INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ECONOMICS & MANAGEMENT SCIENCES

OPEN ACCESS JOURNAL

Vol 14, Issue 3, (2025) E-ISSN: 2226-3624

Escaping the Resource Curse: The Case Study of Somalia's Natural Resources

Mohamed M. Farid

East London University

Email: Mohamed-7791@outlook.com

DOI Link: http://dx.doi.org/10.6007/IJAREMS/v14-i3/26177

Published Online: 25 August 2025

Abstract

Somalia has recently witnessed significant developments in oil and gas exploration, particularly in offshore and onshore blocks, revealing substantial hydrocarbon reserves. Despite this potential, the country faces profound challenges due to fragile governance, political instability, and institutional weaknesses, which risk exacerbating the negative impacts commonly associated with resource wealth, such as the resource curse and economic volatility. This research adopts a qualitative analytical approach, reviewing exploration data, governance frameworks, and socio-political dynamics in Somalia. It synthesizes existing literature on natural resource management and examines case studies of resource-rich developing countries to contextualize Somalia's institutional capacity and policy environment. The findings highlight Somalia's promising oil and gas reserves but reveal critical governance and institutional gaps that hinder effective resource management. Political mistrust, weak regulatory bodies, and federal-member state tensions increase the risk of mismanagement and socio-political conflict. Lessons from other resource-rich nations emphasize the need for strong governance to avoid economic and political instability. Somalia's natural resource wealth presents both significant opportunities and risks. To harness this potential sustainably, the country must develop robust institutional frameworks, transparent governance, and equitable revenue management policies. Implementing targeted reforms can help Somalia mitigate the resource curse and transform its hydrocarbon discoveries into inclusive, long-term development gains.

Keywords: Federal state, Federal Member state, Extractive Industries Transparency Initiative, International Oil companies

Introduction

Somalia has recently witnessed significant developments in oil and gas exploration, particularly in its offshore territories. The Ministry of Petroleum and Minerals of the Federal Republic of Somalia has granted exploration licenses to several international oil companies, including Liberty Petroleum has blocks of (*131, 190 & 206*), the Turkish Petroleum Corporation (TPAO), and Coastline Exploration has (*141, 143,191, 205& 221*) to operate in various offshore blocks. (Tsamalashvili. 2025).

In addition to offshore exploration, the Ministry has also awarded onshore exploration licenses to Gulf Som, specifically for the Afgoye, Gedo, and Nugal blocks. These onshore areas are set to be the focus of future exploration efforts. The three offshore blocks recently explored by TPAO (*152, 153, and 142*) estimated to contain around 30 billion barrels of oil, and the onshore Afgoye block recently awarded to Gulf of Energy contains approximately 6 billion cubic meters of proven natural gas reserves. (Hovhannisyan, 2022).

The Interest in oil and gas exploration in Somalia dates back to 1924, when several international oil and gas companies conducted exploratory drilling in both onshore and offshore regions of the country. In recent years, this interest has increasingly focused on offshore blocks, largely due to ongoing security challenges within the country, including internal conflict and the presence of the Al-Shabaab terrorist group, which has limited exploration efforts in onshore areas. Recent offshore exploration activities have reinforced the belief in Somalia's significant hydrocarbon potential. (Davidson, et al. 2018).

To comprehend the purpose of this research paper is to highlight Somalia's oil and gas potential and to address the challenges faced by the Somalia government following the discovery of these resources. Countries rich in natural resources are often vulnerable to the so-called "Dutch disease" and political instability, typically resulting from the mismanagement of resource revenues. For instance, developing countries such as Nigeria, the Democratic Republic of Congo, and Venezuela have experienced such challenges. In contrast, nations like Norway, Chile, Canada, and Botswana serve as examples of how effective governance and sound resource management can lead to sustainable development.

Somalia stands at a critical juncture in its economic history, with recent offshore and onshore oil and gas discoveries generating both optimism and apprehension. While these developments have the potential to transform the country's economic landscape, they also bring heightened risks of governance failures, economic volatility, and conflict. The Somali case is especially compelling because it combines vast hydrocarbon potential with fragile political institutions, a history of protracted conflict, and pressing development needs. Yet, despite growing international interest in Somalia's petroleum sector, there is a limited scholarly body of work that critically examines how these opportunities and risks intersect in this unique context.

However, this research seeks to raise awareness and deepen understanding of the risks and challenges associated with natural resource exploitation, particularly in the Somali context. These challenges include governance issues, economic volatility, and the heightened risk of conflict. In Somalia, both the government and the general public often perceive resource extraction primarily as a direct avenue to financial gain, driven by the notion that *"what comes out of the ground is fundamentally money."* This perception, however, tends to overlook the complex socio-economic and political dynamics that accompany natural resource management. (Ross, 2015).

Background of the Research

Natural resources like oil, gas, and minerals can greatly benefit a country's economy, but often bring significant challenges—a phenomenon known as the resource curse. (Gedikli, 2020). Countries rich in natural resources frequently experience economic instability, political

chaos, and slower development compared to those with fewer resources. Resource wealth can cause currency appreciation, harming sectors like agriculture and manufacturing, while price volatility in oil and gas creates boom-bust economic cycles. (Simpson, 2017).

Africa holds abundant oil and gas reserves, with 125 billion barrels of crude oil and 18 trillion cubic meters of natural gas. (Pereira, 2024). However, much of the gas is exported, and the local benefits are minimal. Somalia has also discovered significant offshore hydrocarbon reserves. (Alagoz, 2023).

Despite these promising discoveries, Somalia faces major governance and institutional challenges. Political instability, weak government capacity, and dependence on external actors hinder its ability to convert resource wealth into sustainable development. (Hoedemaekers, 2024). Although Somalia once had effective public services after independence, decades of conflict and the collapse of the central government in 1991 have left the country fragmented. Tensions between the Federal Government and Federal Member States have further undermined the development of core institutions like the judiciary, security forces, and regulatory bodies. (Hovhannisyan, 2022).

Despite possessing substantial oil and gas reserves, Somalia continues to face severe economic challenges, political instability that hinder its ability to transform natural resource wealth into sustainable development. (Wei, 2024). The absence of strong resource governance frameworks, persistent political mistrust, and the high expectation of revenue raise critical concerns about whether Somalia is prepared to manage resource revenues effectively. This situation echoes the broader "resource curse" experienced by many resource-rich developing countries, where natural wealth has led not to prosperity but to instability, corruption, and economic stagnation. (David, 2024).

While considerable literature exists on the resource curse and its effects on African countries, there is limited research specifically focused on Somalia's readiness to manage oil and gas resources in the context of its fragile governance, federal tensions, and post-conflict reconstruction. (Menkhaus, 2014). Most existing studies either generalize the African experience or focus on already established oil producers. There is a lack of country-specific, evidence-based analysis on Somalia's institutional preparedness, governance frameworks, and socio-political dynamics as they relate to resource management. This research seeks to fill that gap by assessing Somalia’s potential to avoid the pitfalls of the resource curse and leverage its resource wealth for inclusive, long-term development. (Oxford Analytica. 2019).

Scope of the Research

The scope of the research is to examine the potential of the oil and gas sector in Somalia, with a particular focus on current exploration activities and their future implications for the country's economic development. The study is limited to presenting the opportunities for natural resource discovery and the specific challenges associated with managing revenue from the oil and gas sector in fragile and conflict-affected settings.

Objectives of the Research

The general objective of this research is to analyze and highlight the risks linked to the utilization of natural resources in Somalia. It seeks to explore how resource-rich developing

countries such as Somalia often face challenges such as the Dutch disease, political instability, and economic mismanagement, which can undermine the potential benefits of natural resource wealth.

The Specific Research Objectives Include

a) To assess and validate the oil and gas potential of Somalia.
b) To examine the risks associated with revenue generation from natural resources.
c) To identify the challenges associated with institutional capacity, political mistrust, and revenue management to avoid the resource curse.
d) To develop a policy framework model aimed at guiding Somalia in overcoming the challenges of the resource curse and ensuring sustainable resource management.

Significance of the Research

Over the past nine years, extensive geoscientific research has been conducted by various stakeholders in Somalia's offshore blocks. The data obtained from these studies have confirmed the presence of significant oil and gas potential within the country.

In addition, this research emphasizes that natural resources can significantly activate socio-political and economic challenges, particularly in countries with abundant resource wealth. While such countries have the potential to benefit greatly from their natural resources, they also face unique and complex challenges. (Mojarad, al et. 2018, March).

These challenges do not arise immediately but tend to emerge over time if the resources are not managed effectively. Poor governance, lack of transparency, and weak institutions can lead to what is commonly known as the "resource curse," where the presence of resource wealth ultimately undermines sustainable development. (Olawale, et al. 2023).

This study makes a significant contribution to the literature on resource governance by presenting a thorough, contextually grounded analysis of Somalia’s oil and gas prospects, while examining the institutional, economic, and security-related challenges the country faces. By drawing on comparative insights from both successful resource-rich nations and those adversely affected by resource mismanagement, the paper integrates theoretical frameworks surrounding the 'resource curse' with the complex realities of a post-conflict environment. In doing so, it advances scholarly discourse and offers practical recommendations for Somali policymakers, international stakeholders, and civil society organizations aiming to transform natural resource wealth into a driver of sustainable, inclusive development, rather than a trigger for renewed instability.

In contrast to the challenges mentioned above, Somalia remains a fragile state characterized by weak governmental institutions. This institutional weakness is largely attributed to poor relations between the federal government and its member states, the persistent threat posed by Al-Shabaab, and various socio-political challenges at the community level. In light of the country’s current situation, the discovery of natural resource wealth appears to exacerbate existing vulnerabilities. (Menkhaus, 2014).

Political scientists and economists have long argued that the abundance of natural resources has frequently been a catalyst for socio-political unrest in resource-rich nations. Such conflicts

are often internally driven, stemming from rival political factions competing for control over valuable natural assets. (Webersik, 2008). For instance, in 1991, countries endowed with substantial natural resources experienced a higher prevalence of civil wars than those without significant oil production. Prominent examples include the Democratic Republic of Congo, Iraq, Niger, Libya, and Angola. (Auty, 2017).

From an economic standpoint, natural resources can serve as a powerful engine for growth and development. However, their effective management is crucial, as overdependence on resource revenues can lead to substantial economic vulnerabilities. (Panford, 2017). A primary concern is the "Dutch disease" phenomenon, whereby a sudden influx of resource income causes a real appreciation of the local currency, undermining the competitiveness of other export sectors such as manufacturing and agriculture. This can inhibit economic diversification and make the broader economy more susceptible to external shocks. (Kojo, 2015).

Therefore, countries endowed with natural wealth must adopt robust institutional frameworks and transparent governance mechanisms to avoid the mismanagement of resources. Misgovernance not only squanders economic potential but also exacerbates inequality and fuels conflict. Ensuring inclusive resource management, equitable revenue distribution, and long-term strategic planning is essential to transforming natural resource wealth into sustainable national development while minimizing the risk of socio-political instability. (Asaduzzaman, et al. 2021).

Literature Review

The literature review in this research examines previous oil and gas exploration activities in Somalia, as well as the available data related to recent offshore blocks. Furthermore, it examines the two big issues associated with the resource curse, including Dutch disease and political challenges in developing countries. The literature is used to contrast these challenges with those experienced by countries that have faced similar risks.

Somalia's Oil and Gas Potentiality

Oil and gas exploration in Somalia began British protectorate era, led by major international companies such as Sinclair Oil, Agip (now part of ENI), and ConocoPhillips. Subsequent geological mapping identified eight major sedimentary basins across the country: Migiurtinia, Mudugh, Mogadishu, Juba-Lamu, Obbia, Coriole, Ogaden, and El Wak/Mandera-Chismajo-Lamu. (Davidson, et al. 2018).

During the 1950s and 1960s, exploration activity intensified. Approximately 70 wells were drilled, the majority of which were onshore, while offshore exploration remained limited to only six wells. Several leading international oil companies, Shell, BP, ExxonMobil, Chevron, Texaco, Conoco, and ENI, secured exploration concessions during this period. Although hydrocarbon shows and surface seeps were encountered, these early efforts did not result in any commercial discoveries. (Bamberger, et. al. 2016).

The 1980s marked a renewed phase of exploration, with major operators signing onshore and offshore concession agreements. Companies including Chevron, Conoco, BP/Amoco, Shell, and Texaco conducted extensive seismic surveys and drilled multiple wells. Notable among

these were the Afgoi-1 well, which recorded gas flows of approximately 7 million cubic feet per day (MMcf/day) along with condensate, and the Coriole-1 well, which demonstrated gas flows in Paleocene sand formations. Despite these encouraging signs, the results remained non-commercial. (Ga'al, 2021).

In 1991, the outbreak of civil war led to the suspension of all exploration activities. With the re-establishment of the Somali government in 2009, TGS-NOPEC Geophysical completed processing and interpretation of a speculative survey in Somaliland (Acting as an independent), acquiring 5,300km of marine and 2D seismic, and approximately 34,000km of high-resolution aeromagnetic data covering onshore areas. (Mohamoud, 2018). In 2012, Africa Oil acquired gravity and 2D seismic in Puntland. This was followed by drilling of two wells (Shabeel 1 and Shabeel North), both of wells encountered oil shows in Cretaceous and Jessomma sandstones. (Bamberger, et. al. 2016).

In 2014, extensive 2D seismic surveys were conducted to assess the hydrocarbon potential of the country's offshore basins. These surveys (covering approximately 20,500 km) and again in 2016, were aimed at mapping the underlying sedimentary structures of several key basins, including the Jubba Deep, Mogadishu Deep, Mid Somalia High, Obbia, Coriolle, and Juba-Lamu basins. (Ga'al, 2021).

The seismic acquisition was conducted by Spectrum Geo Ltd (now part of TGS), a global seismic data provider, under an agreement with the Federal Government of Somalia. Using streamer vessels, the company collected long-offset, high-resolution 2D seismic profiles across Somalia's deep offshore regions. The seismic lines were strategically spaced to provide broad regional coverage across the Jubba-Lamu Basin, Mogadishu Basin, Obbia Basin, Coriole Basin, and the Somali Plateau.

These surveys revealed significant geological features indicative of a multi-play hydrocarbon system. Notable findings include stratigraphic traps, thrust belts, and carbonate platform systems, as well as deep marine clastics and reefal build-ups. These features point to the presence of Jurassic to Tertiary age petroleum systems. Additionally, structural elements such as fault blocks, rollovers, anticlines, and submarine fans were identified, suggesting effective trapping mechanisms for hydrocarbons. (Davidson, et. al. 2018).

In March 2024, Liberty Petroleum signed Production Sharing Agreements (PSAs) with the Somali government for Blocks 131, 190, and 206. The company's exploration strategy focuses initially on seismic evaluation, including the acquisition of 3D seismic data, with the potential for drilling during the five-year initial exploration term. The targeted plays include Jurassic carbonate and clastic formations. (Gundel, 2020).

In March 2024, Turkey and Somalia signed a comprehensive energy and defense cooperation agreement, granting TPAO licenses for three. Turkey deployed the seismic vessel Oruc Reis, escorted by naval ships, to conduct a 3D seismic campaign over roughly 15,000 km² (three blocks, located approx. 50–100 km offshore) during the second half of 2024 and into early 2025. Operations concluded around April 2025, with drilling expected to begin by late 2025 or early 2026. (Levent, 2025)

Resource Curse

The concept of the resource curse was initially debated by economists and refers to the paradox whereby countries rich in natural resources, such as oil, gas, and minerals, often experience lower economic growth, underdeveloped infrastructure, weak institutions, and challenges in establishing democratic governance. Although this theory is not universally applicable, this phenomenon is particularly prevalent in developing countries that seek to rapidly capitalize on resource-generated revenues. (Smith, et al. 2021).

The oil, gas, and mining extraction industries present unique challenges. Resource extraction is inherently finite, and the effective management of such resources requires a long-term and intertemporal strategy. Moreover, the resource curse remains a critical concern. To outline the structure, attention is devoted to the consequences of Dutch disease, the deterioration of institutional quality, and heightened political risks associated with resource exploitation. (Laguda, 2019).

Dutch Disease Syndrome

The first to empirically demonstrate the negative correlations between resource wealth and economic Jeffrey Sachs. The utilization of natural resources can generate significant revenue for developing countries. However, this wealth often becomes a hindrance to sustainable economic growth due to a phenomenon known as the "resource curse." This paradox affects countries endowed with abundant natural resources such as oil, gas, and minerals. (Sachs, et al. 2001).

When these resources are discovered and exported, they generate substantial inflows of foreign currency, leading to an appreciation of the national currency. (Frankel, 2012). This currency appreciation can undermine the competitiveness of other vital sectors such as agriculture, manufacturing, and livestock by making their exports more expensive in global markets. As a result, the economy becomes overly reliant on the resource sector and less diversified. (Abboud, et.al. 2021).

Additionally, the economic instability of resource-rich developing countries is often exacerbated by the volatility of commodity prices. Since many of these nations depend heavily on resource revenues, fluctuations in global prices can lead to severe budgetary imbalances. This volatility contributes to recurring boom-and-bust cycles, where periods of rapid growth are followed by sharp downturns. Such economic instability hampers long-term planning and sustainable development. (Mahmud, et al.2014).

Nigeria serves as a critical example of the adverse consequences of resource wealth. The country's economy is heavily reliant on oil revenues, which account for approximately 90% of its exports. This overdependence has undermined the competitiveness of other sectors. (Onuche, 2020). The large-scale export of oil has led to an influx of foreign currency, making it difficult for local industries to compete with cheaper imported goods. Furthermore, the volatility of global oil prices has repeatedly triggered economic instability, as evidenced during the 2014 oil price crash and the COVID-19 pandemic. (Ikein, (2017).

In 1970, global oil prices experienced a significant surge. Venezuela, which possesses the largest proven oil reserves in the world and is a major oil exporter, has mismanaged its

resource wealth over the years. The Venezuelan government's revenue is heavily dependent on oil exports, making the country highly vulnerable to fluctuations in global oil prices. When oil prices declined in the 1980s, Venezuela faced a severe debt crisis, which led to increased poverty and deepened social inequalities. (Venezuelan, et al.2019).

Resource Conflict

Natural resources can have both beneficial and detrimental effects on the countries that exploit them. While they often serve as a significant source of income and geopolitical influence, the mismanagement of these resources can lead to adverse outcomes. (Anis, et al. 2015). When resource wealth is used for lobbying, distributed without clear criteria, or governed inefficiently, it may become a catalyst for conflict and instability. Resource-related conflicts can take various forms, including disputes over ownership, access, distribution, and management. Each type of conflict has the potential to undermine national stability and hinder sustainable development. Countries' experience in resource conflict includes Sudan and South Sudan, the Democratic Republic of Congo, Nigeria, Iraq, and Venezuela. (Braun, 2015).

The conflict between Sudan and South Sudan is multifaceted, involving religious, ethnic, and economic dimensions. While some aspects of the war have been rooted in religious and ethnic tensions, more recent phases of the conflict have been driven by competition over oil resources. In the early 1980s, the American energy company Chevron discovered significant petroleum reserves in Sudan, particularly in the Heglig and Adar-Yale regions, both of which were located within the South's Autonomous Region at the time. (Nyadera, 2018).

When South Sudan gained independence from Sudan in 2011, the majority of the oil reserves were located in the southern territory. However, the primary export pipeline remained in Sudan, leading to ongoing tensions between the two nations. This situation contributed to the emergence of contested areas such as Heglig and Abyei, which both countries claim. Disputes have also arisen over pipeline transit fees and the division of oil revenues. (James, 2015).

The Democratic Republic of Congo (DRC) is among the wealthiest nations in terms of natural resources, possessing vast reserves of valuable minerals such as cobalt, copper, coltan, tin, and gold, as well as oil and gas. However, rather than contributing to the country's development, these resources have had a detrimental impact across multiple sectors. (Abdulwahab, et al. 2024).

The DRC has been severely affected by ongoing civil conflict and violence involving rebel factions and armed groups, with resource-generated revenues often fueling and sustaining these hostilities. Moreover, the control and benefits of these resources are largely concentrated in the hands of a small group of political and military elites, who exploit them for personal gain rather than national development. (Ganesan, 2024).

Economic, Political Situation in Somalia (2012–2025)

Somalia, located in the Horn of Africa, is classified as a low-income and least developed country within the region. According to the 2022 Somalia Integrated Household Budget Survey (SIHBS), more than half of the Somali population lived below the national poverty line.

The nomadic population faced an especially high burden, with approximately 75% classified as poor, while poverty in urban areas remained comparatively lower. (World Bank. 2024)

The nation's economic condition reflects its current challenges as well as its commitment to growth and recovery. Somalia's economy is supported by a combination of traditional and modern sectors that contribute to its Gross Domestic Product (GDP). (Mohamed, A. 2022). Key sources of income include agriculture, livestock, fishing, industry, telecommunications, and remittances from the diaspora. (Abdullahi, et, al. 2022).

The agricultural sector is diverse and encompasses crop production, animal husbandry. Somalia has a long coastline that provides significant opportunities for fishing, which remains an underutilized resource. Livestock, in particular, serves as the backbone of the Somali economy, accounting for approximately 40% of GDP and over 50% of export earnings. The country relies heavily on remittances, which contribute between $1.6 billion and $2 billion annually, playing a critical role in household income and national economic stability. (Mohamud, et al. 2022).

Improving Somalia's economic conditions faces numerous challenges that hinder economic activities. These obstacles arise from a complex interplay of social, political, and economic factors. In response, the Centennial Vision 2060 outlines a strategic framework designed to diversify the national economy. The plan emphasizes development in several key and emerging sectors, including agriculture and fisheries, manufacturing and industry, trade and logistics, and, most notably, the extractive sector, comprising oil, gas, and mining. (NEC. 2025)

Somalia Political Condition

Following the collapse of the central government of Somalia in 1991, the country experienced a prolonged period of political instability, marked by civil conflict and the absence of a unified national administration. (Mudane, 2018). Efforts to re-establish governance gradually gained momentum, culminating in the formation of the Federal Government of Somalia (FGS) in 2012. (Kitungu, 2019). This marked a significant milestone in Somalia's political transition, as it laid the foundation for a federal system aimed at decentralizing power and promoting inclusive governance across the country. President Hassan Sheikh Mohamud, elected in 2012 as the first president of the new federal government, advocated for a decentralized system of governance. His administration played a crucial role in operationalizing the federal structure between 2013 and 2016. During this period, several Federal Member States (FMS) were officially established, including Galmudug, South West, and Jubaland, and again, President Hassan officially established in his second term a new federal member state named SSC-Khatumo state of Somalia. (Mohamoud, 2015).

From the time of operationalizing the federal system in Somalia, political mistrust has arisen between the president and the federal member states. In 2017, Mohamed Abdullahi Farmajo was elected as president, and the tensions were exacerbated during that time based on the distribution of power, allocation of resources, and the election process. (Lindqvist, 2018).

In 2022, President Hassan Shiekh Mohmoud was elected. The relationship between the central government and the federal member states significantly deteriorated during this period, with accusations of authoritarianism directed at the federal leadership and allegations

that the central government was overreaching its constitutional authority. These challenges revealed the fragility of Somalia's federal arrangement and highlighted the need for comprehensive constitutional reforms and political dialogue to strengthen intergovernmental relations and ensure sustainable governance. (Samatar, & Samatar, 2022).

Moreover, ongoing economic crises and persistent political tensions in Somalia, especially between the Federal Government and the Federal Member States, have fueled the rise of resource-related conflicts. The potential of oil and gas wealth has created a new, highly contested source of revenue, leading to greater competition over resource control. Both the Federal Government and the Federal Member States are vying for authority over exploration rights, contractual agreements, and revenue sharing. The lack of a clear legal framework and consensus has further worsened the country's political instability. (Harun, 2021).

The revised Somali Petroleum Law of 2020 explicitly establishes a framework for the joint management of petroleum resources by the Federal Government, existing Federal Member States, future member states, and the Banadir administration (*Somali Petroleum Law, chapter 1, Article 7*). The law also provides for the creation of two key petroleum institutions: the Somali Petroleum Authority (SPA) and the Somali National Oil Company (SNOC). In practice, the SPA is expected to oversee compliance with relevant laws, supervise petroleum activities, and ensure transparency and technical efficiency within the sector. In addition, SNOC is mandated to serve as the commercial arm of the government and operates pursuant to the bidding process conducted by the SPA.

Recently, the Government of Somalia signed a Production Sharing Agreement (PSA) with TPOA, a Turkish oil exploration company. However, the terms of the agreement have raised concerns regarding their fairness of the contract. The contract seems to be either favourable for the contractor, and there are particular ambiguities surrounding fiscal terms. (Levent Kenez. 2025).

The absence of an upfront payment (such as signature bonuses, area rentals), combined with an unusually high cost recovery allowance of 90% and a low royalty rate of only 5%, is notably favourable to contractors. Additionally, the profit oil-sharing formula has not been made publicly available, raising concerns that it may also disproportionately benefit the contractors. Specifically, Somalia currently lacks fully enacted petroleum legislation and an established mechanism for equitable revenue-sharing arrangements. Although the Federal Government has referred to the Baidoa Revenue Sharing Agreement, signed in 2018, as a guiding framework, its implementation has been limited. This agreement has failed to satisfy all Federal Member States due to concerns over fairness, inclusivity, and the broader context of political mistrust and tension. (Farah, 2024).

Faahfaahin	DFS	DXF (Soo-saaraha)	Degmada soo-saaraha)	DXF (ma soo-saarayaasha)	Faalo
Investment Fund					Wasaaradaha Maliyada ee FGC/FMS aya go'an ka gaaraya
Offshore	55%	25%	10%	10%	
Onshore	30%	30%	20%	20%	
Royalty	40%	40%	10%	10%	
Signing Bonus	40%	60%			
Surface Rent	30%	50%	20%		
License fee	50%	50%			
Production Bonus	30%	50%	10%	10%	
Corporate Income Tax	100%				
Export Tax	60%	40%			
Capital gains	50%	30%	20%		
Seismic Data	50%	50%			
Capacity Building	50%	50%			
Local Community development	%	30%	70%		

Picture 1: Baidao revenue sharing agreement between the Federal government and FMS

Internationally, resource revenue sharing can be implemented in two different ways, depending on the level of government involvement. The mechanism can be a derivation mechanism (based on geographical location) and a need-based mechanism (based on population and poverty). Derivation approach cannot be applied to the offshore petroleum and fisher revenue, also some countries use a mix of the two mechanisms. (Appiah-Adu, et. al. 2016).

Research Methodology

The chosen topic explores strategies for escaping the resource curse in the context of Somalia's emerging oil and gas sector. It examines the country's potential for resource-driven development while highlighting the associated risks that may arise from a sudden surge in economic expectations. (Brannen, 2017). Depending on the research gap being addressed, the methodology can be either qualitative or quantitative. However, this study employs a qualitative content analysis approach, which enables an in-depth examination of the economic and political challenges linked to the resource curse. (Selvi, 2019). The research relies on secondary data collected from publicly available sources, government publications, and geophysical data provided by exploration companies. (Lawton, 2019). The companies involved in gathering seismic data include TGS, CGG, Schlumberger, and ION Geophysical Corporation. (Ga'al, 2021).

The data used in the research are considered reliable, which enhances the credibility of the study. Some sensitive datasets require formal permission from the relevant authorities or may need to be purchased. Furthermore, much of the data originates from key cross-sectoral institutions within Somalia's oil and gas industry, such as the Ministry of Petroleum and Mineral Resources and the Somali Petroleum Authority. (Olabode, et al. 2019)

Research Design

This research adopts a qualitative, exploratory design. The complexity of the issues surrounding natural resource governance, political economy, and institutional capacity in Somalia necessitates a descriptive and interpretive approach. The study relies primarily on

secondary data, document analysis, and comparative case studies to assess Somalia's oil and gas sector in the context of the resource curse.

Data Collection Method

The data used in the study is a secondary data collection method, including:

- ✓ **Document Analysis:** Academic literature, policy reports, legal frameworks (e.g., Somali Petroleum Law), government publications, and media articles were examined.
- ✓ **Case Studies:** Comparative analysis of selected countries (e.g., Nigeria, South Sudan, and Venezuela) was conducted to know their experience with Dutch disease and political instability.
- ✓ **Institutional Reports:** Data from the Somali Ministry of Petroleum and Mineral Resources, the Somali Petroleum Authority, the Ministry of Planning and Development, the World Bank, the International Monetary Fund (IMF), and the African Development Bank (AfDB) were used to assess governance and economic indicators.

Source of Data

The data used in this study are secondary data, obtained from various institutions. The key sources of data used in the study include;

- ✓ Peer review academic journals
- ✓ Government documents and legislation (Somali petroleum law, Baidao agreement)
- ✓ Reports from international organizations (World Bank and NRGI)
- ✓ Seismic and Geological data (TGS, spectrum, and Liberty company)

Research Findings

The findings section constitutes the core results of the study, presenting the reader with answers to the research questions based on what was observed, measured, and discovered during the research process. Effectively organizing this section enables the researcher to convey the results in a clear, structured, and academically rigorous manner. (Mohajerzad, et. al. 2021).

The study highlights the oil and gas potential of various countries while emphasizing the associated social, economic, and political risks linked to natural resource management. In this context, the study serves as a policy guide for preventing future risks arising from resource-generated revenues. It also urges the Government of Somalia to take proactive measures that enable stakeholders in the sector to engage in a consensual and transparent approach to licensing, contract management, development, and production, Revenue Collection and Management, Revenue Allocation and Expenditure, and other valuable activities in the sector. However, the findings can be categorized into oil and gas potential, future emerging economic crises (such as the Dutch disease), and the political risks from the mismanagement of revenues.

Oil and Gas Potentiality

Somalia's geological characteristics are now more explicitly understood, revealing significant potential for oil and gas reserves in both onshore and offshore blocks, extending across the Indian Ocean and the Gulf of Aden. Seismic data interpretation completed by Genel Energy and RAK Gas has confirmed the presence of substantial hydrocarbon prospects. Furthermore, both companies have conducted macroseepage surveys, which enhance the probability of

identifying commercial accumulations and reduce the risks associated with unsuccessful drilling. (Farah, 2014).

The offshore sector is particularly promising. Soma Oil and Gas conducted a 20,550 line km 2D seismic survey across three key offshore geological provinces: the Jubba Deep Basin, the Mogadishu Deep Basin, and the Mid Somalia High. Each area exhibits distinct geological features that support the presence of hydrocarbon systems. More recently, seismic surveys undertaken by Liberty Petroleum and the Turkish Petroleum Corporation (TPAO) have reinforced the positive outlook for Somalia's offshore hydrocarbon potential. Preliminary interpretations of TPAO's newly processed seismic data also indicate encouraging signs of oil and gas presence. (Gundel, 2020).

The Future Emerging Economic Crisis in Somalia

Somalia's economy primarily relies on import taxes and export taxes. There is also a modest contribution from local production sectors, including agriculture, fisheries, and small-scale industries. However, the most significant source of income for the country is remittances from the Somali diaspora, estimated to range between $1.6 and $2 billion annually. (Mohamed, et. al. 2025).

Key government institutions responsible for managing and projecting the country's economy include the Ministry of Finance and the National Economic Council. These bodies have implemented strategies aimed at improving the overall economic conditions of the country. Notably, the National Economic Council has developed the "Centennial Vision 2060," a long-term framework that outlines priority economic sectors to boost growth and diversify income sources. These sectors include telecommunications, trade and logistics, oil and gas, and mineral resources. (NEC. 2025).

From the perspective of the Somali community and the government, there are high expectations for future revenues generated from the oil and gas sector. However, this optimism is tempered by a lack of institutional experience and the associated risks of over-reliance on natural resource income. (Benghida, 2017).

The lack of knowledge and limited experience related to the economic challenges arising from oil revenues, along with unrealistic expectations, pose a serious risk to Somalia, potentially causing long-term economic instability that may be difficult to recover from. Moreover, the productivity of other sectors in Somali communities, which was already very low, including Agriculture and fishing, could deteriorate further. Therefore, if we look around the world, many countries have experienced significant economic impacts from oil and gas wealth, some of which we have previously mentioned in the literature.

In Somalia, the risk of elite capture poses a significant threat to the effective governance and equitable distribution of oil and gas revenues. Political and economic elites have historically wielded disproportionate influence over state resources, often diverting public funds to serve narrow personal or political interests. This includes channeling revenues into patronage networks or politically motivated projects aimed at consolidating electoral support, rather than addressing national priorities such as infrastructure, education, healthcare, or institutional capacity building.

Such practices not only exacerbate inequality and social fragmentation but also undermine public trust in government institutions. If left unchecked, elite capture could entrench corruption, fuel political instability, and deprive the broader population of the long-term benefits of natural resource wealth. To mitigate these risks and ensure that resource revenues contribute to sustainable development, it is imperative to establish transparent, accountable, and inclusive governance mechanisms that prioritize investments in inclusive growth and socioeconomic resilience.

Resource-Driven Political Instability in Somalia

As we are aware, natural resources have both opportunities and challenges. In many cases, these challenges stem from poor governance, particularly concerning the equitable sharing and management of resources. In the case of Somalia, the discovery and exploitation of oil and gas carry a significant risk of exacerbating existing issues such as clan-based conflicts, land conflicts, and the presence of Al-Shabaab. (Marks, 2019).

At present, Somalia is facing political instability, primarily between the federal government and the federal member states. This tension arises from disputes over governance frameworks and the allocation of power, including disagreements over the management of funds from international donors and financial institutions (World Bank Group, International Monetary Fund, United Nations Agencies, African Development Bank, and European Union), as well as constitutional amendments initiated by the federal government. Compounding these challenges, a large part of the territory remains under the control of the Al-Shabaab.

If offshore oil and gas reserves are discovered and exploited without a clearly defined and widely accepted framework for revenue sharing, the likelihood of increased political instability is high. The resource conflict commences the process of awarding exploration and production licenses to international companies, negotiating production-sharing agreements, and managing the revenues generated from oil and gas could trigger further tension if perceived as non-transparent or unfair.

The risks associated with oil and gas revenues are particularly acute in fragile states like Somalia. Without strong institutions, effective oversight, and inclusive governance, such revenues can fuel corruption, intensify competition among political elites, and deepen inter-clan rivalries. Moreover, the unequal distribution of benefits may marginalize certain regions or groups, increasing the potential for violence and undermining efforts toward national unity and development.

Conclusion

Somalia possesses significant untapped oil and gas resources, both onshore and offshore, with exploration interest dating back to 1912 in the Guban Basin (now Somaliland). Exploration intensified in the 1950s and has continued with recent seismic surveys conducted by companies such as TGS, Spectrum, TPAO, Africa Oil, Genel Energy, and RAK Gas. Notably, drilling activities in the Shabeel wells confirmed the presence of hydrocarbons, underscoring Somalia's resource potential.

Despite this promise, Somalia remains economically fragile, although gradual growth has been observed due to institutional reforms, international support, and contributions from

agriculture, remittances, telecommunications, and trade. The national development strategy, the Centennial Vision 2060, aims to strengthen key sectors, including trade, logistics, agriculture, and energy (Oil, Gas, and Minerals).

However, the Somali government faces critical challenges in managing the anticipated oil and gas revenues. Without adequate safeguards, the country risks experiencing the resource curse, manifesting through Dutch Disease, economic mismanagement, and political instability. The federal structure, which includes several member states and the Banaadir administration, adds complexity to revenue-sharing and resource governance. Recent Production Sharing Agreements (PSAs) have already sparked tensions due to unclear frameworks for fiscal distribution and management.

If not carefully managed, resource wealth could exacerbate clan-based conflicts and undermine national stability. Effective governance, transparent resource management, and inclusive policies are therefore essential to ensuring that Somalia's natural wealth contributes to sustainable development and long-term peace.

Recommendation

To defend against future emerging resource curse in Somalia in terms of Dutch disease and political challenges to contribute positively to sustainable development and political stability, the following recommendations are proposed.

a. Strengthen productive sectors, such as agriculture, and promote the development of small-scale industries.
b. Establish a clear and comprehensive legal framework for the awarding, management, and regulation of the oil and gas sector.
c. Implement the Extractive Industries Transparency Initiative (EITI) to reduce corruption, conflict, political instability, loss of public trust, and mitigate the risk of the resource curse.
d. Enhance institutional capacity related to the oil and gas sector, including key bodies such as the Ministry of Petroleum and Minerals, the Revenue Authority, and the Somali Petroleum Authority.
e. Accelerate and improve the effectiveness of the Somali Petroleum Authority in fulfilling its mandates, addressing current shortcomings in its operational performance.
f. Adopt a sliding scale formula for profit sharing, moving beyond the current reliance on the R-factor model.
g. The Baidabo resource sharing agreement must be reviewed, as there are unclear areas that require scrutiny, including all upfront payments (Signing Bonus, Rental fees, etc).
h. Ensure full transparency of oil and gas contracts by disclosing them to relevant stakeholders from the initial awarding of licenses through to revenue management.

Acknowledgment

The author expresses sincere gratitude to Eng. Ahmed Aden Mohamoud for reviewing an early draft of this paper and providing valuable feedback.

References

Samalashvili, N. (n.d.). *Foreign influence in Somalia: The strategic role of Turkey and the Gulf States*. TRUMP DECISIONS, 10.

Hovhannisyan, G. (2022). Turkey's expansion in Eastern Africa: The case of Somalia. *National Academy of Sciences of the Republic of Armenia Institute of Oriental Studies*, 46–49.

Davidson, L. M., Arthur, T. J., Smith, G. F., & Tubb, S. (2018). Geology and hydrocarbon potential of offshore SE Somalia. *Petroleum Geoscience, 24*(3), 247–257. https://doi.org/xxxxxxx *(if available)*

Ross, M. L. (2015). What have we learned about the resource curse? *Annual Review of Political Science, 18*(1), 239–259. https://doi.org/xxxxxxx *(if available)*

Gedikli, A. (2020). An investigation of the reasons for the natural resource curse: Selected country cases. *Business and Economics Research Journal, 11*(1), 15–31. https://doi.org/xxxxxxx *(if available)*

Alagoz, E. (2023). Sustainable development in the oil and gas sector: Considering economic, environmental and social aspects. *International Journal of Earth Sciences Knowledge and Applications, 5*(2), 303–308. https://doi.org/xxxxxxx *(if available)*

Wei, A. (2024). Fueling green growth: Unveiling the catalyst of mineral resource trade in diverse economies. *Resources Policy, 88*, 104429. https://doi.org/xxxxxxx *(if available)*

Guo, Y., Zheng, H., Zeng, Y., Fan, W., Albahooth, B., & Bhuiyan, R. A. (2023). Natural resources extraction of RCEP trade bloc: Examining geopolitical risk and economic situation. *Resources Policy, 86*, 104227. https://doi.org/xxxxxxx *(if available)*

David, J. (2024). The role of corruption in the oil price–growth relationship: Insights from oil-rich economies. *Economic Change and Restructuring, 57*(6), 246. https://doi.org/xxxxxxx *(if available)*

Hoedemaekers, C. (2024). The role of infrastructure development in driving economic growth: A study on the United States economy and the oil and gas sector. *(Unpublished manuscript or specify source if known)*

Mien, E. (2022). *Relevance and limits of the Dutch disease in developing countries: The case of natural resources in Africa* (Doctoral dissertation, Université Clermont Auvergne).

Simpson, A. (2017). Corruption, investment and natural resources. In *International natural resources law, investment and sustainability* (pp. 416–434). Routledge.

Pereira, E. G. (2024). *Upstream oil and gas in Africa* (pp. 1–540). Globe Law and Business Limited.

Menkhaus, K. (2014). State failure, state-building, and prospects for a "functional failed state" in Somalia. *The Annals of the American Academy of Political and Social Science, 656*(1), 154–172. https://doi.org/xxxxxxx *(if available)*

Oxford Analytica. (2019). Reconciliation slips out of Somali leaders' grasp. *Emerald Expert Briefings* (oxan-db).

Bamberger, J. G., & Skovsted, K. (2016). Concessions and conflicts: Mapping oil exploration in Somalia and Ethiopia (DIIS Working Paper No. 2016:02). Danish Institute for International Studies.

Mojarad, A. A. S., Atashbari, V., & Tantau, A. (2018, March). Challenges for sustainable development strategies in oil and gas industries. In Proceedings of the International Conference on Business Excellence (Vol. 12, No. 1, pp. 626-638). Sciendo.

Olawale, A., & Obinna, E. (2023). Corporate governance, institutional quality, and firm performance: A comprehensive analysis of the oil & gas sector. Journal of Finance and Economics, 11(3), 160-170.

Menkhaus, K. (2014). State failure, state-building, and prospects for a “functional failed state” in Somalia. The Annals of the American Academy of Political and Social Science, 656(1), 154-172.

Webersik, C. (2008). Wars Over Resources? Evidence from Somalia. Environment: Science and Policy for Sustainable Development, 50(3), 46-58.

Auty, R. M. (2017). Natural resources and civil strife: a two-stage process. In The Geopolitics of Resource Wars (pp. 29-49). Routledge.

Panford, K. (2017). Africa's Natural Resources and Underdevelopment. New York: Palgrave Macmillan US.

Kojo, N. C. (2015). Demystifying Dutch Disease. Journal of International Commerce, Economics and Policy, 6(02), 1550010.

Asaduzzaman, M., & Virtanen, P. (2021). Strong, transparent public institutions and meta-governance. In Peace, justice and strong institutions (pp. 1-12). Cham: Springer International Publishing.

Barnes, S. U. (1976). Geology and oil prospects of Somalia, East Africa. AAPG Bulletin, 60(3), 389-413.

Ga’al, A. S. (2021). Seismic Stratigraphy Analysis and Hydrocarbon Generation Potential of the Late-cretaceous–tertiary Formations From the Coriole Subbasin (Somalia Coastal Basin) (Doctoral dissertation, University of Nairobi).

Bamberger, J. G., & Skovsted, K. (2016). Concessions and conflicts: Mapping oil exploration in Somalia and Ethiopia (No. 2016: 02). DIIS Working Paper.

Ga’al, A. S. (2021). Seismic Stratigraphy Analysis and Hydrocarbon Generation Potential of the Late-cretaceous–tertiary Formations From the Coriole Subbasin (Somalia Coastal Basin) (Doctoral dissertation, University of Nairobi).

Davidson, L. M., Arthur, T. J., Smith, G. F., & Tubb, S. (2018). Geology and hydrocarbon potential of offshore SE Somalia. Petroleum Geoscience, 24(3), 247-257.

Gundel, J. (2020). Oil and gas in the political marketplace in Somalia.

Smith, B., & Waldner, D. (2021). Rethinking the resource curse. Cambridge University Press.

Laguda, H. A. (2019). The impact of Dutch disease: the case of Nigeria.

Sachs, J. D., & Warner, A. M. (2001). The curse of natural resources. European economic review, 45(4-6), 827-838.

Frankel, J. A. (2012). The natural resource curse: A survey of diagnoses and some prescriptions. Commodity price volatility and inclusive growth in low-income countries, 7-34.

Abboud, A., & Betz, M. R. (2021). The local economic impacts of the oil and gas industry: Boom, bust and resilience to shocks. Energy Economics, 99, 105285.

Mahmud, A. S., & Basher, S. A. (2014). Price volatility and the political economy of resource-rich nations. Economics of Governance, 15(3), 253-279.

Onuche, S. (2020). Oil resource wealth: impacts on Nigeria’s economic growth (Doctoral dissertation, Університет імені Альфреда Нобеля).

Ikein, A. A. (2017). Nigeria oil & external exposure: the crude gains and crude pains of crude export dependence economy. *The Business & Management Review*, *8*(4), 396.

Venezuelan, A., & Ausman, J. (2019). The devastating Venezuelan crisis. *Surgical neurology international*, *10*, 145.

Anis, M. D., & Siddiqui, T. Z. (2015). Issues impacting sustainability in the oil and gas industry. *J. Mgmt. & Sustainability*, *5*, 115.

Braun, C. (2015). Lobbying as a Leveraged Act: On resource dependencies and lobby presence. In *The Organization Ecology of Interest Communities: Assessment and Agenda* (pp. 137-155). London: Palgrave Macmillan UK.

Nyadera, I. N. (2018). South Sudan conflict from 2013 to 2018: Rethinking the causes, situation and solutions. *African Journal on Conflict Resolution*, *18*(2), 59-86.

James, L. M. (2015). Fields of control: oil and (in) security in Sudan and South Sudan.

Abdulwahab, L. O., & Firmansyah, E. A. (2024). Are abundant natural resources in the Democratic Republic of the Congo a blessing or curse?. *Journal of Innovation in Business and Economics*, *8*(01), 47-60.

Ganesan, K. (2024). The Impact of Natural Resources on Civil Conflict in the Democratic Republic of the Congo.

Mohamed, A. (2022). *Impact of Foreign Aid on Economic Growth in Somalia: 1991-2020* (Doctoral dissertation, University of Nairobi).

Abdullahi, A. A., & Arısoy, H. (2022). Agricultural structure in Somalia. *Eurasian Journal of Agricultural Economics (EJAE)*, *2*(1), 1-14.

Mohamud, A. H., Mat, B., & Çevrimli, M. B. (2022). Economic development opportunities and general structure of livestock production in Somalia. *Antakya Veteriner Bilimleri Dergisi*, *1*(1), 23-32.

Mudane, H. (2018). The Somali Civil War: Root cause, and contributing variables. *International Journal for Social Studies*, *4*(5), 41-50.

Kitungu, P. (2019). *External actors in State Reconstruction: a case study of Somalia (1991-2015)* (Doctoral dissertation, University of Nairobi).

Mohamoud, M. A. (2015). Federalism for Somalia: internal and external challenges in the post-transitional period. *High-quality Research Support programme (HQRS). Available from: http://ocvp. org/docs/Cahort1/14. pdf*.

Lindqvist, R. (2018). Peace-, State-and Trust Building in Practice: The implementation of the New Deal TRUST principles and international peacebuilding engagements in the Somali Region.

Samatar, A. I., & Samatar, A. I. (2022). Bereft of trust: Reflections on the causes of the Somali catastrophe. *Bildhaan: An International Journal of Somali Studies*, *22*(1), 4.

Harun, I. (2021). Federalism as an institutional device for peace in Somalia: prospects and challenges.

Farah, A. M. (2024). Fiscal Federalism in Somalia: Issues, Challenges and Agenda for Reform. *International Journal of Research and Innovation in Social Science*, *8*(8), 2590-2605.

Appiah-Adu, K., & Sasraku, F. M. (2016). Revenue management in the oil and gas sector. In *Governance of the Petroleum Sector in an Emerging Developing Economy* (pp. 27-34). Routledge.

Brannen, J. (2017). Combining qualitative and quantitative approaches: an overview. *Mixing methods: Qualitative and quantitative research*, 3-37.

Selvi, A. F. (2019). Qualitative content analysis. In *The Routledge handbook of research methods in applied linguistics* (pp. 440-452). Routledge.

Lawton, C. (2019). Effective use of secondary quantitative data sources. In *Handbook of research methods on the quality of working lives* (pp. 177-193). Edward Elgar Publishing.

Ga'al, A. S. (2021). *Seismic Stratigraphy Analysis and Hydrocarbon Generation Potential of the Late–Cretaceous–Tertiary Formations from the Coriole Subbasin (Somalia Coastal Basin)* (Doctoral dissertation, University of Nairobi).

Olabode, S. O., Olateju, O. I., & Bakare, A. A. (2019). An assessment of the reliability of secondary data in management science research. *International Journal of Business and Management Review*, *7*(3), 27-43.

Mohajerzad, H., Martin, A., Christ, J., & Widany, S. (2021). Bridging the gap between science and practice: Research collaboration and the perception of research findings. *Frontiers in psychology*, *12*, 790451.

Farah, A. (2014). Study of Genel Energy and Somaliland Abdisamil Farah* University of West London.

Gundel, J. (2020). Oil and gas in the political marketplace in Somalia.

Mohamed, A. A., & Mohamed, M. H. (2025). Analyzing the Impact of Remittances on Social Welfare in Somalia: A Data-Driven Approach.

Benghida, S. (2017). Factors and challenges in developing countries under the resource curse. *International Journal of Civil Engineering and Technology*, *8*(11), 901-910.

Marks, Z. (2019). Rebel resource strategies in civil war: Revisiting diamonds in Sierra Leone. *Political Geography*, *75*, 102059.