

Are They Predisposed to the Resources Curse? Oil in Somalia

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ABSTRACT: In many developing countries, natural resources such as oil and gas have had negative impact on economic development. There is a myriad of literature on “the resource curse” which shows an austere relationship: countries endowed with huge deposits of oil and gas usually experience lower economic growth than countries that do not have these resources. As a modern ‘frontier region’ Somalia is one of the most promising countries blessed with oil and gas in the Eastern part of Africa. However, it is faced with political upheavals, weak state structures, physical insecurity, and property rights full of ambiguities; this makes it a challenge to exploit the country of its hydrocarbons. In addition to the present tense conditions within the region, the question that lingers, is whether or not Somalia is set to struggle with the common effect of the ‘resource curse’ and paradox of plenty disorder? Somalia was selected because it provides an ideal laboratory to ascertain if she is predisposed to the ‘resources curse’ disease. To this end, the study examines and also outlines the primary themes that guide the work using the case of Somalia as an addition to the body of empirical knowledge. The study recommends that new governance structures should be built, existing ones should be built, local content and local participation should be enhanced and the security and judicial agencies should be supported.

Keywords: Somalia; Resource Curse; Resource Rents; Oil; Governance.

JEL Classifications: L71; L72; O13

1. Introduction

Africa may well witness a sustained growth in the second decade of the 21st century particularly post-2015. As highlighted in a publication by The Economist “Emerging Africa: A Hopeful Continent” this special report epitomises growth in the most emerging market on the continent of Africa (The Economist, 2013). However, this may not be achievable unless there is significant improvement on the control of natural resources within the African continent and globally (Billal, 2013). Years after Mkandawire (2001) initially emphasised the importance of natural resources governance, most agencies on the continent – the United Nations Economic Commission for Africa, African Development Bank, African Union and the United Nations Development Programme – are still in support for the implementation of policies that is geared towards “developmental states” and are vigorously involved in structural economic transformation (Singh and Bourgoignie, 2013). In this light, there is the need for Africa as a continent to strategically adopt and initiate policies to enable it to become what it ought to be in relation to economic growth and development. In saying this, there are a few challenges that seem to hinder most African countries in their quest to transform their economies; one of these huge challenge is what is known as the ‘resource curse’ disease, hence the need for a research such as this.

Constituting about one third of the world’s energy consumption, oil and gas is one of the world’s most strategic natural resources in international economy and politics (British Petroleum, 2012). The demand for oil and gas has increased globally in recent years; analyses show that this will continue to get stronger as time progresses. However, there are concerns as global insufficiency for oil

and gas is on the rise. This is as a result of dwindling oil reserves coupled with the increasing demand by industries and developing economies, as well as global population growth. There are also fears over interruptions from unstable supply bases in the Middle East and increasing oil prices that peaked to \$145 (USD) per barrel in 2008. Against this background, there is an ever increasing need for oil companies to venture into 'frontier regions'; one of these frontier regions is East Africa, which is currently experiencing a resource boom.

Tullow Oil, a UK based firm, has found oil in commercial quantities in the north-western Turkana region of Kenya; whereas BG Group, another UK based business, has also stated that it has discovered a colossal amount of natural gas in Tanzania. In addition to the gas fields off the coast of Mozambique, the latter add up to an estimated 100 trillion cubic feet of gas. According to Shepherd (2013) Uganda has also recorded the discovery of a sizeable amount of oil and gas fields, this has contributed to a 'black gold rush' in the region. This development has shown a sharp rise in Africa's proven oil and gas reserves by more than 170 percent. So, although oil and gas exploration and production in East Africa may be in its infant stage, there are indications that seems to suggest that approximately 600 oil wells have been drilled hence a new era is emerging; Abiikar (2012) further postulates that about 10 per cent of all wells have been drilled in Somalia alone.

Though exploration in this new and, in many respects, most extreme hydrocarbon frontier region remains in the infantile stages. Estimates put Somalia's oil reserves as high as 110 billion barrels, placing it at eye-level with Kuwait (Balthasar, 2014). Furthermore, it has also been projected that Somalia's offshore region holds huge reserves of natural gas fields. In their quest to join the race for hydrocarbon production, the Federal Government of Somalia (FGS) declared in 2012 that it would be selling some of its 308 newly demarcated oil blocks throughout the course of 2013.

This announcement was received with pleasure, thereby indicating signs of an improved political and security condition throughout 2012, which gives oil producers hope. Somalia's oil and gas endowment has become attractive due to its promising huge profit margins.

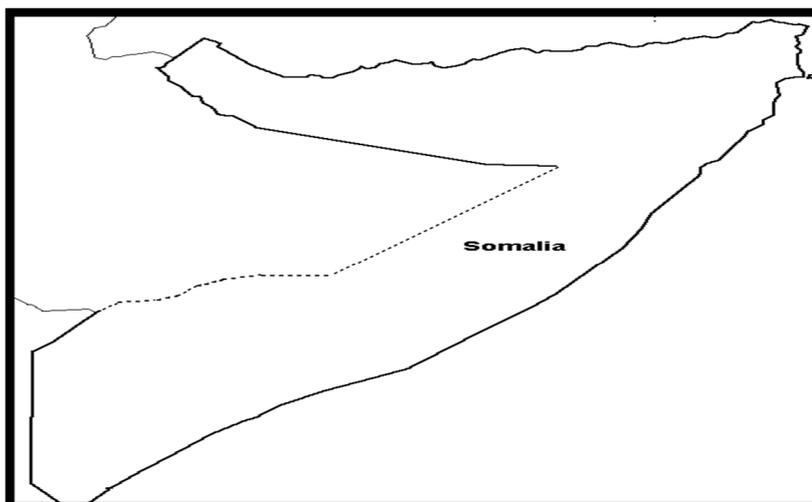
An essential question for its development is whether Somalia's economy will significantly and sustainably be stabilized with regards to its security, political, and legal landscape in the short and medium term so as to permit for commercial oil production. Though, Somalia's future trajectory is anything but independent of prospects for oil exploitation, an equally pertinent question is how far the development of its oil and gas sector will pose as a challenge to the aspirations of becoming a buoyant economy and a state. Simply, the question that emerges is whether Somalia's oil and gas resources will become a blessing or curse. This arises in the light of the fact that looking at the current situation there is the need for Somalia to ensure that it is not caught up in the 'resource curse disease'.

2. The Study Location

Somalia forms the horn of the region known as the Horn of Africa. It covers an area of almost 640,000 square kilometres and has 2,340 kilometres of borders and coastline, sharing borders with Djibouti, Ethiopia and Kenya. Somalia holds a strategic position in the region with coastlines along both the Red Sea and the Indian Ocean (Woulhuter, 2014). It has a population of nearly 9.3 million but with life expectancy at 51 years, an infant mortality rate of 108 per 1000, live births coupled with 33 per cent of children under five suffering malnutrition, it is one the poorest countries in the world (World Bank, 2012). Figure 1 shows a map of Somali.

Oil exploration in Somalia can be traced back several years. In the era of colonialism, British and Italian geologists found oil seeps in the region. In the 1950s, Agip (now Eni), an Italian based oil and gas company, and Sinclair Oil Corporation, an American based oil and gas business, began a research into Somalia's petroleum geology. In the 1980s, there was another major exploration by Conoco Phillips, Shell (Pecten), Eni Amoco, Total and Texaco (ibid). This dream was short lived because, when Mohammed Siyad's government was deposed in 1991, a civil war ensued which consequently led to an abrupt end to hydrocarbon exploitation by the various companies in the country. Eventually, there was no hope for embarking on oil production in Somalia. Irrespective of this major challenge, in 2012 the idea of exploring and producing its oil is back on the agenda.

Figure 1. Map of Somalia



One of the main reasons for this new development stems from the fact that Somalia's oil and gas geology is promising. A geological survey on the country's petroleum confirms that it bears significant similarities to that of Yemen, which has approximately 9 billion proven oil reserves. Petroleum geologists suggest that both South Yemeni Marib-Shabwa and Sayun-Masila basins are linked with the Nogal and Darhoor blocks in northern Somalia. Figure 2 and 3 (Balthasar, 2014) are comparative analysis signifying similarities in proven oil reserves in South Yemeni Marib-Shabwa and Sayun-Masila and the Nogal and Darhoor proven oil reserves in Somalia. Figure 2 pictorial view of Somalia's oil blocks in Nogal and Darhoor.

Figure 2. Pictorial view of Somalia's oil blocks in Nogal and Darhoor

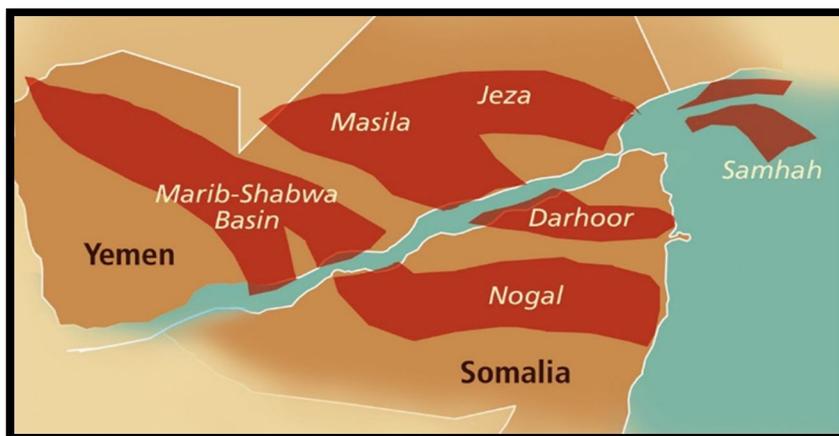
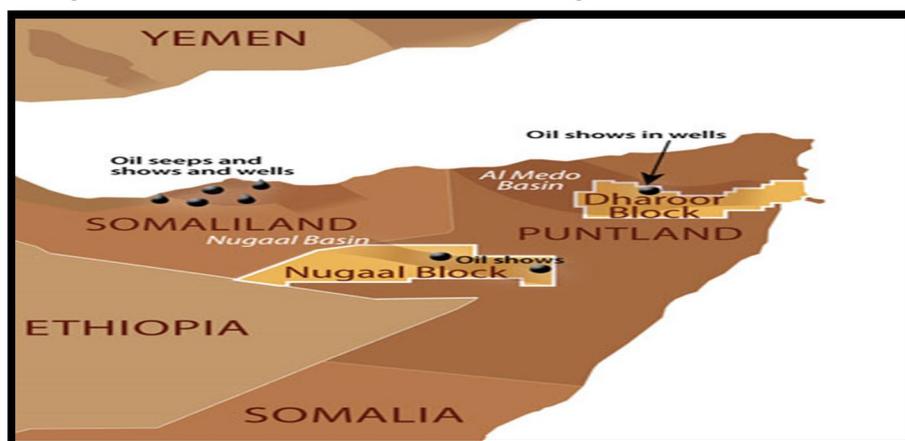


Figure 3. Shows Somalia's oil basins in Nogal and Darhoor



A study, led by the World Bank and the United Nations Development Programme (UNDP) in 1991, established such constructive assessments. In its conclusion, it was indicated that, of all the countries bordered around the Red Sea and Gulf of Aden, Somalia stood out as being the country with a very good future when it comes to hydrocarbon prospects in the region, second only to Sudan.

As discussed above, it is clear that Somalia is vastly endowed with natural resources and is determined to venture into maximising her oil and gas resources. However, the idea of the “resource curse” – that an abundance of natural resources, although favorable in the short run, holds back a country’s development in the longer run still lingers in the minds of many. To this end, the question still remains, is Somalia susceptible to the ‘resource curse’? Will this new development of hydrocarbon exploitation lead to economic boom or will it become a catalyst in promoting mayhem and poverty an already failed State?

3. The Somali Economy and the Resource Curse

On a whole, Somalia’s economy is mainly driven by agriculture, livestock production, money transfers, forestry and telecommunication. Piracy and other forms of organised crime can also be added as these activities are rife in Somalia and to some extent generate money into the economy. Njoku (2013) asserts that agriculture, livestock, forestry and fisheries are the main contributors to Somalia’s gross domestic product (GDP). Agriculture is the backbone of the economy it accounts for nearly 60% of GDP and employs at least 65% of the workforce. Also farm products such as maize, cotton, sorghum and bananas generate adequate supplies that help to sustain its domestic informal markets; most of Somalia’s farm products and frankincense are exported in order to balance its much-needed foreign income that is normally acquired from livestock export.

Again one of the major sectors that enhances the economy of Somalia is livestock. In the 1980s, Somalia exported approximately one million cattle annually as surplus, this mostly included goats and sheep. This sector accounts for about 40% of GDP and more than 50% in export earnings. Regrettably, in the past two decades Somalia has lost this source of income due to inexorable hostilities coupled with famine and drought. Nonetheless, Somalia’s fishery sector and forestry sector, which produces frankincense and myrrh, have both shown modest growth in the economy; these sectors also bring additional foreign earnings.

It is important to note that Somalia’s agriculture sector sustains the manufacturing sector which once contributed for 5% of GDP (Njoku, 2013). The manufacturing sector comprises of the processing of sugar, milk and skins; this sector has not performed as well as expected and since the 1990s and has practically ceased to play any important role in the economy.

Incontrovertibly, Somalia is gifted with natural resources such as copper, uranium, iron ore, bauxite, quartz, salt, gold, oil and natural gas. Most of these resources that can be found in Somalia have not been utilised due to the civil war that has engulfed the country for decades. Nevertheless in 2013, the government started ensuring that pragmatic steps are taken in establishing good policies that will set the tone for development of its natural resources especially its oil and gas sector. However, as highlighted in many literatures, countries that are gifted with natural resources have not performed well, hence the next segment will specifically focus on Somalia and the phenomenon.

Resource Curse (Auty, 1993 Gelb 1988,) also known as the ‘paradox of plenty is the economic growth and development path associated with nations endowed with huge natural resource but are poorer than countries short of such wealth. An array of academic work indicate that countries which gain a high amount of proceeds from rents, rather than broad-based taxation of its electorates, suffer from a negative correlation between natural resources and economic development (Auty, 2004; Humphreys, Sachs and Stiglitz 2007; Beland and Tiagi, 2009). The fundamental underlying catalyst that is assumed to drive this effect is embedded in the phenomenon known as ‘Dutch Disease’ (Economist, 1977). Primarily, a substantial influx of unearned resources leads to an overvaluation of currencies which in turn leads to the appreciation of real exchange rates.

This paves the way for an increase in salaries across the economy, higher production costs and subsequently a drop in competitiveness of the respective country’s productive economic sectors. This has a particularly negative effect on tradable sectors such as agriculture and manufacturing (Sachs and Warner, 2001; Gylfason, 2000; Brazilian et al., 2013). Accordingly, the economic structure is then dominated by an enclave industry, a thriving resource based sector, whereas other industries shrink (Bebbington et al., 2008; Ross, 2001).

Furthermore Auty (1993) is of the opinion that an economy completely reliant on exports of its natural resources usually exposes itself to shocks triggered by price volatility and to a series of booms and downturns in economic growth, due to the inflexibility and slow adaptability of natural resources to the common changes in the market. This is even more noticeable among economies in transition which have cumulative debt during an economic boom because of deficit-spending, and depends on international loans as soon as prices fall; this exasperates the boom-bust recurring nature of resource-exporting economies (Auty, 1993).

Against this backdrop, since Somalia's economy mainly depends on the export of livestock and agricultural products as well as other trade-based sectors, the 'Dutch disease' poses as a threat for its development. Taking into account the core economic dynamics of the resource curse, it would be noted that it is not the abundance of natural resources per se, but rather the rents it produces which causes the effects of economic distortion (Kolstad and Wiig, 2008).

It can be debated that it is not even the rents in itself, but its mismanagement can lead to resources becoming a curse instead of a blessing. This is to just to establish the fact that the 'paradox of plenty' is not predetermined, neither is it an inevitable destiny. However, there is the need for substantial room for human agency both in catalysing and correcting its effects (Humphreys et al., 2010; Roll and Sperling, 2011).

So, rule of law coupled with a good system of governance, plays a big role in resolving the resource curse. Nevertheless, the question still remains whether Somalia's management team have the required skills needed to be able to avert any challenges it is faced with.

4. Politics in Somalia and the Resource Curse

Apart from having a negative effect on the economy, it has also been chronicled that the resource curse also affects a country's political landscape. This stems from the fact that governing elites detach themselves from the entire population due to profits gained from oil and gas proceeds. This, in many cases leads to a state-society disjointedness which in turn makes politicians more powerful to the extent that they do not see the need to be accountable to their citizens. As mentioned earlier, the substantial inflow of excessive resources gives the ruling class an edge to use proceeds accrued from the abundant oil capital at their disposal to strengthen the security apparatus which is normally used to victimise opposition political parties, by doing so authoritarianism is promoted. The unearthing of hydrocarbons in resources rich countries poses a major challenge to the democratic system of governance (Karl, 1997; Chaundry, 1997; Vandwell, 1998).

While Somalia's state institutions are weak, it also lacks effective checks and balances, as well as having a democratic structure which is in its embryonic stage; in view of this the exploration and production of its oil and gas resources has the proclivity to spoil its politics. With corruption being rife, a transparent and unbiased management of the lucrative oil and gas sector will pose as a challenge to Somalia's institutions. Again the absence of transparency and good governance are also likely to foster corruption and social divisions, which can become key drivers for (renewed) conflict (Karl, 1998, 2000, 2005; De Soysa, 2000; Silberfein, 2004; Roll and Sperling, 2011; Ross, 2012).

5. Are They Susceptible to the Resource Curse?

Creating a formidable and productive economic sector is not only fundamental to any specific state-making scheme, but then a key tool in counteracting the economic threats linked with the resource curse. Wide-ranging literature on the paradox of plenty indicates that resource rich nations must establish a productive economy in order to sustain economic consistency and balance. To achieve the latter, it is usually recommended that investments accumulated from oil revenues must be channelled towards the build-up of a country's productive capacity of non-oil industries (African Development Bank, 2008). The Hartwick (1977) model, further shows that economic stability can only be achieved if declining natural resources are recompensed by ensuring growth in non-human and/or human capital. Since Somalia's oil wealth alone is unlikely to generate a sustainable and good quality of life, the country's ability to achieve economic diversification is crucial so as to pave way for income-creating opportunities, tackle unemployment, and ensure greater resistance to unpredictable budgets caused by international price shocks in natural resources. No efforts have been made by the Somali government or the international community in regards to progress in this sense so far.

The economy of Somalia is still characterised by low levels of manufacturing and industrialisation, apart from an economy that is thriving in livestock production. As mentioned previously, (youth) unemployment is obstinately on the rise and with insufficient energy for the population. Regrettably, Somalia lacks access to electricity, a common and fundamental prerequisite, that helps attain greater economic diversification. The probability that Somalia will be able to attain the objective of economic diversification is difficult in the sense that the country does not have an oil refinery for its own oil. In the absence of a refining capacity, there are only very limited economic and technological spill-over effects that could promote growth in the rest of the economy (Bazillian et al, 2013). Somalia hardly possesses the well-trained team of technocrats and administrators necessary to counter the politically and economically detrimental effects of the paradox of plenty (Shepherd, 2013).

In addition, the country lacks clear property rights and adequate capacity to enforce a law that will unravel this; it is a portrayal of how weak Somalia's political institutions are, while concurrently featuring deep-rooted corruption. Even though views on the present course of the country's levels of corruption are unclear, Somalia is ranked as the most corrupt country in the world (Balthasar, 2014). For this reasons as well as others, it appears to be unlikely that Somalia stands a chance to successfully confront the challenge of defying the hostile economic effects generated by the resource curse. As if that is not enough, the country is faced with a myriad of additional challenges associated with the early stages of re-defining and re-constructing statehood.

6. Theoretical Framework

In the latter part of the 1980s, common knowledge regarding the connection between natural resource abundance and development was that the former was beneficial for the latter. For example in the 1950s, geographer Norton Ginsburg upheld that: 'Having in possession a substantial and diversified natural resource endowment is a major advantage to any country embarking upon a period of rapid economic growth' (Higgins 1968). Similarly, other mainstream economists expressed the same view during this era (Viner, 1952; Lewis, 1954).

Rostow (1961) opined that being gifted with natural resource would assist developing countries to make a changeover from underdevelopment to industrial 'take-off', just as countries such as Australia, the United States of America, and the United Kingdom. Similarly, neoliberal economists (Bela Balassa, 1980; Anne Krueger, 1980; Drake, 1972), proposed the same views with the former, sighting that natural resources could enable a country's 'industrial sector to develop if domestic markets and investible funds are provided'. These views were "questioned" by most economists in the late 1980s, arguing that the structure of the world's economy and the nature of global commodity markets placed developing nations that were reliant on natural resource exports at a serious disadvantage (Singer, 1950; Prebisch, 1950).

Nevertheless, these views were held by the minority, overall natural resources were seen as a catalyst that propelled developing economies down the path of change and progression. Since the late 1980s, it has been noted that, there has been an emergence of significant academic literature that has challenged this orthodox perception. Rather than a blessing, a hypothesis suggests that abundance of natural resources (or at least an abundance of particular types of natural resources) has the propensity of causing countries endowed with it to experience negative economic, political and social outcomes which includes poor economic performance, low levels of democracy, and the outbreak of civil war. This theory has enormously been persuasive: the notion that natural resources are bad for development has now been generally accepted by scholars and major international financial institutions, the World Bank and the International Monetary Fund (Bannon and Collier, 2003, Sala-i-Martin and Subramanian 2003; Davis et al. 2003; Leite and Weidmann 1999; Sarraf and Jiwanji 2001; Isham et al., 2002; Eifert et al., 2003; and Gelb, 1988) as well as by many NGOs (Oxfam, 2002; Save the Children, 2003).

7. Review of Literature

This section examines some of the existing literature on resource curse; the segment further highlights signals that indicate that a country is in the process of being affected. One would expect that wealth attained from the discovery of oil and gas would be a catalyst to prosperity, indeed sometimes this is the case. But on many occasions, it is not (Collier 2007). Available literature points to the fact that developing economies that are affluent in natural resources suffer deleterious effect on the

development and quality of its domestic institutions. Yet, other studies have suggested that some resource rich countries actually are rich, in terms of economy and in the lives of ordinary people. When oil and gas resources, instead of enriching the economy, rather push it into poverty, declining growth and other hostile economic effects, it results in a phenomenon called the “resource curse” or “paradox of plenty” (Auty, 1997). Shaxson (2007) commenting on Africa’s oil production, compares the state of affairs to *‘taking cocaine: if you are already healthy, it may invigorate you, but if you are weak or sick, as many African countries are, it can do you serious harm’*.

7.1. Resource Curse

Countries endowed with huge reserves of natural resources such as oil and gas have a great chance to improve the economic growth and living conditions of its citizenry due to large revenue linked with the exploitation of natural resources United Nations Development Programme (2006). Contrary to this statement, most countries gifted with these resources have rather recorded some abysmal performances in economic growth and poverty reduction (Humphreys, 2007). This clearly indicates that in spite of its significant potential, it is well-known that oil wealth is not a cure for conflict and underdevelopment. For example, while Botswana, Norway and Indonesia have enormously profited from their natural resources, on the contrary Venezuela, Turkmenistan, and Nigeria have shown some ghastly performance in their economy.

Sachs (1999) further posits that, Nigeria and Venezuela performed poorly in per capita GDP. In spite of the fact that she registered nearly \$800 (USD) billion as proceeds accrued from its oil resources over the past 50 years. Nigeria’s per capita income has stagnated at just \$1 (USD) per day. This begs the question, why have development indices for this and other oil-producing countries persistently remained minute compared to other developing countries without natural resource wealth?

7.2. Signal of Resource Curse

Many scholars (Nankani, 1979; Auty 1993) with the help of quantitative analysis, have shown that natural resource endowment decreases economic growth, as countries blessed with natural resources are realistically more likely to under-perform in economic terms than other countries.

7.3. Economic Inequalities and Low Standards of Living

As a common practice, resource-rich countries are normally among the poorest in the world. Ross suggests that mineral export-dependent countries have a low Human Development Index (HDI) ranking: “the more the states rely on exporting minerals, the worse their standard of living is likely to be” (Rooss, 8). Le Billon contends that Botswana, a major exporter of diamond, is a perfect example of the weak correlation between GDP growth and real standards of living in resource-dependent countries.

Botswana is mostly regarded a “success story”, because of its constant economic growth, relatively good governance, mining policies and a GDP per capita of \$6,872 (Le Billon, 2004). Nevertheless, Ross posits that it is ranked 122nd in the HDI because of enduring socio-economic inequality: about 60% of its citizenry lives on less than \$2 (USD) a day (Ross, 2001). Furthermore Bond (2006) stipulates that such inequality is caused by the fusion of economies in transition into the global capitalist system, as the main beneficiaries of mineral exports are primarily “import/export firms, transport/shipping companies, plantations and large-scale commercial farmers, the mining sector, investors, consumers of imported goods, and politicians and bureaucrats who are tapped into the commercial/financial circuits”.

7.4. Corruption and Rent-Looting

Rosser (2006) opines that wealth emanating from resource rents offers cogent political leaders with the opportunity to “line their own pockets by engaging in rent-seeking”. Ross (2001) is of the view that whenever an economy becomes buoyant, governments often receive windfalls of resource rents and hence become more susceptible to seizing rents directly or to regulate their dissemination, a process he calls “rent-seizing”. While Robinson et al. (2002) have shown the progressive nature of rent-seeking, scholars such as Moore (2004) and Luciani (1987) have also contended that rent-seeking has the propensity to negatively impact institutional capabilities of a state, and eventually promote bad governance.

T. Dunning (2005) from a political perspective examined the motive behind the normal practice of looting resource rents, rather than investing them in the economy, and concludes that relying on resources is sometimes deliberately pursued by political leaders so as to uphold their control over the resource rents, a practice commonly linked with African leaders. Ross (2011) focuses

his attention on oil exporters, which he calls “rentier-states” due to their high reliance on huge amounts of rents provided by oil exports, but often draws parallels with non-fuel mineral commodities. Ross (2011) in his work highlights four factors that cause revenue rents to trigger the ‘resource curse’: primarily, the exceptionally huge scale of oil rents, which can induce similarly large government expenditures; second, the source of revenues, which do not come from taxes but from foreign companies; third, the instability of revenues caused by commodity price volatility; and finally, the secrecy of mining revenues, which breeds corruption. Ross (2011) concludes that “rentier-states” are generally more inclined to rent-looting and corruption.

7.5. A Safe Haven for Despotic Regimes

Ross (2001, p14) suggests that countries that are in the “rentier-state” are most often led by despotic leaders. This stems from the fact that, “dictatorial regimes are more attuned to responding to the needs of a small number of its populace and the affluent, rather than the many and the poor”. For these countries “it is more effective to use some revenue to buy off those citizens likely to cause trouble, and more of it to support a powerful army and intelligence apparatus that will keep the others in line” (Ross). Also he asserts that countries gifted with natural resources tend to have regimes that lavishly spend huge parts of its budget on solidifying its security apparatus. Further to this, Moore (2000) confirms that being blessed with natural resources appears to impede on democratic system of governance as it prevents the social and cultural changes that fuel the development of democratisation such as occupational specialisation and better education levels.

A very thought-provoking assertion put forward by Reno (1997) seems to suggest that Western Allies, diplomats and businesses alike, who in most circumstances are interested in the resource wealth of developing economies, in the end prefer autocratic governments to liberal democracy in politically divided states, because these would then risk becoming “failed states” if rebel movements tore apart political order. Wantchekon (1999) analysing data from 141 countries from 1950 to 1990 concluded that a 1 per cent increase in natural resources dependence increased the prospects of totalitarianism by nearly 8 per cent which is indicative that there is big connection underlining between these two scenarios.

8. Analytical Technique and Research Methodology

For a research to be classified as good, there is the need to include a good design. According to Bryman (2008) research design encompasses a variety of frameworks which enables the researcher to gather and analyse data. Yin (1994) in his definition indicates that research design is the link between the data to be collected and the conclusions to be drawn, which in many cases must be in line with the questions posed at the beginning of the study. In simple terms then, research design has to do with turning one's research questions into projects (Robson, 2002).

In this light, a case study approach was used so as to achieve the aims and objectives set out in the research. Yin (2003) points out that, this research technique is appropriate when investigating a contemporary phenomenon in a realistic perspective in order to gain a thorough understanding of the subject-matter under study. Also, Woodside (2010) suggests that case study as a method used in research work focuses on describing, understanding, predicting and controlling a phenomenon in order to gain much knowledge of a particular phenomenon without laying emphasis not only on present issues. Thus, this technique was employed in the study so as to have a wider synopsis and understanding of Somalia's oil and gas prospects and also to ascertain if Somalia is predisposed to the resources curse disease.

To be able to draw accurate conclusions in a study such as this, one needs to gain access to many comprehensive information; case studies use multiple sources of data (Yin, 2003). In accordance with this principle, different sources of data such as archival records, documentary data, academic articles, research institutes and NGO's reports, and documents from the World Bank and the International Monetary Fund were depended upon in this current study. These sources of data were settled upon as the study demanded some historical accounts and facts from different kinds of sources. The archival data utilised were satellite images that show pictorial view of some of Somalia's oil and gas reserves as depicted earlier on in the study.

These sources of data helped gather abundant information to establish a chain of evidence about the current state of Somalia and its hydrocarbon prospects. For the purposes of originality and validity, primary data could have been collected to give the study a certain amount of validity as

suggested by Pierce (2008) as it provides the research with some level of originality. However, considering the timeframe coupled with the political instability and a high level of corruption and secrecy in the region, this method was the preferred option, hence primary data was not considered in this study. Again, had interviews, questionnaires, and other primary techniques been used in this research, a triangulation would have been created, and individual weaknesses could have been overcome as indicated by Denzin (1989). The premise of any research must be transparent in order to answer questions regarding intent and purpose than simply those of validity and reliability.

9. Analysis and Discussion

Due to the increasing awareness of the risks allied with vast natural resource endowments, policy solutions to avoid the paradox of plenty and the resource curse in developing countries are still being discussed progressively. This segment will discuss various challenges that Somalia may be confronted with in its quest to avert the resources curse.

9.1. Careful Spending

As discussed in previous sections of the study, there is the need for Somalia to undertake pragmatic steps that will help her escape the resource curse disease, such measures encompass the careful control of spending, the establishment of stabilized funds (notably, so-called sovereign wealth funds), as well as transparency initiatives such as the 'Extractive Industries Transparency Initiative' (EITI) or 'Publish What You Pay' (PWYP).

It must be acknowledged that several literatures on resource curse have more often than not highlighted the need for good governance, with emphasis on capacity building and anti-corruption mechanisms. Although there are several lessons that can be learned from previous empirical case studies, there still persists many problems though scholars have set out and presented solution. It is essential to mention that, there is no singular rapid prescription to escape the resource curse, this stems from the fact that, there are differences in political, economic, and social aspiration of each country. Many proposals put forward to help obviate the resource curse disease clearly state the need for the establishment of well-functioning political and legal environments (Carbonnier and Jerbi, 2013) this vividly epitomises what Somalia currently needs in its present situation.

Just as it is in other developing and fragile states, the weakness of formal institutions in Somalia makes it problematic to advance and implement complex financial systems. Another hurdle is that, although progress in economic and political management are indispensable for Somalia to avoid the resource curse, successful stories from countries like Botswana, Chile, and Indonesia plainly show that it is simply not an issue of having political elites without the desire or better still the will to change things for the better. But, a fundamental lesson from these countries indicate the necessity for nations to have a well-trained group of technocratic individuals and administrators so they can assist in managing oil production, revenue management, and the establishment of a productive economy which goes beyond oil and gas exploitation, if sustainable and broad-based benefits are to be made of Somalia's resource wealth (Shepherd, 2013).

9.2. Somalia's Dominion in the Region

Billon (2004) posits that countries gifted with natural resources can incite political tensions with neighbouring countries. In the context of Somalia, it has been alleged that neighbouring countries as well as countries far away have been purported to have interest beyond the humanitarian and political situation pertaining in the country. Analysts have shown that in the early part of the 1990s, the link between the international humanitarian intercession and the interest of Western oil companies, and today's international military engagement is often assumed to be compelled by the pursuit for oil exploration in Somalia (Gibbs, 2000; Assl, 2012).

A fact to substantiate this assertion is shown in one of the six conditions set out by the United States prior to recognizing the Federal Government of Somalia (FGS). The rule set out that the Somali government recognizes the rights of US oil companies that had declared force majeure when Siyad Barre's government was toppled (Heritage Institute for Policy Studies, 2013).

Again Kenya's desire in Somalia's oil and gas resources seems to have been a major catalyst which facilitated its choice to militarily mediate in Somalia, in that way extending support to the regional administration of Jubbaland (Jopson, 2007) . Also, the manner and conditions by which Kenya opened a liaison office in the Kismaayo region without initially seeking consent from the FGS, and the fact that Italian oil and gas firm Eni "purposefully signed a contract with Kenya over a

territory that evidently belongs to Somalia” supports this claim. Even though the FGS is an awkward position, hardly will it ignore the help of international partners like Kenya in its fight against al-Shabaab, it seems that Kenya’s aspirations for near-term oil and gas exploration and exploitation in Somalia does not only adds a layer of complexity to the situation, but could actually run counter to restoring a stable and functioning state.

9.3. Can all the clans in Somalia gain a fair share of the oil revenue?

A humongous task that lies ahead of the FGS is its ability to ensure that all clans in the country enjoy proceeds accrued from its oil and gas, as one will note that unequitable distribution of the profits could become a catalyst that will fuel rifts and political tension at the sub-national level. To avoid this scenario from occurring, the federal state need to build a formidable structure that will gain grounds. In the course of the ‘roadmap process’ intended to end Somalia’s transitional era, and since the selection of President Hassan Sheikh Mohamud in September 2012, sub national gaps have gradually come to light as Puntland for example has felt ever more relegated by incumbent government.

An assessment conducted by analysts point out that the relationship between “Mogadishu and Puntland are far from good and could deteriorate if oil prospects prove successful,” (African Confidential, 2013). Likewise, there is also tension with Somaliland. The dispute between Hargeisa and Mogadishu over the control of Somali airspace is a classic example which has the probability to escalate if oil is findings in Somaliland is deemed commercially viable. Even more severe cracks have developed within south-central Somalia. Current debates regarding the imagined nature and shape of a future Somali state have been strongly marked by demands for federalism by both national and international actors.

Although the head of state has shown misgivings due to the problems associated with federalism in the process of rebuilding a united Somali state, on the other hand, there is a call from both national and international community for federalism to be instituted in the formation of the Jubbaland administration. Again, the appointment of Ahmed Mohamed Islan ‘Madobe’ as President of Jubbaland on 15 May 2013 has also generated more tension between Kismayo, Mogadishu and Jubbaland.

Furthermore, events in Kismaayo have traditionally been influenced by several factors, including ownership of the city’s port which has gradually been considered to be the “vital part which has been inciting disagreement over oil and natural gas in the region” (United Press International, 2012). Assuming that tensions between centralising and devolutionary tendencies have worsened , then one simply envisage that Somalia’s next stage of turmoil will possibly be between the central government and its alienated regional administrations (Africa Confidential, 2013), recent oil and gas strikes are believed to “have raised the strategic context of the conflict to a new level,” (United Press International, 2012) .

The discovery more hydrocarbons has stimulated a ‘resource race’ whereby politician have started apportioning to themselves oil blocks so as to increase their politico-economic negotiating power between them and their political opponents, just as shown by the deal struck between the administration of Galmudug and Petro Quest Africa in February 2013. This puts Somalia’s stability at high risk as she does not have a nationwide framework that will enable her oversee and equitably distribute rents accumulated from her natural resources.

Even though the current government is confident that in the meantime agreement with policy makers within Puntland and Jubbaland could yield a good result in the near future, there isn’t any legal instrument to enhance the chances of this happening. In the interim, Somalia’s Provisional Constitution stipulates clearly in Article 44 that “the distribution of Federal Republic of Somalia’s natural resources must be negotiated by, and agreed upon, by the Federal Government and the Federal Member States in accordance with this Constitution”, leaving plenty room for disagreement analyses.

Whereas local authorities have been antagonistic towards central governments prerogative to natural resources, frictions between the regions have also augmented. Contention over the Nugaal Block that expands across not only Somali and Puntland, but also the more recently set up Khatumo state, goes a long way to affirm this point. This scenario is indicative of fact that, in the absence of agreements and legal frameworks, there is high likelihood that the emergence of oil will impede rather than benefit Somalia’s attempt to rebuild a steady state. Against this backdrop, there is a reason to fear in the sense that, a struggle for petroleum precedes the establishment of a political settlement, and

ensuing establishment of a legal framework, between the federal states and Mogadishu, conflict will be likely (Jopson, 2007).

9.4. Will the advent of oil fuel ethnic conflicts?

The advent of oil and gas could incite home-grown pressure which may weaken all efforts been made by the Somali government to establish a permanent amity and security. As demonstrated by the case of Puntland, oil production can become a fuel that can generate local insecurity. A perfect example is in 2005 when Mahmud 'Adde' Muse visited Dubai and met with personnel's from Range Resources an oil and gas company; he signed an agreement with the business contrary to clauses enshrined in the region's constitution and the establishment of the new federal government.

Consequently, when Range Resources sent geologists to the area a civil unrest ensued in a rather peaceful mountainous village of Majiahan. So, in March and April 2006 indigenes took up arms against security forces protecting the geologists, which resulted in 10 deaths, including soldiers and villagers. Accordingly, Puntland and Range Resources had to put their operations on hold as it became increasingly apparent that the local Warsangeli clan viciously opposed any infringement upon their land without prior clan approval (Newsbank, 2008).

This coupled with other challenging issues that pushed for the creation of new security agencies in Puntland. For instance, Africa Corp had to employ Salama Fikira a Kenyan and Pathfinder Corporation a South African security firm to protect its operations.

The security companies' operations have resulted in the formation of an Exploration Security Unit (ESU) – a special branch of the Puntland Security Forces whose sole purpose is to provide security for the Horn Petroleum-Canmex-Africa Oil Corp consortium – in 2011. Recruited from both the Puntland army and police forces and trained by Pathfinder, this includes some 300 armed men who are paid every month by Canmex (Bathazar, 2014)

. A change such as this does not simply further fragment Somalia's security apparatus, but also reduces it and makes it increasingly difficult for the federal government to establish a monopoly over the means of large-scale violence and enforce particular policies. Subsequently, the United Nations Monitoring Group in its letter dated 12 July 2013 suggested that "oil companies must cease, again it further stated the annulment of all negotiations with Somali authorities or risk fuelling non-transparent practices and political disagreements that could exacerbate clan conflict and constitute threats to peace and security," (Africa Confidential, 2013).

10. Conclusion

The discovery of oil resources should lead to growth. This is because oil revenues help countries to undertake capital investments, create jobs and expand. However, this has not always been the case especially for countries in Africa where most oil producing countries experience an inverse relationship between oil production and economic growth. This situation has been termed as the 'oil curse'. In order to avert the 'oil curse', a country needs to have effective institutions and also promote transparency and accountability in the allocation of oil blocks and the management of oil revenues. Coupled with these, there should be investment in the productive sectors of the economy to boost economic growth and create employment.

In this study, the oil production dynamics of Somalia assessed. Further, the study examines whether Somalia is susceptible to the oil curse. A case study approach that utilises archival documents, World Bank reports, academic articles, textbooks, legal agreements and institutional research is used. The findings of the study indicate that Somalia presently lacks the necessary institutions that will enhance effective monitoring of oil revenue spending. Again, a country that does not have an oil refinery. Without oil refinery, most of the oil-related technological benefits may not be accrued to Somalia. Further, conflicts among states and between Somalia and Al-Shabab poses serious risk to investment and oil infrastructure. The wanton desire of Kenya and other neighbouring countries to breach the territory of Somalia for oil exploration is very disturbing. Finally, the study finds that youth unemployment has been increasing. This poses a security threat to the Somalia government and oil installations. This is because, when the youth are unemployed, they become an easy target for terrorist and other social vices. An example is the 'Delta State conflict'.

The study therefore recommends that international institutions such as the World Bank and IMF should help Somalia to establish the vital institutions for the oil sector. For instance, taking a cue from Ghana, three accounts can be created for the oil revenues. These are stability account (to support

the budget when oil prices reduce below a certain figure), heritage account (for future generation) and annual budget support account. In addition, institutions such as Petroleum Commission and Public Interest Accountability Commission should be created to enhance transparency. Second, the judicial and security system should be supported and upgraded to be able to enforce laws, contracts and regulations. Third, the Africa Union and other regional bodies should help the Federal Government to unite all states as a step towards development. This can be done by allocating portions of the oil revenue to fund capital projects such as electricity access, schools, roads and hospitals in all the states. Again, the government of Somalia should refer Kenya's action to the international court for arbitration. Finally, efforts should be made by the government and the oil companies to promote local content and local participation in the oil and gas sector. The local content and local participation should be supported by an Act of Parliament to promote capacity building, technological transfer and local development.

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