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A New Nation, A Brighter Future? Strategic Norwegian Oil Development Assistance in South Sudan

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Executive Summary

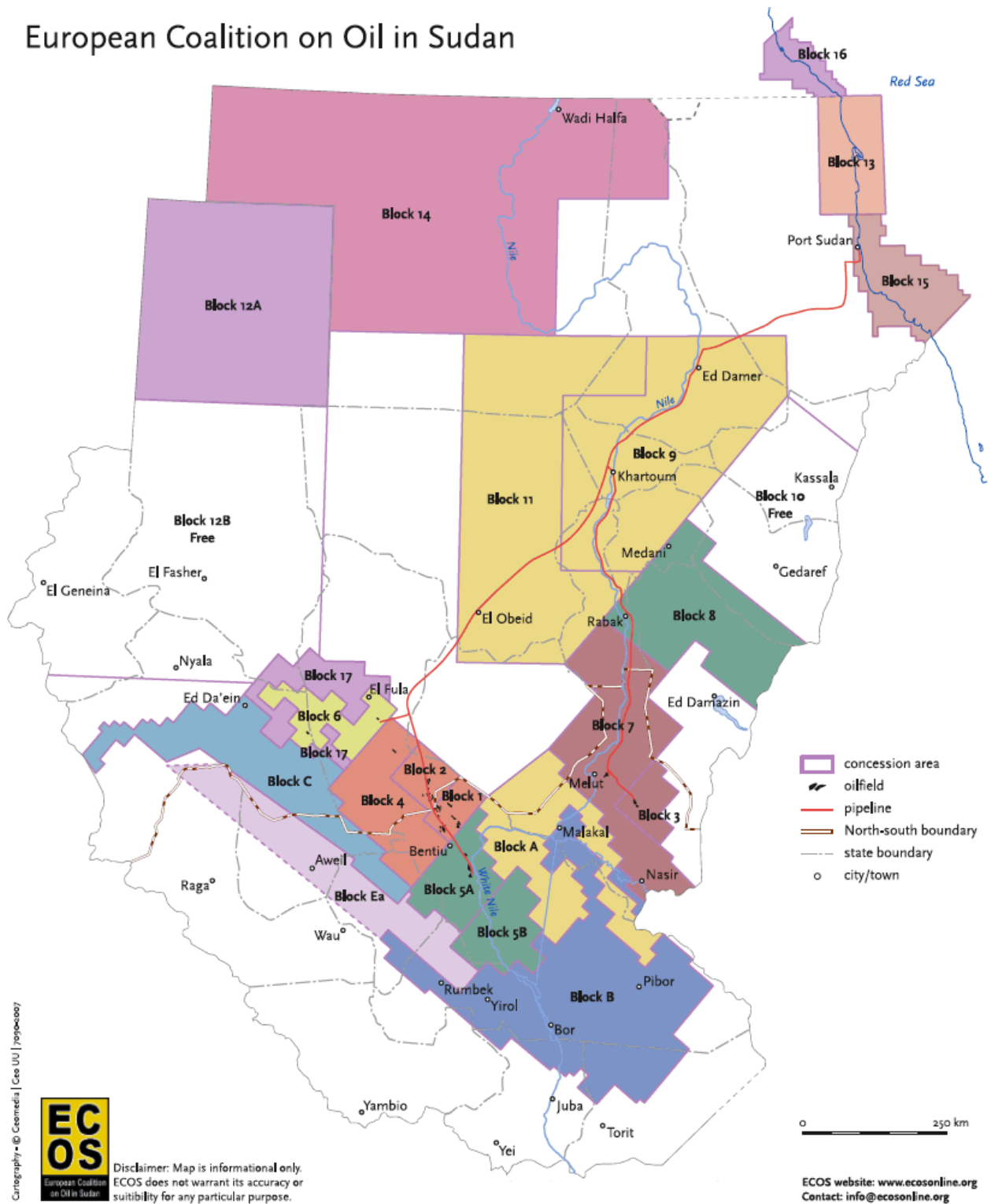
- In July of 2011, South Sudan gained its independence, and is now facing numerous developmental challenges. Much hope is tied to the importance of oil as a redeeming factor, but the so-called resource curse serves as an effective obstacle to the development, with negative consequences such as inflation, currency appreciation, and corruption. The negative implications are numerous and the country is lacking many of the necessary institutions to manage these possibly negative impacts. With a history of civil war and political turmoil the conditions are harsh, but with good management, the oil can largely benefit the new country.
- Norway, with a long history of development assistance in Sudan, is committed to support the Government of South Sudan (GoSS) with the management of the oil resources. By drawing upon expertise from its own oil industry, Norway seeks to assist South Sudan through various programs, such as the Oil for Development initiative. Key elements of the assistance is the implementation of the Comprehensive Peace Agreement (CPA), technical support focusing on increased oil recovery (IOR), and building a stronger state capacity. The overall goal is to ensure that the people of South Sudan are the beneficiaries of the oil revenue.
- To ensure that it is the broader masses that will benefit from the oil wealth, the GoSS must create policy cohesion within its own government while also working to preserve the peace with the Republic of Sudan (RoS). Moreover, the GoSS should increase government accountability and transparency by working with Norwegian and international actors, such as the Extractive Industries Transparency Institution (EITI).
- The time span of oil is shorter than first predicted, so the heavily oil-reliant GoSS must utilize incoming revenue as a part of an economic diversification process. Suggested areas are agriculture, mining, and hydropower. Norway's

role should be to provide technical assistance not only for an increased oil recovery, but also with the expansion of the hydropower industry, another area in which Norway has special expertise.

- This report treats Norway as a third-party consultant whose expertise should be requested from the GoSS where deemed necessary. The overall goal is to find solutions to make the oil revenue benefit the people of South Sudan, while simultaneously suggest approaches to how Norwegian assistance might be utilized in the process of a larger economic diversification process that uses oil revenue to create long-term sustainable economic conditions for South Sudan.

BPD	Barrels Per Day
CPA	Comprehensive Peace Agreement
DAC	Development Assistance Committee
EITI	Extractive Industries Transparency Institution
EOD	Explosive Ordnance Disposal
GNI	Gross National Income
GoS	Government of Sudan
GoSS	Government of South Sudan
GNPOC	Greater Nile Petroleum Operating Company
ICC	International Criminal Court
IMF	International Monetary Fund
IOR	Increased Oil Recovery
LDC	Less Developed Country
MDGs	Millennium Development Goals
MPM	Ministry of Petroleum and Mining (formerly MEM, South Sudan)
MFA	Ministry of Foreign Affairs (Norway)
MoU	Memorandum of Understanding
NCA	Norwegian Church Aid
NCS	Norwegian Continental Shelf
NOK	Norwegian Kroner
NORAD	Norwegian Agency for Development Cooperation
NPA	Norwegian People's Aid
NPD	Norwegian Petroleum Directorate
NPC	National Petroleum Committee (South Sudan)
NRC	Norwegian Refugee Council
OECD	Organization for Economic Co-operation and Development
OfD	Oil for Development
PGI	Petroleum Governance Initiative
PSA	Production Sharing Agreement
RWI	Revenue Watch Institute
SWF	Sovereign Wealth Fun

European Coalition on Oil in Sudan



Source: *New Security Beat*,
<http://www.eia.gov/cabs/Sudan/images/2007%20ECOS%20Concession%20Map%20-%20Large.gif>.

Introduction¹

On July 9th, 2011, South Sudan gained its independence from the Republic of Sudan in hopes of achieving a better future.² News media from all over the world reported from South Sudan where joyful people were dancing in the streets, waving the South Sudanese flag as a sign of independence.³ After decades of civil war and political instability, the people in the streets of Juba finally thought they could see a brighter future. The one word on people's lips, considered to be the redeeming factor was this: oil.

The people of South Sudan knew that oil could have a vast impact. Oil had been discovered decades earlier in Sudan, but only in the last decade was considered worth extracting. Foreign oil companies such as Chevron established their presence and the "black gold" increasingly rose in importance for the country of Sudan. However, oil had also played an important causal factor in the earlier Second Civil War, so the people of Sudan displayed considerable amount of tension and incredulity toward oil solving the problems.

There are relatively few parallels between Norway and South Sudan, but both countries have two things in common: a history of poverty and large reserves

¹ Parts of the argument from this paper was published in the Norwegian newspaper *Dagsavisen* on January 18th, 2012 under the title "Usikker Oljefremtid i Sør-Sudan [Uncertain Oil Future in South Sudan]. On February 1st, 2012, the Norwegian Minister of Environment and Development wrote an editorial in response: http://www.dagsavisen.no/nyemeninger/alle_meninger/cat1002/subcat1041/thread240188/#post_240188

² Throughout this paper, I will refer to the united Sudan prior to July 9th, 2011 as Sudan; Republic of Sudan as Republic of Sudan and occasionally as 'North'; and Republic of South Sudan as South Sudan and occasionally as 'South'.

³ Peter Martell, "South Sudan Celebrate Their Divorce," *BBC News*, July 9, 2011, <http://www.bbc.co.uk/news/world-africa-14091903>

of crude oil. In the first half of the 20th century, Norway had one of the lowest GDPs in Europe, but this changed with the discovery of oil in the North Sea.⁴ Following this event, the Norwegian economy grew significantly,⁵ which distinguishes it from South Sudan's. In 2011, Norway has among the most developed welfare states in the world, with a reasonably equal wealth distribution through its social democratic system. Having a well-functioning welfare system has allowed the country to look outside its borders to help less developed countries (LDCs).

One of the countries that has received the most Norwegian development assistance is Sudan. The Norwegian Directorate for Aid and Development (Norad), serving as the center of development cooperation, allocated in 2011 NOK 578 million to Sudan.⁶ Norway is committed to providing assistance to South Sudan in its gradual process of building a more stable governmental capacity as a part of the larger Norwegian development assistant platform. With good public management, oil can open up for economic growth and public investment to promote macroeconomic stability.⁷

The findings of this report are significant to the Governments of South Sudan and Norway, respectively. As a new state, South Sudan has numerous obstacles to overcome and should seek assistance from other states determined to lend their

⁴ Toyin Falola and Ann Genova, *The Politics of the Global Oil Industry: An Introduction* (Westport: Praeger Publisher, 2005).

⁵ GDP in 1970 was NOK 91 billion and NOK 2496 in 2010. See Ola Grytten, *The Gross Domestic Product for Norway 1930-2003*, chapter 6 in Norges Bank Occasional Papers no. 35 and Statistics Norway, "Focus on National Accounts," http://www.ssb.no/regnskap_en/

⁶ Due to currency fluctuations, the numbers are in Norwegian Kroner (NOK) for a more accurate number. USD 1 ~ NOK 6. These figures are from the fiscal year 2011 and do therefore not take into account the South's secession.

⁷ Audun Solli, "From Good Governance to Development? A Critical Perspective on the Case of Norway's Oil for Development," *Forum for Development Studies*, vol. 38, no. 2 (2011).

expertise on relevant policy areas. Norway, with its long history of both oil extraction and development assistance, has shown its commitment to solving the dispute between North and South Sudan. Norway's efforts in helping South Sudan manage its natural resources and build state capacity are therefore essential to the new state.

This report will address the issue of how Norwegian efforts can assist the Government of South Sudan (GoSS) in developing the oil industry as a part of a larger capacity building process. It recognizes that capacity building is a complex process with many layers and will, therefore, outline some of the challenges in the web of interconnected factors. Barriers to the development of the state include a long history of regional conflict, domestic instability, internal policy incoherence, poor diplomatic relations, and the "resource curse."

The report starts out by looking at the history of South Sudan. The following section examines the resource curse and its role in South Sudan as well as governmental incoherency and regional instability. The report then explores some of Norway's oil history and relevant factors essential to the growth and development of the country. Next follows a section that explores which elements of Norwegian expertise can be transferred to other countries. The overall significance is that the oil development is a part of a larger development course, but because South Sudan's oil may only last for another 10-15 years, the economy must be diversified, which is explored in the final section. Finally, the report proposes both technical solutions and policy recommendations to the respective governments for

further action to take in South Sudan, with specific emphasis on how to utilize oil development in the state capacity building.

1. Oil as a Historical Cause of Instability

This section provides a brief overview of the history of political turmoil in Sudan. In 1820, Sudan was conquered by a coalition of Egyptian and Turkish troops. The reign of these two countries lasted until 1881, when the Sudanese people rebelled against the colonial powers. The year after, the British conquered Sudan and, from 1899 to 1955, Sudan was controlled by a joint British-Turkish coalition. The following year, Sudan gained its independence, but only a year later the civil government was overthrown in a military *coup d'état*. The overthrow resulted in the beginning of the First Civil War between the North and the South, a war that lasted for seventeen years and killed several hundred thousand people. Only ten years passed after the Addis Ababa peace treaty until the Second Civil War erupted. The second war lasted from 1983 to 2005 and was even more devastating to the country with nearly 2 million deaths.⁸

Much of the background for both the wars was rooted in ethnic divisions, the North being largely Arab and Muslim, while the South consisting of mainly Nilotic people with indigenous faiths or Christian beliefs.⁹ The large natural resource reserves found on the border of today's RoS and South Sudan further complicate the

⁸ U.S. Committee for Refugees, "Crisis in Sudan," April 2011, <http://web.archive.org/web/20041210024759/http://www.refugees.org/news/crisis/sudan.htm>

⁹ Mohamed H Fadhalla, *Short History of Sudan*, (Lincoln: iUniverse, 2004) and Ali Abdel Gadir Ali et al., "The Sudan's Civil War: Why Has it Prevailed for so Long?" in Paul Collier and Nicholas Sambanis eds. *Understanding Civil War: Evidence and Analysis. Volume I: Africa* (Washington DC: World Bank, 2005).

issue between the two countries. Thus, what originally was a conflict due to ethnic and ideological differences was prolonged because of the role of resources.¹⁰

In January of 2011, southern Sudan held a referendum resulting in their secession from the North. As of July 9th, 2011, southern Sudan is an independent state. As a new state, South Sudan faces numerous challenges. The state is largely underdeveloped compared to its neighbors as measured by the Millennium Development Goals (MDG): 50 percent live below the national poverty line;¹¹ net enrollment in primary schools was 46 percent, but far fewer complete all eight years; far more men than women are literate and enrolled in schools. A positive development, however, is that 36 percent of the Legislative Assembly are women; one of the biggest health challenges the country faces is an astronomical maternal mortality rate: one of seven women die in labor, making it the highest in the world.¹²

*We shall have better schools, better hospitals, and everything will be new.*¹³

Since independence, much South Sudanese hope has been tied to the oil development in the country, the source of 98 percent of state revenue.¹⁴ Western observers tie much hope to the oil reserves, while recognizing the difficult way

¹⁰ International Crisis Group: "God, Oil and Country: Changing the Logic of War in Sudan", International Crisis Group Press, Brussels, 2002.

¹¹ The national poverty level is 72.9 South Sudanese pounds per month.

¹² Figures between the UN and other agencies, e.g. Save the Children differs. According to a recent Save the Children report only 10 percent of children complete primary school and one fifth of all children are acutely malnourished. See Save the Children, "South Sudan: A Post-Independence Agenda for Action," Save the Children UK, London, 2011.

¹³ Expressed by a female gas station attendant in Juba. Thomas Danielewitz, "South Sudan Launches its First GDP Estimate," *The World Bank Blog*, August 23, 2011, <http://blogs.worldbank.org/africacan/south-sudan-launches-its-first-gdp-estimate>

¹⁴ Matthew Brunwasser, "The Impact of Oil in Sudan," *PRI's The World*, January 14, 2011, <http://www.theworld.org/2011/01/the-impact-of-oil-in-sudan/>

ahead. The fact of the matter is that the oil will likely play a key role in the future, just as it has in the past.

The question is what kind of role oil will play. This report examines two key issues. First, South Sudan shares a great deal of tension with the North about how to divide the oil revenues. Chapter three of the Comprehensive Peace Agreement (CPA) states that the oil should be split evenly amongst the two states, but, with 75 percent of the oil located in the South, the division seems unfair to the new state.¹⁵ Former U.S. president Jimmy Carter, who has a long-term involvement in the region, addressed the situation by stating:

*In the South, I think they expect to get more than 50 percent in the future. And in the North they hope to maintain their 50 percent.*¹⁶

Although this is certainly a contentious topic, the two states need to cooperate for some time as the only pipeline from the landlocked South runs through the North to Port Sudan, where most of the refineries are located.

Juba has considered creating its own pipeline and has received offers from international contractors.¹⁷ In theory this seems like a good solution, although it could potentially lead to unrest when the North will no longer be able to charge the South for the use of their pipes and refineries, thus losing a major source of revenue.

¹⁵ The Comprehensive Peace Agreement (CPA), full text, <http://www.aec-sudan.org/docs/cpa/cpa-en.pdf>

¹⁶ *PRI's The World*

¹⁷ Toyota Tshusho Corporation offered to construct a 1,400-km pipeline to transport crude oil from Juba to Lamu, Kenya. The company explained in March 2010 that the pipeline could transport 450,000 bpd, and would cost \$1.5bn to construct. After 20 years under Toyota ownership, it would be handed over to the Kenyan and southern Sudanese governments for regional cooperation. See Reuters, "South Sudan Talked to Toyota Over Kenya Oil Pipeline," *Reuters*, July 7, 2011, <http://www.reuters.com/article/2011/07/07/us-sudan-south-oil-interview-idUKTRE7666MJ20110707>.

The second greater problem, however, is that several reports suggest that the oil has already reached its peak or will do so in the near future, and is now in a steady decline.¹⁸ A recent IMF report suggests that barring new discoveries or improved recovery, the 2009 number will be halved by 2020.¹⁹ Hence, the challenge for South Sudan is to maximize the short-term oil revenues in such a way that will help diversify the economy for the future; in order to do this, however, they must overcome the so-called resource curse as one of the many development challenges that they face.

2. Development Challenges

This section explores and highlights the consequences of oil as a quick source of state revenue. An underlying theme of this report is that the time span of oil is short, perhaps another 20 years. Therefore, while planning ahead, much work must be put into the present management of the wealth managing and consequently limiting the oil's negative consequences.²⁰ This report focuses on three main areas: (1) potential resource curse; (2) governmental incoherency in policy-making; and (3) regional

¹⁸ The figures vary, most likely due to estimates rather than official numbers. The peak date goes from 2009-2012 and peak production is estimated around 360,000 bpd. United Nations Mission in South Sudan/Public Information Office, *South Sudan Media Monitoring Report*, Juba, 2011, <http://unmiss.unmissions.org/LinkClick.aspx?fileticket=7go-9VbVijY%3D&tabid=3540&language=en-US>

¹⁹ Adolfo Barajas, "MENAP Oil Exporters: Benefiting from High Oil Prices amid Growing Risks," *International Monetary Fund (IMF)*, 2011. <http://www.imf.org/external/pubs/ft/reo/2011/mcd/eng/pdf/oilexporters.pdf>

²⁰ The importance of the resource curse must not be understated. Evidence suggests that South Sudan is already elements of the curse. What is more, it is imperative to provide a proper analysis of the resource curse and how South Sudan can avert the negative implications in order to make use of the oil in the short time span of perhaps 20 years. Economic growth is a key factor in the process.

instability, especially a possible conflict with the Republic of Sudan. Juba should use a holistic approach toward these three issues in order to ensure a united government whose goal is to improve conditions for the broader South Sudanese social sphere. Consequently, the economy will grow stronger and the oil revenue will be used in the interest of the people as a whole, rather than put in the pockets of a few.²¹

2.1 Resource Curse

The “curse of natural resources,” “paradox of plenty,” or “resource curse” is a political economic phenomenon that often occurs in countries with great natural resource wealth, making the country’s economy grow slower than in a resource-poor country.²² The examples are numerous, but countries that have experienced the curse include Colombia, Nigeria, Sierra Leone, DR Congo, Liberia, and Ivory Coast.²³ Although the economic aspect is often thought of as the main issue, the consequences of the curse can be subdivided into five components:²⁴

- ***Macroeconomic instability and export concentration.*** The country depends on a small number of exports, making it vulnerable to volatility of

²¹ Corruption is not explicitly addressed in this section, because it is beyond the scope of this report to go in depth about how Norway and South Sudan should go about fighting it. Yet, points 2.1, 2.2, and 2.3 might together suggest a conceptual framework for how to reduce corruption.

²²Jeffrey Sachs and Andrew Warner, “Natural Resources and Economic Development,” *European Economic Review*, 45 (2001).

²³ Examples of ‘success stories’ include Botswana, Chile, Indonesia, and Norway.

²⁴ Todd Moss compiles a list of five categories, based on individual sources. Todd Moss, “Oil-to-Cash: Fighting the Resource Curse Through Cash Transfers,” *Yale Journal of International Affairs*, Vol. 6, Issue 2, (2011).

international prices. Consequently, the swings in economic policies lead to macroeconomic instability.

- ***Slow growth and poverty.*** In the span between 1960 and 1990, the economies in resource-poor countries increased almost three times faster than those of resource-rich countries.
- ***Corruption.*** An increase of 15 percent in the share of natural capital in a country's wealth correlates to a 20 percent drop in the corruption perceptions index.
- ***Authoritarianism.*** Research suggests a strong correlation between oil and gas dependency and authoritarian rule.
- ***Conflict.*** In a country where primary commodity accounts for 33 percent of GDP, the likelihood of conflict increases to 22 percent, as in comparison to 1 percent for countries without such exports.

As these outcomes often are mutually reinforcing, the resource curse often leads to a downward spiral of poverty and instability.²⁵

Some of the problem is the lack of accountability between citizens and the state.²⁶ In practical terms it creates "unearned income" for the state not having to tax its citizens. With the establishment of such a dynamic, the government becomes less inclined to respond to the needs of its citizens. Thus, a likely outcome is a "rentier state," where the country is dependent upon a narrow income sector (e.g.

²⁵ Todd Moss, *Yale Journal of International Affairs*

²⁶ Deborah Bräutigam, *Introduction: Taxation and State-building in Developing Countries*, (Cambridge, Cambridge University Press, 2008).

oil) but without the concerns of its citizens or wanting to reform. In sum, this condition widens the gap between the government and the public in a negative manner, while the opposite should be the case, thus impeding the capacity building process.

2.1.1 Dutch Disease

A sub-concept of the resource curse is “Dutch disease,” implying that the curse is not only limited to LDCs. The essence of Dutch disease is too much wealth managed unwisely. The term was coined after the Netherlands discovered large reserves of gas in the North Sea in the 1960s.²⁷ The ostensibly positive discovery proved to have large negative consequences on the Dutch economy as the Dutch guilder grew so strong that non-oil commodities became less attractive for export. Applied to a country that just recently discovered oil, there would be no direct impact on demand for domestically produced goods or the country’s money supply, as long as the foreign exchange was only spent on imports. However, a problem arises when the foreign exchange is converted into local exchange and spent on domestic nontraded goods. The result is one of two outcomes, depending on whether the country’s nominal exchange rate is fixed by the central bank or is flexible.

If the exchange rate is fixed, the conversion of the foreign currency into local currency would increase the country's money supply, and pressure from domestic demand would push up domestic prices. This would amount to an appreciation of the "real" exchange rate... If the exchange rate is flexible, the increased supply of foreign currency would drive up the value of the domestic currency, which also implies an appreciation in the real exchange rate, in this case through a rise in the nominal exchange rate rather than in domestic prices.²⁸

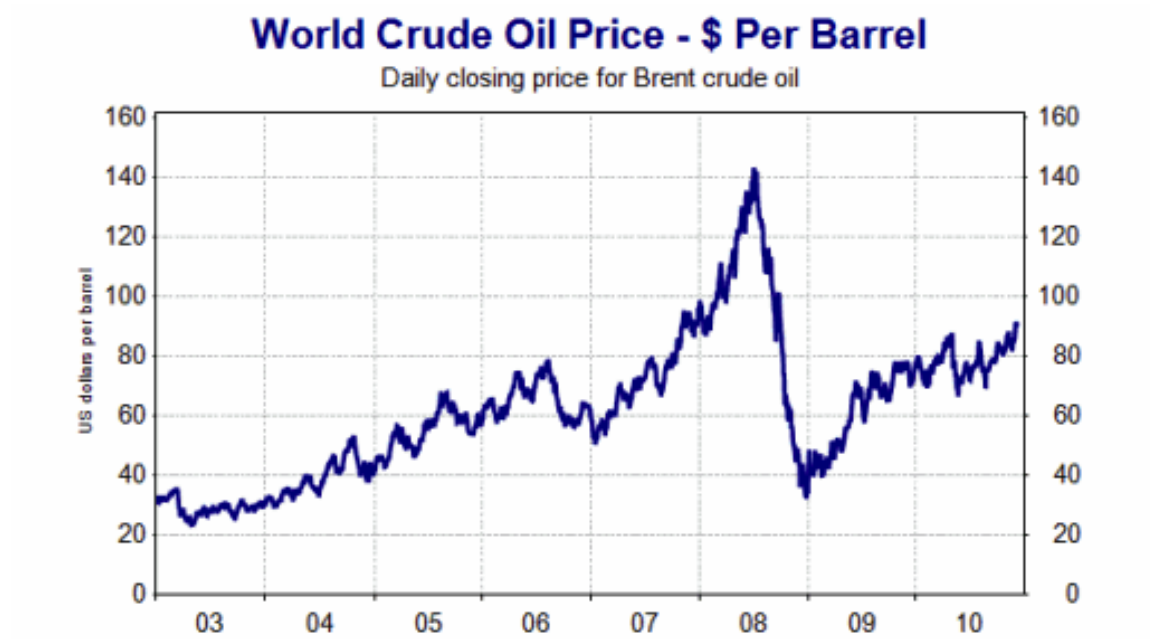
²⁷ Christine Ebrahim-zadeh, “Back to Basic: Too Much Wealth Managed Unwisely,” *Finance and Development*, vol. 40, no. 1 (2003).

²⁸ Ibid.

Both with fixed and flexible exchange rates, the domestic products will experience weakened export competitiveness, causing the traditional export sector to shrink. With this in mind, the Dutch disease should be avoided at any cost.

2.1.2 Fluctuations in the Oil Price

Not conventionally part of the resource curse literature, but an element of a similar nature are the drastic pendulum swings in the global prices on crude oil. As Figure 1 indicates, the prices have gone from around USD 35 to USD 130 between January 2003 and August 2008, before it dropped drastically. For states heavily reliant on oil export, the consequences of these swings can be fatal. The budget is then subject to large swings from the oil sector, making continuity in public expenditure a difficult challenge. Governments also tend to overcommit in years of plenty and projects that span over more than one fiscal year are thus in danger of not being completed due to insufficient funds. Empirical evidence suggests that such projects are often schools and healthcare, considered basic for the development of a country, such as South Sudan.

Figure 1: The Brent Crude Oil Price 2003 - 2011²⁹

Source: Reuters EcoWin, http://www.tutor2u.net/blog/files/crude_1212.gif

2.1.3 In South Sudan:³⁰

The question of whether South Sudan is experiencing the curse is complicated and requires some elaboration. The abovementioned categories of consequences tied to the resource curse serve as a framework for answering the question.³¹ The results point to certain areas that can easily be related to the curse, while other areas seem less connected.

Macroeconomic deterioration has occurred largely due to external economic instability with the recent financial crisis. On the one hand, the real exchange rate appreciated by 40 percent between 2005 and 2006, making export less competitive

²⁹ Brent crude oil is the biggest of the various oil classifications.

³⁰ The numbers used in this section are based on Sudan, so the actual representation of South Sudan might be slightly inaccurate.

³¹ While the framework might oversimplify a more complex issue, it nonetheless serves as an indicator of cause and effect.

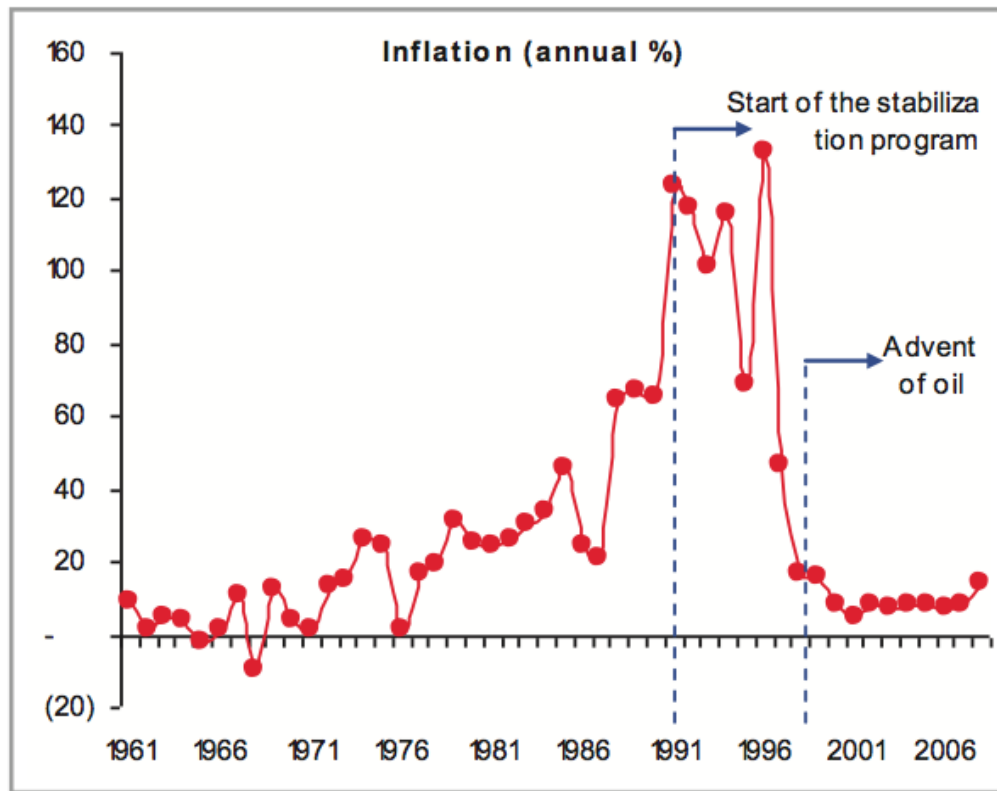
and import cheaper.³² Similarly, the share of non-oil exported commodities fell from 24 percent in 2000 to only 8 percent in 2008. The rate of inflation, on the other hand, has been one of the positive macroeconomic outcomes.³³ In the years between 1971 and 1991 the average inflation rate was 33 percent compared to 8 percent since the advent of oil as seen from figure 2.

The *poverty levels* in Sudan have increased despite a boost in the GDP. In the period from 1992 to 2000, the GDP had an annual increase of 7.5 percent, but poverty levels nonetheless rose in the country over the last several. Between the years 1968 and 1992, the people living below USD 1 almost doubled.³⁴ As of 2011, 51 percent of the population of South Sudan lives under the national poverty line. In the Republic of Sudan the number of people under the poverty line is 46 percent. The figures suggest that while the GDP has risen largely due to the oil, the wealth inequalities have also grown, thus, creating a large poverty segment especially in rural areas due to failed trickle down effects.

³² World Bank Poverty Reduction and Economic Management Unit, *Sudan: Toward Sustainable and Broad-Based Growth* (2009), <http://www.cmi.no/sudan/doc/?id=1275>

³³ Ibid.

³⁴ Medani Mohamed Ahmed, "Sudan Report: Can the Sudan Achieve the MDGs Given its Past and Present Expenditures Allocation Patterns?" *Chr. Michelsen Institute*, (2008).

Figure 2: Sudan Achieved Low Inflation After the Advent of Oil

Source: World Bank, *Sudan: Toward Sustainable and Broad-Based Growth*, <http://www.cmi.no/sudan/doc/?id=1275>.

As for *corruption*, the ICC has accused President Omar al-Bashir of Sudan of siphoning off \$9 billion of Sudan's oil revenues.³⁵ For the country as a whole, the statistics are not in Sudan's favor. According to Transparency International's corruption index, Sudan was ranked in 2010 as number 172 out of 178 countries with a score of 1.6/10, making it among the world's most corrupt countries.³⁶ What is more, Sudan has become increasingly more corrupt since the first measure from

³⁵ BBC News, "Sudan's President Bashir 'Siphoned off Millions' – ICC," *BBC News*, December 18, 2010, <http://www.bbc.co.uk/news/world-africa-12025213>.

³⁶ The score is based on a 10-point scale where 10 indicates the least amount of corruption. Transparency International, "Corruption Perceptions Index 2010," http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results.

2002, when the country scored a 2.3. These indications seem to fit with the corruption prognosis, but more importantly, with the increased oil revenue.³⁷

Authoritarianism is a more complicated matter. For while Sudan in principle is a republic based on democratic values, President Omar al-Bashir came to power by a *coup d'état* and is faced with charges of crimes against humanity by the ICC.³⁸ The fact that he came to power before the oil extraction began makes it less clear whether the oil contributed to Sudan's authoritarian regime, or if it simply prolonged his rule. What is clear is that al-Bashir has not sought to solve the resource conflict by democratic principles, suggesting that his rule has contributed to the authoritarianism of the resource curse.

The conflict category is arguably the easiest factor to control for. It is commonly known that one of the main causes of the Second Civil War in Sudan was the disagreement over oil sharing. Still, after South Sudan's independence, Khartoum claims possession of the Abyei Territory of the Dinka Ngok tribe because of the oil reserves, despite the fact that the CPA stipulated land-sharing conditions where a National Land Commission was set to resolve the issue. So far, no commission has been established, despite international pressure to solve the border conflict. It is imperative for the future that the land conflict be solved as large parts of the disputed oil reserves are located in this region; otherwise the likelihood of another international war will increase.

³⁷ There has not yet been released any official corruption numbers from South Sudan.

³⁸ International Criminal Court (ICC), "ICC Prosecutor presents case against Sudanese President, Hassan Ahmad AL BASHIR, for genocide, crimes against humanity and war crimes in Darfur," press release, July 14, 2008, [http://www.iccpi.int/menus/icc/press%20and%20media/press%20releases/press%20releases%20\(2008\)/a?lan=en-GB](http://www.iccpi.int/menus/icc/press%20and%20media/press%20releases/press%20releases%20(2008)/a?lan=en-GB)

As seen from the various categories, one can tentatively conclude that the resource curse is to be found in certain policy areas of Sudan. The best evidence for this claim is the authoritarian role of President al-Bashir and the political conflicts where oil has been a central issue. It is difficult to specifically draw a conclusion for the presence of the resource curse in South Sudan as compared to Sudan as a whole as there is limited data available focusing only on South Sudan.³⁹ But with its underdeveloped institutions and a higher reliance on oil, the country is arguably more vulnerable than RoS. Looking ahead, the country must focus on avoiding or reverting the curse as much as possible if state capacity building is to be given a chance, while avoiding another war with the North.

2.2 (In)Coherency in Juba

As already outlined, it is *sine qua non* for South Sudan to focus on a broad capacity building of the state. One of the main tasks is to ensure that the policies from Juba are consistent with long-term strategies, and that the politicians are working together toward the same goal. Hence, the consequences of the resource curse and Dutch disease can be further avoided.

The incoherency is partially rooted in historical events. While the British was administrating present day South Sudan, they sought not to educate the local population in fear of a detribalized and discontent intelligentsia, thus effectively

³⁹ Most of the reports available treat Sudan as one statistical entity, making it difficult to distinguish between North and South. For those reports dealing specifically with South Sudan, the figures most commonly address concerns in the sectors of health and education.

hindering the creation of bureaucrats and administrators.⁴⁰ Although several generations have past, the result is today a largely uneducated population, who constitute a part of a national movement of trying to build up a well-functioning state. One author addressed the administrative conditions of the South Sudanese region in 1998 as “very incompetent or non-existing.”⁴¹ The situation has since then improved, but it speaks to a history of political incoherency and difficulties.

One of the current causes of incoherency is rooted in “tribal” tensions. There are more than sixty cultural and linguistic groups in South Sudan who all value their citizenship in their respective tribes more than in the nation.⁴² Making national policies when loyalty to the nation is secondary, is difficult. Especially when distribution of resources is a part of the equation, it is easy to favor one’s tribe rather than seek policy solutions that benefit the people of South Sudan as a whole. Post-independence violence in seven out of ten South Sudanese states highlight the internal tension, and although the violence has decreased over the last couple of months, it created further political division. This division is especially evident between those who did and those who did not fight in the struggle for independence. Those who fought feel entitled to government privileges, while those who did not feel excluded. Moreover, there have been reports of increased nepotism in government offices. With a high percentage of unemployment, tribe often trumps

⁴⁰ Terje Tvedt, “The Collapse of the State in Southern Sudan After the Addis Ababa Agreement: A Study of Internal Causes and the Role of the NGOs,” in Sharif Harir and Terje Tvedt *Short-Cut to Decay: The Case of the Sudan*, (Sweden: Nordiska Afrikainstitutet, 1994).

⁴¹ Volker Riehl, “Who is Ruling in South Sudan? The Role of NGOs in Rebuilding Socio-Political Order,” *Nordiska Afrikainstitutet*, report no. 9, (1998).

⁴² Jok Madut Jok, “Diversity, Unity, and National Building in South Sudan,” United States Institute of Peace, Washington DC, 2011.

merit when a person is applying for a government office, yet further perpetuating the government incoherency.

In order for the GoSS to create unity within the nation, efforts must be directed at limiting nepotism and “tribal” favoritism. The government must realize its duty to establish national unity across tribes and ethnic groups. Up until this point, the external threat from the North has served as one unifying factor, but to create a nation, there should be a stronger emphasis on internal common denominators and the creation of an “imagined community”.⁴³ Examples of common factors include a common language and national symbols that allow most people to relate to a united nation.⁴⁴ It should also be stressed that, albeit “tribal” differences, there are historically more similarities than differences among the South Sudanese people. Hence, the work to create a more united government and nation should be a high priority for the GoSS.

2.3 Regional Stability

One of the fundamental factors for achieving sustainable development is to build on a foundation of peace. For South Sudan this means using diplomatic efforts to establish good relations with its neighboring countries of the Central African Republic, DR Congo, Ethiopia, Kenya, Republic of Sudan, and Uganda. Issues such as

⁴³ The term ‘imaged community’ is borrowed from Benedict Anderson’s famous work *Imagined Communities: Reflections on the Origin and Spread of Nationalism*, (New York: Verso, 1983).

⁴⁴ There is an ongoing debate concerning language. The country is divided by a lack of a national indigenous language and it has been suggested to either create a hybrid of a number of local languages or select five languages that would be elevated to a national level. See Jok Madut Jok, United States Institute of Peace .

borders and division of the oil revenue are still very contentious and could easily reignite another war.

Establishing a good relationship with the Republic of Sudan is the most important for preserving the peace. The oil plays a central role in this question, as the majority of the reserves are located close to the dividing border. The GoSS should, therefore, increase its efforts to continue the dialogue of how to solve the area dispute of the Abyei region. The CPA stipulates that Abyei was to have a referendum to decide whether to belong to the North or the South. It is still unclear when the referendum will be held, but both governments should assist the region to speed up the process, as peace in this region is essential to sustain good interstate relations.

Another aspect concerns the division of oil revenue. Chapter III of the CPA states that the oil should be divided on equal terms, but the RoS still seeks to assert authority over the South. Khartoum demands high fees for South Sudan's use of their pipeline and oil refineries. In November of 2011, Khartoum blocked South Sudanese oil export through Port Sudan over a dispute on transit fees.⁴⁵ The GoS initially planned to charge South Sudan USD 32 per barrel, which Juba swiftly rejected. After months of negotiations, the two governments got in December a step closer to reaching an agreement. Although still only a proposal, South Sudan has allegedly agreed to give RoS USD 2.6 billion as an economic compensation for their

⁴⁵ Agence France Presse, "Khartoum Halts South Sudan Oil Exports," *All Africa*, November 28, 2011, <http://allafrica.com/stories/201111301223.html>.

loss of oil revenue.⁴⁶ It is imperative for the future stability in the region that both sides work toward a solution for the sharing of wealth in order to both strengthen the economic development and preserve the peace.

3. Norway: Assisting Less Developed Countries

After Norway gained its independence from Sweden in 1905, Norwegian foreign policy kept a low profile as the country recognized the limitations of small-state bilateral policy. National consensus dictated avoiding too much international attention, and, as the famous Norwegian author Bjørnstjerne Bjørnson pointed out, “Our best foreign policy is to have no foreign policy.”⁴⁷ Toward the middle of the century, with Norway gaining membership in NATO, Norwegian foreign policy shifted from “international ‘idealism’ to strategic ‘realism.’”⁴⁸ Yet even during this time, Norway was a strong advocate of human rights and opposed to the colonial policies of its NATO partners.

Norwegian international development efforts first emerged in the early 1950s. Throughout the 50s and 60s, development was not among the high priorities of the Norwegian Ministry of Foreign Affairs (MFA). By the early 1970s, a domestic debate established an approach of both bilateral and multilateral efforts to reduce

⁴⁶ “South Sudan Says Agreement Reached With Khartoum on Oil Fees,” *All Africa*, December 13, 2011, <http://allafrica.com/stories/201112140712.html>.

⁴⁷ Jan Egeland, *Impotent Superpower - Potent Small Power: Potentials and Limitations of Human Rights Objectives in the Foreign Policies of the United States and Norway*, (Oslo: International Peace Research Institute, 1985), p. 33.

⁴⁸ Jan Egeland, International Peace Research Institute.

poverty, increase welfare, and create a new economic order for LDCs.⁴⁹ To better structure their development approach, the MFA created the Norwegian Directorate for Aid and Development (Norad). As of 2011, Norad aims to “be the centre of expertise for evaluation, quality assurance and dissemination of the results of the Norwegian development cooperation, jointly with partners in Norway, developing countries and the international community”.⁵⁰ Furthermore, Norad also functions to accomplish the development goals set out by the MFA and the Parliament.

The Norwegian development efforts are directed towards 32 countries, but as many as 114 received a part of the NOK 27.1 billion (or 1.02% of GNI) that Stortinget allocated to development in 2011. The countries receiving the most aid include Brazil (NOK 1,483 million), Tanzania (749 m.), Afghanistan (726 m.), Sudan (705 m.), Palestine (661 m.), Pakistan (502 m.), Mozambique (443 m.), and Uganda (431 m.).⁵¹ Although the majority of the aid is focused on African countries, Norway also focuses on several Asian countries, including India and China, European countries, including Bosnia-Herzegovina and Kosovo, and several countries in Latin and South America.

4. Norway’s Oil History

⁴⁹ Helge Pharo, “Altruism, Security and the Impact of Oil: Norway’s Foreign Economic Assistance Policy 1958-1971,” *Contemporary European History*, vol. 12, no. 4 (2003).

⁵⁰Norad, *Strategy Towards 2010*, (Oslo: Norad, 2010), p. 1, http://www.norad.no/en/tools-and-publications/publications/publication/_attachment/107553?_download=true&_ts=11ebb0f49fe

⁵¹Norad, “Norwegian Aid Statistics,” 2010, <http://www.norad.no/en/tools-and-publications/norwegian-aid-statistics>.

Few people believed in the 1950s that the Norwegian continental shelf (NCS) might conceal oil.⁵² However, oil was in 1959 discovered off of the Dutch coast, which consequently led to a renewed hope of finding oil on Norwegian territory. In 1963 under Prime Minister Einar Gerhardsen, the Norwegian government proclaimed sovereignty of the NCS and issued licenses to international oil companies to conduct seismic surveys. After several years of dry wells, Phillips Petroleum discovered oil in 1969, at what today is known as the Ekofisk field. In the following years, international companies as opposed to the Norwegian Government played the main role in oil development, but the State still had the leading role in controlling the issues of licenses and contributing with investment for economic returns. Statoil was founded by the government in 1972 with the principle that the government would have a 50 percent participation in each license. In 1985 this principle was reorganized so that the State role now is decided on an *ad hoc* basis. The petroleum industry celebrated this year its 40th year of production. Over these forty years the industry has generated in excess of NOK 800 billion and a 21 percent value creation in the country,⁵³ due to the high extraction rate of approximately 3 million barrels per day for the last fifteen years.⁵⁴ A large part of revenue management is due to

⁵² Norwegian Ministry of Petroleum and Energy, "Norway's Oil History in 5 Minutes," November, 2010, <http://www.regjeringen.no/en/dep/oed/Subject/Oil-and-Gas/norways-oil-history-in-5-minutes.html?id=440538>.

⁵³ Figures are based on a 2009 value index.

⁵⁴ Between 1995 and 2001 the production was at 3 million bpd with a peak in 2001 of 3.4 million bpd. As of 2009, the production has been at 2.4 million bpd. The estimates for the future will most likely shrink in terms of oil, but rise in absolute terms due to large discoveries of natural gas liquids (NGL).

effective institutions and good governance, which are both also seen as key factors in preventing a resource curse.⁵⁵

4.1 Success Factors

The success in managing Norway's oil industry relies on several factors. Policy-makers from all over the world have looked to Norway for advice on how to go about developing the oil industry in their respective countries, but one cannot simply reapply a Norwegian blueprint to achieve success. A brief examination of some of the preconditions Norway had that were crucial for success in the management process is therefore essential. However, this is not to say that a country must possess all of the outlined criteria, but the combined result is inevitably powerful for creating a unique and coherent political environment based on policy consensus.⁵⁶

A great number of factors contributed to a unique political environment of Norway prior to 1969.⁵⁷ These include, but are not limited to: a well-developed system of governance, a highly efficient civil service system, a well-established

⁵⁵ Erling Røed Larsen argues that Norway did escape the curse. "Norway, the Resource Curse, and the Dutch Disease," *American Journal of Economics and Sociology*, vol. 65, no. 3 (2006). Elissaios Papyrakis, however, points out that Norway experienced several years of recession despite the good management. "The Resource Curse Hypothesis and its Transmission Channels," *Journal of Comparative Economics*, vol. 32, no. 1 (2004).

⁵⁶ Some of the factors are both country-specific and transferable, such as good governance. The point is here to differentiate between those factors that were present in Norway and historically deeply ingrained versus those that more easily can be adopted in a country's policies within a short time period.

⁵⁷ For a more extensive list of factors, see Al-Kasim's presentation: "Norad seminar: Olje for Utvikling": <http://siteresources.worldbank.org/EXTNTFPSI/Resources/606764-1150299531473/FaroukAl-Kasim.pdf>.

judicial system, strong traditions in international norms and human rights, a tradition of state separation in industrial development, rich hydropower resources, a strong position in the Western world, a broad and well-developed educational system, maritime traditions, a good environment for technical advancement, and well-developed scientific and industrial research institutions. Popular belief suggests that Norway was relatively (from a Western European view) poor and lacking advanced technology prior to the “oil era.”⁵⁸ Although this is true, the political context is important: the list shows the political context of a social democracy, rooted in a specific cultural tradition,⁵⁹ allowed for the successful development to take place and, accordingly, the even distribution of the resources in the societal sphere.

4.2 The NPD

One of the most important administrative bodies in the management of the petroleum sector is the Norwegian Petroleum Directorate (NPD). The NPD was established in 1972 with the aim of:

“creating the greatest possible values for society from the oil and gas activities by means of prudent resource management based on safety, emergency preparedness and safeguarding of the external environment.”⁶⁰

To ensure this outcome, the Directorate serves four main functions:

⁵⁸ Helge Pharo, *Contemporary European History*.

⁵⁹ Nina Witoszek addresses in her book the cultural issues that have played a role in shaping the “epitome of welfare, equality, justice, environmental concern, and enlightened samaritanism.” Her findings take the reader back to European Romanticism, which claims the roots of important Norwegian values such as nature, peace and a Christian ethos. *The Origins of the Regime of Goodness* (Oslo: Universitetsforlaget, 2011).

⁶⁰ The Norwegian Petroleum Directorate, “About Us,” July 7, 2008
<http://www.npd.no/en/About-us/>.

- Advisor to the Ministry of Petroleum and Energy for integrity and interdepartmental assistance.
- Responsible for data analysis of the NCS. Offshore activities are broadly based on these analyses.
- A driving force for realizing resource potential with special regards to long-term solutions, upside opportunities, and joint operations.
- Overseer of petroleum activities when cooperating with other authorities to ensure comprehensive follow-up.

The NPD also serves an important role in administering competence, mapping of resources, and collecting petroleum data for the Oil for Development Program. As such, the body is among the many functions that have contributed to the well-managed petroleum wealth and the avoidance of the resource curse.

4.3 Transferable Factors?

The second category proves more important for this argument, as it points to good leadership and determination in the management of the resources. These are elements that more easily can be transferred to other oil states in a short time span, thus making them easier to transfer by the adoption and implementation of appropriate policies.

4.3.1 Government Intervention

From the very beginning, the Norwegian government was insistent on assisting in the development process.⁶¹ A win-win situation was consequently created; oil companies competed for the licensees and made profit while the government received their appropriate share. Another key factor was the Norwegian government's decision to demand a transfer of expertise from international to Norwegian companies. As such, Norway could gradually build up its own knowledge without being too reliant upon other international actors, thus limiting the chances of exploitation. By having the government as an active participant, a state-controlled oversight avoided an accelerated tempo of the development and uncontrolled distribution of private licensees. Transparency and predictability were promoted by the virtue of having a democratic tradition where the oil industry at all times was held accountable to the public. Moreover, government intervention helped create diversity in licensees. Diversity improves competition among a larger number of companies, thus increasing efficiency and avoiding negative consequences in regards to the monopoly of a few companies. Finally, the national legislature must establish and obtain a legal framework for both national and international oil companies to abide by.

4.3.2 Managing the Socio-Economic Impact

As in the previous point, the state plays an important role. Oil appears to many LDCs as a redeeming factor and a beacon of hope for a significant boost of the national GDP. This is also the danger. With large amounts of money streaming into

⁶¹ The Norwegian Parliament, Stortinget White Paper no. 28 (2010-2011).

the country, the chances for an over-heated economy rise rapidly, together with the threat of “Dutch disease.” To overcome all of these potential obstacles, the government needs to create a long-term plan that focuses not only on the oil industry, but also on how to ensure growth in other industry sectors. One approach to tackle this issue is to establish a sovereign wealth fund (SWF).⁶² Norway has been successful with this approach with the creation of the Government Pension Fund, commonly referred to as the oil fund.⁶³ The fund has a dual function: it allows for the appropriate amount of oil revenue to be injected into the domestic economy to ensure stable growth and as a national “insurance policy” to buffer economic decline and the eventual decrease of incoming oil and gas revenue.⁶⁴ Lastly, a sovereign wealth fund allows for investments that contribute to a more diversified economy where the oil industry is not the only contributing factor. For countries with few industry sectors, it is crucial to diversify in order to buffer the rise and fall in oil prices, consequently having large effects on the overall economy.

⁶² Oil-producing countries with an SWF include but are not limited to: United Arab Emirates, Saudi Arabia, Kuwait, Russia, Qatar, Libya, Algeria, Brunei, and Brunei.

⁶³ The Government Pension Fund of Norway consists of the Government Pension Fund (formerly the National Insurance Scheme Fund) and the Government Pension Fund Global, which is the continuation of the old Petroleum Fund. The latter is the inflow of all state petroleum revenues and the return on the fund’s investments. See: The Norwegian Ministry of Finance, “The Management of the Government Pension Fund – Global,” February 6, 2007, <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund/The-Management-Model.html?id=429362>

⁶⁴ The amount of money decided to invest into the national economy is set by *handlingsregelen* (the budgetary rule), put forth by the Stoltenberg Government’s Parliamentary Proposition no. 29 (2000-2001): A maximum of four percent of the fund’s annual yield should be allocated into the government’s budget. See: The Norwegian Ministry of Finance, “Retningslinjer for Bruk av Oljepenger (Handlingsregelen) [in Norwegian],” February 11, 2007, http://www.regjeringen.no/en/dep/fin/tema/norsk_ekonomi/bruk-av-oljepenger-/retningslinjer-for-bruk-av-oljepenger-ha.html?id=450468.

4.3.3 Broad National Participation

The idea behind broad national participation is to have the whole country take agency in public matters and hold the government responsible. This is often a challenge for an LDC, which needs a higher level of commercial participation from the government as well as the private sector. Stronger economic growth will result, but the country must also incentivize its own oil-related industries to avoid being too dependent upon foreign companies and labor that often do the initial drilling and pumping.

Increased transparency is another key factor where the media, the civil society, and the general public must hold both the government and the oil companies accountable to limit corruption and poor revenue management. A country is likely to run into a causality dilemma where the capital is to be a part of the state capacity building process, (e.g. combating corruption) while, on the other hand, political leaders often find it easy to enrich themselves. As corruption impedes all functions in building a broader state capacity, this target should have a high priority for the country, but people must realize their crucial role.

The report has emphasized that all three of these approaches should be included in order to ensure the best outcome of newfound natural resources. However, the government of South Sudan should also keep an open dialogue with international actors for bilateral cooperation and assistance where necessary.

5. Norway in South Sudan In 2011

Norway's development assistance in Sudan began in 1972, after the Addis Ababa

peace agreement.⁶⁵ The Norwegian assistance in Sudan followed the “Norwegian Model”, based on money allocation from the MFA to NGOs working in the local areas. Norwegian Church Aid (NCA) and Norwegian People’s Aid (NPA) were both working in Sudan from the beginning, while the Norwegian Refugee Council (NRC) and other organizations have joined in more recent years. Both the Government of Sudan (GoS) and regional authorities requested NCA’s assistance in a long-term socioeconomic development program in Equatoria, a southern region of South Sudan.⁶⁶ The program had a dual purpose: to repatriate refugees and support the peace process. Following the program, NCA signed a four-year contract with the GoS that would shift the focus from relief aid to development. The new contract involved a program where NCA would work in close cooperation with Sudanese authorities, who ultimately gave consent to each individual program. Priority was given to agriculture, co-operatives, and health by setting up regional bases, responsible for the local implementation (see Figure 3). In addition, the program also focused on infrastructure such as roads, education, and water. Also NPA works closely with the civil society in South Sudan. They focus on the strengthening of civil society, focusing on democratization; gender equality and fair distribution of resources;⁶⁷ rural development, focusing on agricultural and economic development; and health

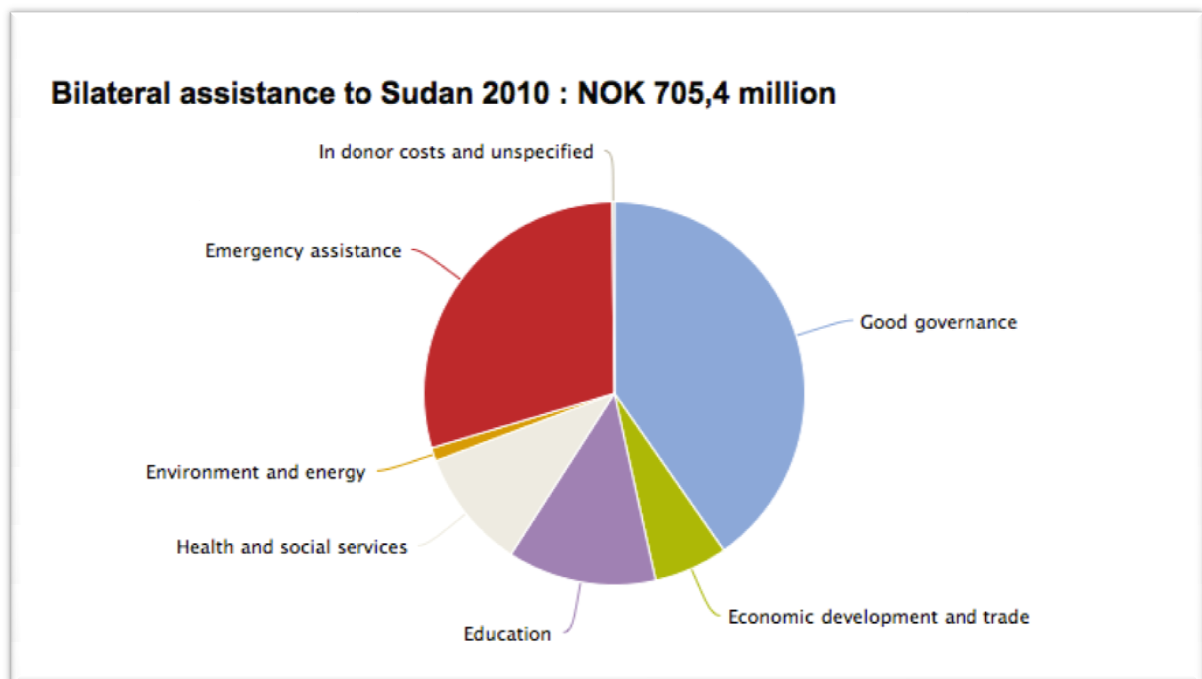
⁶⁵ The Norwegian Ministry of Foreign Affairs, “Evaluation of Norwegian Humanitarian Assistance to the Sudan,” November 1997, http://www.norad.no/en/tools-and-publications/publications/publication/_attachment/167381?_download=true&_ts=128152065e2.

⁶⁶ The Royal Norwegian Embassy in Khartoum, “Norwegian NGOs,” November 10, 2011, http://www.norway-sudan.org/Embassy/Norway_in_Sudan/Civil-Society-Relations/Norwegian_NGOs/.

⁶⁷ One of the programs is called “Oil for Common Good” where the NPA has arranged oil conferences, supporting oil task forces, and research of CSR of oil companies. Email correspondence with NPA and Nina Pedersen, December, 2011.

care, including treatment of landmine-related injuries. All of these initiatives are examples of the Norwegian Model, where a large part of the NGOs' budget is allocated by Norad to utilize local knowledge. Figure 3 shows the large portion of revenue allocated to good governance while areas such as environment and energy, a sector seen in accordance with Norway's focus on sustainable energy solutions, is marginal.

Figure 3: Bilateral assistance to Sudan 2010



Source: Norad, "Norwegian Aid Statistics," <http://www.norad.no/en/tools-and-publications/norwegian-aid-statistics>.

NPA has also shown a commitment to assisting Sudan. Since 1986 the NGO has been present in South Sudan as one of the largest humanitarian actors. Since the signing of the CPA, NPA has established five priority areas: strengthening of civil society, focusing on democratization, gender equality, and equal resource distribution; rural

development, focusing on agricultural and economic reforms; health care; emergency aid; and clearing/EOD of landmines. Hence, Norwegian NGOs have all played integral parts in the development of Sudan. Their work must continue in South Sudan and that the MFA and Norad expand their existing initiatives, such as the Oil for Development initiative

5.1 The Oil for Development Program

The Oil for Development (OfD) program was launched by the MFA in 2005. The operative goal is to assist “developing countries [upon request] with petroleum resources (or potential) in their efforts to manage these resources in a way that generates economic growth and promotes the welfare of the population in general, and in a way that is environmentally sustainable.”⁶⁸ The initiative requires participating countries to obey the following criteria for involvement:⁶⁹

- Cooperation must be demand-driven.
- The country must be eligible according to OECD/DAC principles.⁷⁰
- Significant petroleum resources or potential must be present.
- Norwegian experience and expertise must be relevant.

⁶⁸ Norad, “The Norwegian Oil for Development Initiative: Factsheet,” Oslo, 2006, <http://www.norad.no/en/tools-and-publications/publications/publication?key=109578>

⁶⁹ Ibid.

⁷⁰ The Organization for Economic Co-operation and Development’s Development Assistance Committee is a forum where member states discuss various development projects, and this committee has outlined certain criteria for recipient countries. See: *ibid.*

- Demand for capacity and competence building in public institutions must be identified.

All of the requirements must be met for any short or long-term involvement to take place. Short-term initiatives are based on information exchange by field visits, delegate exchange, and seminars of management and administration of petroleum resources. The requirements for long-term cooperation are the same, but the number of participating countries is limited due to capacity constraints. The goal is to address more complicated issues, such as good governance, corruption, transparency, human rights, and the rule of law. Governmental obligation is essential and evidence of commitment to poverty reduction and improved wealth distribution must be seen throughout the cooperation. As of 2011, eight countries make up the “core countries” of the OfD, meaning they are subject to long-term capacity building under the pillars of *revenue management*, *resource management*, and *environmental management*.⁷¹

5.2 Oil for Development in South Sudan

South Sudan is one of the eight core countries in the OfD program and in 2011 received a significantly higher allocation than the year before, thus enhancing the Norwegian commitment to the region.⁷² The inception of the program took place in October 2008 when the MFA and the Sudanese Ministry of Petroleum and Mining

⁷¹ The core countries are Angola, Bolivia, Ghana, Mozambique, Rep. of Sudan, South Sudan, Timor-Leste, and Uganda. OfD also works with a number of other countries but with limited cooperation.

⁷² For Sudan as a whole, the financial figures for 2010 were NOK 27 million while the allocated sum in 2011 was NOK 70 million. See: Norad, “Annex 2 Country-Specific Plans for 2011,” http://www.norad.no/en/thematic-areas/energy/oil-for-development/news-archive/_attachment/315297?_download=true&_ts=12f447c1489.

(MPM) signed a Memorandum of Understanding (MoU) regarding cooperation in the petroleum industry.⁷³ The MoU outlines three focus areas in the time period between 2010 and 2013: supporting the implementation of the CPA, technical support, and capacity building.

For the *implementation of the CPA*, Norwegian assistance has addressed both parties on post-2011 issues regarding the petroleum industry. The most important work has been to solve the split of the oil resources. NPA's program "Oil as a Common Good" has played an important role in working with the GoSS Land Commission and other local organizations to find sustainable conflict solutions for the land disputes.⁷⁴ While it is still ongoing, the issue is deemed a high priority in order to decrease the risk of further tension. Norway cooperated with the CPA mandated NPC (National Petroleum Commission) in an audit of the petroleum sector that specifically evaluated production, transportation and marketing of oil.⁷⁵

Technical support was primarily given to an evaluation of Increased Oil Recovery (IOR) in the fields of Heglig, Unity and Niim. Phase one of the projects showed promising results, and it has been suggested to continue the exploration.

⁷³ Although the MoU was signed between the GoS and the MFA, the conditions stipulate cooperation with South Sudan (the then autonomous government), as based on the CPA. The Norwegian Ministry of Foreign Affairs, "Memorandum of Understanding between the Norwegian Ministry of Foreign Affairs and the Sudanese Ministry of Energy and Mining regarding cooperation within the Petroleum Sector," October 15, 2008, <http://www.regjeringen.no/upload/UD/Vedlegg/Utvikling/mou081015.pdf>.

⁷⁴ Email correspondence with Nina Pedersen (NPA). See also: Norwegian People's Aid, "Rights to Land and Resources – Oil as a Common Good," http://www.npaid.org/en/development/where_we_work/all_projects/projects_in_afrika/projects_in_south_sudan/civil_society/?module=Articles&action=Article.publicShow&ID=17203.

⁷⁵ The NPC was established by Presidential Decree No. 37 (2005) to be responsible for the creation of principles and guidelines regarding development and management that seeks to "serve the best interest of the people of Sudan."

The report suggested that IOR could be increased from 23 percent to over 30 percent, resulting in an increase of \$5 billion in revenue.^{76 77} Hence, there is a great potential for increasing revenue.

A capacity building program was prepared in cooperation with MPM and Nilpet. The program, spanning over a three to five year period, focuses on resource management and environmental management. NPA has also, under this chapter, played a central role, training journalists to cover oil-related issues to increase transparency and public awareness of the management.⁷⁸ Much of the work will be comprised of seminars in Juba.

All of the three approaches are essential as they focus on the theme of establishing a broader state capacity with the necessary security while increasing the oil revenue to the benefit of the South Sudanese people. However, since much of this work requires a comprehensive approach the MFA and GoSS must coordinate efforts with international institutions.

5.3 Working With International Institutions

The 2010 OfD Working Plan shows that the initiative must seek cooperation with international institutions to draw on expertise and improving interaction outside

⁷⁶ The report was prepared for both North and South, so the figures for South Sudan alone will vary. The Heglig field is in the Republic of Sudan.

⁷⁷ 23 percent is the average recovery factor in Sudan, while the global average for crude oil is 30 percent and Norway averages at 46 percent. See: The Royal Norwegian Embassy in Khartoum, "Oil Recovery From Oil Fields in Sudan May Be Substantially Increased," November 4, 2010, http://www.norway-sudan.org/News_and_events/Business/Oil-recovery-from-oil-fields-in-Sudan-may-be-substantially-increased/.

⁷⁸ Email correspondence with Nina Pedersen (NPA).

the realm of Norwegian competence.⁷⁹ Norway is a small country with limited capabilities, making multilateral cooperation with international organizations imperative. Norad and the MFA must also acknowledge its limited capacities and seek cooperation to allow for a more comprehensive development approach. Another issue is that the Norwegian actors must find the balance between horizontal and vertical assistance. This report assumes that all interactions are based on consent from Juba and further suggests that certain assistance areas should be expanded, with one such area being revenue management and transparency.

5.3.1 Petrad

This non-profit organization was established in 1989 to transfer knowledge and experience about administration, management, and technology between experts in governments and national oil companies. Some of Petrad's work includes competence-building seminars both in Norway and abroad that are tailored to the specific country.⁸⁰

5.3.2 RWI and EITI

The OfD entered into a new three-year agreement with the Revenue Watch Institute (RWI) in 2010. The cooperation focuses on empowering local oversight bodies,

⁷⁹Norad, "Oil for Development (OfD) Work Plan and Financial Overview 2010," Oslo, 2010, http://www.norad.no/en/thematic-areas/energy/oil-for-development/_attachment/164841?_download=true&_ts=1278f19954c.

⁸⁰The Royal Norwegian Embassy in Khartoum, "Petroleum Workshop in Khartoum," January 7, 2007, http://www.norway-sudan.org/News_and_events/Business/workshop/.

supporting civil society, and collaboration between the African Extractive Resources Facility and the Natural Resource Charter. Similarly, the Extractive Industries Transparency Institution (EITI) strives to create a greater transparency through verification and publication of extracted natural resources. The initiative rests on the pillars of government publication of information, public disclosure by the private sector, and the role of civil society as a watchdog.⁸¹ It is important for the authorities in Juba to realize the importance of these organizations as it shows commitment to the international community for more transparent petroleum policies. With public disclosure, the oil wealth can consequently be spread on more equal grounds.

5.3.3 IMF and the World Bank

The OfD program continues to work with the World Bank and the International Monetary Fund (IMF) with the aim of adhering to the best international expertise. The Petroleum Governance Initiative (PGI) is a bilateral initiative between the OfD program and the World Bank, aiming at good petroleum governance under the pillars of sector governance, environmental management, and community development.⁸² The IMF has a corresponding trust fund, Managing Natural Resource Wealth (MNRW), aiming to build state capacity on micro-economy, tax-policy,

⁸¹ Global Witness, "The EITI in South Sudan: Basics and Benefits," London, 2011, <http://www.globalwitness.org/sites/default/files/library/110518%20EITI%20Memo.pdf>.

⁸² Eleodoro Mayorga Alba, "Petroleum Governance Initiative: Assessment of Environmental Governance and Management System in Oil Producing Countries," World Bank, presentation during Extractive Industry Week, 2009. http://siteresources.worldbank.org/EXTOGMC/Resources/336929-1237387264558/5930373-1237390781455/mayorga_pgi.pdf

negotiations, and fund management.⁸³ South Sudan is presently not engaged in any of these initiatives. Capacity building in the petroleum sector is among their top priorities, and establishing good relationships within international organizations is, therefore, a key to success.

5.4 Conclusion

Norwegian NGOs have played an important role in South Sudan and must continue to do so. Working to establish better schools, hospitals, and infrastructure should all be a part of the capacity building strategy. However, while increased funding is a step in the right direction, the MFA must understand its limitations and ensure that planning, funding, and execution is done with a strong commitment on a long-term basis. One of its top priorities should be to work with both North and South to abide by the principles of the third chapter in the CPA regarding wealth sharing. Hence, limiting North-South tension must be avoided at all cost for sustainable development to take place.

Furthermore, Norway must continue to provide technical support. The emphasis should be on finding ways to increase IOR in order to generate more revenue. Similarly, the incoming revenue must be disclosed to avoid corruption. South Sudan should, therefore, apply for membership with the EITI. By doing so, the country ensures that the broader population can enjoy the wealth benefits; it sends a positive signal that will attract foreign investment; and it puts South Sudan in the

⁸³ IMF, "Managing Natural Resource Wealth," program document, 2010, <http://www.imf.org/external/np/otm/2010/110110.pdf>.

company of similar oil states, which allows for better opportunities for cooperation. Finally, South Sudan should open up to the multilateral initiatives proposed by the MFA in collaboration with the IMF and the World Bank. These programs will serve as good frameworks in the process of building a strong state capacity that can deal with the management of the new revenue.

6. Looking Ahead

Looking ahead, policy-makers should consider both oil and non-oil related issues. Given the potential impact of well-managed oil revenue, Norway should expand its role in assisting South Sudan by improving oil recovery, while bearing in mind the environmental implications of IOR. Depending on the economic progress, an oil fund should be established to avoid an overheated national economy. Finally, since the oil is expected to peak in the near future, the government must start planning on how to use the resource wealth to diversify the economy. Suggested fields are agriculture, minerals, and hydropower.

6.1 Increased Oil Recovery

As outlined in sections 5.2 and 5.4, South Sudan has a great potential for increasing its oil recovery from an average of 23 percent to over 30 percent.⁸⁴ GNPOC blocks

⁸⁴ According to research done by Halliburton, the recovery might be as much as 40 percent. See: Reuters, "S. Sudan Talks to Halliburton to Boost Oil Production," *Reuters*, October 28, 2011, <http://www.reuters.com/article/2011/10/28/sudan-south-oil-idUSL5E7LS3K420111028>.

1,2, and 4 look especially promising for enhanced recovery methods.⁸⁵ Although the technology between offshore North Sea drilling and onshore drilling in South Sudan differs vastly, the Norwegian example of increasing oil recovery from 18 percent at the initiation to almost 50 percent today speaks to the strategic importance of utilizing advanced technology. The MPM should, therefore, thoroughly explore the possibility of letting international companies, in collaboration with Nilepet and other national companies, increase the oil recovery.

Short-term focus should be to start water injections as soon as possible. This method is fairly inexpensive, but requires investment in wells and water purification technology. A more long-term plan is to inject with modified water, which increases the recovery percentage. Although this plan is more costly and requires comprehensive planning, the expected return is exponentially greater.⁸⁶ However, good cooperation between all stakeholders with the necessary investment and competence is a precondition for the project to succeed. Another precondition, as pointed out in section 2.2, is consensus in Juba where the various government institutions must collaborate on mutual policy platform.

6.2 Diversification of the Economy

As of 2011, 98 percent of South Sudan's revenue comes from the oil industry. With the projected rapid decline of the oil, it is imperative for the country to expand its other industries. Even if the oil timeline is extended, the economy will be too fragile, due to oil price fluctuations, to almost fully rely on oil export. This report suggests

⁸⁵ The Royal Norwegian Embassy in Khartoum, November, 2010. See map.

⁸⁶ Email correspondence with Odd Skontorp (Odd Skontorp [Oil] Consulting), December, 2011.

three sectors of expansion that Juba should take into consideration: agriculture, mining, and hydropower.

6.2.1 Agriculture

Agriculture has been called the “backbone” of South Sudanese economy, but the potential is inconsistent with the current food scarcity.⁸⁷ While agriculture only accounts for a small percentage of the GDP, the sector employs as many as 85 percent of the country.⁸⁸ Due to good climate and geographical conditions, the GoSS has announced that it wishes to strengthen the agricultural sector, and in 2011 increased the financial allocation by 50 percent.⁸⁹ The World Bank is one of the international institutions eager to assist the country. A likely approach to further the development of the agricultural sector is a coordinated donor support commitment to stabilize the economy due to instability in the oil prices.⁹⁰ The aid would serve as a temporary buffer for the country to develop its alternative sources of revenues (also including hydro power and mining).

*Agriculture sector development is the antidote to the famous resource curse, that natural resource endowed countries like South Sudan could suffer from.*⁹¹

⁸⁷Betty Achan Ogwaro, Minister of Agriculture and Forestry. See: USAID, “USAID Supports South Sudan’s First Agricultural Trade Fair,” press release, November 9, 2011, http://www.usaid.gov/press/releases/2011/pr111109_1.html. Also, email correspondence with Alberto Behar, IMF: storage and infrastructure are important as much of the food never reaches out in the rural areas.

⁸⁸ Nargis Alphonse, “South Sudan: First Agricultural Trade Fair Kicks Off in South Sudan,” *All Africa*, press release, November 10, 2011, <http://allafrica.com/stories/201111100860.html>.

⁸⁹ Jill Shankleman, “Oil and State Building in South Sudan,” *United States Institute of Peace*, (Washington DC: United States Institute of Peace, 2011).

⁹⁰ Jill Shankleman, *USIP*

⁹¹ Agence France Presse (AFP), “World Bank: South Sudan’s Future in Agriculture Not Oil,” *The Daily Star*, September 6, 2010, <http://www.dailystar.com.lb/Business/Middle-East/Sep/06/World-Bank-South-Sudans-future-in-agriculture-not-oil.ashx#axzz1eTr0Y0v1>.

Furthermore, new government policies should encourage families to increase their production of crops in order to sell a surplus; hence, local trade will be enhanced. Norwegian efforts should assist existing initiatives, such as those of USAID, that seek to improve productivity; support market-led agriculture; develop a commercial domestic seed and fertilizer industry; and improve infrastructure for farmers to transport their products to markets.⁹² Drawing on its expertise in hydropower, Norway should assist in building dams for both irrigation and power.

6.2.2 Mining

South Sudan has an abundance of minerals that include copper, gold, silver, aluminum, iron, uranium, chromium ore, zinc, mica, diamond, and quartz.⁹³ The GoSS drafted in the fall of 2011 a legislative bill seeking to open up for mining. The bill welcomes foreign investment by offering a lower tax than many neighboring countries. Although South Sudan must develop its own mining industry with cooperation between the government and private companies, it should welcome as they bring necessary expertise. As pointed out in section 4.0, foreign expertise is essential in the initial phase of natural resource extraction, although the GoSS must work closely with national companies to allow them to develop their own expertise. Consequently, some international companies have been granted exploration

⁹² USAID, 2011.

⁹³ According to a government factsheet. See: Jeremy Clarke, "South Sudan Hopes to Pass 'Attractive' Mining Act by October," July 14, 2011, <http://uk.reuters.com/article/2011/07/14/uk-southsudan-mining-idUKTRE76D42I20110714>.

licenses for gold and uranium. This is a step in the right direction, and, once one or two companies can report positive results, it will increase the interest of other companies. Recently there has been a problem of several ministries producing their own sets of regulations, which have impeded and discouraged industry development. In this process, Norway should play a similar role as in the petroleum industry. It should assist with the establishment of consistent licensing rules from the GoSS that require transparency, demand assistance for national companies, and work to avert potential effects of Dutch disease.

6.2.3 Hydro Power

Reports on the potential of hydropower and electric generation are somewhat vague, but the potential nonetheless exists. President Kiir has been in dialogue with the government of Uganda to look at the potential of a bilateral effort of constructing hydropower stations along the White Nile.⁹⁴ Hydropower is currently the main source of power in Uganda, but the country is seeking to expand their hydropower capacity (e.g. with the production of Bujagali and Karuma power projects⁹⁵). Regional cooperation will strengthen the bonds between the two countries with positive outcomes such as increased trade and reciprocal investment. Norway, whose electricity is 99 percent hydropower, should seek to assist South Sudan upon

⁹⁴ Julius Uma, "South Sudan's Kiir, Museveni Discuss Hydro-Electric Power Plans," *Sudan Tribune*, December 21, 2010, <http://www.sudantribune.com/South-Sudan-s-Kiir-Museveni,37349>.

⁹⁵ The Bujagali power station (250 MW) is planned to be fully operational in 2012, while the Kumara project (650 MW) has a commission target date of 2017. See: "Bujagali Power Project," *Kenya Engineer*, December 5, 2011, <http://www.kenyaengineer.co.ke/news/2-news/133-bujagali-power-project>.

request by drawing on its knowledge of hydropower. This will stabilize the energy supply, especially in rural areas. Businesses reliant upon expansive diesel generators will save money, foreign companies will be more inclined to invest, and the general public will experience increased access to electricity.

6.3 Conclusion

Norway has shown its commitment to the OfD initiative, but has only vaguely addressed the long-term development schemes. While the good work must continue, the MFA and Norad should also address what happens once the oil is gone. Planning for this is urgent, as the oil supply is expected to be declining soon. To avoid spreading the Norwegian efforts too thin, sufficient financial allocation is necessary. Norway must realize the importance of focusing on the development of both oil industry and non-oil industries. Parts of the aid from Norway and other donor countries should be utilized to stabilize a fragile economy. A priority is to conduct comprehensive assessments of how to develop the sectors of agriculture and mining. Multilateral cooperation between Norway, the GoSS, and international institutions is deemed necessary to draw upon a wide array of knowledge. Lastly, Norway should seek to initiate a bilateral hydropower initiative, following guidelines from the OfD in order to sustain the build-up of new businesses and industry in South Sudan.

7. Recommendations

The following recommendations are targeted for the Norwegian MFA, Norad, Norwegian NGOs, and the relevant ministries of the GoSS. The suggested timeline

for actions is short (one year) to medium (three to five years), but the recommendations should be situated into a long-term (20-30 years) perspective as a part of the overall state capacity building. The essential theme is to use the oil revenue in the interest of a broad societal spectrum, based on a social democratic model, where new industries should be established with the petroleum capital. Along with this, the humanitarian aspect must be taken into account, as the overarching goal is to improve humanitarian condition. Building schools, hospitals, and infrastructure is all an important part of this process. However, to ensure the sustainability of the recommended steps, there must be a strong focus on creating good and peaceful relations, both domestically and with the Republic of Sudan. Among other steps, the *Government of South Sudan* should consider the following:

Short-term:

- Abiding by the principles outlined in the CPA to gradually establish a better relationship with the Republic of Sudan. Solving the border dispute in the Abyei region is a key factor.
- Creating unity within their own government, where policy making is done in a united and cohesive manner. This is especially important in regards to resource management.
- Establishing a production share agreement (PSA) with the Republic of Sudan to solve ongoing and future disputes concerning the division of natural resources. The fees for use of pipeline and refineries are essential points in this agreement.

- Committing to the EITI and increased transparency to demonstrate that South Sudan is a reputable oil state, thus limiting corruption.
- Establishing sub-agencies of the MPM and continued to support of the NPC to ensure a strong government presence in the distribution of licenses, a demand to transfer and develop national petroleum expertise, and build strong connections to international oil companies.

Medium-term:

- Providing security for international oil companies to create a hospitable investment environment.
- Continuing to diversify the economy with a focus on further developing the agriculture, mining, and hydropower sectors to buffer the revenue swings from an over-dependent oil economy.
- Allowing for unrestricted freedom of the press and encourage broad participation from civil society to create a more accountable and transparent government.
- Establishing comprehensive macroeconomic policies to further prevent the resource curse and Dutch disease.

The *Norwegian actors* should consider the following recommendations for future actions in South Sudan:

Short-term:

- Commissioning a comprehensive report in collaboration with the MPM on how to best tailor Norwegian petroleum expertise to South Sudan.

- Drawing on advanced technology from the North Sea to substantially increase IOR, especially in GNPOC blocks 1,2, and 4.
- Creating concrete timelines for the respective involvement projects so as to ensure a clear time perspective that is necessary for the GoSS to utilize in order to gradually become less reliant on international aid and assistance. Collaboration between the various Norwegian actors is essential, and also between Norway and international organizations.

Medium-term:

- Continuing to oversee the implementation of the CPA to ensure regional stability.
- Expanding the overall Norwegian assistance in South Sudan with increased manpower and resource allocation for the medium term to give South Sudan the necessary backing in the initial startup phase.
- Assisting South Sudanese authorities with management-based seminars on how to develop good capacity to distribute the resource wealth.
- Assisting Nilepet with competence to make it competitive against international competition to gradually build up the national oil industry.
- Expanding the Norwegian assistance upon request from the GoSS to aid in the diversification of the economy, especially by providing expertise and technology to develop the hydropower industry.

