

Oil Wealth, Weak Institutions, and Governance Risk in Emerging Petro-States

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ABSTRACT

This article argues that the central governance problem in emerging petro-states is not the presence of oil wealth itself, but the interaction between sudden revenue expectations and weak institutional restraint. Where licensing systems are opaque, fiscal rules underdeveloped, and accountability institutions politically vulnerable, petroleum wealth can magnify rather than solve development deficits. Drawing on resource-governance evidence and classic scholarship on the political economy of oil, the article contends that new producers face a narrow window in which to establish credible rules before rent expectations harden into entitlement politics. The most serious risks lie in discretionary licensing, off-budget spending, weak parliamentary oversight, and the politicization of state-owned enterprises. The article concludes that institutional sequencing—not merely production volume, determines whether oil becomes a developmental instrument or a governance accelerant for fragility.

Keywords- resource governance; oil wealth; petro-state; institutions; fiscal rules.

I. INTRODUCTION

Oil wealth enters public debate clothed in promise: infrastructure, employment, foreign exchange stability, sovereign funds, and a faster route to national transformation. Yet the history of extractive development shows that resource abundance does not automatically translate into institutional strength. On the contrary, where public rules are weak, oil can intensify opacity, centralize discretion, and distort the relationship between state and citizen. Michael Ross's classic formulation of the "oil curse" remains useful because it directs attention away from geology and toward the political effects of concentrated rents (Ross, 2012) (Ross, 2012; Karl, 1997).

Emerging petro-states are especially vulnerable because they often begin production before completing the institutional architecture required to govern it. Revenue expectations rise rapidly, political competition sharpens, and executive claims to urgency expand. In these conditions, governments are tempted to treat petroleum income as a substitute for institutional discipline rather than as a reason to deepen it (Natural Resource Governance Institute, 2021; IMF, 2012).

II. THE INSTITUTIONAL PROBLEM OF EARLY OIL:

The early production phase is decisive. Once contracts are signed, administrative routines formed, and fiscal dependence begins, reform becomes much harder. The Natural Resource Governance Institute's assessment of Guyana illustrates the broader challenge: a new producer can move into significant oil extraction while still exhibiting weak

performance in value realization, revenue management, and enabling-environment indicators (Natural Resource Governance Institute, 2021). That pattern is not unique. New producers often enter the sector with incomplete licensing regimes, limited beneficial ownership transparency, and underdeveloped mechanisms for integrating petroleum income into medium-term fiscal strategy (Acemoglu & Robinson, 2012; Collier, 2007).

The danger is not simply corruption in the narrow criminal sense. It is the institutionalization of discretion. Licensing may be negotiated rather than competitively awarded. Revenue flows may be formally disclosed but weakly deliberated. Sovereign wealth arrangements may exist on paper while parliamentary and societal oversight remains shallow. The state can thus appear rule-bound while material decisions remain politically concentrated (Ross, 2012; IMF, 2012).

A second risk concerns the political use of future income. When governments borrow against expected petroleum receipts or structure public commitments around optimistic long-term price assumptions, they expose the state to volatility and procyclicality. Recent NRG work on national oil companies and public capital allocation warns that governments are making increasingly risky fiscal bets in a period of energy-transition uncertainty (Natural Resource Governance Institute, 2023). In weak systems, this can produce a double vulnerability: rent dependence in the present and stranded public liabilities in the future (Ross, 2012; Karl, 1997).

III. FROM REVENUE TO DEVELOPMENT: WHY RULES MATTER:

The developmental value of oil depends on rule systems that convert rents into predictable public investment rather than patronage. Three institutional areas are critical. First, licensing must be transparent and rule-governed. Competitive processes, disclosure of contracts, and public registries reduce informational asymmetry and raise the political cost of favoritism. Second, petroleum income must be embedded within a disciplined fiscal framework. Fiscal rules, withdrawal criteria for natural-resource funds, and medium-term expenditure planning are not technocratic ornaments; they are protections against short-term political extraction. Third, accountability institutions must be empowered to do more than publish data. Audit, parliament, civil society, and courts require legal access, time, and independence to interrogate petroleum decisions (Natural Resource Governance Institute, 2021; IMF, 2012).

Where those conditions are absent, oil tends to crowd out institutional learning. Political elites become accustomed to financing legitimacy through visible expenditure rather than administrative competence. Citizens, in turn, may orient political expectations around distributive access to rents rather than around the quality of public institutions. Over time, the state becomes wealthier in receipts but poorer in discipline (Acemoglu & Robinson, 2012; Collier, 2007).

This is why the most successful governance response is sequencing. Emerging producers should treat first oil as the moment for institutional tightening, not institutional improvisation. The question is not whether petroleum income can finance development. It plainly can. The question is whether the legal and fiscal order is strong enough to prevent the conversion of public wealth into political discretion (Ross, 2012; IMF, 2012).

IV. A GOVERNANCE AGENDA FOR EMERGING PETRO-STATES

A credible governance agenda begins with transparency but does not end there. Contract disclosure, open licensing data, and beneficial ownership records are foundational. Yet transparency without decision rules produces information without restraint. Petro-states also need enforceable fiscal anchors, public investment appraisal systems, conflict-of-interest rules, and robust legislative scrutiny. Parliamentary review should cover not only budget allocations but also the terms of extraction, the governance of sovereign wealth vehicles, and the contingent liabilities of state participation in the sector (Ross, 2012; Karl, 1997).

The institutional treatment of national oil companies deserves particular care. Where they become quasi-fiscal vehicles or instruments of off-budget borrowing, they can undermine the very revenue-management goals petroleum policy is meant to serve. Emerging producers should therefore resist the symbolic politics of state participation where the regulatory and managerial capacity to govern such entities remains thin (Natural Resource Governance Institute, 2021; IMF, 2012).

V. SEQUENCING, SOVEREIGN FUNDS, AND FISCAL DISCIPLINE

Fiscal institutions are tested most severely when political leaders begin to treat future petroleum income as already earned. That mentality distorts expenditure planning, weakens procurement discipline, and encourages prestige spending before administrative systems can evaluate project quality. The institutional purpose of fiscal rules and sovereign wealth funds is therefore not symbolic. It is to slow the translation of volatile rents into recurrent commitments, to distinguish stabilization from savings objectives, and to create formal decision points that require public explanation before petroleum resources are spent (IMF, 2012; Ross, 2012).

Sovereign wealth arrangements, however, are effective only when embedded in a wider control architecture. Deposit and withdrawal rules must be matched by transparent budgeting, independent audit, and parliamentary access to timely information. If off-budget vehicles, national oil companies, or executive directives can circumvent the core fiscal rule,

the fund becomes a reputational instrument rather than a restraint mechanism. The central governance question is therefore not whether a state has a fund, but whether the fund is integrated into a legally coherent public-finance system (Karl, 1997; Natural Resource Governance Institute, 2021).

VI. BUILDING CAPABILITY BEFORE REVENUE DEPENDENCE

Institutional capability should be front-loaded. Emerging producers need contract-management units, petroleum revenue forecasting capacity, beneficial ownership disclosure, environmental monitoring systems, and conflict-of-interest rules before revenues reach scale. Experience across resource-rich countries suggests that once rents begin financing political coalitions, it becomes substantially harder to adopt rules that limit discretion retrospectively. In practical terms, the first oil window is the best reform window because the administrative architecture is still unsettled and political narratives of national stewardship remain salient (Acemoglu & Robinson, 2012; Collier, 2007).

The most credible development strategy is therefore prudential rather than triumphalist. Petroleum should finance institutional deepening, human capital, and productive diversification rather than become the substitute for them. Countries that succeed are typically those that convert resource revenue into broader state capacity: better tax administration, better expenditure control, and better planning discipline outside the petroleum sector itself. Oil can accelerate development, but only when institutions are allowed to govern the revenue instead of revenue governing the institutions (IMF, 2012; Ross, 2012).

VII. CONCLUSION

Oil wealth is most dangerous when it arrives faster than institutional restraint. Emerging petro-states do not fail because they are resource-rich; they fail when revenue concentration outpaces constitutional, fiscal, and administrative discipline. The decisive question is whether the state can impose rules on the oil sector before the oil sector reshapes the state. In that narrow window, transparency, fiscal design, and oversight are not reform preferences. They are the difference between national transformation and rent-fueled fragility (Acemoglu & Robinson, 2012; Collier, 2007).

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