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The Role of International Financial Institutions in Advancing Transparency Reforms in Somalia's Emerging Petroleum Sector

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About Dhaxaldhawr Initiative

Dhaxaldhawr Initiative is a Somali civil society organization dedicated to promoting transparent, accountable, and environmentally responsible governance of oil, gas, and mineral resources. Founded in Mogadishu in 2024, Dhaxaldhawr works to ensure that Somalia's natural wealth benefits all citizens through public awareness, policy research, community empowerment, and multi-stakeholder dialogue.

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1. Key Messages

- 1 Over the past six years, exploration activity in Somalia's hydrocarbon sector has increased significantly, and the Federal Government of Somalia is expected to witness the drilling of its first exploration well within the year.
- 2 The Federal Government of Somalia has concluded 19 Production Sharing Agreements (PSAs) with international oil companies. However, public information about these contracts remains limited due to insufficient transparency and disclosure.
- 3 International Financial Institutions have played an important role in supporting governance reforms aimed at strengthening transparency, accountability, and oversight in the management of Somalia's petroleum sector.
- 4 While progress remains limited, the Federal Government has taken a positive step by establishing a regulatory framework that outlines requirements for the publication and disclosure of key contractual terms of executed production sharing agreements.
- 5 To ensure full transparency and accountability in the petroleum sector, the Federal Government of Somalia should adopt international standards and the emerging global norm of full contract disclosure.

2. Introduction

The extractive sector constitutes a cornerstone of economic growth and structural transformation in resource-rich countries. The exploitation of petroleum, minerals, and other natural resources presents a distinctive opportunity to stimulate industrial development, generate substantial public revenue, and expand the provision of social services. When effectively governed, revenues derived from extractive industries can finance education, healthcare, infrastructure, and employment programs, thereby contributing directly to national development and enhancing the quality of life for citizens. In this respect, natural resources possess the potential to serve not merely as commodities for export, but as strategic instruments for long-term economic diversification and state-building.

Yet resource wealth is inherently paradoxical. While it offers transformative economic promise, it also carries substantial governance risks. In the absence of robust regulatory oversight and institutional control, extractive industries may entrench corruption, exacerbate inequality, and generate political and social instability. In fragile or post-conflict contexts, mismanagement of natural resources can intensify competition over resource control, undermine state legitimacy, and erode public trust in governing institutions. Rather than consolidating peace and development, poorly governed extractive sectors may contribute to governance fragmentation, elite capture, and conflict dynamics.

To mitigate these risks, extractive resources must be managed responsibly and sustainably so that they contribute to inclusive development. Because natural resources are finite, their exploitation must also be structured in a manner that ensures its benefits accrue not only to present populations but also to future generations. This requires a comprehensive and coherent legal framework, effective and well-resourced institutions and strengthened transparency and accountability mechanisms embedded throughout the sector

to ensure that extractive resources are governed in the public interest with least minimal opaque executive discretion. Achieving this, transparency functions as a structural safeguard against corruption, revenue mismanagement, and discretionary abuse of power. It reduces information asymmetries between state actors, investors, and citizens, thereby fostering trust and enhancing governance legitimacy.

Global reform efforts have significantly influenced contemporary extractive governance standards. Civil society movements and international initiatives have played a central role in advancing norms of openness and accountability. Among the most prominent frameworks is the Extractive Industries Transparency Initiative (EITI), which establishes a standardized system for disclosing contracts, production figures, and revenue payments through a multi-stakeholder model involving governments, companies, and civil society representatives. Complementary advocacy campaigns, including “Publish What You Pay,” have reinforced demands for contract transparency and beneficial ownership disclosure, underscoring the role of civil society as a counterbalance to concentrated governmental authority in resource governance.

In addition to that, International financial institutions, particularly the International Monetary Fund and the World Bank, have further embedded transparency within broader governance reform agendas. By linking debt relief, fiscal support, and technical assistance to public financial management reforms and anti-corruption safeguards, these institutions exercise significant policy leverage that shapes domestic legal frameworks on contract publication standards and revenue management reforms. Such conditionalities are not solely external impositions; rather, they often intersect with domestic reform priorities aimed at strengthening institutional credibility, macroeconomic stability, and international legitimacy.

This briefing examines transparency reforms within Somalia's petroleum sector and focuses specifically on the influence of international financial institutions and global transparency norms in shaping domestic legal and regulatory developments. It seeks to determine whether current transparency reforms represent substantive institutional transformation or incremental compliance with external expectations. The analysis reviews recent legislative instruments, regulatory measures, and institutional reforms introduced in recent years, assessing whether Somalia's evolving framework reflects internationally recognized principles of contract disclosure, fiscal and revenue management transparency.

3. The Revival of Somalia's Petroleum Sector

Somalia's petroleum governance trajectory is inseparable from the broader state reconstruction process that began in the early 2010s. Following more than two decades of civil conflict and institutional collapse, the establishment of the Federal Government of Somalia in 2012 under President Hassan Sheikh Mohamud marked a decisive step toward restoring sovereign authority, including control over natural resources. The new administration inherited fragmented governance systems and weak fiscal capacity. Rebuilding public financial management, strengthening revenue systems, and re-engaging international financial institutions became immediate priorities, while hydrocarbons re-emerged as a strategic pillar of economic recovery. Between 2014 and 2015, the government carried out reconnaissance surveys to reassess offshore and onshore potential, updating geological data dormant since the collapse of the state. These technical assessments signaled Somalia's intention to re-enter the global petroleum market under a structured regulatory framework, provided data necessary for negotiating production sharing agreements, and reinforced sovereign regulatory claims over its territory.

The reactivation of exploration necessitated a comprehensive legal and policy architecture. Amended petroleum legislation established the statutory foundation for regulating exploration, development, and production operations. Complementing this framework, the Baidoa Agreement represented a political compromise designed to clarify the roles and responsibilities of federal government and federal member states in relation to the ownership, management and revenue-sharing to mitigate jurisdictional disputes and

enhance regulatory stability. The establishment of the Somali Petroleum Authority, which is mandated to monitor compliance, supervise operational standards, and enforce regulatory requirements also marked a significant step which resulted in the conclusion of 19 production sharing agreements with international petroleum companies and certain state-owned entities since 2022.

Furthermore, fiscal governance reforms were undertaken with the support of international financial institutions where royalty structures, corporate income tax and other taxes applicable to the extractive sector were codified into law under the Extractive Income Tax Law.

The transition from dormant hydrocarbon potential to active exploration phase marks a pivotal phase in Somalia. However, whether this yields sustainable and inclusive development will depend on the consistent implementation of legal frameworks, the effectiveness of the regulatory institutions, and the effective institutionalization of transparency and accountability mechanisms.

4. How International Financial Institutions are Advancing Transparency in Somalia's Petroleum Sector

The re-engagement of Somalia with international financial institutions constituted a decisive moment in its broader state-rebuilding process. After decades of isolation from multilateral financial systems, Somalia's normalization of relations signaled not only political stabilization but also a commitment to institutional reform. For a country seeking to revive its petroleum sector, restoring credibility within global financial governance structures was indispensable. Transparency in public finance and natural resource management became central pillars of this renewed engagement.

In April 2013, the International Monetary Fund formally recognized the Federal Government of Somalia, reopening avenues for technical assistance, policy and legal reform, and financial cooperation. This recognition represented more than diplomatic acknowledgment; it meant the re-integration of Somalia into the global financial architecture after years of arrears and institutional breakdown.

By restoring formal relations, the IMF positioned itself as both a financial partner and a policy advisor. The institution's engagement underscored the principle that economic recovery in fragile states must be accompanied by a structured framework of macroeconomic stabilization, including guidance on fiscal discipline, currency reform, revenue administration and institutional accountability and transparency. These reforms were particularly significant in anticipation of future petroleum revenues. Experience from other resource-rich countries demonstrates that without robust public finance systems, hydrocarbon income can exacerbate fiscal volatility and governance weaknesses. Structured internal controls, audit mechanisms, and transparent reporting frameworks enhance institutional resilience and accountability. With the recognition of this, Somalia embarked on comprehensive reform program aimed at strengthening revenue mobilization and public financial management. Such reform focused on modernizing tax administration, improving budget preparation processes, enhancing expenditure controls, and introducing standardized reporting systems.

Furthermore, Somalia's participation in the Heavily Indebted Poor Countries Initiative (HIPC) marked a transformative milestone in the country's economic recovery and fiscal normalization. The HIPC framework provides debt relief in phased stages, conditional upon the implementation of governance, macroeconomic, and public financial management reforms.

In fragile and post-conflict states, such debt relief mechanisms often function also as instruments of policy leverage designed to encourage structural reform. By linking debt relief and broader financial support to measurable improvements in public financial management, anti-corruption safeguards, and transparency benchmarks; international financial institutions incentivize domestic policymakers to institutionalize stronger accountability and governance practices. Through this process, international financial institutions exercise indirect but significant influence in shaping reforms in the extractive sector governance.

In their policy dialogue with the Federal Government of Somalia, international financial institutions reinforced the principle that enhanced transparency and accountability are functional necessities for the effective governance of its petroleum sector. These policy dialogues heavily emphasized the importance of publishing production sharing agreements and integrating petroleum-related payments into national treasury systems. These policy dialogues resulted in the introduction of new regulation governing the publication standards of production sharing agreements. This regulation requires from the Ministry of Petroleum and Mineral Resource and Somali Petroleum Authority to publicize key contractual terms of production sharing agreements concluded with international oil companies. This regulatory requirement has been hailed by the international financial institutions as an important initial step toward strengthening transparency and accountability while also noting that it remains limited when compared with the emerging global trend toward the full publication of petroleum contracts.

Considering the role that international financial institutions have played so far, their re-engagement appears to have functioned both as a catalyst and as an anchor for transparency reforms within Somalia's petroleum sector. By reinforcing standards of transparency and accountability, their involvement has helped position the emerging hydrocarbon industry to contribute to national development and economic stability, rather than exacerbating existing institutional fragilities.

5. Assessing the Publication Standards of Production Sharing Agreements

In early 2025, the Federal Government of Somalia issued an implementing regulation which governs the Publication Standards of Production Sharing Agreements with petroleum companies. The regulation represents one of the first formal regulatory instruments aimed at institutionalizing transparency within Somalia's developing petroleum sector. The regulation applies only to production sharing agreements concluded after its issuance and does not retroactively apply to previously executed contracts. This limitation reflects a cautious regulatory approach in which transparency reforms are gradually integrated into the petroleum sector rather than immediately imposed on earlier contractual arrangements.

The regulation establishes minimum disclosure requirements for key contractual information contained in production sharing agreements. Among its central provisions is the obligation to publish essential information regarding the contractor, including the company's name, address, and a general description of its financial and professional capabilities. In addition to contractor's essential information, the regulation requires the publication of selected fiscal terms of production sharing agreements. These include royalty arrangement, cost recovery mechanisms, applicable petroleum taxation, signature and production bonuses, profit-sharing formulas, state participation provisions, training and community development funds, fiscal stabilization clauses, and the accounting procedures applied within the contractual framework. The regulation further mandates disclosure of the governing law applicable to the interpretation and enforcement of production sharing agreements.

Despite this attempt to advance transparency in the petroleum sector, the regulation exhibits several notable limitations when assessed against contemporary international transparency standards in the extractive industries. Globally, there has been a clear movement toward full contract disclosure, where entire petroleum agreements are made publicly accessible rather than selective contractual summaries. In this regard, Somalia's regulation adopts a more limited disclosure model that focuses primarily on key contractual elements rather than comprehensive publication. Consequently, the current framework does not fully align with the emerging global norm of full petroleum contract transparency promoted by international initiatives and civil society advocacy groups.

Another significant limitation concerns the absence of requirements for beneficial ownership disclosure. While the regulation requires the publication of basic information about the contractor, it does not mandate the disclosure of the ultimate beneficial owners of companies involved in petroleum operations. Beneficial

ownership transparency has become an essential component of modern extractive governance, as it helps prevent the use of opaque corporate structures to conceal conflicts of interest, illicit financial flows, or politically exposed persons benefiting from resource contracts.

Furthermore, the regulation does not address the disclosure of payments made by petroleum companies to the government. International transparency frameworks increasingly emphasize the importance of publishing payments such as royalties, taxes, bonuses, and other fiscal transfers to allow citizens to monitor whether public revenues correspond to contractual obligations. The absence of such provisions creates an information gap regarding the financial flows generated by petroleum activities and their contribution to public revenue.

The regulation also lacks mechanisms for the publication of revenue disbursement and allocation across different levels of government. In Somalia's federal governance system, petroleum revenues are expected to be shared between the Federal Government of Somalia and Federal Member States. However, the current regulation does not require the publication of how revenues are distributed between these entities or how such revenues are ultimately expended. Without transparency in revenue allocation and expenditure, it becomes difficult for citizens and oversight institutions to track whether petroleum income is being used for public development purposes.

6. Policy Recommendations

While the current publication standards represent an important step toward transparent resource governance, the following policy recommendations could significantly contribute to strengthening transparency and accountability in Somalia's petroleum sector:

Recommendation 1: Full Disclosure of Production Sharing Agreements

One of the most important reforms is the full disclosure of Production Sharing Agreements signed between the government and petroleum companies. Public access to petroleum contracts is widely recognized as a key mechanism for reducing corruption risks and strengthening accountability in the extractive sector. When contracts remain confidential, the public and oversight institutions are unable to assess the fiscal terms, obligations of the contracting parties, or the potential long-term implications of these agreements. For this reason, Somalia should adopt a clear policy requiring that all PSAs, including both existing and future agreements, be published through an accessible government platform. Public disclosure would allow parliament, civil society organizations, and citizens to review the contractual terms governing the development of national resources. It would also align Somalia with international transparency practices that have already been adopted in several resource-rich countries. For example, countries such as Norway, Mexico, Ghana, Liberia, and Timor-Leste publish petroleum contracts through government portals or regulatory agencies, thereby promoting openness and strengthening public trust in the management of natural resources.

Recommendation 2: Enhanced Beneficial Ownership Disclosure Requirements for Companies Operating in the Petroleum Sector

Beneficial ownership transparency helps the identification of the natural persons who ultimately own or control a company, even when ownership is exercised through complex corporate structures or intermediary entities. This measure is particularly important in the extractive sector, where large financial interests may create opportunities for corruption or conflicts of interest. In the context of Somalia, ensuring that the ultimate owners of petroleum companies are publicly identifiable would help prevent hidden ownership arrangements and reduce the possibility that politically exposed and undesirable persons may secretly benefit from petroleum licenses or contracts. The Federal Government of Somalia should therefore establish a legal requirement obliging companies involved in exploration, production,

and petroleum services to disclose their beneficial owners to the relevant regulatory authority. In addition, the creation of a publicly accessible beneficial ownership register would strengthen regulatory oversight and contribute to greater transparency within the sector.

Recommendation 3: *Disclosure of Payments Received by the Government from Companies Operating in the Petroleum Sector*

In recent years, the Federal Government of Somalia has received several payments from international oil companies, including Shell, Coastline Exploration, PetroQuest — a subsidiary of Liberty Petroleum Corporation, and others. These payments have taken different forms, including signature bonuses associated with petroleum agreements, legacy payments linked to earlier exploration rights, and other financial contributions required under contractual arrangements. Such payments represent an important source of revenue for the government and therefore require a high level of transparency to ensure proper management and public accountability. To strengthen fiscal transparency, the Federal Government of Somalia should establish a clear policy requiring the systematic disclosure of all payments received from petroleum companies. This disclosure should include detailed information on the type, amount, and timing of each payment made to the government. Such transparency measures would also align Somalia with internationally recognized standards in extractive sector governance. Many resource-producing countries have adopted public reporting systems that disclose payments made by oil and gas companies to governments as part of broader accountability initiatives. Implementing similar reporting mechanisms in Somalia would strengthen public oversight, reduce the risk of mismanagement, and demonstrate the government's commitment to responsible and transparent resource governance. Ultimately, ensuring that payments from petroleum companies are openly reported will play an important role in building public trust and ensuring that revenues derived from natural resources contribute to the country's long-term development.

Recommendation 4: *Transparency in the Distribution and Use of Petroleum Revenues Between the Federal Government of Somalia (FGS) and the Federal Member States (FMS)*

Under the existing Agreement on Ownership, Management and Revenue Sharing of Natural Resources, certain petroleum revenues are shared between the FGS and FMS. To ensure accountability and prevent disputes over resource governance, the allocation and disbursement of these revenues should be publicly disclosed. In addition to publishing the amounts distributed to each level of government, there should also be transparency regarding how these funds are used within the respective public expenditure systems. Public reporting on the distribution and expenditure of petroleum revenues would strengthen fiscal accountability, promote trust between federal and state institutions, and help ensure that revenues derived from natural resources are used to support national and regional development priorities.