Oil-to-Cash Won't Work Here!

Ten Common Objections

Todd Moss and Stephanie Majerowicz

Abstract

Oil-to-Cash is a proposal for governments facing a resource windfall to consider transferring some or all of the new income directly to citizens in a universal, transparent, and regular dividend. Having put this money in the hands of its citizens, the state would treat it like normal income and tax it accordingly—forcing the state to collect taxes, fostering citizen oversight, and building accountability in the management of resource revenues and the delivery of public services.

In discussions about Oil-to-Cash, policymakers and other interested parties frequently express a similar set of doubts and criticism. The criticism tends to focus on claims of better uses for the money, unforeseen consequences of a dividend, or some unique logistical or political barrier in a particular country.

This paper lists—and attempts to address—the most serious objections to this idea. The response to many objections is to ask about a plausible counterfactual (how do cash transfers compare to the alternative policy options?). Others warrant a clearer articulation of available evidence or ways to mitigate real worries through smart program design.

Todd Moss and Stephanie Majerowicz. 2013. "Oil-to-Cash Won't Work Here! Ten Common Objections." CGD Policy Paper 024. Washington DC: Center for Global Development. http://www.cgdev.org/publication/oil-to-cash-wont-work-here

CGD is grateful for contributions from the UK Department for International Development and the Norwegian Ministry of Foreign Affairs in support of this work.

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Center for Global Development

CGD Policy Paper 024
June 2013

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This paper is a draft chapter of the forthcoming book, Oil-to-Cash: Fighting the Resource Curse through Cash Transfers.

Acknowledgments:

Todd Moss is vice president and senior fellow and Stephanie Majerowicz is research assistant at the Center for Global Development. The authors thank Marcelo Giugale, Arvind Subramanian, Charles Kenny, and Caroline Lambert for input and comments on earlier drafts of this paper. The authors are solely responsible for any errors in fact or judgment.

Oil-to-Cash is a proposal that governments facing a resource windfall consider transferring some or all of the new income directly to citizens in a universal, transparent, and regular payment.[1] The idea is just one policy option that may help to address one of the root mechanisms of the resource curse: the absence of a social contract between the government and its people.[2] Oil-to-Cash is designed to give people a direct welfare benefit and also to enhance accountability by creating popular constituencies for sound government. Part of the accountability benefit accrues because the state must treat these payments as normal income—thus forcing the state to build a fair and broad tax collection system.

In discussing Oil-to-Cash with policymakers and other interested parties, a very similar set of doubts frequently arises. These criticisms tend to focus on claims of better uses for the money, unforeseen consequences of a dividend, or some unique logistical or political barrier in a particular country. In this paper we list—and attempts to address—the most serious objections to this idea. For many the response is about a plausible counterfactual (how do cash transfers compare to the alternative policy options?), a clearer articulation of the available evidence, or ways for real worries to be mitigated through smart program design.

1. Why give income away to people when my country has huge infrastructure needs?

If low-income countries are (almost by definition) cash-strapped and lack basic public infrastructure, why not simply allow the government to use resource rents to invest in schools, hospitals, roads, water systems, and power plants? Aren't these the investments necessary for long-term growth?

In theory, spending new revenues on public investment is a wise choice. To be sure, the supply of infrastructure in most developing countries is far from adequate and severely handicaps businesses: few serviceable roads and a lack of dependable electricity means farmers cannot get their goods to the market, while factories must install costly generators or risk frequent blackouts.[3] In low-income, capital-constrained countries these deficiencies in infrastructure reduce productivity, and ameliorating them could yield large returns.[4]

Using oil revenues to overcome these obstacles and help build-up the non-oil economy appears to make sense. That is, if only those investments translated into usable roads and

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[1] While the proposal is called "Oil-to-Cash", it applies to any marginal, steady-state unearned rent including gas, minerals, timber, or even foreign aid. For a detailed description of the proposal see the overview paper, Moss (2011), and the initiative webpage, www.cgdev.org/oil2cash.

[2] While it is generally acknowledged that dependence on natural resource revenues is potentially harmful to economic development, stability, and political accountability, the statistical evidence for the relationship between natural resources and certain of these outcomes continues to be debated. For a good overview of the literature see Ross (2012); Frankel (2010).

[3] The World Bank's Enterprise Surveys suggest that 40 percent of firms in developing countries see electricity supply as a major constraint to doing business, with each firm experiencing an average of nine power outages a month, and almost one out of three firms owns a generator to provide backup power or as their main source of electricity. Kenny (2011).

[4] Dabla-Norris et al. (2011).

functional electric grids. Unfortunately, there is little reason to assume that public investment will be highly productive.[5] Worse, the track record of government investment in infrastructure is notoriously bleak.

Infrastructure in low-income countries has been historically prone to project selection problems and corruption. Roads are more likely to be built to the President's village rather than to the port, or white elephant projects (with nice expected kickbacks) built at the expense of more urgent investments. Cote d'Ivoire, for instance, boasts the largest church in the world (whose construction carried a hefty price tag of $300 million) in the impoverished and sparsely populated capital city of Yamoussoukro, where few households have access to running water and adequate sanitation.[6]

Even if priorities are in the right place, large-scale construction has been among the sectors most susceptible to corruption.[7] Rough estimates suggest that anywhere from 5 to 20 percent of construction costs are lost in bribe payments alone, which could account to $18 billion a year in developing countries.[8] Yet bribe payments represent only one of the many costs of corruption. Much worse than a 10% mark-up in the cost of building a bridge due to kickbacks, is for corrupt officials to take the 10% from the budget, resulting in a poorly built bridge that collapses within a few years. The total economic impact of corruption that results in poor quality construction and skewed spending priorities is likely to be substantially higher than the cost of the bribes.[9] This means that the real cost of corruption in infrastructure far exceeds the 5-20% estimates. This does not set a particularly high bar for cash transfers to beat.

Not only is public infrastructure investment notoriously inefficient, oil-producers are particularly bad at it compared to non-producers. A recent IMF index on the efficiency of public investment finds many current oil exporters trailing at the bottom quartile of the rankings.[10] Oil producers are also significantly less transparent about their budgets, and rank lower in measures of budget accountability according to the Open Budget Index (see table 1).[11]

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[5] Pritchett (2000) argued that the idea that public investment is equal to capital accumulation is a heroic assumption because public investment is not inherently productive.

[6] Foster and Briceno-Garmendia (2010).

[7] Kenny (2007).a

[8] Kenny (2006).

[9] Ibid.

[10] Dabla-Norris et al. (2011).

[11] Bornhorst, Gupta and Thorton (2009); Bird, Martinez-Vasquez and Torgler (2008); Deverajan et al. (2011).

Table 1: Performance of countries by category on budget accountability Categories

	Oil Producers	Mineral Producers	Non-Resource Dependent Countries
Expenditure controls	22	52	48
Link policy/ planning/budget	17	37	35
Extra budgetary operations	20	31	32

Source: Heuty et al, 2009

Note: Categories are defined as average of questions of the Open Budget Index. A score of 100 represents a fully open budget (See www.openbudgetindex.org).

Moreover, investment in infrastructure or other sectors does nothing to address the effect of oil on political institutions and the social contract. Already poor public sector productivity is likely to worsen as the state becomes even more divorced from the population and public accountability. As resource rents increase, so too may the incentives for civil servants and politicians to engage in patronage, rent-seeking, and corruption.[12]

So while low-income countries are undoubtedly in need of roads and hospitals, it is not at all evident that oil rents should be primarily funneled into infrastructure projects. In countries where it is already very clear that public expenditure suffers from low efficiency and high levels of corruption, a major injection of new funds should be weighed against other options based on the likely impact and use of those funds in practice, not with the mere hope that such funds could be theoretically used well *if* the system improves. A big if. Indeed, efforts to reform dysfunctional public services are in some cases likely to be hampered by increased cash flows.

2. Any New Income would be Better Spent on Bolstering Depleted Social Services

Health, education, and other human welfare indicators are low, so why not invest directly in social services? Why not just pay high salaries for teachers and nurses? Won't this be a better investment in human capital?

Like infrastructure, pouring oil money into social services works a lot better in theory than in practice. To be certain, health and education services are inadequate in many low income countries. However, health and education ministries and systems are plagued by corruption and inefficiencies, and are often unable to transform increased funds into improved social outcomes.

Growing evidence points to high levels of "leakage" and extremely low levels of service delivery for the supposed beneficiaries in many of the new oil producers. Some two dozen public expenditure tracking surveys (PETS) have been conducted in developing countries,

[12] Gelb (1988); Karl (1997).

mostly in Sub-Saharan Africa.[13] The first of these, a 1996 study in Uganda, showed that 87% of non-wage education spending was lost before reaching the schools for which it was destined.[14] In Chad a similar study conducted before the country began exporting oil found only 1% of non-wage health expenditures to regional health administrations arrived at the health facility level. In Ghana, considered to have one of the better performing public sectors, surveys found leakage rates of 50% in education and 80% in health.[15]

Even these low efficiency and high leakage rates of social investment assume the money is being allocated towards these efforts in the first place—a lofty assumption for many oil-rich countries. The IMF recently discovered that $32 billion dollars of Angolan government funds were entirely missing from government accounts.[16] Equivalent to 25% of Angola's GDP the $32bn were spent or transferred from 2007-2010 without being documented in the budget. Efforts to improve transparency through initiatives like the Extractive Industries Transparency Initiative (EITI) are well intentioned and undoubtedly valuable, but they are not enough. Nigeria is one of a handful of EITI compliant nations and yet struggles mightily to spend its oil revenues well. Some standard of transparency is a necessary, but not sufficient, condition for good revenue management.

Finally, a system of cash transfers and public investments in infrastructure or public services are not mutually exclusive. We are not suggesting that countries move away from all public expenditure towards exclusively private consumption. The government must and should provide certain public goods like security, infrastructure, and basic health and education. Distributing part of the revenues, however, can potentially help oil-rich countries—where the state makes up a disproportionate amount of spending—move towards a more "normal" balance between public spending and private consumption.

Moreover, while we typically think of allocating dollars to public versus private consumption as a direct tradeoff, the transfer may actually increase both simultaneously for two reasons. First, deprived of easy oil revenues, the government will be forced to collect taxes to finance itself and its public spending, which potentially brings greater citizen scrutiny and thus could even lead to more public goods delivered per dollar spent. Citizens are more likely to demand real results to investments financed by their own taxes (see objection 8). Whatever efficiency is lost in the transaction costs of distributing the money and taxing it back would likely be more than made up for by efficiency gains, via more closely-monitored investments in roads, ports, and schools. In some places, perhaps previous phantom projects would actually get built.

Secondly, there is reason to believe that public expenditures have diminishing returns to scale. Each dollar allocated towards public spending is less productive than the last at least

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[13] Gauthier (2006).

[14] Ablo and Reinikka (1998).

[15] Gauthier (2006).

[16] Human Rights Watch (2011).

partly because of increased ease of rent-seeking and corruption in countries awash with oil wealth. Given these diminishing returns to scale and assuming positive returns to citizen oversight over public investment, transferring rents to citizens can lead to a situation in which a country ends up with more roads, schools, and hospitals, *and* more money in citizens' pockets.[17].

3. Why not just reduce the costs of food and other basic goods through subsidies? Or reduce taxes? Or bolster the job market?

Most governments already distribute part of the oil revenues to their citizens indirectly. Instead of giving cash transfers to citizens equitably and transparently, however, resource-rich countries often pass on part of the revenues through subsidies and lower taxes. In Saudi Arabia, at 61 cents a gallon, gasoline is cheaper than bottled water and citizens pay no personal income tax. In Venezuela gasoline is just 6 cents per gallon and only 9% of government revenue comes from direct taxes on citizens and companies.[18]

While subsidies are one way of distributing oil rents to citizens, they are inefficient, regressive, highly distortionary, and expensive.[19]

Subsidies are extremely costly. Subsidies of oil in Iran amounted to an estimated $100 billion or 30% of GDP during the high oil prices in 2008.[20] In Nigeria, the cost of the subsidies in 2011 was US$8bn, more than 25% of the federal budget. Besides gasoline, Saudi Arabia subsidizes drinking water and electricity at a huge cost to the government of $20bn for water, and $13bn for electricity.[21] In Egypt alone, subsidies on a range of petroleum products accounted for a quarter of the government budget, or around 7% of GDP—more than spending on health and education combined.[22]

Besides their steep cost, fuel subsidies are distortionary—they fuel high domestic oil consumption and low fuel-efficiency. The distortionary effect of subsidizing oil means that Saudi Arabians (and Nigerians and Venezuelans) are consuming increasingly larger proportions of their oil production, eating away at their export margins. Saudi Arabia currently consumes 3.2 million barrels of oil per day, but at current trends this is projected to increase to 8 Mbpd by 2028, almost equivalent to its entire production.[23]

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[17] Devarajan and Guigale, forthcoming.

[18] Rodriguez, Morales, and Monaldi, (2012).

[19] The arguments against price subsidies hold true regardless of whether or not they are financed by natural resource rents. However, to the extent that resource producers are subject to strong political pressures to distribute, subsidies may be particularly prevalent in resource rich countries.

[20] Gelb and Decker (2011).

[21] Abeer Allam, "Subsidies give Saudis an appetite for Oil," *Financial Times*, May 12, 2011.

[22] West, forthcoming.

[23] Allam, *Financial Times*.

Finally, fuel subsidies are inefficient and regressive, disproportionally benefitting the wealthy who own cars and consume the bulk of the subsidized fuels. For instance, Egypt's wealthiest 20 percent have benefitted from 34 percent of the value of the energy subsidies, while the poor have only benefited from 13 percent. For gasoline subsidies, the richest quintile received an astonishing 93 percent of the value of the subsidy. Even food subsidies which should not be regressive often are: the same report found that the wealthiest twenty percent of Egyptians benefitted more from the value of food subsidies than the poorest 20 percent.[24] Subsidies also tend to be largely inefficient and subject to corruption. Egyptian media reports of smuggling meant that that the cost of delivering 1 dollar of fuel subsidy to Egypt's poorest 20% was estimated to cost almost 8 dollars.[25] Similarly, corruption in Nigeria's fuel subsidy scheme is estimated to have drained US$6.8 billion from government coffers between 2009 and 2011.[26]

Once in place, however, subsidies are extremely difficult, if not impossible, to reverse. Any reduction in subsidies is met with fierce resistance that in certain cases has threatened or toppled regimes. The threat of unrest throughout the Arab Spring, if anything, has led to increased subsidies to curb protests. The Tunisian revolt, after all, was in large part spurred by high food prices. In 2010, to soften the blow of the removal of its costly subsidies, Iran turned to cash transfers, making $80 dollar payments to 20 million families and larger payments to energy-dependent businesses transferring a total of $15 billion (a substantial savings on its peak $100bn subsidies tab).[27]

Unlike subsidies, universal cash transfers are neither distortionary nor regressive. They help those in poverty manage food price hikes, without distorting the market prices of fuel or energy. And because they will represent a significantly higher percentage of income for those in poverty, they are more progressive than subsidies or tax cuts. Cash transfers can be engineered to be less expensive and their cost can be de-linked via design from short-term commodity price swings (such as the cost of gasoline). By illustration, at their 2008 peak of $100bn, Iranian subsidies could have instead yielded per capita transfers of $1400![28]

Instead of handing out the money, why not simply lower taxes? Doesn't economic theory preach that taxes are distortionary and inefficient, to be avoided *except* in so far as they are absolutely necessary to raise government revenue or address market failures? Wouldn't the end effect of keeping more money in the pockets of citizens be the same, with much lower transaction costs?

Resource-rich countries, in fact, do tend to have lower taxes. Bornhorst, Gupta, and Thorton find that on average 1% of GDP in oil revenues is reflected in 0.2% lower non-oil

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[24] World Bank (2005).
[25] Ibid.
[26] Mark (2012).
[27] Gelb and Decker (2011).
[28] Tabatabai (2010).

tax revenues.[29] While low taxes could benefit business climate and encourage investment to diversify the non-oil economy, resource rents lead to a weaker tax administration that tends to be predatory and regressive. Instead of taxing a broad base at low rates, governments tax a narrow taxpaying sector highly while large (and powerful) sectors of society escape the tax burden altogether.[30] Tax breaks, moreover, do little to help the poor. A large percentage of the workforce in low income countries are in the informal sector, which means tax breaks would not affect them—they already pay no taxes.

While lower taxes might keep money in the pockets of the citizens—primarily wealthy citizens that have money in their pockets to begin with—its effect on the political economy of governance is largely detrimental. Far from beneficial, lower taxes are precisely the problem in resource-rich countries. The lack of reliance on taxation destroys the social contract and leads to low-accountability, and correspondingly poor public service delivery. The standard efficiency arguments against taxation have to be carefully weighed against the potential harm (and subsequent inefficiencies) from an unaccountable government.

Yet a third alternative in which oil producers transfer rents to citizens is through expanded levels of public employment for nationals, usually through bloated bureaucracies in inefficient civil administrations. Recent estimates suggest that public sector employment accounts for 80% of employment in the oil-rich Gulf States.[31] Oil producers outside the Gulf also tend to have bloated public sectors. The salaries of the 300,000 civil servants in Ecuador alone accounted for 28% of the total budget, while the Venezuelan public sector now employs one in six Venezuelan workers, allegedly including operators for automatic elevators, secretaries on perpetual coffee breaks and messengers whose sole task is to collect their paycheck.[32]

Box 1. Selective Handouts: The Case of Venezuela's Misiones.

In order to overcome what he called inefficiencies of the state, in 2003 President Hugo Chavez launched the first of many "Misiones"—government social programs run by the executive independently from existing ministries and funded by off-budget oil revenue (only an estimated 1/3 of Venezuela's oil revenue goes through the budget). Currently there are 32 of these Misiones in areas as disparate as music and the arts, agriculture, housing, education, health, job-training, and even energy efficiency. Sometimes these programs entail a cash payment, sometimes as in the case of "Mision Mi Casa Bien Equipada" they feature the highly publicized, subsidized distribution of Chinese-made refrigerators, washers and other appliances to Chavez supporters. Prior to the 2012

[29] Bornhorst, Gupta, and Thornton (2009).

[30] Ibid.

[31] Gelb and Decker (2011).

[32] CNN, "With oil booms over, Chavez vows to attack bloated bureaucracy," 1999. <http://www.latinamericanstudies.org/venezuela/bureaucracy.htm>.

presidential election, Chavez created several more “Grandes Misiones” and announced the creation of the “mision 7 de octubre” intended to mobilize existing and potential beneficiaries of the misiones to support his reelection campaign.

While the Misiones undoubtedly distribute the country’s oil wealth to the poor, they are highly politicized—arguably more a system of clientelism than a social safety net. They are almost entirely within the control of the President, and marketed not so much as government programs, as Chavez munificence. While playing the role of appliance salesman displaying the Chinese made washers and driers, Chavez remarkably compared “capitalist” prices to much lower, subsidized “Chavez” prices, in much the way Oprah Winfrey gives away cars in her television show. (Of course, Oprah’s cars are financed by private money, while Chavez is using public funds.)

Nevertheless, the Misiones are popular among the poor because they represent tangible benefits from their country’s oil wealth they previously lacked.[33] They are in fact so popular among the Chavez base that the center-right opposition candidate Henrique Capriles decided to incorporate them into the opposition’s platform in the last election.

The Venezuelan Misiones are emblematic of two truths about the political economy of oil. First, they are an excellent illustration of the powerful pressures that oil rich states face to distribute oil revenues in tangible forms—whether they are done through cheap gas, or cheap dish washers. Secondly, they serve as a counterfactual against which direct distribution should be judged since the true choice for leaders of oil rich nations is not between distributing or not, but rather between doing so through a politicized, inefficient, and clientelist system that undermines institutions, transparency and good governance, and one like cash transfers that is designed to strengthen them.

Source: Rodriguez, Morales, and Monaldi (2012).

The prevalence of subsidies and bloated petro-bureaucracies is strong evidence of the political pressures for redistribution that come with natural resource wealth. Cash transfers represent just one of the ways in which countries can choose to share the wealth—but a relatively good way. Importantly, the political reality of oil economies means that the real choice is not between distributing rents or not, but between doing so directly (through transfers) or indirectly (through subsidies, low taxes and public jobs)—the former is equitable and generates positive governance externalities; the latter inequitable, distortive and clientelist. It is thus against these other indirect distribution systems that cash transfers should be judged.

[33] To be fair, not all the Misiones were equally inefficient and distortive. Two in particular, “Mision Robinson,” and “Mision Barrio Adentro” were technically excellent and used Cuban manpower and technology to provide adult literacy and basic healthcare to underserved urban communities—services that may have been impossible to provide locally due to the power of teachers and doctors unions.

4. Why spend the money today? Why not save for the future, just like Norway!

In other words, why not simply follow the Norwegian model, the paragon of natural resource management?

One of the alternatives most often proposed to deal with natural resource revenues is to place them in a stabilization fund or a future generations fund. A stabilization fund is designed to smooth public expenditures by protecting government income from short and medium term fluctuations in the price of oil.[34] A future generations fund simply saves the funds for later, either to try to provide intergenerational equity or to use funds for after the (nonrenewable) resource has been depleted.

Norway, a wealthy oil-producing country with an aging population, established a sovereign wealth fund with a view to funding its pension system. Russia, on the other hand, facing a different set of constraints established a stabilization fund primarily to mitigate the fiscal shocks due to fluctuations in oil price. Other countries, like Chile and Ghana, have adopted or are in the process of creating, both types of funds. In most cases, these funds are held offshore, both for economic (to limit the currency or Dutch disease effects) and governance (to enable professional fund management and limit political interference) reasons.[35]

So why not follow Norway? Because these countries are *not* Norway—for one. With a GDP per capita of almost $23,000,[36] Norway was a relatively wealthy country when it discovered oil in 1969. Most countries recently discovering oil or likely to discover it in the near future are low income countries, whose development challenges look very different from those faced by Norway in the late sixties. Countries like Liberia and Papua New Guinea have a young, under-employed population, poor human development indicators and a dearth of serviceable infrastructure. They need an infusion of capital now, not a pension fund to be used for retirement. It makes little sense then to simply copy the Norwegian model under vastly different circumstances.

Creating a Fund is Not Enough

Certain types of funds, such as stabilization funds that mitigate the fiscal impact of wild swings in oil prices, do make sense in low-income settings. Managing oil volatility is a real challenge for oil exporters of all stripes, and a fund could help isolate government budgets from the temptation to overspend when oil prices are high. Many countries, on advice from the World Bank and in some cases the Norwegian government itself, have succeeded in setting up stabilization SWFs. However, setting them up is often the easy part. Once set up many of these funds fall prey to powerful political pressures to spend the oil money that doom prudent attempts to smooth oil revenues.

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[34] Bell, Heller and Heuty (2010).
[35] Monk and Dixon (2011).
[36] Adjusted to 2011 USD, World Bank's World Development Indicators.

In 2001 the World Bank agreed to finance the pipeline linking southern Chadian oil fields to the coast of Cameroon, in exchange for agreement to abide by a strict oil revenue management law drafted in consultation with the Bank. The law required Chad to deposit all oil revenues in an escrow account in London managed by an international advisory board, and detailed precise rules as to how the Chadian government would allocate the funds, including 10% towards a Future Generations Fund. Of the remaining funds, 80% had to be spent in certain priority sectors including health and education, with only 15% available for general government operating expenses.[37] The rest of the story is, sadly, fairly predictable. Once the pipeline was built and the oil started flowing, Chadian leaders had no more incentives to abide by the Bank's rules, and proceeded to gradually but blatantly undermine the oil management laws.[38] Some of the first oil revenues were allegedly used to equip the Chadian army with new weapons. Ultimately, after numerous confrontations between Chadian President Deby and the Bank, Chad pre-paid all outstanding World Bank loans relating to the pipeline, and the Bank formally withdrew from the project.

While the Chadian pipeline fiasco is the prime example for how vulnerable these funds can be to political raids, it is not the only one. In 2004, Nigeria set up an Excess Crude Account in an attempt to prevent harmful volatility, but it too proved inadequate to discipline spending. Not set up as an official SWF, the ECA was repeatedly tapped by policymakers who helped themselves to nearly 17 billion dollars of the 20 billion in the fund.[39] In 2010, Nigeria announced its intention to set up a new and legal SWF to replace the ECA. However, without anything to safeguard its independence and ensure its integrity, it is unclear exactly why this new SWF would fare any better than the ECA.

The failed African experiments with SWFs demonstrate that by themselves funds are not enough. After all, the success of funds still depends on political arrangements. Creating a savings fund in and of itself does not change the underlying political economy of the state, nor does it guarantee successful revenue management.[40] Without a politically salient constituency with a vested interest in protecting the savings funds, governments can simply raid them. As a result, these funds are at best ineffective and at worst counterproductive: they could effectively transfer funds from responsible governments (who save them) to irresponsible ones (who raid them).

Not all sovereign wealth funds are doomed to fail. Countries with a sufficiently strong political constituency invested in the well-being of the fund have had successful SWFs. In Botswana, politically-influential cattle ranchers had a strong interest in keeping the exchange rate stable by adopting prudent macroeconomic stabilization policies, and political elites had little need for patronage spending due to the overwhelming dominance of the ruling party.[41]

[37] Eifert, Gelb, and Tallroth (2002, p.27).

[38] Peg (2009).

[39] Monk and Dixon (2011, p. 17).

[40] Monk and Dixon (2011).

[41] Moss and Young (2009).

When diamond rents came on-stream in the 1970s, powerful interests complied with existing institutions to avoid "rocking the boat" and disrupting the stream of wealth.[42] This politically salient cattle ranching constituency provided precisely the type of influential watch-dog that contributed towards the success of the Pula Fund.

By giving citizens a direct stake in the integrity of a sovereign wealth fund, a universal cash transfer system can create a politically salient constituency where no such constituency exists. The most telling evidence of this comes from Alaska itself. The success of Alaska's Permanent Fund which now stands at $43bn owes much to the protection of the constituency built around the annual dividend. Tellingly, while Alaska is infamous for wasting federal funds in "bridges to nowhere," the billions of dollars in the principal Fund are inviolable. Touching them is seen as an attack on the dividend itself, and politicians steer clear of it for fear of political backlash.

Most importantly, these options are not mutually exclusive. Regardless of their final destination, oil producers can and should employ a stabilization fund to promote transparency, mitigate volatility and ring-fence oil revenues in any spending scenario. Lessons from Nigeria and Chad, however, should make it clear that success in SWF is less than assured.

5. National cash dividends will merely stoke inflation, wiping out any welfare gains

Injecting millions of dollars into a cash-strapped economy seems like the perfect recipe for an inflationary disaster. Money going into the pockets of every citizen will lead to a surge in demand for consumer goods. If the local economy is unable to match the demand with increased supply (perhaps due to trade barriers or local production capacity), it could result in inflationary pressure that could dull or even cancel out the benefits of the cash transfer.

While the risk of inflation is real and should not be underestimated, inflation is not inevitable. Inflationary pressures can be mitigated through careful monetary policy, which will be necessary in any case because of the inflow of foreign capital. The government can also take steps to alleviate supply-side constraints such as reducing import barriers.

Past experience with cash transfer programs shows that the impact of inflation could be mitigated through program design. For instance, capping the transfer at a modest level and gradually increasing the size of the payments could allow production capacity to build up over time. The Bolivian pension program financed by natural gas receipts paid pensioners on

[42] Acemoglu, Johnson, and Robinson (2002).

their birthday, which distributed the payments over time and resulted in the program having a negligible impact on inflation.[43]

Moreover, the relative inflationary risk of cash transfers depends strongly on the counterfactual. Saving revenue in a sovereign wealth fund would of course have no inflationary impact as long as the funds are held offshore. However, capital-starved economies with underemployed populations are not realistically going to save all the rents for the future—nor should they. Thus cash transfers should be judged against the true counterfactual: increased government expenditure.

There is no compelling reason to believe that private individual spending will be more inflationary than public sector spending. Public spending in infrastructure and civil service wages will likely generate the same kind of demand-side pressures. Unless public spending goes towards investments that alleviate supply-side constraints, inflation will remain a concern. Of course, if public spending ends up in corrupt government officials' Swiss bank accounts, instead of in civil servants wages, it will have no impact on inflation at all. Yet, it is hard to argue that would be a better outcome.

The better question is how to ensure that the government undertakes the kinds of investments that will loosen production constraints? In a system of public expenditures that is largely unaccountable, there may be more pressure for patronage spending than for broad infrastructure projects as governments use rents to maintain political support of key allies. Within a system of cash transfers there is both demand for these types of investments (from increased private sector activity), and interest from the government in promoting the broader economic wellbeing, as government revenues are now tied to tax receipts which will rise alongside economic productivity.

If inflation is the primary concern, however, the tradeoff is not between public and private consumption, but rather between spending and saving.

6. Regular dividends only encourage laziness and discourage work

It is tempting to believe that giving people a regular cash transfer will either create an unsustainable dependency on government handouts or be harmful to the labor market. The evidence, however, tells a different story.

For a start, there is no conclusive evidence that modest cash transfers reduce labor market participation overall.[44] Standard economic theory suggests that an increase in income would lead to a decline in the supply of labor, potentially harming long-term growth. Yet, a number

[43] This strategy might not be desirable or even possible in universal cash transfers but it does suggest that program design can help mitigate inflationary pressures. See Laserna, forthcoming.

[44] DFID's overview of CTs and their impacts, UK DFID (2011).

of studies suggest empirically that this effect is mitigated for extremely poor households, and outweighed by positive effects.[45]

Insofar as cash transfers have been shown to decrease labor supply, it tends to be in the labor supply of children and the elderly. Given a steady income from pensions, labor force participation among the elderly has been shown to decrease considerably.[46] Several studies have also found that a regular cash income enable parents to send their children to school instead of work, and has been shown to reduce child labor as much as 17% in Ecuador or 26% in Brazil's Bahia state.[47] However, this decrease (positive in and of itself!) is compensated by other positive effects so that cash transfers may even increase labor supply.

Kids in school and grandparents available to provide childcare, allow parents to work longer hours, or migrate farther in search of more productive work. In South Africa households that received the Old Age Pension have 11-12% higher labor participation rates and 8-15% higher employment rates than those who didn't receive a pension. In Brazil the labor participation was 2.6 percentage points higher for those in the Bolsa Familia program than those outside, a difference that was even greater for women. [48] Cash transfers enable less productive members of households to remain at home, thereby freeing up more productive members to migrate to find better economic opportunities. Increased household spending on health and nutrition has also been shown to increase the productivity of workers, and decreases the productivity lost due to illness.[49]

Moreover, the risk of labor disincentives can be mitigated through smart program design. The effects of winning the lottery and earning an extra 10 dollars a month on someone's willingness to work are drastically different. The size of the transfers could be capped at a ratio of average national income – for instance, 10% of average per capita income: enough to boost the incomes of the poorest, but not large enough to replace labor income. Importantly, a universal cash transfer without means testing ensures that there are no perverse incentives that could discourage labor. Eligibility conditions tied to income represent effectively high marginal tax rates, which create perverse incentives to stay eligible.

7. Cash-in-hand will be wasted on the poor since it will only fuel consumption

Ordinary people, it is sometimes argued, will waste the resources on frivolous consumption. Yet, there are definitional, moral, and empirical reasons that this objection does not hold up to scrutiny.

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[45] Barrientos and Scott (2008).

[46] Barrientos and Scott (2008, p. 3).

[47] Edmonds (2006); Rawlings and Rubio (2003).

[48] DFID, 2011.

[49] Ibid.

Definitional: You say consumption, I say investment

What is often considered by economists to be "consumption" (as opposed to "investment") may be exactly the kind of welfare-enhancing outcomes hoped for by policymakers. Enhanced consumption for the majority of those living near or below the poverty line means improved nutrition and living standards. Thus for the poor, greater spending on food, housing, and other day-to-day expenses is not really consumption but rather could be considered investments in future human capital.

Moral: It's about Freedom to Choose

There are principled reasons to believe that people—no matter how poor or rural or uneducated—know what is in their own best interests better than bureaucrats in faraway capitals. Development, after all, is in essence about freeing people from the constraints of poverty, not dictating how they should lead their lives.[50] By providing a regular, assured income, a cash transfer scheme can do precisely that—allow the poorest the freedom to make the decisions that maximize their own welfare.

Empirical: Poor people don't just squander the money

Studies suggest that cash transfers tend to lead to increased spending on health, nutrition, sanitation, and education.[51] There is strong evidence of significant positive relationships between pension receipt and improved health outcomes for both children and adults living in the households of pensioners.[52] Similarly positive results are recorded for education outcomes, such as enrollment and attendance, for some members of households receiving cash transfers.[53] This improved human capital should raise labor productivity in the present and future, although their long term impacts are hard to measure empirically due to the relative novelty of transfers (See Chapter 2 for a full description of the impact of CTs).

And while the bulk of the transfers is generally spent on improved consumption, there is some evidence that a small but important portion of the cash transfer is invested in productive activities or used to cover the cost of job-seeking. A regular assured income serves as insurance that allows poor people to make risky investments with potential high returns that they otherwise could not afford for fear of falling below subsistence (like planting high yield instead of drought resistant crops).[54] For every peso transferred to families through *Oportunidades,* recipients spent 88 cents on consumer goods and invested the rest. And while that might not sound like much, investments were impressively lucrative, with an average rate of return of almost 18%, which raised their consumption beyond the

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[50] Sen (1999).

[51] Case (2001); Yanez-Pagans (2008).

[52] Case (2001); Duflo (2003).

[53] Edmonds (2006); de Carvalho Filho (2008); Akee et al. (2008); Baird, McIntosh, and Ozler (2010).

[54] DfID (2011, p.35).

period of the transfer itself.[55] Similar experiences in Ethiopia, Zambia, and Paraguay provide growing evidence of cash transferring fostering increased investment and risk-taking.

8. How can cash dividends really create any incentives to hold the government to account

Is it realistic to expect that government accountability will magically materialize simply because citizens pay taxes? Why would an ordinary citizen all of sudden start paying attention to government budgets and spending priorities just because the money comes in theory from her pockets and not from oil rents?

Of course not every citizen will devote her life to monitoring government spending just because she pays taxes—nor should she. This is certainly not the case in even the most developed countries with broad-based tax systems. However, compared to the counterfactual for most oil exporters, a cash transfer system tied to a broad taxation scheme does fundamentally alter citizens' incentives and capacity to hold the government accountable.

Taxation has three effects on citizens' demand for accountability: it increases incentives to monitor by raising the perceived cost of waste; decreases the cost of monitoring by revealing information; and builds the capacity to hold the government accountable by giving citizens (through their representatives) the power of the purse.

Raises the stakes. Distributing out oil funds directly to citizens provides them with a direct incentive to actively participate in monitoring the revenue flow. It is one thing for citizens to be apathetic about yet another white elephant project or an unkempt road when the funds wasted were never within reach. It is quite another when misappropriating funds come from taxes, or the oil revenues that result in a tangible decrease in the cash payments. And while certain civil society groups may be monitoring the government without such incentives anyway, there is an important difference between a few watchdog organizations and the entire citizenry having a personal stake in good revenue management.

Reveals the government's cards. In order to monitor the government effectively citizens need information: information about the amount of money flowing into government coffers, the amount flowing out, and how much money arrives at its final destination. All this information is costly to obtain, particularly in countries with opaque public expenditure systems. Distributing a share of resource revenues and taxing part of it back reveals important information about government revenues and should lead to a greater citizen monitoring of government expenditure. The more information citizens have the more

[55] Gertler, Martinez, and Codina (2006).

effective the monitoring, and thus the more likely citizens will find it worthwhile to monitor. Distribution and taxation, in other words, decreases the cost of monitoring for citizens.[56]

One practical way to amplify this effect could be through dividend cards. As part of the early public education campaign, the government could produce cards (or use billboards or radio programs) to explain exactly how the dividend was calculated, where the money came from, and what potion is being taxed.

Figure 1. Prototype Dividend Card

2015 National People's Dividend

$50 per person

Total Revenues	$1,100,000,000
Government Budget (50%)	$550,000,000
Dividend (50%)	$550,000,000
Eligible Population	10,000,000
Dividend per person	$55
-Taxes (10%)	- $5
Total per person	**$50**

2014 Dividend = $46 per person

Power to the people: Taxes as Bargaining Tools. Having incentives to monitor the government is not, unfortunately, enough. Citizens also need the capacity to influence the government. Old European monarchies didn't give up power and dole out greater rights out of benevolence. Greater rights and accountability was the steep price they had to pay for the funds they needed to finance costly wars.[57] No rights, no funds. No taxation without representation. In resource rich countries where the government has access to oil rents, citizens lack this bargaining power with the government. Even if citizens can monitor government spending and keep tabs on how much ends up in Swiss bank accounts instead of schools, they often

[56] For the complete model and assumptions, see Devarajan et al. (2011).
[57] Tilly (1975); Brautigam, Fjeldstat, and Moore (2008).

find themselves powerless to change it. Governments that don't depend on citizens for funding, have little need to pay attention to their demands.

In this way taxation represents a major shift in the balance of power from the government to citizens, who through their representatives in parliament, can now withhold funds unless the government delivers on its end of the bargain. No schools, no roads, no taxes. Taxation is the only way of ensuring that governments act on the behalf of the governed, and while it works imperfectly even in the most developed countries, it is better than the alternative.

Recent evidence suggests that this kind of revenue bargaining—which Mick Moore concretely defines as "the exchange of tax revenues (for the state) for institutionalized influence over public policy (for citizens)"—is not limited to the rise of Western representative systems centuries ago.[58] A fascinating modern-day insight into how bargaining can lead to more responsive governance comes from Somaliland—a region that by virtue of its lack international recognition as an independent state is barred from foreign development assistance, and thus relies solely on local taxes for all government revenue. Deprived of alternatives and after failing to capture the Berbera port by force in an effort to secure a source of revenues, the government of Somaliland was forced to bargain with local business leaders, providing a set of representative institutions with checks and balances in return for the revenues needed to finance the government. For instance, in 1999 taxpayers provided 95% of the government resources and this dependence on taxes imposes limits on the executive in ways that neighboring leaders have been able to completely bypass.[59]

While this type of explicit bargaining may depend on the presence of small-cohesive groups, it is not exclusive to Somaliland. Recent studies have found evidence of such bargains by migrant herders in Senegal, elite taxpayers in Latin America, and sugar exporters in Mauritius.[60] Even when no such cohesive groups are found, however, there is growing empirical evidence that taxation may lead to more demands for accountability and thus improved public service delivery. Timmons, for instance, shows that regressive taxation is associated with higher public goods provision to the poorest, while progressive taxation is associated with stronger property rights for wealthy tax payers (ie. the government caters to the poor when they pay a bigger share of the tax burden, and vice versa).[61] Meanwhile, while far from definitive, new cross-country, sub-national and experimental studies are starting to build up the evidence base of a link between taxation and accountability that is less outdated than pointing back to the Magna Carta and American cries of independence (see Box 2).

A reliance on taxation for government revenue also aligns the incentives of the government with the wellbeing of the economy. Whereas governments that survive off natural resource rents are indifferent to the fate of the non-oil economy, once revenues rise and fall with the

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[58] Moore (2008, p. 26).
[59] Eubank (2012).
[60] Juul (2006); Mahon (2004); Brautigam (2008).
[61] Timmons (2005).

fate of the broader economy, it will be in the self-interest of governments to foster economic development. More firms, more workers, and more foreign investors paying taxes, means more money in government coffers. There is evidence that strong pressure to put an end to a conflict in Somaliland between the government and the *Habar Yonis* was the result of pressure by taxpayers whose businesses depended on peace and stability. Taxation might not be a quick fix solution for all the woes of resource rich nations, but it does help align incentives between the governments and the citizens towards broader economic wellbeing.

Box 2. Empirical Evidence of a "Social Contract"

While the idea of a social contract is grounded on historical analysis of the evolution of European parliaments, more recent studies have sought empirical evidence for the link between taxes and accountability:

1. Cross country studies: Large N-studies have shown that higher tax revenues are associated with better governance and more scrutiny over government spending decisions, particularly for direct forms of taxation, like income tax, that have a more noticeable impact on voter's wallets.[62] Another study looked at public perception polls and found that an abundance of natural resources decreases perceived tax enforcement, which in turn decreases demand for free and fair elections.[63]

2. Sub-national variation: New literature on the relationship between tax dependence and governance takes advantage of comparisons between sub-national governments within the same country. A study of Argentina found that provinces most dependent on broad taxation of their citizens had historically been more democratic than those more dependent on central transfers or oil revenues.[64] Similarly, a study found that as local taxes increased, district governments in Tanzania and Zambia devoted a larger share of their budget to public services, whereas those dependent on central transfers tended to spend more money on bloated bureaucracies and public servant benefits.[65] Taking advantage of a natural experiment, a third study found that areas of Nigeria where the British built local tax collection capacity today have local governments with higher levels of public approval, better public service delivery, and lower levels of corruption than areas where the British failed to build up those institutions.[66]

3. Experimental: An experiment conducted in resource-rich Indonesia found that that both transparency and taxation strengthen the propensity of citizens to demand

[62] Altunbas and Thorton (2010); Martin (2013); Devarajan et al. (2011).

[63] McGuirk (2010).

[64] Gervasoni (2006, 2011).

[65] Hoffman and Gibson (2006); Berger (2009).

[66] Berger (2009).

good government.[67] More recently, a study that conducted a series of experiments in Uganda found evidence that taxation leads citizens to demand more from leaders by activating a "stronger fairness norm" and that this effect is particularly pronounced for those with more experience paying taxes.[68]

While the theory of a social contract has been around since political scientists first attempted to study the rise of the nation-state, attempts to measure the relationship empirically are new and remain scarce. However, all of the studies above have found some evidence that taxation is indeed related to some measure of better governance, better public service delivery and more demand for accountability.

There is growing consensus that broad based taxation is an essential part of building sustainable and accountable institutions in developing countries.[69] The great challenge for resource-rich is trying to create this broad tax base precisely at a time when the government feels it can do without one.

9. We can't do it because we have no national identification and few people have bank accounts

It may seem contradictory to argue that a government incapable of wisely using oil rents to build roads and schools will be able to transfer large amounts of money to its entire citizenry. Concerns of corruption and leakage in the management of public finances of oil producers might make many nervous of entrusting those same governments with distributing large amounts of cash. However, cash transfers currently reach millions of people in low income countries alone, a good indication that they are not unfeasible. Moreover, with the advent and greater access to new biometric and financial technologies, cash transfer systems are becoming increasingly low-cost, efficient, and secure from fraud. As Alan Gelb and Caroline Decker conclude in a recent study, these new technologies mean that "the barriers to transfers are no longer technical, but political."[70]

It's already being done. Transferring funds to the entire population of a poor country may seem daunting, yet it is already being done. Developing and emerging-market governments in over 60 countries made regular payments to some 170 million people as of 2009.[71] This includes 49 social protection programs (unconditional, conditional or workfare payments), as well as payments of wages or pensions from the government to low-income citizens which often dwarf social protection programs in size (see Table 2). The number of people covered by transfers has undoubtedly grown since then, and will continue to do so as countries like Iran and India continue rolling out sizable transfer programs.

[67] Paler, forthcoming.
[68] Martin (2013).
[69] Moore (2007); McGuirk (2010); Brautigam, Fjedlstat, and Moore (2008); Ross (2012).
[70] Gelb and Decker (2011).
[71] Pickens, Porteous, and Rotman (2009).

Table 2. Selected CT programs in low and middle income countries:

Country	Program	*Recipients*
Argentina	Jefes y Jefas de Hogar	1,500,000
Bolivia	Bolivida / BONOSOL	334,411
Botswana	Old age pension	80,000
China	Minimum Livelihood Guarantee (di Bao)	22,000,000
Colombia	Cajas de Compensacion Familiar	3,900,000
Colombia	Old age pension (Prospera)	380,961
Kenya	Hunger Safety Net	60,000
Lesotho	Old age pension	69,046
Malawi	Dowa Emergency CT	10,161
Mauritius	Old Age Pension	109,000
Mozambique	INAS Food Subsidy	69,095
Pakistan	Benazir Income Support	2,200,000
S. Africa	Child Support Grant	8,893,999
S. Africa	Old Age Grant	2,309,679
S. Africa	Disability Grant	1,377,466
Swaziland	STC Emergency Transfer	6,223

Any payment system needs to accomplish two functions: verification of identity and transfer of funds. In recent years two technologies—biometric identification and mobile banking—have made such cash payments both feasible and potentially low-cost.

Identification: Biometrics. One of the main concerns of handing out cash to a large number of people—let alone a country's entire population—is minimizing fraud and corruption. That means ensuring that everyone gets paid, but just once. Unique identifiers, particularly new biometric identifiers, can play a key role in preventing leakage due to payments to ghost citizens, non-citizens or double-payments.

Biometric identification (mainly fingerprinting and iris scans) has become increasingly widespread in both developing and developed nations. Recent studies estimate that over one billion people in developing countries had their biometric data recorded, including almost 300 million Africans and over 400 million South Asians.[72]

Biometric identifiers have been used to support cash transfer programs in over eleven countries, successfully reducing fraudulent registrations (and therefore leakage) wherever implemented. In Nigeria, biometric audits reduced the number of federal pensions by almost 40% (from 97,000 to 60,000). The savings where equally impressive in Botswana at 1.7 million USD (25% drop in registrations), and in Andhra Pradesh with a 12% drop in recipients.[73]

*Delivery: Electronic Payments and Branchless Bankin*g. In the past, government-to-person payments such as pensions and social transfers have largely been done using in-person handouts of physical cash at great cost and with significant leakage. Today, even in the poorest countries, electronic payment and transfer systems are gaining popularity. Electronic delivery can take the form of direct deposit into bank accounts, providing debit cards, or transferring funds through basic accounts linked to mobile banking. Already, about half of social transfer programs launched over the past decade feature some type of electronic payment, with two important benefits: lower transaction costs and transparent, auditable payment trails.[74]

Electronic payments can be deposited straight into existing bank accounts, but new branchless banking technology opens the door for wider coverage of areas underserved by the traditional financial sector. Even where the banking system may not provide universal coverage, the mobile pre-paid card vendor network usually does. With new mobile financial services, governments can deposit money directly into citizen's mobile cellphone accounts. Perhaps the most well-known such system is M-PESA in Kenya, which currently serves over 15 million customers (corresponding to over 60% of Kenya's adult population) and transfers approximately US$700 million each month in person to person transactions.[75]

Whatever form it takes, electronic delivery can slash the administrative costs of a transfer. When Brazil's Bolsa Familia switched to electronic benefit cards, administrative costs dropped nearly seven-fold, from 14.7% of the grant value to 2.6%. In South Africa the cost of transfers dropped by 62% after switching to bank accounts offered by the private sector.[76]

Another benefit of electronic payment is that it leaves an auditable trail all the way from the issuer to the final recipient that could prove a powerful tool to minimize corruption.

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[72] Gelb and Clark (2013).

[73] Ibid.

[74] Pickens, Porteous, and Rotman (2009).

[75] Chandy, Dervis and Rocker (2012).

[76] Pickens, Porteous, and Rotman 2009.

While it is true that no system will be watertight against fraud, it is also worth remembering the counterfactual of other options. In the case of Ghana, the funds lost though public sector spending were 50-80%. By comparison, one million fraudulent recipients (such as ghost recipients or non-citizens illegally claiming a transfer) would be the equivalent of about a 4% leakage.

10. Maybe it is a good idea, but no politician will ever give up control of oil money

It is simply not politically feasible. Politicians have no incentive to give up access to oil wealth, which they may use to build political support or patronage networks.

Here's the rub. Implementing this proposal will certainly require political foresight and a level of confidence that may be unusual. However, it is not unfathomable. A number of countries are already implementing resource-backed cash transfers, so clearly politicians in Mongolia, Bolivia, and elsewhere saw some political calculation that made this attractive.

The question is then what is it that made it possible and what could convince politicians elsewhere to try it? Theoretically, at least, one could think of a number of characteristics that would facilitate the political implementation of a cash transfer scheme.[77] Leaders of resource-rich countries often use rents strategically to consolidate their hold on power, and are therefore most likely to adopt a universal cash transfer scheme when they value the support of a broad electorate who would benefit from the policy. Thus, a fairly open democracy, a post-conflict period where leaders are trying to cement national unity, or a strong leader seeking to solidify his personal popularity, would all potentially find it in their interest to adopt a scheme.[78] In addition, countries that have not yet received oil income or are facing a constitutional moment (such as the post-Arab spring countries) may be good candidates since the barriers from entrenched interests are presumably lower.

This is roughly what has happened in practice. Cash transfers funded by oil revenues targeted at veterans and internally displaced persons in Timor Leste were aimed at creating post-conflict stability by coopting potential sources of renewed violence into the system. Other oil-rich conflict-prone countries like Iraq and Colombia might be tempted to follow suit.[79] The fact that Timor-Leste became an oil producer only recently in 2005, meant that it had relative degree of freedom to use the oil revenues without upsetting entrenched interests. Countries recently discovering oil and natural gas reserves like Ghana, Uganda and Liberia, might have an advantage establishing this kind of scheme over long-time producers.

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[77] For a more detailed discussion of these issues see Gillies (2010).

[78] Gillies (2010, p. 1).

[79] There is growing support among certain political circles in Iraq for this kind of proposal; see West (2011).

Box 3. Bolivia[80]

Since 1997 Bolivia has made cash payments to citizens tied to resource revenues. Originally titled Bonosol, the cash transfers started as a non-contributory pension system to every Bolivian over the age of 65, funded from assets and shares from the privatization of the state-owned oil, telecommunications and transportation companies. Forty-nine percent of the assets from the privatization where formally transferred to all citizens older than 21, in the form of the Collective Capitalization Fund (CCF), a privately-managed fund from which annual pension payments would be made to all senior citizens. The transfers began as an annual pension payment of $248 USD made out to 400,000 beneficiaries.

Bolivia's Bonosol program was introduced and approved by President Sanchez de Lozada just months before the 1997 elections. While it was never presented or discussed as part of an electoral platform, the opposition denounced the program as an electoral ploy just short to vote buying. However, while critical of the law, the opposition was ultimately forced to support the maintenance and expansion of Bonosol, as it became too politically costly to oppose. An attempt by the successor administration to decrease and eventually stop Bonosol (later known as Bolivida) payments was unpopular with the citizens, and eventually led to the reelection of Bonosol's original promoter, Sanchez de Lozada who reinstated an expanded pension program.

Discoveries of new natural gas reserves and increasing natural gas prices, led to heated discussions of how to best allocate the new and growing resource rents. Mounting pressure from mayors, regional groups, universities, unions and the army all vying for a piece of the pie, led to the election of Evo Morales and the subsequent pseudo-nationalization of the oil companies. Bonosol, now financed directly by the government, remained in place. In 2007, a group of politicians and intellectuals published a manifesto calling for a more direct distribution of gas rents. While their demands were not met, eligibility for Bonosol, renamed Renta Dignidad, was expanded to almost double the beneficiaries as cash transfers became a central part of the Morales agenda—a political move intended to divert funds from the opposition-controlled regional governments. The cash transfer program is now presented as the key evidence of the Morales government's commitment to eradicate poverty.

Source: Laserna, forthcoming.

[80] For a full account of the Bolivia story see Laserna (forthcoming).

Occasionally, a visionary politician like Alaska governor Jay Hammond will establish an oil dividend looking to tie his own hands and those of his successors, and protect the state from careless spending.[81] However, no such uncommon self-restraint or farsighted vision is necessary. Distributing oil revenues may be in some cases a savvy strategy to garner political support.

Politicians may simply recognize that promoting a proposal to put cash in the hands of their constituents could become quickly and deeply popular. Bolivia's cash payments to citizens tied to resource revenues were allegedly introduced by President Sanchez the Lozada in order to build up support for the upcoming 1997 election. While opposition politicians initially denounced it, once it gained popularity with the voters, resistance became politically dangerous and both sides embraced the proposal. Similarly, the Mongolian Child Money Program funded through mineral revenues arose out of competition between the parties for support during the 2004 general elections.[82] A large rise in mineral revenues in the early 2000's prompted opposition politicians to argue that citizens had not benefited enough from the mineral wealth. This led to a bidding war between the governing party and the opposition over various cash transfers programs and the ultimate adoption of the CMP under a coalition government.[83]

More recently, oil-funded cash transfers have been adopted by governments desperate to find a politically palatable way to roll back subsidies. India and Iran have bot resorted to cash transfer to soften the blow of the removal of costly fuel subsidies.[84] While none of these programs are perfect models of the universal distribution of revenues proposed here,[85] they are all variations of resource rent distribution and involve comparable political calculations. Their precedent demonstrates that while it is a political challenge to implement, distribution carries political benefits that render it potentially feasible.

Once the program is in place, moreover, it becomes politically unassailable. Attempts to stop the Bolivian pension system by a successor president was met with stiff resistance, and led to the reelection of Bonosol's architect Sanchez de Lozada on a promise to reinstate and strengthen it. Similarly, the dividend in Alaska has rendered the Alaska Permanent Fund invulnerable to the myopia of political spending. Even though the Alaskan dividend is not

[81] Governor Jay Hammond was supported in his vision by an Alaskan populace that feared a continuation of the reckless spending of the initial oil windfall, and concerned with an equitable distribution of the benefits for all citizens (See Goldsmith (2012).

[82] Hodges et al. (2007).

[83] Ibid.

[84] Gelb and Decker (2011).

[85] Neither the Bolivia nor Timor-Leste programs are universal, while the Mongolia Child Money Program has expanded to attain quasi-universality, but remains a conditional transfer. India and Iran are universal but are not aimed at broad revenue management. Alaska comes closest as it is universal, but since Alaska eliminated personal income tax in a compromise to pass the PDF it lacks the crucial taxation component. Importantly, PDF architect former governor Jay Hammond later believed eliminating taxes was a huge mistake because, in his own words, it effectively "cut the cord that attaches the public's purse to the fingers of the politicians." Hammond (2012).

constitutionally guaranteed, its enormous popularity makes legislators so wary of doing anything that will decrease the payments that they have gone as far as making contributions to the fund beyond the mandated amount in order to increase the dividend.[86] It may also be the case that once one country establishes a dividend system, other countries will feel pressure to follow suit, in much the same way that once Mexico started its conditional cash transfer program, it became politically impossible for Brazil not to do it, and then Argentina and Chile and so on.

In countries where no prominent politician seizes on the idea, this critique is correct and implementation is highly unlikely. However, given the growing belief that natural resources belong to citizens, the status quo where rents accrue to the leaders will perhaps become the politically unsustainable choice.

[86] Goldsmith (2012, p.13).

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