Natural Resources and Institutions: how do they interact? a comparative study of South Sudan and Botswana

By

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Abstract

This thesis examines the reasons that for some countries their wealth in natural resources is considered as a curse than a blessing. The research analyzes the role of the quality of institutions in reducing natural resource curse, the appropriate policies used to reduce natural resource curse, and the ways of good institutions in fostering economic growth and development. The natural resource curse states that bad institutions fail to foster economic growth and development. In this thesis, Botswana represents an African country with good institutions in the management of natural resource for state building, hence a blessing. Meanwhile, South Sudan represents an African country with weak institutions in natural resource management, hence a curse.

In South Sudan, this has led to the collapse of the economy coupled with the existing conflicts in the country, forcing more than 2 million people to exile in the neighboring country. The main aim of this thesis is to find out whether institutions quality can reduce natural resource curse. The findings show that, South Sudan has weak institutions which explain the natural resource curse. It's important for the government of South Sudan to invest in human and physical to achieved economic growth and development. This investment in turn contribute good institutions. Additionally, there is need to diversify the economy, set and implement fiscal regimes, and sovereign wealth fund. The qualitative research was conducted with data from the Worldwide Governance Indicators to measure and compare the quality of institutions between South Sudan and Botswana.

Key words: Institutional quality, resource curse, human capital development, fiscal regimes

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Acronyms

(CPF)……. Country Partnership Framework(CPF)

(EITI)………. Extractive Industries Transparent Initiative

CPA……. Comprehensive Peace Agreement

GOS…...Government of Sudan

GOSS……Government of South Sudan

IMF……………. International Monetary Fund

MoFDEP………. Ministry of Finance, Development and Economic Planning

MoPM……........ Ministry of Petroleum and Mining

NOC……National Oil Companies

NPC……...Nile Petroleum Company

PB………………Petroleum Bill

PRMA………..... Petroleum Revenue Management Act

SPLM/A…...Sudan People's Liberation Movement/Army

SSLM……. South Sudan Liberation Movement

USIP……United State Institute for Peace

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Introduction

The paradox of plenty explains why countries with abundant natural resources have low levels of economic growth and development compared to countries without natural resource (Karl 1997). Low-income natural resource-rich countries have low levels of development more especially the African countries such as Nigeria, Angola, Democratic Republic of Congo, Libya, Sudan, Ghana, Uganda, and South Sudan. These countries have high prevailing poverty rates, income inequality and high rates of illiteracy. Botswana is an exceptional case with sound economy and development of the state linked to good quality of institutions in diamond management (Venables, 2016). South Sudan is one of the newest nations in the World with abundant natural resource base and its economy is largely dependent on export of crude oil, accounting for 98 percent of its total export and 60 percent of GDP; this implies that the government revenue depends on the earnings from crude oil (De Waal, 2014). Hence, South Sudan's economy fits in the concept of the Dutch disease which describes an economy that depends on the export of a single commodity. In the context of South Sudan, as earlier stated, the economy primarily depends on natural resource export. The country was part of Sudan before the signing of Comprehensive Peace Agreement (CPA) in 2005 that led to the independence of South Sudan on July 9, 2011 following a peaceful secession from Sudan on January 9, 2011 (World Bank, 2011).

The comprehensive peace agreement grants 50 percent oil revenue sharing from producing southern wells to the government of South Sudan after deductions to an oil revenue stabilization account and oil-producing states (Luke A. Patey, 2010). The acquisition of independence by South Sudan enabled it to possess about half of the oil resources between the two countries and also as a new nation was debt free. However, in 2012 a disagreement on the transit fees between the two nations resulted in a temporary shutdown of the oil fields (De Waal 2015). The United States Institute for Peace report estimated that both countries (Sudan and South Sudan) hold about 0.5% of the World's proven oil reserves, as well as equally contributing about 0.6 percent of the World's production (the United States Institute for Peace report 2011).

The people of South Sudan had high expectations of economic growth, development of public infrastructures, efficient and effective delivery of public services after the independence. However, this has not turned out to be the case. The country continues to witness waves of famine and insecurity (i.e. electricity, clean water, and food insecurity) which has hampered infrastructural development such as roads, schools, health services, and public utilities (Johnson 2016). This affected the local people as seen in the massive numbers of refugee's influx to the neighboring countries (United Nation High Commissioner for Refugees, 2016). In 2017, the World Bank Global Ease of Doing Business report puts South Sudan as number 187 out of 190 (World Bank Group, 2017), citing reasons such as high corruption due to weak institutions to follow up, coupled with the existence of these natural resources. The inflow of official development assistance to South Sudan and other least developed countries have helped to advance development projects as well as strengthening institutions within the country (United Nation High Commissioner for Refugees, 2018).

The existence of strong institutions is very pivotal in the efficient management of the natural resource and linked to the notion that such institutions promote economic growth and development. A country's economic performance due to resource boom depends on the extent to which policies are followed by its government (Karl 1997). Many recent studies have focused on the role of private and public institutions to shape economic growth and development, and revealed that, some governments have been reported to use natural resource revenue to manipulate the people in order to retain power (Ross 2013).

It's also important to note that, South Sudan's military expenditure from 2006 to 2017 amounted to 450. 14 USD million in 2016, with the highest figure of 607.70 USD million in 2011 and low record of 59.50 USD million in 2017. This is common in most African countries with security sector taking the lion's share of the resources leaving other sectors which are equally vital with limited resources to execute their activities. Strengthening existing institutions would restructure capital investment into productive social infrastructures to improve the welfare of the society rather than financing the civil war which has a negative impact on the citizens.

The institutions include, International institutions such as sovereign wealth fund, The Extractive Industries Transparency Initiative for transparency and accountability (EITIT), South Sudan should participate in the natural resource governance course for efficient petroleum management. Independent fiscal councils to monitor all the activities and implementation of the petroleum laws. Incorporation of the petroleum laws into the national law (the constitution). The independence of central bank and efficient operation of commercial bank besides the existing institutions in the country.

Research question

The quality of institutions determines whether natural resources are blessings or a curse. Some natural resource rich countries with good quality of institutions such as Botswana, Canada, Australia, Norway, and Chile have grown very fast; on the other hand, other countries have low pace of development like Nigeria, Sierra Leone, Angola, Saudi Arabia, and Venezuela (Antonio (Antonio and Esther 2011) . The government of South Sudan has developed institutions that completely dependent on oil, which provide 98 percent of its revenue. Hence, creating a state dependence and involvement in the oil sector (Bereketeab 2014), (Ryle, Willis, et, 2012). Therefore, this thesis aims to examine whether its wealth in natural resource is a curse in the case of South Sudan, and if institutional quality reduces this natural resource curse.

Crude oil revenue mismanagement and conflict financing in South Sudan has turned out to be a natural resource curse than blessing to the people of South Sudan which undermines the delivery of public services. It is important to note that South Sudan has weak institutions characterized by high rates of corruption, prevailing civil war since 2013 until present, low levels of education, inadequate health facilities, famine, poor education services, and delay of the civil servants' salaries. On the other side, the existing institutions are weak, and unable to implement the policies and procedures hence failing to meet the demand of the people (Resource Governance index report, 2013). This study therefore aims to examine if institutional quality reduces the natural resource curse in South Sudan.

The main objective

The main purpose of this thesis is to find out whether institutional quality reduces natural resource (crude oil) curse in South Sudan and recommend suitable and possible lessons from successful natural resource rich countries such as Botswana as an African's country and developed natural resource countries namely, Norway, Canada, Chile.

Specific objectives

To find out:

- Whether natural resource (crude oil) is curse or blessings
- How good institutions reduce natural resources curse.
- How low and weak quality of institutions leads to bad policies hence low economic growth and development of the developing natural resource-rich countries.
- Whether countries with good institutions, and natural resources enhance education.
- Whether high human capital and transparency make it harder to hide existing information to the newcomers in power

- What relevant policies in natural resource management are for economic growth and development.

Justification of the research

This thesis examines the quality of institutions and natural resource curse (crude oil) in South Sudan. Many studies have examine the role of institutional quality and natural resource curse in natural resource rich countries (Venables 2016). However, little efforts have been put in relation to South Sudan's natural resource theory. This thesis contributes to the scholarship by highlighting possible policies and rules drawn from other successful countries such as Botswana, with few examples from Chile, Canada and Norway for natural resource management (crude oil). Many of these policies should be incorporated into the national laws and the constitution for efficient management of crude oil.

Thesis layout

This thesis consists of three chapters, chapter one includes, theory and methodology general literature and specific literature on South Sudan's natural resource and the birth of the country. chapter two explains the natural resource curse theory, the reasons for natural resource curse, the concept of Dutch disease, civil war and natural resource curse. chapter three consists of institutions, petroleum laws and rules in South Sudan, oil rent, stabilization fund, important of stabilization fund, the reasons for non-implementation of stabilization fund in South Sudan, the role of institution in efficient management of natural resource, lessons that South Sudan can learn from Botswana being one of the African model in managing natural resource for economic growth and development. Comparison is provided between South Sudan and Botswana in terms of the variables for measurements of quality of institutions. South Sudan can learn from the Chilean model of managing the copper revenue for economic growth, development and stability. The thesis concluded with policy recommendations to South Sudan for efficient management of the crude oil.

1 Chapter one

1. Theory and Methodology

1.1 Theory

The theory explains previous studies done on institutional quality and natural resource curse from the global perspective and narrow down to South Sudan since the country attained independence in 2011. There is little literature on South Sudan's crude oil and the quality of institutions.

Natural resources theory states that successful countries rich in oil resource, such as Norway, United States, and Australia have efficient management policies for natural resources for development leading to proper social services and society welfare and well-being (Antonio and Esther 2011; Ross, 2015). African countries such as Republic of Congo, South Sudan, Sudan, Nigeria and Angola have weak institutions to manage natural resources with exceptional case of Botswana with good quality of institutions (Venables, 2016). For low levels of institutional quality, human capital depends negatively on natural resources, while for high levels of institutional quality the dependence is positively on natural resource (Antonio and Esther 2011). One of the studies show that countries with bad institutions, natural resources are a curse on average. The quality of institution can be measured by human capital or education (Antonio and Esther 2011).

Resource curse theories suggest that countries with abundant resource tend to be authoritarian, more prone to civil wars, lower rates of economic stability and growth. The revenue generated from natural resource are wasted in most cases, hence natural resource affect growth. Additionally, natural resource contributes to the development of the learning process involved in exploiting and developing the country's productivity. Natural resource abundance in turn result in greater corruption and inefficient bureaucracies, or high rents distract governments from investing in the ability to produce growth, supporting public goods, such as infrastructure or legal codes (Antonio and Esther 2011). The better the institutions in a country endorsed with natural resources, the better the political competitive fringe at managing natural resources.

Oil revenues damage government institutions themselves which implies that, if oil makes government less effective, it could impair their ability to maintain countercyclical policies. Revenue fluctuations shorten government-planning horizon and destroy investment projects. The revenue fluctuations change government budgets, projects that take many years to implement, such as major improvement in the country's health, education, or physical infrastructure stand a higher risk of being canceled when revenue drop. Bureaucratic over-stretch that implies the government's revenue expand more quickly than its capacity to efficiently manage them. As many scholars suggest petroleum wealth leads to bad institutions, making governments weaker, more corrupt, less competent and less able to maintain wise fiscal policies. For prosperity, national greatness, equity, and autonomy, the leaders of the oil countries believed that, they would redirect the capital accumulation from oil into productive investments (Karl 1997)

Petroleum revenues have four distinctive qualities, which include the scale, source, stability and secrecy, the rise of power of state owned oil companies (Ross, 2015). Natural resources theory states that, successful countries rich in oil resource management such as Norway, United States, and Australia explain how efficient management of natural resources led to development hence proper social services and society welfare and well-being (Ross 2013).

Government effectiveness measures bureaucratic quality whether bureaucracies are autonomous and free from political pressure and have an established mechanism for recruitment and training. High government effectiveness translates into a high function since institutions work independently of who is in power. Control of corruption measures corruption within the political system, regulatory quality, resource rents are significantly negative when institutions are bad and positive when institutions are good. Whether dictators in countries which are relatively better endowed in terms of oil stay longer in office with a higher level of oil production (Antonio and Esther 2011).

Natural resources, institutional quality and human capital are important aspect of development of an economy. According to the theory of institutional quality of a country affects how human capital changes with natural resources. For countries with bad institutions, there are two reasons to expect a negative relationship between human capital and natural resources. The amount of natural resources and human capital is a decreasing function of natural resources when the incumbent is in power. The likelihood that the incumbent stays in power always increases in the amount of natural resources. For countries with good institutions have better chances for the opposition to win the election, human capital grows with natural resources if the incumbent is re-elected, there is no effect of natural resources on human capital. On average the positive effect of natural resources on human capital but this positive effect should be less pronounced than the negative effect with bad institutions (Antonio and Esther 2011).

The revolution is a threat, when the increasing skills of revolutionaries makes revolution more attractive, and this runs against the government's interest. Therefore, when the pressure of revolutionaries is sufficiently high, the government prefers to lower human capital when natural resources increase. However, the revolutionary threat vanishes with better institutions. As it's increases, revolutionaries become more effective both in managing natural resources and the production sector, so revolution becomes the real threat (Antonio and Esther 2011).

One of the studies found that, increase in global oil price cannot hurt the quality of government, this means that there is no direct correlation between the oil income and the quality of government. When oil governments mishandle oil funds, weak institutions are blamed which suggest that management of volatile resource revenues requires smooth flow of tax receipts and consistent countercyclical policies and establishment of strong institutions. However, most developing countries have procyclical instead of countercyclical, but revenue fluctuations make countercyclical policies difficult to sustain. There is strong correlation between country's per capita income and perceived effective of its government, higher income makes government more effective hence richer. Corruption score in countries like Arabian Peninsula improved their ability to control corruption, Saudi Arabia, the United Arab Emirates, Qatar, Oman, Bahrain have improved their ability to control corruption. as well African oil producing countries such as Republic of Congo and Gabon have tried to control corruption from 1999 to 2006. Yet, corruption increased in countries such as Trinidad, Equatorial Guinea, and Venezuela, and in developed countries such as Norway, Canada, Netherland, and United States (Ross, 2015).

Low- and lower-income resource-rich countries depend on natural resource fiscal revenues and exports sales. Although the growth performance of all the resource economies has been poor, few countries such as Chile, Malaysia, Botswana have experience economic growth due to the quality of institutions that implement fiscal rules and political will. Most governments have failed to use natural resource revenue to finance investment and relied on the concept of Dutch Disease (see next page) to develop their economies. Many governments are unable to resist short-run spending pressures and commit to long-run investment and growth strategies. Improvement in the quality of economic management can be attained through bank's country policy and institutional assessment indicator. The use of revenue for diversification strategies to support investment sectors through development banks. Many of the natural resource countries have no high capital-intensive sectors such as steel plants which explain the reasons for low level of development in rich natural resource countries (Venables, 2016).

The principles for revenue management based on current consumption and investment on physical capital, human capital assets, rents should be handled by the government or given to the citizens.

The role of quality of institution is a complex issue. Some scholars say, the quality of institutions is everything because the role of institutions determine economic performance (Mehlum, Moene, and Torvik 2006). Additionally, countries with sufficient institutions have neutralize the resource curse (Glaeser et al. 2004, Mehlum, Moene, and Torvik 2006), a study show that, natural resource abundance for economic growth is a blessing and the extend depends on the institutional quality. Therefore, good institutional quality support productive economic growth has positive relationship with abundant natural resource (Moshiri and Hayati 2017).

Furthermore, the growth income and human capital, literate people are able to resolve their negotiation and voting than disputes. Property rights to support investment in human capital and physical capital, security being a public choice. Institutional pro-investment policies as effect of political constrained on government. Better institutions are being measured by constraint on executive. Good and established institutions (Glaeser et al. 2004) while other doubt the theory, the tendency to depend on primary exports is as the results of inadequate qualified institutions (Brunnschweiler 2008) which state that, natural resource abundant has positive insignificant growth which has negative effect on institutional quality.

Economic institutions contribute to economic growth due to incentives to key economic actors in society, this is based on investment in human and physical capital and technology and organization of production. Therefore, cultural and geographical factors contribute to political power determine economic institutions, but there is conflicting interest, because power lead to commitment problem inherent in the use of political power. This is justified by political leaders in power cannot commit not to use it in their best interests. “Political powers originate from the political institutions in society” political institutions include, form of government democracy verse dictatorship. Political institutions and distribution of physical and human capital (resources) are state variables, hence determination of political and economic performance both direct and indirect.

Both politics and economics are collective choices hence allocation political of powers to influence the evolution of political institutions. Economic institutions increase security of property rights for land and capital. Political power change political institutions. Political institutions place checks on those who hold powers which is useful to create good economic institutions. Economic institutions have benefits to rest of society, political power in hands of broad group to have significant investment opportunities, easy expropriation of others possible. Political institutions are important to determine the constraints on the use of political power which hold jure political power in society. Therefore, good institutions have opportunity to industrialize and extractive institutions fail to do so. Economic institutions organize their societies that determines the different patterns of economic growth. Society organization ensures people to innovate, take risks, to save the future and economic institutions are important source of prosperity (Acemoglu et al. 2003).

Therefore, institutional weak countries, elites, and politicians expropriate different segments of the society range from macroeconomic to various macroeconomic policies. (Acemoglu et al. 2003). Institutions of private sector, elites and rulers were found in countries European settled in large numbers meant to protect their own property. Therefore, good institutions are found in countries with many European settlers.

Weak institutions have few constraints on rules in terms of the few in power to redistribute assets and income to themselves which leads to economic turbulence. Secondly, weak institutions lack effective constraints on politicians and political powerful groups which implies, there is benefits to be on power, weak institutions support cooperation repeated games strategies which unable to sustain cooperation hence output collapse, imperfect economic relationship to shocks, politicians tend to implement unsustainable policies to satisfy various groups and while in power, this results for the policies to be abandoned, finally weak institution allow entrepreneurs to choose sector which leads withdraw their capital more quickly (Acemoglu et al. 2003)

1.1 Specific findings on South Sudan's institutions quality and resource curse

It is estimated that 75 percent of total reserves owned by South Sudan from Sudan, and the oil has been its single most significant export. According to resource governance report (2013), South Sudan ranks as the most oil-dependent country in the world, accounting for 98 percent of government revenue and 60 percent of gross domestic product. However, the oil sector has not been performing adequately to the expectation, and graded (87 out of 100) as poor in creating an enabling environment suitable by score of 8 out of 100, institutional and legal setting scored 31 out of 100, safeguard and quality controls 35 out of 100 reveals lack of established monitoring and audit mechanisms but scored satisfactory results of 80 out of 100 (Governance index report, 2013). The scores do show that the sector is not performing as it should be and having positive reforms would be an ideal solution that requires support from all levels of society as well as considering joining the Extractive Industries Transparency Initiative -this initiative focuses on how natural resource rich countries commit to publish report on how to manage the oil, gas and mining sectors which include reports of reconciliation of revenues paid by extractive companies and revenues received by government(World bank report, 2013) .

Strengthening oversight in national legal sense through the parliamentary committee responsible for oil issues. These reforms can come in these scores to call for reforms in the oil sector through implementation of the Petroleum law, political willingness to act immediately, and willingness to join Extractive Industries Transparency Initiative. Although the national law has limited oversight role for the National Assembly. However, there is no parliamentary committee responsible to review oil revenues. Recent study shows a negative growth of natural resource as the result of lower education spending and less schooling in resource rich countries (Brunnschweiler, 2008). South Sudan depend on donations to focus on education, it requires time, with relevant policies to attain full education.

The institutional reforms would mainly aim to secure consensual and productive objectives; the set of institutions can enhance governance and deal effectively with the problems to confront citizens (Mbaku, 2012). Public policies in South Sudan are directed towards the exploitation and development of the abundant oil totally hence neglect of other sectors of the economy for balanced economic growth and development. Besides, South Sudan has developed policies to management its vast natural resource particularly oil (Petroleum Act, 2012). Although South

Sudan considered the most effective way to avoid the resource curse. However, the policy breeds corruption and public financial malfeasance, since South Sudan has weak institutions. Openness, transparency and good government operation is critical for good governance through enhancing individual's ability in decisions of public policy. Transparency enables acceptance and respect of the government and the decisions in policy making (World bank report, 2012). South Sudan being member of the least developed countries share the common features experienced by other 3rd world countries such as the existence of weak institutions and poor state of infrastructure among others.

Over the years, a lot of efforts have been geared towards improving the quality of institutions in South Sudan more especially in the oil sector through international cooperation like, World Bank Group, the International Monetary Fund, and countries considered successful in natural resource management like Norway, and Botswana. South Sudan does not have sufficient human capital in the institutions for efficient management of the crude oil. Therefore, human resource development coupled with machinery and equipment are equally important for good institutions. The various in human capital development explains the deviation in development of different countries, hence South Sudan's ability to attain development requires the government to facilitate the introduction of institutional arrangement to enhance entrepreneurship, creation of wealth and peaceful coexistence of the diverse ethnic and religious groups within South Sudan (Mbaku, 2012).

1.2 The birth of South Sudan

The birth of South Sudan has been a struggle of numerous rebellions since 1955 to 2005 when the country was united Sudan. The rebellion events started in 1955 to 1972 called as Anya Nya

(South Sudanese guerrilla organization, used against people or poison)[1] which fought against the government of Sudan (GOS) for greater regional autonomy. In 1969, Anya Nya rebel group controlled the Southern part of Sudan. In 1971, the rebel group combined to form the Southern Sudan Liberation Moment. The Southern Sudanese rebel army group ended in 1972 with the signing of Addis Ababa Agreement with government of Sudan. In 1975, many discontented former Anya Nya took army led into formation of Anya Nya two in eastern Upper Nile as part of the Southern Sudan hence collapse of Addis Ababa agreement in 1983 which led to the second Sudan's civil war in 1983 between the Sudan government and the Sudan People's Liberation Movement/Army(SPLM/A) (Institute for security Studies Situation Report, 2004). The two rebellions were committed to self- determination and democracy. The Southern Sudanese had suffered a lot of issues related to severe underdevelopment, poor governance persistence ethnic division, forced slavery by the government of Sudan coupled with identity of third class citizen in Sudan prompted the Southerners to seek for independent state.

However, the comprehensive peace agreement put an end to civil war which provided a permanent ceasefire, autonomy for the Southern Sudanese, a power-sharing between government of Southern Sudan and Sudan. As the country was preparing to be an independent state; many of the political leaders and legal specialists have been working to prepare the transitional constitution to create a framework for South Sudan's transformation from an autonomous region to an independent state. Hence South Sudan got important technical help from outside experts, the United State Institute of peace(USIP). The task committee known as the technical Committee to develop new constitutional terminology to reflect the birth of South

[1] Anya Nya means the Southern Sudan separatist rebellion/ first civil war which fought the government of Sudan for greater autonomy from 1955 to 1972

Sudan and to draft series of amendments to guide the set-up of the new republic's executive and legislative branches (OECD report, 2011).

The Comprehensive Peace Agree comprise of security which consist of representation of National government from both north-south conflict and a separate government of South Sudan(GoSS), the Southern Sudan Constitution and state constitution must comply with the Interim National Constitution, plus formation of the executive, a bicameral national legislature. The power arrangements include, the referendum of Southern Sudan to be an independent state, power sharing and security arrangement. During the six years of interim period of CPA, the people of Southern Sudan were given a choice to either vote for separation or unity of Sudan, while the government of Southern Sudan was part of Sudan invested a lot in construction and reconstruction of all institutions and infrastructures in the region. Therefore, the Referendum held on 9 January 2011 resulted to 99 percent voted for the Republic of South Sudan, and the nation was declared independent on 9/July/2011(World bank report, 2011, BBC, 2011). Yet, South Sudan faces challenges such as, poor security, weak governance, limited administrative capacity, chronic humanitarian crises, persistent social tensions, violence or the legacy of civil war.

The government institutions foster state-society relations, technical institution building and capacity development to support broader political dialogue and process. However, there is less support for legislature, judiciary and decentralized administrations, centralized on formal institutions and traditional areas (OECD, 2011). Just after two years of independence of South Sudan, conflict broke out on 15/December/2013 which led to thousands of deaths and displaced more 2 million people to the exile and other internal.

The ongoing fighting has entered the fifth year displacing many farmers hence preventing them from growing crops, and poor accessing to market. Besides, conflict and hunger; cholera broke out with 11,000 cases of cholera being confirmed and 190 people have died to date. The statistics show the population of South Sudan stand about 4 million people forced to flee their homes, more than half are children, 2 million people are internal displayed, and the government decided farming in February 2017 (Norwegian Refugee council report, 2017).

Additionally, according to Institute for security studies report (2017), the 2013 civil war led to factions of Sudan People Liberation Army/Moment which resulted to thousands of deaths, mass rapes used as weapons of war, the destruction of towns, and displacement of over 2.3 million and 5.5 million faced severe humanitarian crisis in this ongoing conflict. The report further, mention the corruption level being high for instance in 2012, 75 state official mismanaged public funds total of $4 billion (Da Alex, 2014). There are series of peace talks between the government of South Sudan and different rebel faction to bring peace to the nation for the return of the citizens to their beloved country, but the peace talks have been unsuccessful until present, although there is high hope for return of peace followed by investment in security, and infrastructures. Therefore, the government need to commit and sacrifice to save the interest of the citizens of South Sudan to allow development of institutions in the country.

1.3 Methodology

This thesis focuses on the institutional quality in reducing natural resource curse mainly desk-based which aim to complete detailed description particularly South Sudan's petroleum management in contributing to economic development. This involves data gathering in terms of words, graphs obtain from specific variables downloaded from Worldwide governance indicators to compare the institutional quality between South Sudan and Botswana. The qualitative method uses relevant articles and reports from natural resource governance website, World Bank data, political economics articles, books, reports from South Sudan's Ministries such as, Ministry of petroleum and Mining, Ministry of Finance and the International Monetary Fund reports. Relevant examples are drawn from successful countries in natural resource management such as, Botswana, Chile, Norway and Canada are often used in the analysis of the results.

Data collections;

The data collection obtained from secondary sources and available data downloaded from Worldwide governance index indicators. The data from Worldwide governance indicators which include, Control of Corruption, Government Effectiveness, Regulatory Quality, Rule of Law, Political stability, voice and accountability are used to measure the quality of institutions for 20 years for Botswana and 5 years for South Sudan. Period of this thesis cover data from 1996 to 2016 with some data gaps in some years being unavailable.

Data analysis

Data analysis using excel for visualization of data to form graphs and compare institutional quality indicators in Botswana and South Sudan. Data presentation in terms of words, pictures or objects, graphs. The graphs are obtained through excel from the downloaded data to compare the measure of institutional quality measurement variables between South Sudan and Botswana, the scale of the data to interpret results range from -2.5 considered as weak institutions and 2.5 considered as strong institutions. Therefore, institutional quality is good in Botswana which explains the economic growth and development hence blessings and weak in South Sudan which explains mismanagement of natural resource revenue hence curse. Additionally, there are other factors in Botswana that contributed to economic and development such as, the colonial British rule, good leadership, stable political and existence of democracy which allow peaceful government transition, diamond to finance the development projects such as, human, physical capital.

Limitations of this thesis

The limitations include, unavailable access to data. While writing this thesis, there has been inadequate evidence to support the theory of quality of institutions in reducing natural resource curse from South Sudan specifically. The research is valuable based on the measurements variables downloaded from Worldwide governance indicators to measure institutional quality between South Sudan and Botswana. Therefore, the results reveal that Botswana has good institutions which explains economic growth and development while South Sudan has weak institutions explaining the natural resource curse. It's important to note that, institutional quality complement with human capital development, availability of sufficient funds, political willingness for efficient natural resource (crude oil) management.

Chapter two

2 Natural Resource curse

Natural resource curse related to measurement of natural resource abundance and civil war outcome. This study focuses more on the quality of institutions in reducing oil curse in relation to political and economic oil states given that, South Sudan is endorsed with crude oil accounting for 98 percent of the government revenue(Deng 2015). The questions remain, "how government use the revenue to benefit few or many? The types of investments that the government spend the oil revenue; hence oil revenue has impact on the country's political and economic well-beings" (Ross 2012). Natural resource curse refers to un developmental outcomes of oil revenue. Oil has harmful effect politically due of the revenue it generates for government and oil revenue affects government's institutions, policies. High level of income is related to authoritarianism, civil war. Therefore, petroleum sector generates much income compared to other (Ross, 2012).

Furthermore, South Sudan's State and political institutions are weak, coupled with poor leadership to implement the national policies. Additionally, the political conflict turns out to be ethnic element and power struggle, hence oil curse. The calculation of the transit fees paid to Sudan was based on high prices, but with the oil price felt in 2014, Sudan benefits from the sale of crude oil more than South Sudan. This led the country to bankruptcy, borrowing against future oil reserves from oil producers, and domestic borrowing accumulated to hug debt. Therefore, South Sudan has complete crisis, collapse of the country, inability to pay civil servants, security attack citizens to earn living, citizens in Juba are begging which is a disaster (Johnson 2016). Additionally, there are lack of infrastructures to facilitate the United Nation's Humanitarian activities hence use of Air. Yet there is lack of resources and commitment to end the suffering in South Sudan. Institutional governance is already weak, no funds, conflicting legislation in Anti-corruption commission which allow the elites to convert corruption (Johnson 2016).

2.1 Causes of natural resource curse

Natural resource curse refers to the worse development outcomes such as; poverty, inequality, and deprivation with countries endorsed with natural resource. Natural resource is often linked to slow economic growth rate, inequality, and poverty (Brunnschweiler 2008). However, natural resource in countries such as Botswana, Chile, Norway have good policies that eliminate the concept of natural resource curse. Additional, oil curse has been blamed on the government of the oil producing states are associated with poor economic performance, lack of democracy, related to civil wars; this can be associated to corruption, rent seeking, inequality, shortsighted policies, and weak state institutions(Ross 2012). More so, many resource rich-economies have weak governance undermined by the political force causing unleased prospect of resource wealth (Venables 2016).

The natural resource curse theory explains that, high revenues volatility result into government revenue fluctuation. This is due to the fact that, many of the natural resource rich countries such as South Sudan depend 98 percent of its government oil export revenue. This volatility of fiscal revenues is transmitted into greater volatility of government spending as a consequence of pro cyclical public spending (IMF 2012a, b). “Oil revenue is unusually large which do not come from taxes, fluctuate unpredictable and can easily to be hidden” (Ross 2012). Therefore, the fall of the global oil price in 2014 had harmful economic setbacks in South Sudan in terms of budget deficits, shortage of foreign exchange which led to devaluation of the currency hence unstable price in the economy which led to social unrest. Hence, institutions with sound policies such as, monetary and fiscal policies regulated with independent bodies can be bring adjustment to South Sudan.

South Sudan national budget of 2017/2018 shows Nile Petroleum Company a state oil owned company spent more than its budget allocation. This explains the weakness in policies implementation with no clear rules attached to fiscal policy discipline. Additional, the need for tight and strong fiscal rules accompanied by fines and fees for the institutions to be efficient. Furthermore, weak institutions are characterized by weak capacity, unqualified leaders who drive the institutions into failures to execute the internal policies which results into abuse and violation of the system. Therefore, the political interference undermines the independence of these institutions, Incompetent leadership to stir these institutions into bodies and address the fundamental problems of South Sudan.

2.2 Dutch Disease

The Dutch disease was discovered when Holland experienced development and exports of its natural gas resources in 1960s and 1970s. The high resource exports results into high imports and lower non-resource exports and appreciation of the real exchange rate (Venables, 2016). Empirical evident show that," natural resource exports are associated with smaller tradable goods sectors" (Ross, 2012). Therefore, the fraction of export composition is important for economic growth (Jones and Olken 2008).

Dutch Disease is associated with real appreciation of the currency increasing and export of natural resources in medium and long run affecting external balance account and termination of normal exchange rate (Botta, Albert, 2017). The examples of Chile in Copper and Norway in oil reveal implemented structural balance fiscal rules to set expenditure on the long-run rice of copper and oil price to price of commodity above its long rum level and the excess saved. Malaysia and Thailand succeed in outward-oriented strategy to concentrate on production and export of labor intensive manufactured goods.

Persistence Dutch disease has "negative impact when combined with barriers to long productive activity term with exploitation of exhaustible resources" (Karl, 1997). The failure to capture political and institutional processes tend to establish economic laws and market forces form strong barriers to readjustments. Therefore, many of oil export countries should incorporate the context of economies to shape institutions, because oil exporting countries are saved by the institutions. Additional, Dutch Disease relates to outcome of institutional arrangements which is not the reason for economic decline, but requires the mode of economic development, political and social institutions. Hence income received through exploitation of social, political, and legal privilege. Therefore, economic activity and minerals require social and political institutions, customs, beliefs and attributes in relation to its utilization.

To solve Dutch disease, there is need for diversification of the economy. Natural Resource revenue is a source of funds to be used to finance public investments to support the private investment through human capital, public infrastructure, and utilities. Many of the natural resource countries missed this opportunity. The concept of forward linkages has process of the natural resource for local or prior to export which requires the economy's capabilities and comparative advantage (Venables 2016).The government of Chile and Malaysia invested through development banks or industrial policy. Chile's diversified its economy through agriculture investment to increase productivity from rubber to palm oil production, openness to trade and foreign direct investment and adaptation of industrial (Venables 2016).

Dutch Disease in South Sudan is dominant in crude oil export. Crude oil export accounts for 98 percent of the country's exports and the revenue generated from crude oil account for 95 percent of GDP. The oil sector in South Sudan face many challenges which include, political instability which led to reduction of crude oil production and hence reducing the export and revenue generated to finance the national budget.

The civil war which started in 2013 until present declined the output by 40 percent from 2011 to 2016. Besides, the issue of crude oil transportation to the port Sudan, since South Sudan is a land lock country with no infrastructures. Therefore, South Sudan pays Sudan for the use of the pipeline to transport the crude oil amounted to $25 per barrel. The oil sector has investors uncertainty coupled with no laws since the draft constitution was valid until 2015. The global oil price fluctuation has negative impact due to economy dependent on one export commodity.

South Sudan crude's oil has been sold on 10 percent discount which implies lower than the global price due to the quality of the crude oil. South Sudan followed some of the IMF stabilization funds program by increasing the sources of non-oil income through collection of taxes.

1. Figure shows South Sudan exports from 2008 to 2016

The above figure shows South Sudan's export decrease to 6278.70 million South Sudanese Pound (SSP) in 2016 from 7466.50 million in 2015. The average export 10331.50 million SSP from 2008 until 2016, high 17041 SPP in 2009 and record low of 1333.80 million SSP in 2012.

2.2.1 Natural resource (oil) and civil war

Resource rich countries experience conflict because the countries depend on export of primary commodities which can be explained by resource rent to act as incentive to rebel. The wealth from natural resource allow rebel groups to finance operations, and high level of corruption, extortion, and poor governance which results to rebellion. There are at least 21 resource-fueled conflicts in resource rich countries; Algeria, Angola, Cambodia, Equatorial Guinea, India, Libya, Morocco, Sudan, South Sudan and Yemen, Myanmar, Nigeria, Iraq, Sudan, and the reason based on natural resource revenue sharing was not the right policy choice. Majority of world's wars take place within states, but not between them (Ross 2013).

In 2009, there were 36 civil wars and no international war. Civil wars are divided into two categories: separatist wars mainly fought for independence and government wars fought to control the central government. Therefore, from the period 1960 to 2006, 30 percent of the civil wars are separatist and 70 percent of the government war (Ross, 2012). Separatist wars tend to last for long compared to government wars; separatist wars are fought in Sub-Saharan Africa and South Asia; government are found in all parts of world. There is decline in both separatist from twenty-eight to eighteen and the decline in government war from twenty-four to sixteen. Many scholars agreed on the number of factors that led to civil wars apart from oil include; low income per capita which influence people to have less to lose by taking up arms, slow economic growth with negative shocks to the economy, large population and difficulty to govern and increase the likelihood of separatist movement, war-prone and undemocratic neighbors, whose problems can spill over boarder and unrest, mountainous terrain to make easier for rebels to evade capture, the presence of diamond or crude oil to finance operation.

Additionally, civil wars are prompt in states that have just attained independence because the government did not establish order and deter challengers. According to study, one in five chance that a conflict, once ended will restart in within five years driven by factors such as; ethnic and religious diversity, inequality, democracy and political instability (Ross, 2012). Therefore, South Sudan being one of the new country is experiencing ongoing civil war which can be explained by existing of weak institutions to establish right policies to benefit all in the country.

Civil war occurs when the government fights a rebel army; the government fight back to confront the rebellion because the government intend to stay in power. Rebellion happen due to oppression, and discrimination against an ethnic minority. However, citizens join rebellion if the economic benefits exceed the cost. Hence rebel armies are formed in poor countries when the young people have less to lose with motivation to earn "honeypot" the hope to earn and acquire assets when they defeat the government. However, with future spoils of many years of conflict, fighting may not help rebels buy food, equipment and weapons to sustain the war. Therefore, for sufficient conditions for rebellion formation, there must; low cost and high benefits (Ross, 2012). When both parties are losing, then both governments and rebels engage in peace talks. However, the peace talks take long to be achieved; an example of South Sudan engaging in peace talk negotiations since 2014 up-to-date with no fruitful results for peace for the people of South Sudan (UNDP report, 2015).

Conflicts often occur to take over the control and exploitation of resources and allocation of the revenues (Ross, 2003). Different fractions and groups tend to fight for their share (Collier and Bannon, 2003). Security is a major concern as shown in Nigeria with oil theft (Venables 2016). However, for the case of South Sudan, the civil war led to destruction of the infrastructures and interruption of oil production. This resulted into fall in production being reflected in the fall of exports hence reduction in the government's revenue. Additional, as revealed in the national budget, security expenditure takes the largest share about 55 percent of the annual national budget (South Sudan National Budget 2017/2018). Another point to note, the ethnic groups in oil producing areas took up arms to fight for large share of the oil revenue (Ross 2012).

South Sudan's history of oil production has been associated with violent conflict since the first conflict begun in 1955 to 1972 and 1983 to 2005 which led to independent of the country in 2011. Although an estimate of 1.6 billion barrels of oil reserves and the ministry of energy estimated the oil reserves at 5 billion barrels; however, the conflict started in 2013 reduced production through limited oil exploration in areas with no access to security (Biel, 2015).

Recent studies show that, countries endorsed with oil/petroleum are associated with conflicts (Ross 2013, Karl 1997, Brunnschweiler 2008, Ross 2012). South Sudan's conflict has been driven by oil to a larger extent; evident by the concentration of the civil war in the oil producing area of Unity and Upper Nile. According to the 2017/2018 national budget, the actual expenditure actual expenditure estimated at 38 percent, however the expenditure increased to 66 percent. Good independent institutions enable implementation of the laws to curb the conflict and post reconciliation in the conflict affected regions.

The concept of predatory theory combines the state building approach which include; the state rulers, their subject populations and resource extraction. the rulers tent to extract much revenue from the subject populations. However, the revenue maximization is subjected constraints, ruler's bargaining power, transaction costs, and discount rate. Hence, internal rivals initiating civil war reduce the ruler's bargaining power and raise transaction costs associated with revenue generation with initially uncertain effect on the ruler's discount rate. The highly levels of state capacity generated by revenues enable the state to prevent internal rival from launching a civil war. The theory assumes that, rulers will be main beneficiaries of primary commodities revenues while internal rivals seek to obtain those revenues for purpose of seceding from or capturing the state. The objective of the rebellion is to capture the state or secede from it, and the incentive to rebel is a probability of victory and the state's capacity to defend itself. Weak central government increase the probability of insurgent practices at the local level. Factors ha cause civil war of being new state or an oil exporter include; ethnic, religious diversity, the lack of democracy, economic inequality has been associated with the risk of large population and political instability.(Ross 2012).

Dependence on oil rents produces weaker state administrative structures, resource rent is often spent on security to deter against potential internal rivals. Natural resource wealth is considered as cause of corruption state institutions, poor economic growth and governance under category of the resource curse. Rulers must have built institutions that are able to deal with opposition in both non-repressive and repressive ways. The effect of state capacity on civil war onset, hence the oil is positively related to civil war of which the prize of the oil revenue motivates the rebels. The measure of political instability is significant and positively related to civil war onset. Income per capita is separate from state capacity.

Civil war onset disrupts the normal pattern of revenue extraction. Oil exporters invested in building institutions that enable increased revenue extraction. Hence oil exporters may be supported to high risk of civil war onset and the capacity to deal with the war is strengthened. The existing states that, natural resource improves rebellion feasibility, increases the price to capture of the state known as greed or rent seeking and weak capacity and institutions has be viewed as an of natural wealth. The role of domestic institutions, can good governance stop the guns (Berman et al. 2017).

Additionally, "Civil wars occur when the government fights a rebel", and rebel arms are found in poor countries where young people have less to lose. The conflict rates of oil countries has been 50 percent higher than that of non-oil states (Ross 2012). Two reasons that explain conflicts in oil states namely, oil price increase of less than eight and more than fifty-five dollar per barrel after deduction of inflation. The geographic spread of petroleum production from wealthier to less wealthy countries. Several recent studies found that, resource rich countries in low income countries experience civil wars and political instability; these countries include South Sudan, In 2014-2015 budget, South Sudan spend 56 percent of the national budget on military spending and only 44 percent of the budget cover other sector of the economy neglecting investment of the oil revenue in public services such as the basic infrastructures namely; roads, hospitals, schools. Additional, part of the revenue which could been used to boost private sector activities through the commercial banks to lend loans on large, small scale to the business to stimulate economic activities have been hindered to a larger extend. Furthermore, based on the reports from the Ministry of petroleum and Mining, the production volume has reduced 50 percent as the result of the civil war (David K. Deng 2015).

The revenue from the oil sector has been diverted from development towards military spending. Although South Sudan oil legislation aims to prevent corruption and focus on the benefits of citizens, however, the law has not been enforced yet. This reveals that, the procedures in the oil sector is not subjected to strong regulation hence a risk in the oil sector; therefore, calls for full enforcement of the oil law and strong institutions in the oil sector (Global witness report, 2014). Political institutions on the economy is a weakness of the resource curse, although property rights protection, fiscal regimes, law and order. The institutions of redistributions are the institutions of power sharing and revenue sharing; institutions of citizens voice and participation, checks and balances, and financial oversight and control (Amundsen, 2014).

2.2.2 Export of natural (oil) resource

"Petrolization" of the policy of environment refers to production of oil for export produces a common set of policy problems for decision makers in oil countries. Resource rent are measured by World Bank in its World Development Indicators as gross revenues from oil, natural gas, coal, minerals, and forests minus their estimated extraction costs (Venables 2016)

Adjusted net savings are national savings plus education expenditure minus depletion of natural resources (World Bank 2011). Hence adjusted national saving is strongly negative for a large number of resource-rich low-income economies and negative correlation between resource rents and the savings rate (Venables 2016). In presence of good institutions, oil exports during boom yield high revenue and can be invested in productive investment, hence banking sector in the economy enables efficient management of the revenue.

3 Chapter three

3.1 Institutions of the oil sector in South Sudan

This part of chapter explains relevant types of institutions, the laws, and rules in natural resource management (crude oil and diamond) for economic growth and development. "Institutions refers to the rule of the game in a society in humanly constraints that shape human interaction" (Acemoglu and Robinson 2008). Institutions can be formal in terms of constitutions, laws, regulations and informal inform of traditions and unwritten norms of behavior in nature (Smeets, 2015). Institutional quality can be measured by government effectiveness, voice and accountability, regulatory quality, increase in resource rents (natural resource governance index, 2013). One of the empirical study reveals that, oil has negative economic growth impact with weak institutions and positive growth impact with good institution (Venables 2016). Therefore, South Sudan has weak institutions which confirms the theory, oil has negative impact on growth with weak institutions. Although being a new country and inherited all institutions from Sudan, the establishment of these institutions can take time.

South Sudan oil sector operates under institutions namely, Ministry of Finance and Economic Planning, Ministry of Petroleum, Petroleum Exploration and Production Authority and Mining, Bank of South Sudan, Nile Petroleum and Gas Corporation, National Petroleum and Gas Commission, Audit Chamber, National Legislative Assembly, Anti-Corruption Commission, the legal (judicial) (Blueprint, 2012). Additional, other institutions include the media, and civil society organizations which demand for efficient and transparent use of the oil revenues, the accountability of negative impacts of the extraction oil companies within the production regions.

Furthermore, it's important to note that, commercial banking sector is responsible for the financial transactions to the sub governments, and transfer of the payment to the government suppliers. Therefore, these institutions are connected on how the oil sector operates to ensure that all stage in the oil sector is properly managed for the benefits of the people of South Sudan. Additionally, the political and private institutions are weak evidenced by failure to follow and implement the procedures and policies leading to high rates of corruptions and failure to deliver the most important public services to the citizens.

According to Sudd Institute report 2013, South Sudan was ranked 50 out of 58 on natural Resource Governance on indicators measuring institutional, legal setting, reporting practices, safeguards, quality control, enabling environment or rule of law, corruption, and accountability. On the other hand, South Sudan scored 80/100 in the institutional and legal setting only below Canada 87/100, but higher than UK 79/100 (Savage 2013). Additionally, the governance index report 2013 on state-owned companies reveal that, (Nile Petroleum Company) scored 31 out of 100 and ranked as 33 out of 45 (Governance indicators index, 2013). This can be explained by the limited authority of Nile Petroleum State owned oil company to recruit nationals into oil operating companies (Deng, 2015). Hence the National oil companies (NOCs) exercise the daily operations control of the industry and hire international companies to carry out specific tasks which lack transfer of skills to the locals. Therefore, for efficiency and transparency of natural resource (crude oil) management, the National Oil Companies, private sector firms and hybrid companies combined state and private ownership run the oil business (Ross 2012).

Therefore, South Sudan's oil sector institutions are available, but weak coupled with political influence attached to the institutions, inadequate knowledge, skills and capacity in natural resource management of the oil sector in South Sudan. The independence of these institutions such as, anti-corruption, central bank, the media, citizen centered institutions, regulatory bodies. The selection of the committee members in the regulatory bodies based on the integrity and patriotism to promote sustainable implementation of common and sustainable. The governance system opened up the country to political-elites to establish a state not recognizable at all levels, and South Sudan government previous states system were 10 and being increased to 32 states hence a dilemma. Therefore, the independence of constitutional institutions should be separate from executive, legislature, and judiciary to receive equal oversight roles over each branch of government (Malish, 2018).

3.2 Petroleum sector laws in South Sudan

South Sudan has petroleum Revenue Management Act (2012) which aim to distribute the petroleum revenues to budgetary needs, savings, revenue stabilization, and direct transfers to petroleum producing states, Government and oil companies (Savage 2013). Economic principles suggest that the host country owner of the resource should put in place a regulatory and fiscal regime in which the investor can make a normal rate of return, and rents over and above this rate can be captured by the resource owner the state best-qualified investor. Investment in the domestic economy needs to be directed to high social return projects (Venables 2016).

However, the Petroleum sector in South Sudan has challenges in relation to rule and policy implementation. The Petroleum Act of South Sudan has not been fully implemented, and the Petroleum Revenue Management bill is waiting upon the signature of the president, coupled with leaving of the donor funded experts in the Ministry of Petroleum and Mining due to conflict in the country; hence weak institutions need to be strengthened of the institutions in the country (Global witness report, 2014). South Sudan regulatory framework consist of laws from the legislation, the Transitional Constitution, 2011 and the Petroleum Act, 2012 which led to Petroleum Revenue Management Bill in 2013 and the decision of the president determines the operations. Although South Sudan Petroleum rules and laws seems to be excellent on document; however, the implementation is an issue. However, South Sudan could have joined the Extractive Industries Transparency Initiative which was launched in 2003 consisting of 48 countries while 31 countries fully signed up to audit their natural resource revenues for accountability and transparency with best practices adopted by international and regional bodies. Malaysia and Botswana have self-fulfilling, since the citizens see the improved economic performance(Venables 2016)

3.3 Oil rent

Oil rent refers to the difference between selling price of the crude oil and its production cost (Ross, 2012). The revenue obtained from natural resource (crude oil) is special because they are finite, volatile, and has negative impact on other industries. Oil rent is finite because the extraction project has limited time, new technologies. Secondly, natural resource (crude oil) revenue are volatile because of price fluctuation based on market forces. Finally, crude oil revenue damage other industries since they represent large GDP and government revenue. Therefore, the economy f South Sudan does not have absorptive capacity to make efficient use of the revenue which led to high inflation and exchange rate appreciation (Natural Resource Governance Institute Reader, 2015).

The increase in resource rent tend to increase entrepreneurship with good institutions, an empirical study shows positive relationship and significant effect on entrepreneurship and institutional quality (Amundsen, 2014). Many African countries have weak quality of institutions leads to failure in procedure implementation. Good institutions enable government to use market competition to force companies pay rents through auctions and the highest bidder wins the right (Ross 2012). The principles that guide the use of rents from extraction of nonrenewable resources are use of the rent to be spend on current consumption or investment. The current generation should pass the assets on intact to future generations. However, utilitarian would argue for spreading the benefits across present and future generations. (Venables 2016). The permanent income hypothesis explains the discovery of an exhaustible natural resource, consumption should increase by expected annuity value of the discovery, with revenue in excess of this being invested to build a stock of assets sufficient to finance the consumption increment in perpetuity.

Many of the developing resource rich economies need modification since they are capital-scarce and accumulating capital converges to a higher income path. Therefore, consumption increment should be front-loaded future generations and more to current poverty reduction. The theory suggest that higher savings rates from resource revenues has positive impact on economic growth and development (Venables 2016). Therefore, good institutions ensure even spread of the crude oil rent to both current and future generations taking into considerations good policies based on investment and consumptions.

Furthermore, the investment component consist of financial, physical, and human capital assets that are acquired through accumulation of foreign assets in a sovereign wealth fund. An example of Norway's pension Fund for capital-scare country meant to build domestic assets, human capital and physical capital. The government should investment in infrastructure and in public health and education systems which offer high social returns (Venables 2016). The rent can be handled by the government or directly or handed to citizens. The public investment or assets associated with lending to the private sector through development bank or lowering government (domestic) debt than would otherwise have been the case. Therefore, Funds should be given to the private sector by tax reduction or a program of citizens dividends. An example of US state of Alaska where fossil revenues are placed in a fund, income paid directly to citizens through Permanent Fund Dividend Program (Venables 2016).

Petroleum revenue should be used to increase public investment in human and infrastructure capital. Resource revenues cab fund such investments without imposing taxes that tend to be distortionary and be hard to administer in low-income countries. The responsibility of government to smoothen spending both across generations and in response to short-run business cycle fluctuations to reduce the risk of resource-induced macroeconomic instability. The potential benefits of distribution to the private sector on the poor track record of governments. Additionally, direct distribution to citizens reduce the risk of corruption and improve the quality of investment which link to citizen dividends for efficient investments in country with poorly developed financial institutions.

Resource rent are measured by World Bank in its World Development Indicators as gross revenues from oil, natural gas, coal, minerals, and forests minus their estimated extraction costs (Venables 2016). Adjusted net savings are national savings plus education expenditure minus depletion of natural resources (World Bank 2011). Hence adjusted national saving is strongly negative for a large number of resource-rich low-income economies and negative correlation between resource rents and the savings rate (Venables 2016).

The proportion of the extraction of rents from extraction of nonrenewable resources are being saved; hence saving rates have been low for-income resource-rich countries. Public investment as a share of GDP has been lower in resource-rich low-income countries than in other low-income countries (IMF 2012b). Resource rent are associated with lower public capital stocks in countries with weak institutions. Government invest savings from resource revenues, the results have often been inefficient in both design and implementation; there are number of white elephant projects, and resource-rich countries perform poorly on the IMF index of public investment management efficiency

3.4 Stabilization funds

Stabilization funds refers to mechanism for setting aside money for unforeseen needs or capital project. The demand for stabilization fund is on rise, since 2000 until recent, there has been increasing natural resource funds which consist of 34 out of 58 funds currently active with more countries planning to establish new funds. The resource fund for the African's countries include, Nigeria called Nigerian sovereign Investment Authority, Ghana has Ghana stabilization fund, Equatorial Guinea has Equatorial Guinea fund for future generations among others. The natural resource stabilization fund in countries like; Kenya, Lebanon, Liberia, Mozambique, Niger, Peru, Uganda, Sierra Leone, Sudan, Tanzania and Zambia require new funds at the national level.

Stabilization fund is one of the effective means of natural resource management. The benefits of stabilization fund spread across both present and future generations because natural resource is finite which require stark policy decision, across the nation base on who to benefit from the natural resource which should be based on direct redistribution to benefit the poor more relative to rich. (Natural Resource Governance Institute Reader, 2015)

3.5 Importance of stabilization fund

As defined in the literature, “Stabilization fund” refers to mechanism for setting aside money either for unforeseen needs or for capital project (Ross, 2012). Many of the stabilization funds established are used to guaranteed multi-year financing, save government revenues for future generations, earmark spending for projects that promote development. The main goal of oil stabilization fund to invest the oil revenue in foreign assets to enable the economy gain returns that stimulate the economy.

Additional, the main reason is to equalize the effect of capital expenditures over time to provide a “rain day” fund, and finance capital expenditures for community to borrow. (Beauer, 2017), a fund maintained by the government to control the foreign exchange quotation of its currency. South Sudan’s Oil Revenue Stabilization Account objectives are similar to other stabilization funds aim to smoothen oil revenue volatility with regards to budgeting process and public expenditure against fluctuations and uncertainty in international oil markets. However, the implementation of the fund has not been implemented(Savage 2013). The policies of South Sudan oil sector are formulated, but there is problem with the implementation process which require independent regulatory body to ensure that the fiscal policies are being implemented.

According to Natural Resource Governance Institute report on the current governance of natural resource funds around the World, 22 funds shows that establishment of funds has benefited citizens in a number of countries in many countries and subnational jurisdictions in countries like Chile, Norway, some Persian Gulf countries and many in the United States of America, Some funds like in Botswana, Equatorial Guinea, Iran, Kuwait, Mexico, Russia and Qatar provide little information. However, countries that have self-declared stabilization funds include Azerbaijan, Kazakhstan, Trinidad and Venezuela have failed to stabilize the budgets.

South Sudan created the stabilization fund, but unable to implement the rules attached the operation of the fund (NRF report, 2013).

In the context of African's resource rich countries with active stabilization fund include, Equatorial Guinea's Fund for future generation, and Libyan Investment Authority activities are kept secret due to weakness in fund transparency which led to audits and information public about returns and investment managers (NRF report, 2013). Botswana does not want to impose withdrawal and deposit rules, Ghana prohibited direct domestic investments. These Funds are used for domestic investment determined by the domestic asset holdings. The domestic spending of the natural revenues should be withdrawal from the fund, and then earmarked for specific health, education, infrastructure or specific projects to encourage spending on development priorities.

Based on the past experience, many countries established strict rules to manage the deposit and withdrawals and investment risk through legislation and regulation as the results funds are transparent. The recent debate focuses on how revenue is managed in the natural rich countries? The establishment of rules to determine the type of revenue to deposit and rules to explain the management roles of different government agencies. There are six steps that promote good natural resource management which include, setting clear fund objectives such as; saving for future, generations, stabilizing the budget, earmarking natural resource revenue for development priorities. The establishment of fiscal rules for deposit and withdrawal that align with the objectives, establish investment rules, clarify a division of responsibilities between the ultimate authority over the fund, require regular and extensive disclosure of key information and audits, establish strong independent oversight bodies to monitor fund behavior and enforce the rules. (NRF report, 2013).

The funds are used to serve the public interest. The natural resource revenue can be used to cover budget deficit when the oil revenue declines due to volatility of oil prices and save the excess revenue for future generations (NRF report, 2013). There should be a law, regulations and policies governing a set of funds in a given country. These policies such as, institutional structures of natural resource funds, rules-based investment for natural resource funds, fiscal rules for natural resource funds how to develop and operationalize an appropriate rule, independent oversight of natural resource funds, natural resource fund transparency.

The question reminds on how to spend resource revenues? These revenues are spent through the national budgets although they are collected and distributed by accounts other than budget. Ghana had 40 percent of oil revenue in 2011 which was transferred to state-owned National Oil Company. However, for low developing countries such as the African natural resource-rich countries namely, Democratic Republic of Congo, Angola, Nigeria, South Sudan have not fully implemented the rules of the stabilization fund. For instance, Libya loss $ 1.2 billion investment in equity and currency derivatives after 2008 financial crisis due to poor fund governance (Beauer, 2017).

South Sudan's stabilization has two types of stabilization funds namely, Savings Fund, and Future Generation Fund will not be accessible for withdrawals until five years after the Petroleum Revenue Management Act (PRMA) is signed into law. The maximum 10 percent of withdrawal on the fund per year for capital investments to benefit future generations and foster long-term growth. Net Petroleum Revenue must enter savings every year, and 25 percent savings dip into stabilization fund to balance its budget. The Petroleum Revenue Account 75 percent and Petroleum Revenue Savings Funds 25 percent (Deng, 2015). Botswana's Pula Fund has been successful in managing both long-run investments and stabilization. Spending by Botswana's government has been de-linked from current resource revenues, and revenue that don't meet government spending and investment criteria are invested abroad through the fund (IMF 2012b).

The oil revenue from South Sudan are regulated by the Petroleum Revenue Management Bill(PRMB) which states that, all oil revenue should be deposited into the petroleum revenue account. Transfer from the oil revenue account to respective accounts have consolidated account consist of 70 percent serves for the purpose of national budget, the reserve fund consist of revenue stabilization account takes 10 percent of the annual oil revenue and future generation fund takes 15 percent of the annual oil revenue. The goal of the revenue of stabilization fund smoothen and stabilize the economy when revenue falls below 25 percent of the national budget and the withdrawal rule should be done quarterly (Petroleum Act, 2012).

The future generation fund's main objective to save for long term investment for the future generation since the oil belongs to state and the citizens. As stated in the Transitional Constitution, 2 percent of the oil revenue goes to oil producing states and 3 percent to communities in oil producing areas for development and compensation for the danger caused by oil extraction companies. However, the president did not sign the Petroleum revenue management bill to incorporate into the law. Besides, the Petroleum Act demands the Ministry of Petroleum and Mining to publish all information about exploration and production sharing agreements an all licenses online for the citizens to know about the stages in the oil sector, but this information has not been published until present. Hence weak institutions explain a lot in this regard to this matter (Deng 2015).

Stabilization fund benefits the natural economies to smoothen volatility of oil prices and accumulate savings to help during rainy day. However, the oil revenue can be invested domestically through development of infrastructures; roads, education, airport and some of the revenue can be invested in the banking sector through treasury bills, provision of loans to private sector to stimulate businesses in the economy and increase production. Establishment of stabilization fund depends on the need of the country. National oil company is one of the institutions which follow polices and instructions from the state; the state authority have consolidated authority over the companies for efficiency and effectiveness. The NOCs tend to oversight systems that monitor company decisions after the fact (Hults 2012).

Investment in stabilization fund requires the level of country's development for right policy formulation and implementation. Considering developing countries rich natural resource, priority of investment of natural resource revenues should focus on development of infrastructures and lending of loans to the private sector through commercial banking system to stimulate economic growth and creation of job in the economy. South Sudan can invest development of the infrastructures since the country is an initial level of development with inadequate road networks. However, investment in stabilization fund would be an advantage because the interest earned would be invested in development of infrastructure (Resource Governance course, 2018).

3.5.1 Reasons for failure to implement stabilization fund

Many Sovereign wealth funds are failures due channels of patronage and corruption, mechanisms for protection public finances. Illegal withdrawal an asset allocation that serve private or political interests and lack of oversight. mismanagement of asset allocation due to lack data associated fund opacity. For the success of sovereign wealth fund, state-owned company, investment decisions should be free from political interference, and based on independent boards to have clear mandates (Bauer 2017).

The big challenge relates to massive fluctuations in export earnings which tend to be difficult for fiscal discipline in the face of competing claims for share of resource revenues. The examples of Ghana, Liberia, Botswana, South Sudan, and DRC have approved laws defining transfer mechanisms and rules are published, Algeria has no transfer rules to publish and Sierra Leone has many un-codifies but public funds. Botswana's stabilization fund amount withdrawal has to be approved by an oversight body for transparency and accountability (Governance index 2013).

3.6 The role of good institutions in reducing natural resource curse

Institutions are linked to the behavior of politicians, due to limited discretion to define the policy space. The quality of institutions depends on the level of democracy of a country, democratic countries tend to have better institutions hence less likely to be cursed by natural resources. However, countries with weak institutions natural resources are one of the main sources of civil war and revolution (Antonio and Esther 2011). The Nile Petroleum Company, the state-owned company approves exploitation licenses and sets policy, negotiates contract and regulate the sector and then the Ministry of Finance collects oil revenues and transfers them to the treasury. Although the petroleum law calls for open and competitive licensing practices, no licensing rounds have been conducted since the country gained independent.

As shown by governance index 2013, South Sudan's performance on the institutional and legal setting was strong 80 percent which is satisfactory, reporting practices 17 percent weak, safeguards and Quality Controls 35 percent partial, enabling environment 8 percent failing.

Hence received a failing score of 31 out of 100 and ranked as 50 out of 58 countries. This calls for improvement through transformation and restructuring the institutions setting for the country to obtain sustainable economic growth and development. The government does not release data on the oil sector, The Extractive Industries Transparency Initiative candidate would be good option for the oil sector to have open access to information, competitiveness and transparency. South Sudan got low score on enabling environment of 8 percent hence a failing state because all the measurements of the government's ability to effectively governance natural resource revenues failed.

The judiciary is one of the relevant institutions; the higher court is the second most institutions in curbing resource curse through protection of property rights and fair competition, hence when the parliament and the judiciary combined to be horizontal accountability. (Amundsen, 2014). Therefore, good institutions enable governments deliver public services through transparent and accountable means to benefit the citizens. When there are cases of revenue mismanagement, the judiciary has the rights to pass judgement. The behavior of government and politicians explain the economic behavior of economic performance of resource rich countries(Antonio and Esther 2011).

Institutions are decisive for overall impact of resource booms because they determine the extent to which political incentives can really influence policy outcome(Ross 2013). Human capital accumulation the neglect of education due to weak commitment to education, hence increased education is conductive to higher growth levels. Does natural resource lead to high or low education levels? When voters manage natural resources, the higher the level of education. However, in countries with weak institutions, natural resource has negative impact on democracy because they harm political turnover. Hence low levels of institutional quality, human capital depends negatively on natural resources while for higher for higher levels of institutional quality, human capital depends positive on natural resource. Natural resource are bad when government wins election, hence turn to be curse on average (Venables 2016). Natural resource leads to a revolution in countries with bad political institutions. With good institutions, political competition forces the incumbent to choose the subsidy for human capital for individual's positive spillovers on society. However, with bad political institutions, incumbent worry is the revolutionary threat hence prefers to keep human capital low to minimize the threat (Antonio and Esther 2011). Therefore, with bad institutions human capital is low when incumbent wins the election.

Two reasons that examine the theory of institutional quality and human capital changes with natural resources namely, the amount of natural resource and human capital is a decreasing function of natural resources when the incumbent is in power, and incumbent stays in power always increase in the amount of natural resources. Hence for countries with good institutions, there are better chances for the opposition to win the election hence human capital grows with natural resources. Hence positive effects of natural resources and human capital in good institutions. However, negative effect with bad institutions(Antonio and Esther 2011). There is negative impact of oil on democracy is strong in oil-poor countries than in oil-rich countries prior to new discovery (Ross, 2001).

The current implementation of 5 percent of the fund to producing areas are being disbursed in lump sum cash payment to local authorities which may not be efficient. Establishment of community fund at the domestic banks, then the operation of the accounts handed over to trusted communities leaders, the fund should fund productive activities such as, schools, hospitals, community income generating activities. The community leaders should be integrated to the formal system of governance; capacity building is essential for the leaders to write and read policies and procedures for effective implementation (Deng 2015). As revealed by resource governance index measuring governance of subnational transfers, South Sudan ranked by 20 out of 30 and scored 50 out of 100. The institutions in charged has been fair, and there is need to improve the transfer system the reporting of the transactions (Resource Index, 2013). The oil sector should focus on full production and implementation of the existing laws (David K. Deng). According to resource governance index report in 2012, 37 countries are resource-rich, and four countries are prospective rich-resource countries which include; Afghanistan, Liberia, Mozambique and Sierra Leone.

3.7 Lessons to be learnt from Botswana.

This section explains the factors for Botswana's economic growth and development attributed to the quality of institutions and other factors in state building for the benefits of the people of Botswana which turns diamond as blessings include. Botswana gained independence in 1966, before the discovery of diamond. About 80 percent of Botswana's population was dependent on subsistence farming and the government had insufficient revenue to finance the budget. By luck, Botswana became resource rich country in 1970s, and the World's leading in Diamond production, which has world's leaders in its per capita natural resource endowment (Beaulier and Subrick 2006). Therefore, Botswana is one of the Africa's model with political diamond. The country experienced peace democratic political leadership which led to economic growth and development which brought the country to middle income. Botswana Population stands at 2,327,416 based on United Nations estimates (2018). Therefore, Botswana 's population has an advantage in the developmental projects coupled with more than 50 years of independence with perfect democracy, liberal freedoms and consistent development projects (Chan, 2016).

The colonial rule and British heritage has an important impact on the social, political and economic development of Botswana. The British missionaries arrived in 19th century and established central authority which led to evolution of tribal government. In 1920, the African and European advisory council was established which contributed to gradual institutionalization of tribal rule and powers. In June 1964, the British colonial accepted proposals for Botswana Democratic Party. Additional, the colonial British rule explains much in relation to the development of institutions. The former president of Botswana Ian Khama being half-white has contributed to the current economic growth and development coupled with institutional development to link projects to other developed countries like the United Kingdom among others (country watch report, 2017). The adaptation of European institutions practices through introduction of colonial taxes, increase of job migration into European mines outside the protectorate, contact with missionaries and traders, and Tswana elites' interest in economic prosperity and tribes' preference for urbanization. More so, the British rule was indirect in Botswana which has an advantage on people because it involves participation of the people in the administrative offices which enable skills transfer to the people.

The focus of institutions development is based on capacity building through free secondary education in 2006 and university education through international scholarships to have sufficient human capital in Botswana. Education being human rights and state responsibility to allow citizens have access to their rights. The government of Botswana has achieved potential human capital which contributed to the development of the institutions for efficient management of the diamond for development of the state. Additional, the minimum informal institutions of contract enforcement are good way to allow trade lowest transactions costs, and highly developed legal institutions. Therefore, this contribute to ability of following the right procedures stimulated in the rule/law during implementation stage.

Botswana political stability with longest period of democracy in Africa has the strongest records of human rights. Budapest Democratic Party has been the winner of every election since independence which has smoothen the implementation of economic, socially and political policies which led to economic growth and development of Botswana. Other parties participate in elections include, Botswana National Party(BNF). Besides, Botswana's election in 2009 gave assurance of heritage and self-assurance. The mature democracy and peaceful transitions of government after free and fair elections, its property rights and efficient law system provides for transparency resulting to lower levels of corruption (world governance index2013).

Traditions and culture plays great role in development of strong institutions in Botswana. The Tswana cultural norms under the British rule has been translated and integrated in the Modern state of Botswana. The institutions include, political institutions constraints on the ruler, the legitimacy of rule, and the legal system. Institutions are responsible to secure property right. Additional, the contractual enforcement and clear distinction between communal and private ownership gave assurance of the private property ownership to attracted foreign investors in Botswana. Institutions of social and economic life particularly urbanization, management of working time, religion, education and markets (Seidler 2010). Important institutions shaped chief's powers to rule, the chief works with advice from traditional assembly and the chief decision is final followed by consultation process and consensus seeking. Additional, the practice to obtain economic interests to maintain political support from an economically powerful elite.

The traditions authority is one of the legitimate formation of domination based on the rites and sanctity of traditional norms. The chief has natural responsibility to preserve the norms through introduction of Christianity. Besides, Christianity co-exist with traditional beliefs. The levels of political authority ranged from the chief as heads of tribes to chiefs in charge of towns, headmen of both villages and hamlets to the heads of single family. Personal rule as the ruling strategy (Seidler 2010). Therefore, legal and judiciary system rely on the hands of the chiefs within the tribe to settled disputes and dispensed justice. The local chiefs have limited powers, the legal norms are based on religious foundation, and further developed by chief's legislation and jurisdiction through oral case law. This arrangement has shaped the institutions in Botswana hence favorable social, legal, political and economic institutions. The consensus-seeking approach to government associated with the Tswana hence professional consensus. The practice of proposing presidential commissions to investigate options and policy frameworks proposal base on the outcomes of the investigations, the tendency of ministers to serve in the same portfolio for a long time all account for the development of Botswana. Furthermore, Botswana's history and diamond to finance the development of the institutions through human capital development, infrastructures development. Therefore, diamond discovery in Botswana is a blessing.

Diamonds has contributed to health GDP (country watch, 2017). The diamond brought significant impact to the people of Botswana, hence generating over 80 percent of foreign exchange earnings and half of its government revenue. Botswana emerged being World's top diamond producer with faster growing economy, its dependent on mining of mineral account for 40 percent of total government revenue. However, in 2015, Statistics show that, the mining sector contrasted from 2009 to 2016 on average by 3.4 percent per year (Elton, 2017). The net re-export of diamond from aggregation center allow balance of payment surpluses to guarantee the liquidity of its central bank. Additional, diamond industry offers one in 20 jobs in the country. (Sharife, 2016). However, diamond contribute a third of the total GDP and 80 percent of foreign earnings which would be affect the economy if the copper market fails. Therefore, Botswana need to diversify its economy to reduce dependence on one product (, country watch, 2017). De Beers and the government formed a joint venture in 2008. The company operates in South Africa, Namibia and Botswana (Stephen Chan, 2016). “De Beers uses quasi monopoly on diamonds to stabilize world market prices to stabilizing effect on government revenues” (Martin, 2009).

Botswana is known for development of institutions that secure property rights and encourage the adoptions of sound economic policy hence the natural resource turn out to be blessing ((Beaulier and Subrick 2006). Furthermore, Botswana developed institutions that encourage the adoptions of sound economic policy hence the natural resource turns out to be blessing. Country Partnership Framework(CPF) for fiscal year 2016 to fiscal year 2020 policies aim to reduce poverty, inequality, and promote job creation, the main aims of CPF include; promotion of private-led sector, jobs intensive growth, strengthening human and physical assets, and support of effective resource management. CPF supports the government vision 2036 goals and the plan CPF framework will be 2020. Capacity building for regular skills/jobs in priority sectors to improve the country’s institutional capacity to develop beef, financial service, and tourism. This initiative was supported by World Bank Group in the implementation of a national performance monitoring and evaluation system link for significant outcome. The importance of bond’s long-term financing supports the transformation of the Society into a full service, commercial bank, financing underserved clients, and medium enterprises (World bank report, 2018). additional, the revenue of 2014 of 86 percent of export revenue was generated from diamond exports and used to develop the economy to reduce poverty (UNCTAD, 2017).

Factors for Botswana success include; diamond wealth, good governance, international support, prudent economic management and relatively small population brought Botswana to middle-income country. Economic growth is driven by mining activity, construction, services sector and intensified public investments. Poverty rates felt in 2015/2016 to 16 percent driven by great private sector job creation, higher value-added agricultural production and service, credit expansion, lower household debt. Education expenditure accounts for 9 percent of GDP which include universal free primary education. Favorable policies designed for investment climate, more efficient social sector spending, stronger human and physical assets (World bank report, 2018).

Diamond product in Botswana attributed to De Beers Group, the company published the attempt to quantify economic value generated by the partnership in Botswana annual. De Beers calculated $6.9 billion in revenue in 2014 and $ 2.3 billion invested in rough diamond imports from South Africa, Namibia, Canada and sold to bulk diamond buyers. (Khadiji Sharife, 2016). Botswana strong export performance attributable to the performance of the diamond industry generated current account surpluses year after year due to the increase in sales of diamonds. Diversification of its export market. Botswana is praised for transparency international 2016 correction perception index and number second out of 54 African countries in 2016 Mo Ibrahim Index of African Governance. The country's good policies and strong institutions (Geroge J. Honde, 2017).

Botswana falls under the category of upper middle-income country compared to Chile and Argentina. Botswana's growth was largely determined by minerals like diamonds; diamond in Botswana considered is as a lucky and success due to good governance and good economic management (Michael Lewin). Factors that that led to its success include; Botswana relative's homogeneous population, the credit system which goes to the government, and the governance conditions are based on stability and economic progress. Respect for property rights, and maintained a high degree of transparency, supported by the Tswana tribal tradition of consultation which has a high degree of trust in the government to serve the people.

The concept of volatility curse applies in Botswana due to price fluctuations in the world market. This has an impact on the economy through appreciation of the exchange rate in the boom and depreciation of exchange rate during bust. Volatility leads to low investment in relation to foreign direct investment, government tend to borrow against future revenue due to increase in revenues and increase spending. Therefore, expenditure can be based on more stable, permanent income to smoothed consumption over time. Example of countries which applied and succeed include; Botswana, Chile, Kwait, Norway, Qatar and Saudi Arabia. Governance curse refers to when government institutions are weak, and the natural resources can be squandered, although the theory states that, natural resource weaken and corrupt government (Beaulier and Subrick 2006).

Additionally, Botswana achieved gender parity in education in 2011 with ration of 107 percent of female and male gross enrolment in 2013. The literate rate among females aged 15 above reached 91 percent in 2014 compared to 88.7 percent for male. This was achieved through significant budget, provision of free basic education and adoption of the inclusive education policy in 2011. The government is implementing 2015-2020 education and Training Sector Strategic Plan(ETSSP). Botswana has one of the best health care systems in African; there are 35 general hospitals, 290 clinics, 55 dentists, 819 doctors and 5816 nurses in 2012. According to statistics, over 95 percent and 89 percent of the population live within 15 km from a health center. Botswana maintained democracy during the first years of rapid growth and development hence property rights and rule of law are more important than democracy.

Furthermore, the leadership in the evolution of successful institutions contribute to policies implementation to prevent Dutch Disease through fiscal savings, a surplus on current account of the balance of payments, and heavy government investment in infrastructure and human capital. Botswana achieved education leads in Africa, the adult literacy 80 percent, compared 27 percent Botswana. Good governance enable effectiveness of good policy and hence good policy encourages better government. Botswana is a mineral-based economy; when mineral revenues: the government is a big saver, hence the central bank profits and income from accumulated assets now make up about 30 percent of government revenue. The fiscal surplus increase to 30 percent of GDP, although dependence on mineral exports has weakness of current outlook and diversification of traded goods sectors is the most important policy objectives. Botswana reputation has been stable and successful which is attributed to efficient and good quality of the institutions.

Evolution of the share of diamonds in total merchandise exports in tandem with export value per carat. The assumes that, the higher the export value per carat the higher the economic growth rate. Therefore, Botswana has been enjoying political and macroeconomic stability conducive to steady extraction of higher volume of their diamonds. Diamond contribute to foreign exchange exporting countries, this accrued to both the government of Botswana and De Beers, the country has comparative advantage of solid institutions which allow government to collect tax at various stages both direct such as royalties and indirect taxes such as Value Added Taxes; therefore, higher export of diamond contribute to higher GDP growth. Factors such as good governance, political stability, transparent tax collection system and sound management of diamond revenue results to higher exports, GDP growth and human development.

Botswana invested significant diamond revenues into education, health, roads and basic infrastructures, has democratic record with political stability and non-violent. The settlements of electoral disputes which led to political leaders win the vote of the countrymen through social and economic realizations such as; building schools, roads, hospital and health centers. Self-disciplinary rule for the use of revenues from natural resource and use of revenues to finance “investment expenditures. Establishment of cutting and polishing industry with 21 firms in September 2013 was great achievement to the people of Botswana. Cutting and polishing activities will decrease extreme poverty through provision of more than 1000 jobs during the operational phase scheduled from 2017 to 2029 (UNTAD, 2017). Besides, Botswana is a member of inclusive framework on better policies for better lives to ensure further reduction of poverty and improve welfare of the citizens through development of infrastructures and the quality of lives, education has become accessible to all citizens. Education is a primary focus goal of the government, and social aspect of Botswana and has excellent facilities and access to internet and health care; access to health to services; the company provided services to communities.

The Botswana government offered scholarships to citizens to study aboard to United State, United Kingdom, Canada Australia for the selected citizens to acquire and come home to develop the institutions. However, the Botswana government could not sustain the scholarship program for long due to high cost of education abroad; hence establishment of university in Botswana to reduce the number of students going outside the country and allow many citizens to study within the country. Additional, health care service, plus infrastructures have been a priority. Investment in human resource care development and infrastructures of 600 and 29 larger hospitals.

The state building in Botswana is attributed to the strong national leadership couple with excellent relationship with the international companies. The presence of good governance manages to unify the eight tribes of Botswana. The country experienced 40 years of multiparty which allowed development of institutions and diversification of the economy in tourist sector using diamond revenue. More so, he Legislative law states that, all the revenue must be invested for building and development of Botswana; hence the revenue doesn't belong to the tribal resource, but it's a national resource and used for to benefit all. The 40 to 41years relationship between the government and the mining companies played an important role in diamond sector. The mine companies provide health services to the communities within the community and partnering with the government. Therefore, given the historical, social, political and economic discovery of diamond since 1970 in Botswana, couple with evolution of good institution, stable and sound macro-economic, 40 years of multiparty, good leadership, good relationship between the government and the mining companies, the state ownership of resource, unity of the tribes in the county explain the economic growth and development of Botswana hence diamond is a blessing rather than a curse.

Botswana's economic recovery due to successful implementation of National Economic Diversification Drive(EDD) strategy from 2009 to 2016. The diamond accounts for 80 percent of its exports and 30 percent of government revenue. The initiative aims to diversify the economy and have many sources of economic growth and income to eliminate dependence on diamond. Beers' diamond sorting and sales activity from London to Botswana in 2013 has an impact on the economic activities more particularly the exports of the polished diamonds (African Development Report Group, 2018).

3.7.1 Are Institutions Everything?

The response to this question depends based on level of country. The colonial rule and British heritage has an important impact on the social, political and economic development of Botswana. This preserved heritage has led to strong institutional capacity building to support development corporation. This has been achieved through the technical assistance from Development Bank's Middle Income Technical Assistance Facility to train the project staff in risk management, investment and financial management, equity investment analyses and management, project management, social corporate governance and corporate finance, human capital planning and management, information technology and audits. The training enabled the government workers to acquire to efficiently manage the national projects for the benefits of the people. The procurement of goods and services are accordance with the banks' rules of procedures(Glaeser et al. 2004).

More importantly, the importation of foreign institutions was created by the British colonial powers to its colonies contribute to institutional quality in Botswana. The gradual change of local norms and customs, hence the transfer of informal norms, laws in originating society took more time for efficient transfer. Botswana is one of the African successful British rule in which human resources created formal institution of skilled legal experts who are local or expatriates. In the appendix figure one and two show how the British rule is effective in Botswana, before Botswana independence, the country had more than 25 percent expatriates employed in the civil servants and fourteen years later after independence of Botswana, "the length of time of expatriates occupied senior pots is related to the quality of services today" in Botswana (Seidler 2018).

However, institutions matter, but not in everything in advanced countries. The elite commitment of fulfilling the program conditions. “The success of crisis management depends on the government’s commitment’s willingness to accept constraints on its power” (Győrffy 2018) This constraint includes, liberal democracy ranging from the rule of law, political and civil liberties, and the level of state redistribution. Additionally, government commitments to reward actors in the present from taxes payment to bonds purchase. Natural or civil law requires the independency of the judiciary as guardian of the law, international rule of law requires government to comply with. The extensive political and civil liberties, freedom of expression, freedom of as (Győrffy 2018). Furthermore, financial assistance program ensures establishment of institutions. More so, an Austerity and an economic crisis is an opportunity for further weakening the institutions that limit their power. Strong institutions can hold back populists even during difficult economic times. The Trust is based on the willingness of the government for self-restraint, governments are limited by international agreements and external organizations with willingness to join, constrained and the media by non-governmental organizations to provide information on government actions and hold accountable. Hence, governments are limited by rule of law

Furthermore, there are other limits beyond the rule of law, which include opposition parties, non-governmental organizations, and the media to provide monitoring and information over the activities of government, the academia set their own standards independent from political inference. These organizations give feedback which are uncomfortable but should be respected for democratic system. The size of government, large government can be a source of more corruption and abuse of power. More service generates higher level of trust, and hence institutional root of trust to relate the ability of government for credible commitment to the capacity for self-constraint (Győrffy 2018).

3.8 Lessons from Chile

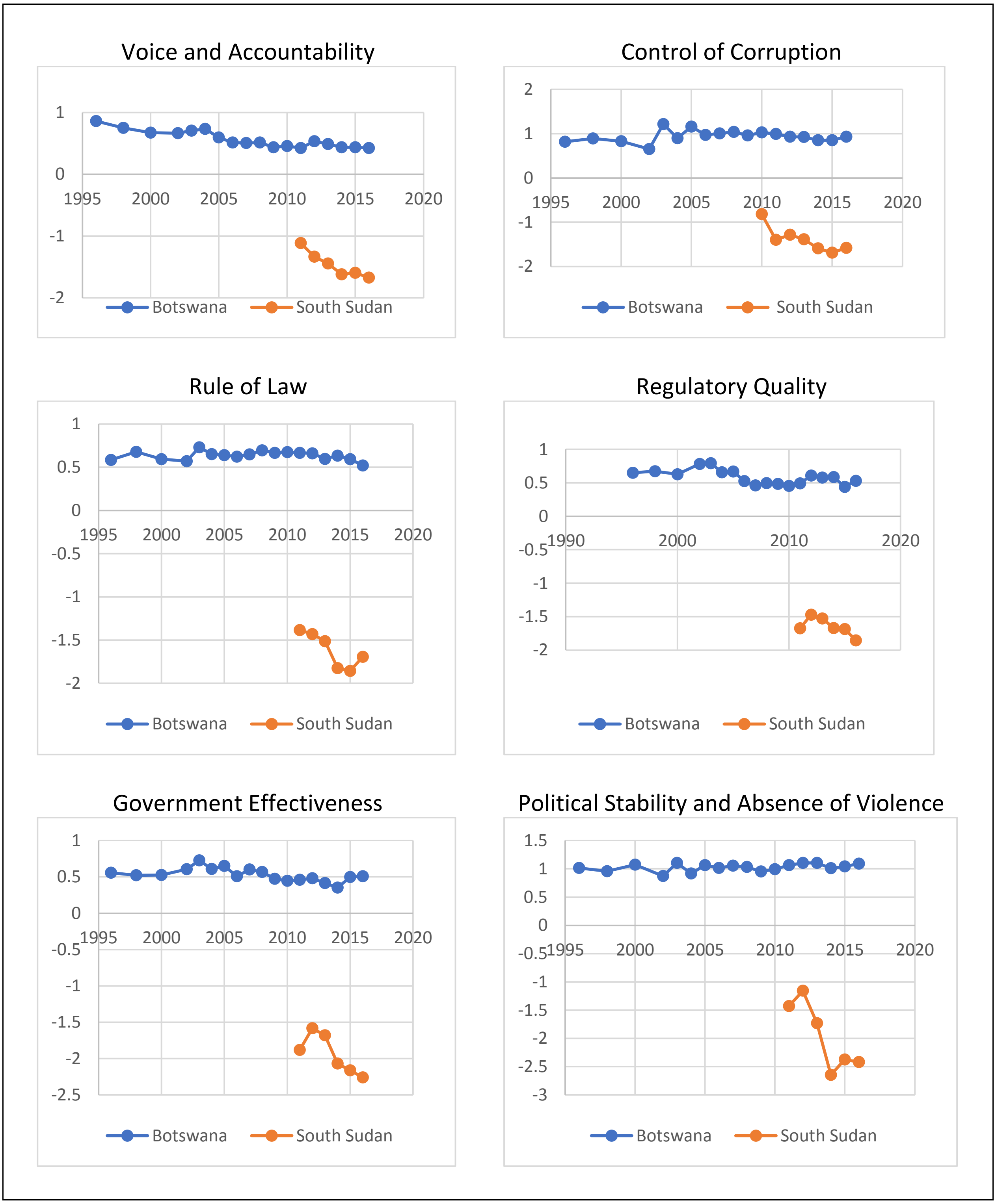
Chile has been successful in managing its natural resource revenue (copper) to develop the country. For instance, Chile has fiscal rule of structural surplus rule for central government budget introduced in 2001. Save during sun days and spend during rainy days, countercyclical fiscal policy seeks to separate public spending from effects of economic cycles and commodity prices. The fiscal rule enables Chile to save during good times and spend extraordinary resource during rainy days. This has an impact on stabilizing fiscal policy rule and smoothing fiscal expenditure to prevent deficit and procyclicality. The application of sustainable fiscal rules link to fiscal performance.

Additional, the sovereign wealth funds (SWFS) of Chile has been successful in terms of transparency, good management, and responsibility coupled with political courage and economic responsibility. The countercyclical monetary policy of inflation central bank with an inflation targeting regime and flexible exchange rate, the implementation of the fiscal policy reduces GDP volatility in the Chilean economy. In 2008, the Ministry of Finance launch series of measures to guarantee the liquidity both in local and foreign currencies based on timely and substantial and temporary fiscal measures. Chile has diversified strategy through increase in public investment with transfers, employment, subsidies, credit subsidies, capitalization of state companies and tax reduction (Parrado).

3.8.1 Comparison of institutional quality between South Sudan and Botswana

Institutional quality measurement includes control of corruption, government effectiveness, regulatory quality, rule of law, voice and accountability. Based on the World-Wide Indicators reports, Botswana's institutions rank on the top of Africa natural resource rich countries and South Sudan has weak institutions.

2. Figure shows variables of measuring institutional quality in Botswana and South Sudan



Source: Worldwide governance indicators

The above figures show the five variables measuring quality of institutions which include, Corruption. -2.5 shows the estimates of all indicators with weak institutions and 2.5 indicates strong institutions. Based on the graph, Botswana ‘s institutions are slightly doing good in terms of control of corruption, government effective, rule of law, regulatory quality and political stability. South Sudan institutions has been weak in all five variables measurement of institutional quality explained by low capacity, weak governance. Botswana has long history of institutional development through provision of scholarship abroad and then later, established Universities within the country to develop human capital for strong capacity building and perform in all sectors. Meanwhile, South Sudan attained its independence in 2011 and inherited institutions from Sudan, therefore, South Sudan needs time to develop the institutions from human capital.

Botswana’s development to middle-income country in the African’s region include; consensus-seeking approach to government has deep roots in Tswana, practice of proposing presidential commissions to investigate options and propose policy frame work, ministers tend to serve same portfolio for a long time, consistent foreign technical assistance, adherence to the development planning process which started before independence and continue until present, and the positive influence of British colonial rule in Botswana. South Sudan at its initial stage of development projects establishment before the ongoing civil war put the country at disadvantage, South Sudan ministers are change frequently within short term hence affecting the development project negative. Therefore, South Sudan will develop if consistency in government institutions are prioritized taking into consideration other fiscal and monetary policies, political will and adherence to the rules and laws in the petroleum sector.

4 Conclusion

“The economic impact of natural resources is conditional on the quality of institutions Institutional, there is negative correlation between natural resource abundance and economic growth for countries with low institutional quality, but positive correlation between natural resource abundance and economic countries such as Norway with strong institution” (ROBINSON 2013). Institutions use repressive strategies to be willingly to utilize to achieve the objective. Additionally, economic institutions underlie economic success through creation of incentives, reward innovation and participation of everyone in the economic opportunities. The establishment of these institutions requires time, and sufficient funds, to finance development of human and physical capital for efficient management of natural resource (crude oil). There is a need for fiscal regimes, independent regulatory bodies, investment in public services and infrastructures such as roads, hospitals, with higher returns. Additionally, sustainability and creditability of policies enhance the quality of institutions which result in good economic policies.

However, low and weak quality of institutions leads to bad policies and hence low economic growth and development of the developing natural resource countries. The quality of institutions has more emphasis on the human resource training in order to put the mess right and promote economic growth and development, for the society benefits. Although other factors such as ethnicity and cultural practice explain the resource curse. Economies shape their political institutions and they are in turned shaped by them (Karl 1997). The quality of institutions coupled with other factors such as political will to incorporate rules in the legal framework determines effectiveness and efficiency of natural resource management in South Sudan. The initiative to improve governance, Institutions play important role in economic development as demonstrate in Botswana model of diamond management keeping other factors such as colonial rule heritage related to British rule, the traditions of Tswana/ Botswana, traditions and culture of Botswana people, Professional consensus, the History and Institutions has been in existence for the past 50 years. The discovery of diamond enable financing and smoothing of the business cycle sticking on the monetary and fiscal rules discipline, and the ability to implement the policies. However, South Sudan need to develop its existing institution and obey the rules for efficient management of the oil sector for the benefits of the citizens of South Sudan. The country has an advantage and opportunity to implement the existing policies and join international transparency and accountability.

Hence, this thesis recommends political will and independence regulatory bodies from the government to formulate, implement, monitor and evaluate whether the policies are being followed. Additionally, investment in human and physical capital could be of priority. But Since the country emerged in 2011, after two years of independence civil war broke out which resulted into more trouble to the people of South which requires calls for immediate return of peace in the country for security safe for all South Sudanese.

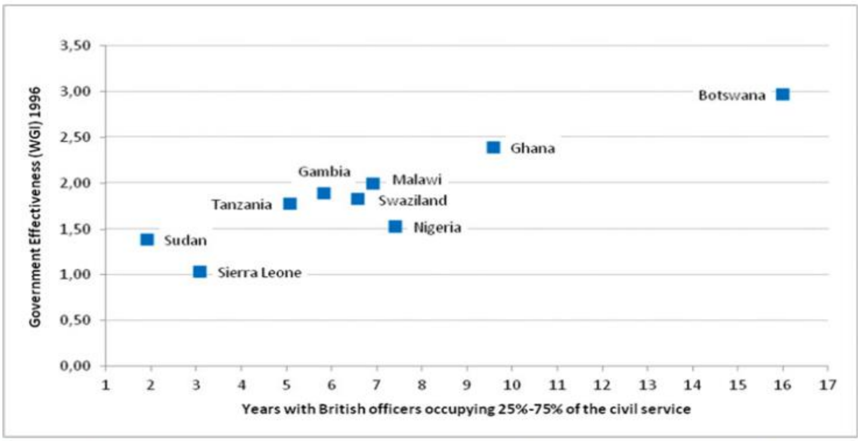
This thesis demonstrates the extend of institutional quality in reducing natural resource curse (crude oil) in South Sudan. Therefore, South Sudan requires to join the Extractive Industries Transparent Initiative (EITI), establish stabilization fund, implementation of fiscal rules, political will and independent institutions such as fiscal councils. Therefore, the political and economic institutions, interaction of national political institutions with international markets and societies, social and institutional relations for efficient natural resource management.

South Sudan’s oil sector need to set up fiscal policy and independent regulatory bodies based on fiscal rules to reduce corrupt business and focus on investment in public infrastructures, and implementation of stabilization fund for the benefits of the people of South Sudan. “Publish what you pay and borrow”, South Sudan should publish the amount of borrowed money (loan) against future production to finance the ongoing civil war. There is need to improve cooperation among three groups which include capital exporting countries, international financial institutions, and private sector companies. More emphasis should be focused on human capital development, the implementation of the stabilization fund.

For successful implementation of natural resource (crude oil) management, there is need for peace to return to South Sudan to allow development of infrastructures and implementation of the existing formulated policies. Additionally, for economic growth and development in South Sudan, there is need for political will to ensure implementation of the fiscal rules coupled with other factors that promote development. Therefore, based on this thesis analysis and results, South Sudan has weak institutions which require structural transformation and fiscal rules reforms for all institutions such as, banks, legal system, concerned ministries and organizations (Ministry of Finance, Ministry of Petroleum and Mining, Media, Civil Societies organization), employment of right personnel at the respective offices hence, South Sudan should learn lessons from other successful natural resource rich countries such as, Botswana being one of the African country in the middle-income stage, Chile, Canada and Norway. However, as a new country, it’s a long way to reach where these countries are, consistent, sustainable and credible fiscal rules, international cooperation coupled with good leadership can transform South Sudan to be a blessing to all the citizens.

5 Appendices

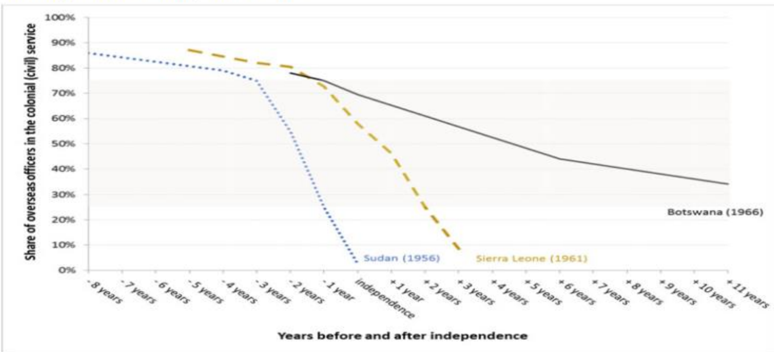
2. Figure shows presence of British civil servants in former colonies and government effectiveness in 1996



Sources: Territorial staff lists and secondary sources (see Appendix 2b and 2c); for Worldwide Governance Indicators see Kaufmann *et al.* (2009).

3. Figure shows the rate of localization of civil services at independence Sudan, Sierra Leone, and Botswana

Figure 2. (Colour online) The rates of localization of civil services at independence: Sudan, Sierra Leone, Botswana



Sources: Territorial staff lists and secondary sources on numbers of British officers (see Appendix 2b and 2c).

4. Figure show South Sudan: Rent-seeking Rebellions

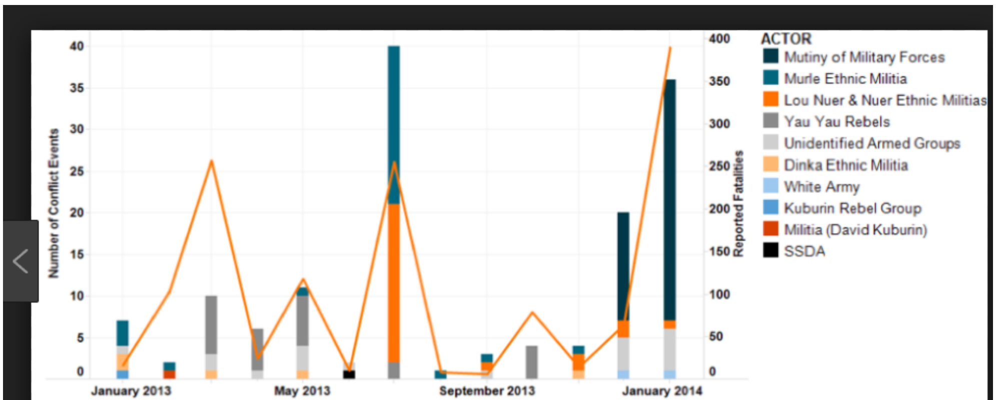


Figure 10: Conflict Events by Actor Type and Reported Fatalities, Jonglei, South Sudan, January 2013 - January 2014.

6 Glossary

Stabilization fund refers to mechanism for setting aside money for unforeseen needs or capital project

Fiscal regimes refer to set of tools that determine how the revenue from oil and mining projects re shared between the government and companies.

Natural Resource Curse refers to the paradox of plenty that, countries with an abundance of natural resources are tending to have less economic growth, less democracy, and worse development outcomes than countries with fewer natural resources.

Crude oil refers to natural occurring, unrefined petroleum product composed of nonrenewable resource

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