This is Africa: How to turn citizens into owners of national wealth

How to turn citizens into owners of national wealth

By Alan Gelb and Todd Moss | Published: 05 January, 2012

On November 28 Anadarko Petroleum doubled the estimate of its massive Mozambique gas discovery. If this proves correct, Mozambique will become a major gas exporter and can expect a hefty windfall.

Mozambique is not alone. Per square mile, proven sub-soil assets in poor countries — notably in Africa — are only about one quarter of those in better-explored, rich countries. Not surprisingly, high prices and new technologies are driving new oil, gas, and mineral discoveries across the developing world. Billions of dollars will be pumped into countries like Uganda, Liberia, Papua New Guinea, Mongolia and Bolivia. While this should be good news, it also raises concerns.

Why should we expect governments to be accountable to their citizens when they can rely on easy money from resource bonanzas? Why would politicians bother doing the hard work of creating a diversified private economy and raising taxes when they can just cash checks from mining and oil companies? Countries across Africa, Asia and Latin America are attempting to overcome the so-called resource curse – the phenomena that link reliance on extractives to poverty, conflict, and corruption – by publishing contracts and reporting revenues. Transparency is valuable, but probably insufficient for the task.

Just because natural resources are considered national assets, must rents go to the government? An alternative proposal is to distribute resource revenues directly to the true owners: citizens themselves. There are many reasons to think citizen-owners would do a better job of promoting development, especially if a dividend is used to build a broad tax base.

First, this idea creates an incentive for citizens to monitor public resources, revenues, and spending. Even if part of the dividend is taxed and withheld, citizens will see and feel the effect.

Second, it would restore incentives for government to foster other sectors of the economy and seek other sources of revenue. This is critical if countries hope to ever become more than commodity exporters.

A third benefit is equity. Citizens might own an equal share of national wealth on paper, but in reality resource-rich countries tend to be among the most unequal societies. Libya, Venezuela or Equatorial Guinea could easily afford to transfer $2000 per year to each citizen, wiping out poverty in a stroke. The sums are smaller for poorer countries, but still large relative to current incomes.

This idea may appear like a dramatic leap of faith. But many countries are already distributing rents to their populations — just doing so badly via inefficient employment schemes or subsidies. In Iran, petrol has been cheaper than water, fuelling waste and smuggling. Venezuelan petrol subsidies benefit rich households nearly seven times as much as poor ones.

At the same time, growing evidence points to the efficiency and equity of cash transfers – showing that poor people know how to use money wisely.

In Brazil, BolsaFamilia pays stipends to 12 million poor families that vaccinate their kids and keep them in school.

This model is being replicated across the globe. India has begun to phase out subsidies in favour of cash payments to the poor.

Even Iran is now replacing its distorted subsidy system with direct transfers into some 20 million bank accounts, covering about 80 percent of the population.

New biometric identification technology and mobile money make this option both cheap and feasible. High-tech programmes have worked even in the most difficult environments, whether paying ex-combatants in the Congo, providing pensions in South Africa, or delivering emergency relief to flood victims in Pakistan.

Some resource exporters are catching on too. Mongolia allocates part of its gold income to finance child cash benefits. Bolivia's RentaDignidad programme has paid over $1.1bn of gas income to the elderly, most in poor extended families. One study found that rural families increased consumption by more than the transfer because recipients invested in better seeds, tools, and livestock.

The main barriers to even wider adoption of cash transfers are political: politicians do not readily give up control over resource revenues. As high commodity prices and new technologies open up new fields, how to manage the cash will be the single most vital policy question for a range of countries. Cash dividends may be just the answer for many.

Alan Gelb and Todd Moss are senior fellows at the Centre for Global Development in Washington DC