAO/WFP	Food and Agriculture Organization/World Food Programme
GDP	Gross Domestic Product
GNPOC	Greater Nile Petroleum Operating Company
GOS	Government of Sudan
GOSS	Government of the Republic of South Sudan
HSE	Health, Security and Environment
ICG	International Crisis Group
IMF	International Monetary Fund
IRIN	Integrated Regional Information Networks
LDC	Least Developed Country
MFA	Ministry of Foreign Affairs
MoE	Ministry of Environment
MoFCIEP	Ministry of Finance, Commerce, Investment and Economic Planning
MPE	Ministry of Petroleum and Energy
MPMI	Ministry of Petroleum, Mining and Industry
NCA	Norwegian Church Aid
NGO	Non-Governmental Organization
NOK	Norwegian Krone
Norad	Norwegian Agency for Development Cooperation
NPA	Norwegian People's Aid
NPD	Norwegian Petroleum Directorate
NUPI	Norwegian Institute of International Affairs
OfD	Oil for Development
ONGC	Oil and Natural Gas Corporation Limited
PSA	Production Sharing Agreement
SAF	Sudanese Armed Forces
SPLA	Sudan People's Liberation Army
SPLM	Sudan People's Liberation Movement
SPLM/A	Sudan People's Liberation Movement/Army
UN	United Nations
UNSC	United Nations Security Council

## **Appendix 2: List of Figures**

Figure 1: Oil for Development Program Elements

Map 1: States of South Sudan

Map 2: Sudan and South Sudan Oil Fields, Pipelines and Refineries

Map 3: Sudan and South Sudan Oil Blocks

## Appendix 3: Interview Guides

### *Interview guide 1-3: interviews with people in Norad*

#### *Interview guide 1*

1. First I have a few questions about the Oil for Development program in general.

- a) How is the program organized?
- b) What is Norad's main role in the program?
- c) Where does the program get its funding?

2. I would like to focus on South Sudan.

- a) When was the Oil for Development Program initiated in South Sudan?
- b) What was the background for the initiation of the program in South Sudan?
- c) How much funding has been given to South Sudan in total through the program?
- d) What are the main objectives of OfD in South Sudan?
- e) What are the concrete strategies of OfD in South Sudan?
- f) Have any evaluations been carried out for the OfD in South Sudan?
- g) In context of other major international interests and players, to what extent is Norway able to influence South Sudan's oil policies?

3. Now I would like to focus on how South Sudan can learn from the Norwegian experience in managing its petroleum sector. In order to avoid the so-called "resource curse" apparent in many resource rich countries, Oil for Development seeks to contribute to good governance in partner countries.

- a) What is the Norwegian experience?
- b) In what ways can South Sudan learn from Norwegian experience in managing its oil resources?
- c) The Resource curse is associated with the idea that oil might lead to slow econ. growth, rent-seeking, corruption, rebellion, civil war and authoritarianism. What is Norad's understanding of the resource curse? Is South Sudan in danger of getting into a situation of a curse?
- d) What is Norad's understanding of "good governance"? In what ways is Norad contributing to good governance in South Sudan (in order to avoid resource curse)?
- e) Democracy and poverty reduction are stated as important components of the OfD programme. What is being done in South Sudan?
- f) Has NORAD's experience in countries such as Angola and Nigeria helped shape the OfD policies and strategies in South Sudan?
- g) What has been NORAD's experience in South Sudan so far? Is the program working?
- h) What motives does Norway/NORAD have for operating with the OfD in South Sudan? Does Norway have particular interests or stakes in the country? (Such as economic gain or political influence beyond the program?)
- i) What do you think will be the main obstacles and challenges of OfD in South Sudan?

## *Interview guide 2*

1. As a newly established state, and a developing country with significant oil resources, South Sudan faces many political challenges. These include unsolved issues with Sudan regarding territories, border-demarcation and oil deals. Internal problems include corruption, political instabilities, ethnic conflict and extensive poverty.
  - a. Which of these issues would you say are most pressing in the current situation in South Sudan?
  - b. How does the government meet the challenges; which strategies are in place?
2. My thesis deals with the so-called resource curse, which is often associated with countries with high oil dependency. In South Sudan, oil incomes amount to 98 percent of state budget.
  - a. Do you think the South Sudanese state is ready to handle the oil incomes at hand?
  - b. How pervasive is corruption and patronage structures in South Sudan?
  - c. Transparency and accountability regarding oil incomes and expenses are important in order to fight corruption and patronage. Are necessary institutions (such as EITI, NGOs, independent media and an active civil society) in place?
  - d. One of the biggest challenges related to oil incomes is that wealth is being channelled to power-holders, or to foreign companies. What measures can be taken so that wealth is distributed equally across the society?
  - e. According to the resource curse theory, the possibility to grab some of the oil wealth leads to increased risk of conflict in the form of secession or coup. How big is the risk of such conflict in South Sudan?
3. The resource curse literature argues that the resource curse often originates in the fact that the state has access to significant oil wealth, and is thus released from the task of taxing. This leads to a weak state, with low legitimacy in the population.
  - a. Er dette tilfellet i Sør-Sudan? Hvilket skattesystem har de? Is this the case in South Sudan? what kind of tax system do they have?
  - b. Is the South Sudanese state authoritarian?
4. Oil dependent countries are said to be exposed to Dutch disease if they do not succeed in diversifying their economies.
  - a. Will this be a problem in South Sudan?
  - b. It is expected that oil discoveries will decline in the near future in South Sudan. How can the country reduce its oil dependency? What other economic sectors have the potential to develop?
5. How can South Sudan learn from other oil rich countries, such as Angola and Nigeria?
6. How can South Sudan learn from the Norwegian experience with oil development?

### *Interview guide 3*

1. I am interested to know about some of the concrete program-elements and activities in the OfD program in South Sudan.
  - a. What are the concrete strategies under the various program-elements?
  - b. What has been accomplished so far?
  - c. What have been the greatest challenges so far?
  
2. I have a few questions regarding the planned ‘petroleum revenue management’ agreement for South Sudan.
  - a. What is the status for this agreement?
  - b. What objectives and strategies would such an agreement involve?
  - c. When will the Revenue Petroleum Management Bill be enacted, and what are the most important provisions of the Act?
  - d. The Act gives provisions regarding the establishment of two saving funds. Could you say something about these funds?
  - e. How will Norad ensure that the South Sudanese government and the oil industry follow through with the petroleum-related legislation?
  
3. I am interested to know your opinion about OfD’s potential to help South Sudan avoid situations related to the resource curse.
  - a. ? In what ways does OfD assist the South Sudanese government in macro-economic planning?
  - b. Does OfD have any strategies to help South Sudan cushion against price shocks and market volatilities?
  - c. Does OfD contribute to assist the country in investing in other sectors of the economy (in order to decrease oil dependency)?
  - d. Openness regarding oil- related incomes and expenses is important in order to avoid corruption and patronage. What is OfD’s potential to help South Sudan in this area?
  - e. In which ways can OfD help the South Sudanese state secure a fair share of oil incomes vis-à-vis oil companies, while ensuring that incomes are directed at socio-economic development?
  
4. According to the resource curse theory, oil wealth leads to increased risk of conflict and authoritarianism.
  - a. Can the strategies and activities in the OfD program contribute to establish democracy and peace in South Sudan?
  - b. What are OfD’s strategies for including civil society in South Sudan?

### *Interview guide 4: interview with Senior Advisor at EITI*

1. Could you start by telling me a little bit about yourself; your professional background and your position in EITI?
  
2. Could you tell me a little bit about the current situation in South Sudan and its oil sector? Is there a lot of corruption going on?

3. I see from your web-pages that P. Salva Kiir has committed to implementing the EITI standard that is to ensure that payments from oil and mining operations are published in an annual EITI report. Has any such report been published?
4. What is EITI's current involvement in South Sudan? Any formal agreement in sight?

*Interview guide 5: interview with consultant in Pöyry*

1. Could you tell me a bit about what your work in South Sudan involves?
2. What is the purpose of Oil Advisor Accounts?
3. Could you explain the HEAT-model, and how this has been used in South Sudan?
4. Could you tell me about the 'revenue tracking tool'; what does it involve?
5. Do you coordinate your activities with IMF?
6. Could you say something about the results of your work in South Sudan? What has been accomplished so far?
7. What is the status of the Petroleum Revenue Management law?
8. What agreements regarding oil-related fees are in place with Sudan?
9. What type of fiscal regime is there in South Sudan?
10. Do they have a system for taxing the population?

*Interview guide 6: interview with PhD student*

1. At first, I would like to discuss the concept of "the Norwegian experience". As you explain in your article, a popular perception in the OfD programme is that development countries are to learn from "the Norwegian experience" with developing a successful oil sector, where the state is in control of a national oil industry, and where oil revenues are used to finance the welfare state. How can a country like South Sudan learn from the Norwegian experience, do you think?
2. The next thing I would like to discuss is the concept of Good Governance. To counter the so-called resource curse evident in many oil rich developing countries, Oil for Development aims at contributing to good governance. According to your article, The Oil for Development programme represents the international consensus that good governance embodies everything 'good' with development – such as human rights, democracy and poverty reduction – and depicts aid as a straight-forward expert issue that can be seen independently from politics and ideology
  - a. What consequences does the application of good governance in OfD's program statement have for its policies and strategies in recipient countries?

- b. Democracy and poverty reduction are stated as important components of the OfD programme, where the democracy category of good governance is understood as capacity building, transparency, and anti-corruption. According to your article, improved capacity in the oil ministries is expected to have a ‘trickle down’-effect on the wider good for the society, in terms of poverty reduction and democracy. Sound management of oil resources is a question of political will rather than ability, and formal state structures are likely to be trumped by informal power structures such as patronage systems. Is the technical capacity building approach likely to have any affect in terms of poverty reduction and democracy?
  - c. Due to the weak institutional capacity and lack of state legitimacy in South Sudan, there has been the expansion of a patronage network in the state structure to compensate for the lack of public service delivery such as education, water, and electricity. In state budget, these services have been under-prioritized compared to security and military expenses. Do you think Norad will be able to influence on democratisation processes and poverty-issues in South Sudan?
3. A quote from your article: “If poverty reduction and democracy indeed are to be the main aim, it is not a given that African oil ministries are the right place to begin, even if the oil curse thesis is accepted.” And further “There is a long way from training reformists in the oil ministry to poverty reduction in rural areas”.
    - a. Could a stronger focus on civil society in the OfD programme be beneficial in terms of democracy and poverty reduction? How?
    - b. How can civil society be represented in South Sudan with the help of the OfD programme?
  4. How can OfD assist South Sudan to avoid becoming too dependent on its oil resources?

*Interview guide 7: interview with Director at Fridtjof Nansen Institute*

1. First, I have a few questions about the Oil for Development program in general.
  - a. What is your experience with the Oil for Development program?
  - b. There has been some criticism directed towards the OfD Program, including the claim that it has a very technical focus; including capacity building of state institutions, anti-corruption and strengthening of rule of law, and that these efforts have little effect on

democracy and poverty reduction in recipient countries. What is your opinion about this criticism?

2. I would now like to focus on the Oil for Development initiative in South Sudan. The program's aim is to assist vulnerable societies in avoiding the "resource curse" by helping set up credible regimes for managing its oil resources (that is *good governance*) and to transfer the Norwegian experience with petroleum management in a way that contribute to poverty reduction, and also that the extraction of resources is done in an environmentally friendly way.

- a. What do you know about the activities of the Oil for Development program in South Sudan?
- b. How would you describe the "Norwegian experience" with oil sector management?
- c. In what ways can South Sudan learn from the Norwegian experience in managing its oil resources?
- d. The Resource curse is associated with the idea that oil might lead to slow economic growth, rent-seeking, corruption, civil war and authoritarian rule. Do you think Norad, through the OfD, is able to help the country avoid the negative effects associated with the resource curse?
- e. Oil revenues account for 98 % of South Sudan's state budget, which means that the country is highly dependent on its oil resources. Do you think OfD should give advice on how South Sudan can avoid relying too heavily on its oil sector, for example through diversifying its economy?

*Interview guide 8: Interview with Senior Advisor at the Norwegian Ministry of Foreign Affairs*

1. I am interested to discuss the current situation in South Sudan; regarding the political instabilities, the ceasefire, and what prospects the country has according to your opinion.
  - a. Could you start by telling me a little bit about the current situation, as well as the background for the unrest?
  - b. What does the internal conflict in SPLM consist of?
  - c. What role does Sudan have in the current conflict?
  - d. What is the humanitarian situation like?
2. I am interested to hear your opinion regarding the OfD program.
  - a. In light of the political unrest and unstable security situation, what do you think is the potential of OfD in the country?
3. How do you see the prospects in South Sudan, in terms of the internal political situation and the relationship with neighbouring Sudan?





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