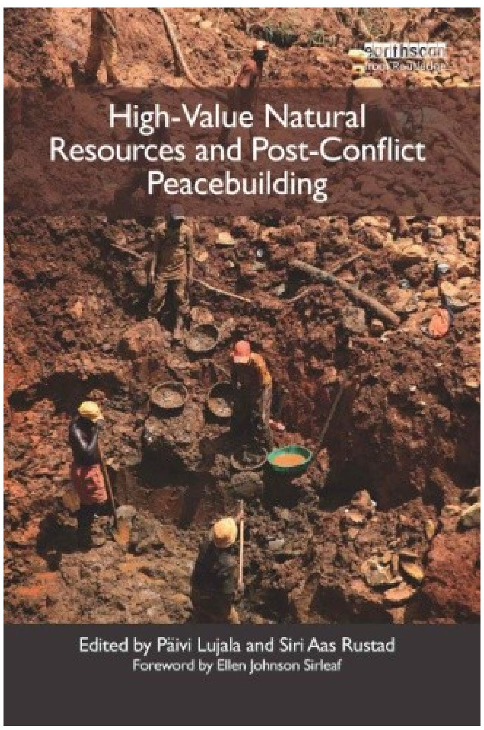

Direct distribution of natural resource revenues as a policy for peacebuilding

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This chapter examines direct distribution of natural resource revenues as an element in post-conflict peacebuilding. Direct distribution, a radical proposal that has been put fully into practice in only one place—the U.S. state of Alaska—represents a fundamental shift in the management of revenues from natural resources: from financing government spending (or the enrichment of government officials) to funding regular cash payments to the population at large. Nevertheless, it is gaining increasing attention as a possible means of addressing the negative consequences of extractive resource dependence. The question is whether such a policy should be included among the tools used to establish and maintain peace in post-conflict societies.

Whether, to what extent, and how dependence on extractive resources puts a country at risk of violent conflict remains an actively debated topic. That resources have *some* nefarious effect in relation to war is difficult to doubt; it is also borne out by a great deal of statistical evidence.[1] The facilitation of conflict is but the worst manifestation of the "natural resource curse," whose other effects can include economic stagnation in the form of "Dutch disease," endemic corruption, and political underdevelopment.[2]

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1 See, for example, Collier and Hoeffler (1998) and Fearon and Laitin (2003).

2 *Dutch disease* is a phenomenon in which the discovery of substantial natural resource wealth negatively affects a nation's economy. The discovery often causes sudden appreciation in the value of the nation's currency—which, in turn, decreases the nation's competitiveness in the international commodity markets. This reduces the country's exports of manufactured and agricultural commodities and increases its imports. At the same time, the natural resource sector draws a substantial share of domestic resources such as labor and materials, increasing their cost to other sectors. Moreover, when the initially booming resource sector eventually declines, the non-resource-based sectors may find it difficult to recover. On Dutch disease, see Krugman (1987) and Sachs and Warner (1995); on corruption, see Leite and Weidmann (1999), Gary and Karl (2003), and Global Witness (2004); and on political underdevelopment, see Karl (1997), Auty (2001), and Isham et al. (2002).

Direct distribution is being proposed with increasing frequency—so far, to unenthusiastic reception—as a broad means of addressing the resource curse.[3] This chapter examines the arguments for and against the idea that direct distribution may be a valuable tool for peacebuilding in resource-rich post-conflict countries.[4]

The chapter is divided into five main parts: (1) a description of the policy of direct distribution; (2) an analysis of the ways in which direct distribution might help to strengthen peace; (3) a discussion of the objections to direct distribution; (4) a consideration of past experience with direct distribution; and (5) a brief conclusion.

THE PROPOSAL

The common theme of all direct distribution proposals is to distribute some or all of the revenues a nation receives from natural resource exploitation directly (in cash) and unconditionally (or with only minimal conditions) to the population. Beyond that basic approach, direct distribution schemes can be designed to vary along a number of dimensions:

- The proportion of extractive revenues to be directly distributed.
- Whether the amount to be distributed—known as the *resource dividend*—is taxable. (This dimension clearly interacts with the previous one.)
- Whether the resource dividend for a given period is calculated on the basis of actual revenues or is smoothed out by means of a stabilization fund or similar mechanism.[5]
- The definition of eligibility in relation to demographic characteristics (e.g., whether the resource dividend is payable to everyone, to adults only, or to heads of households only).

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[3] Recent proponents include Sala-i-Martin and Subramanian (2003), Palley (2003), Birdsall and Subramanian (2004), Sandbu (2006), Shaxson (2007), Shaxson and Sandbu (2009), Moss and Young (2009), *La Razón* (2009), and Morales (2007). Among politicians, U.S. senators Hillary Clinton and John Ensign sponsored a resolution, in 2008, in favor of direct distribution in Iraq (S. 3470: Support for Iraq Oil Trust Act of 2008), and presidential candidates in Venezuela and Iran included direct distribution in their electoral platforms in 2006 and 2009, respectively (*BBC News* 2006; *Economist* 2009).

[4] Many of the arguments in this chapter are set out in greater detail in Sandbu (2006).

[5] Stabilization funds are used to build up reserves when resource prices are high; when prices fall, the funds can then be drawn down, allowing spending to be stable from year to year.

- The definition of eligibility in relation to citizenship or residency (e.g., whether the resource dividend is payable to all citizens, to resident citizens, or to all residents of a certain tenure).
- The conditions, if any, to be placed on recipients.[6]

Two further dimensions may be particularly relevant for post-conflict societies, especially where conflict has been waged along regional lines:

- Whether the resource dividend will vary by region—in particular, between producing and nonproducing regions.
- The relationship between the resource dividend and the claim on extractive revenues made by various levels of government and by different jurisdictions at each level.

Subject to choices along these dimensions, a certain part of a nation's extractive revenues would circumvent governmental budgets and instead be available for individuals as part of their disposable income. If the resource dividend is taxable, then some of it would be returned to the public treasury, but through individual income taxes rather than through (1) royalties or taxes on extractive companies or (2) profits from government ownership of or stakes in resource ventures.[7] In other words, royalties, corporation taxes, and profit sharing with resource companies would not cease, but the revenues raised thereby would be directly distributed to the population.

The question of how much to distribute is conceptually separate from the question of how the purchasing power derived from resource rents should be divided between the public and private sectors. In the discussion that follows, it is assumed that cash distributions are taxable but leave a noticeable (say, at least a quarter) share of resource rents in widely dispersed private hands.

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6 Most advocates of direct distribution oppose means testing for potential recipients of the resource dividend, preferring instead that the distributions count as taxable income. As long as the tax structure is progressive, this approach will take care of concerns about vertical equity. (Vertical equity refers to inequalities between the rich and the poor, as opposed to inequalities between groups defined along ethnic, gender, regional, or other dimensions.)

7 If the resource dividend is taxable, the revenues could be distributed in their entirety, without affecting the desired split between public and private control over how the resource rent is spent. In the extreme case, full direct distribution would be subject to 100 percent taxation: the final allocation of purchasing power would then be the same as it is in most resource-producing countries, where 100 percent of resource revenues go directly to the government (once the private companies engaged in extraction have been paid). Nevertheless, channeling the funds through the private sector would significantly improve the political economy, for the reasons outlined in the next section; see also Sandbu (2006).

HOW DIRECT DISTRIBUTION COULD STRENGTHEN PEACE

This section of the chapter surveys two potential advantages of direct distribution in post-conflict environments: (1) improving incentives to keep the peace and (2) removing the spurs of conflict.

Improving incentives to keep the peace

Post-conflict environments are characterized by three principal needs: to invest in infrastructure destroyed by violent conflict; to prevent civilians from becoming disillusioned by peace; and to channel the demands of former belligerents in the direction of political competition and cooperation, in order to protect against the temptation of returning to arms. How can direct distribution contribute to these needs?

One factor often underlying the resource curse is the state's inability to invest without waste or corruption; this difficulty is likely to be at least as severe—if not worse—in a post-conflict situation, where crucial human and organizational capacity may have been lost, and time may be needed to reestablish effective checks and balances. As is discussed later in the chapter, direct distribution may tamp down the forces that fuel waste and corruption in resource-rich states, and strengthen the incentives for post-conflict leaders to act in ways that benefit the population at large. But the most immediate significance of direct distribution in a post-conflict setting is this: by putting cash in the hands of the population, it fosters an immediate surge of investment in private goods, with no need to wait for state capacity to improve sufficiently to provide public goods. In particular, cash payments can enable even the poor to invest by constructing or purchasing homes, and can also finance the inputs needed for small-scale production. More generally, the payments can kick-start a private economy that can meet the material needs of individuals even if public investment is lagging.

To prevent post-conflict frustration from growing into deeper grievances that can foster a return to violence, the population must experience the end of conflict as something that benefits them. Philippe Le Billon argues that

> direct revenue allocation provides tangible evidence of a "peace dividend" for the population. Recent studies show that direct cash payments contribute positively to poverty alleviation and disaster recovery, including in conflict-affected environments (2008, 9).

Finally, direct distribution may give policy makers—who are likely to be excombatants—more constructive incentives than they would otherwise have. Sandbu (2006) argues that by redefining the claims of citizens in relation to the state and bringing transparency to the extent and value of the nation's natural resources, direct distribution can affect the way the social contract is perceived. If this is the case, then the policy may subject post-conflict rulers to greater public scrutiny, forcing them to pay more attention to what they provide to the population—rather than to, say, personal enrichment or the pursuit of wartime grudges. This is particularly important when a conflict has been fought over control of resources, either as a prize or as a source of support for violence.[8]

The most intriguing outcome for the incentive effects of direct distribution is the possibility of altering the politics of regional or ethnic conflict. If a conflict was fought between regionally or ethnically defined groups, the end of the conflict may cover a still-simmering resentment; if one group has defeated the other, victory may be taken as a license for abuse or discrimination. By creating a symbol of unity, a universal resource dividend can redirect political focus away from the fragmentation of the past and toward a unified future. Le Billon, for example, suggests that if "the choice is made to distribute the revenue equally across the entire population, this can contribute to a sense of national identity and common destiny" (2008, 9).

There is a second reason that direct distribution could defuse regional or ethnic tensions: although such resentments may be genuine, they are often manipulated by elites, who take advantage of grievances that are ultimately rooted in poverty, marginalization, and corruption. Poor people who live in a resource-producing region can easily be persuaded that other parts of the country are stealing "their" resources. For example, although the states that make up the Niger Delta should theoretically be flush with cash because of a derivation formula that allocates an extra 13 percent of national oil revenues to producing states (beyond what all states get from revenue sharing between central and state governments), much of this money has been wasted or stolen. Nevertheless, Niger Delta insurgents continue to demand even more revenue from "their" oil.

One possible response to such misdirected grievances is to fully distribute resource rents, then render them taxable not only at the central but also at the regional level, in order to focus on the political relationship between regional governments and the population of each region (Sandbu 2006). The idea is that if the division of resources between private individuals and public authorities *within each region* becomes politically salient, people's focus will shift to how well regional (and local) officials manage whatever resource revenue the region disposes of, rather than on how much more the region could get if other regions got less. In a post-conflict situation, the hope would be that attention can be shifted from an earlier "frame," which is focused on the allocation of benefits to different regional or ethnic groups, to a different frame, which is focused on

[8] In the "greed" explanation of conflict over natural resources, control of resources is a prize: the goal is to capture the state in order to capture the resource rents. In the "grievance" explanation of conflict over natural resources, resource rents give rebels access to funding, even if the rebellion is motivated by other factors. In either case, the issue is not low-level looting, but the criminal enrichment at a grand scale afforded by controlling at least part of the state territory.

how those in power use common resources for the benefit of those without it. As is discussed later in the chapter, current events in the Niger Delta may well shed light on whether this is a realistic possibility.

Removing the spurs of conflict

The details of why dependence on natural resources seems to cause conflict are beyond the scope of this chapter, but most such mechanisms can be divided into *economic* and *political economy* effects.[9]

Economic effects

The evidence that natural resource dependence retards economic growth is overwhelming.[10] The exception is when resource booms occur within the context of strong governing institutions (Mehlum, Moene, and Torvik 2006), which is rarely the case. When disagreements are dealt with through violence, governing institutions are, by definition, failing. It also seems clear that drops in income increase the risk of conflict (Miguel, Satyanath, and Sergenti 2004).

Insofar as direct distribution can remedy the negative effects of resource wealth on growth, it will also blunt the economic causes of conflict. There are three reasons why direct distribution schemes may do this:

- *States are bad at allocating spending over time.* Despite the recent flurry of savings and stabilization funds, resource-rich countries find it extraordinarily hard to smooth out their spending of resource-derived revenues, which are rendered highly volatile by fluctuating commodity prices and eventual depletion.[11] Evidence from commodity booms that have benefited households and businesses, in contrast, indicate that the private sector does a better job of managing windfall revenues than the public sector: households and businesses save more, and therefore have larger buffers with which to smooth out consumption patterns (Collier and Gunning 1999). Studies of cash distribution schemes in nonresource settings also suggest that, contrary to stereotype, poor households are good stewards of unearned income, some of which they put toward investment goods such as household animals; nor does unearned income make poor people less likely to work (Skoufias and McClafferty 2001; Gertler, Martinez, and Rubio 2005).

9 For a more detailed treatment of the relationship between conflict and natural resources, see Paul Collier and Anke Hoeffler, "High-Value Natural Resources, Development, and Conflict: Channels of Causation" in this volume.

10 See, for example, Sachs and Warner (1995) and the many studies cited in Sandbu (2006).

11 See Humphreys and Sandbu (2007) for an analysis of what savings and stabilization funds can and cannot do.

- *At any one point in time, states are bad at allocating spending between different uses.* Even if the private and public sectors made equally poor spending choices over time, weak states would likely be less competent at efficiently allocating spending for any given period. Although poor countries are often in dire need of investment in public goods, in practical terms, corruption or simple incapacity may lead to the waste of public funds (Robinson and Torvik 2005). Thus, public allocation of funds may be worse than what could be achieved by market allocation of private funds—even accounting for the fact that some public goods would then be unavailable. (Of course, if the government does not have the wherewithal to supply public goods, they would not be available in any case.)[12]
- *Universal cash distribution is one of the most effective policies for alleviating poverty.* "Relative deprivation" accounts suggest that even if incomes *on average* are not so low as to increase the risk of conflict, severe inequality around a given average can trigger conflict (Gurr 1970). Widely distributed cash payments are by far the quickest way of alleviating poverty and inequality—and may even, in the long run, be as effective as targeted (means-tested) poverty alleviation schemes, which typically suffer from "take-up" problems: that is, many of those entitled to benefits do not make use of them (Atkinson 1995). As noted later in the chapter, Alaska's direct distribution scheme probably accounts for the fact that during the 1990s, the state bucked the national trend toward increasing income inequality.

Political economy effects

The political economy effects of natural resources can be briefly summarized as follows: states that are financed mostly by resource rents rather than by broad-based taxes tend to be (1) insulated from public pressure to deliver public goods to their constituents and (2) capable of (indeed, reliant on) buying political support, which further entrenches patronage systems (Ross 2001b; Isham et al. 2002).[13] These circumstances have institutional effects: such states become bloated, corrupt (or more corrupt), and remain underdeveloped in terms of administrative capacity and responsiveness to the public (Karl 1997; Auty 2001; Ross 2001a, 2004; Herb 2003). But there are indirect economic effects as well:

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[12] The reasons that decentralized market allocation can be more efficient than public planning (despite the fact that only the government can supply public goods) are well-known and much rehearsed; one of the less frequently emphasized reasons is the information-providing function of markets. As Hayek (1945) explained, decentralized markets are good at efficiently allocating resources because they compel local decision makers to use information that is locally available to them; central planning, in contrast, requires an impossible centralization of dispersed information about how resources are best deployed in circumstances that differ from place to place.

[13] For further discussion of this point, see Sandbu (2006).

bad institutions increase risks for private enterprise, which tends to be crowded out by rent-seeking activities that offer higher private returns (but lower social returns) than genuine value creation (Ross 2001b).

It has been argued, on the basis of the political economy effects of the natural resource curse, that direct distribution policies offer a particularly promising cure (Sandbu 2006; Shaxson 2007). The simple version of this argument holds that direct distribution can improve the deleterious effect of natural resource rents on governing institutions through two mechanisms. The first mechanism is simple circumvention: by leaving a smaller proportion of total resource rents in the hands of government officials, direct distribution reduces both (1) the damage the rents can do to the public sector and (2) the damage the public sector can do with the resources. With less "free money" flowing through the government, the rewards of corruption are smaller—and the number of wasteful projects or patronage positions that can be financed are fewer.

The second mechanism involves a more intricate claim about political psychology (Sandbu 2006). Paying resource rents to individuals has a cognitive effect: it informs individual citizens of the magnitude and volatility of resource revenues, both by eliminating secrecy and by expressing numbers in an easy-to-grasp way—that is, in per capita terms. It also has a motivational effect: once private individuals receive *some* share of resource rents, the question of *how much* they get is opened to political debate. That openness, in turn, gives citizens an incentive to pressure officials either to do a better job of spending the money that remains in the public sector, or to increase the share that is distributed. At the same time, putting a direct distribution policy on the table gives politicians an incentive to draw citizens into the political process by offering them meaningful and easy-to-grasp choices between competing versions of the policy. The incentives that affect private individuals and politicians are likely to be mutually reinforcing.

Under one scheme that has been proposed for direct distribution, "natural wealth accounts," all resource rents are distributed but are then taxed (Sandbu 2006). This approach would further strengthen the public's incentive to hold rulers to account: psychologically, people are inclined to care much more about money they consider their own and then have to give up (such as taxes on a resource dividend) than about money they had never had the opportunity to consider theirs (such as resource rents funnelled directly into the public treasury).

But all versions of direct distribution will increase pressure for government accountability—which, in turn, is likely to increase the likelihood that the government will perform better than resource-rich states typically have, particularly in the realms of institutional development and ensuring that economic growth benefits the population. This shift, in turn, should temper both the politico-institutional and economic causes of conflict. Thus, in a post-conflict setting, direct distribution may contribute to peacebuilding by reducing two risks—disenchantment with peace and a reignition of the conflict—and by helping citizens to see that peace works: that is, that those who are in power are producing benefits for them.

OBJECTIONS

The objections to direct distribution come in three forms. The first concerns practical feasibility: universal cash distributions may seem unrealistic in poor (especially war-torn) societies. There are three answers to this objection:

- Direct distribution need not be complicated: it can be carried out through simple accounts held at rural post offices with check-cashing facilities; fraud can be prevented through the same techniques that are used to prevent double voting in elections.[14] Naturally, the system would still require a huge logistical effort, but one that should be possible to overcome in all but the worst situations. (The initial establishment of the system would of course require adequate resources, and would likely have to be contracted out to an international organization—perhaps to a private company with logistics expertise.)
- The organization required for direct distribution is complementary to other infrastructural needs in post-conflict settings—such as a census, electoral rolls, and basic transportation and communication networks. Since these needs have to be met in any case, the additional cost of implementing direct distribution is small.
- The take-up problem referred to earlier would probably be minimal, as the incentives for getting registered and obtaining the allotted cash would be huge.

A second category of objection is that even if direct distribution were feasible, it would be politically impossible to implement. If direct distribution will, in effect, force government to implement better policies than it otherwise would, why would political leaders want to establish a system that will reduce their room for maneuver or their ability to divert money for personal gain? This concern has been addressed in normal (nonconflict) situations with the following argument: although the problem is a serious one, it is important to acknowledge political circumstances that could encourage the adoption of direct distribution (Sandbu 2006):

- A state with newly discovered natural resource wealth, which has not yet been trapped by the political economy of the resource curse.
- The presence of political outsiders who can challenge entrenched elites and who may have an interest in a populist policy (which direct distribution no doubt is) as a means of shoring up popular support.

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[14] A first round of cash distributions could be made to all those who are physically present in the country, which would be documented through the indelible ink marks used in elections in Iraq and Afghanistan. As the distributions are made, handheld biometric scanners could be used to register the recipients so that they could simultaneously be added to a census and have an account opened, on their behalf, to receive subsequent annual distributions. Moss and Young (2009) give a convincing overview of what is possible using modern identification technology.

- Moments of upheaval (such as wars or other sources of regime change), which present windows of opportunity during which institutional structure may be "up for grabs."

Upheaval is of particular relevance in post-conflict societies. The principal question is whether the open-ended situation that prevails for some time in the immediate aftermath of a conflict is particularly conducive to, or particularly likely to inhibit, the establishment of a direct distribution system. The answer depends, in part, on how the conflict ended—in particular, on whose support the new leaders rely. If the conflict did not culminate in a decisive victory for one side, direct distribution may be an attractive means of defusing distrust between power-sharing elites, precisely because it reduces the scope for foul play. But if one side completely dominates the post-conflict political landscape (especially if the war was between regionally or ethnically defined groups with little sense of common identity), this incentive is clearly missing. Nevertheless, even in this case, new leaders may see a need to win over the vanquished population, at least if they are not perceived by the vast majority as liberators who deserve a long honeymoon of unquestioned legitimacy (as could be the case, for example, for exiled leaders returning after the end of foreign occupation). When legitimacy is questioned, direct distribution may be an attractive way to obtain it; indeed, it could be justified in much the same way as patronage, with the crucial difference that it would cover the entire population.

Even if new leaders do not need (or worse, do not care) to win over the population, the international community is likely to have its greatest influence on local politics in the year or two after a conflict ends. This is when the demand for donor funds is highest, especially in resource-rich states, where the conflict may have debilitated the state's institutional and physical capacity to obtain or control the revenues from resource exploitation. It is therefore imaginable that a coalition of donors might require, as a condition for funds, the establishment of a direct distribution system once resource revenues start to flow. Donor governments could even channel their own aid wholly or partly through a direct distribution system, on the publicly declared understanding that within a few years, the country's own government will replace donor funds with those from extractive resources. This approach would have a significant advantage: the establishment of the system would not have to depend on the weakened capacity of the war-torn state itself.

None of this is intended to minimize the political challenges associated with getting direct distribution off the ground in a post-conflict environment. But the potential benefits of such a system make it worth the effort to identify opportunities for making the attempt. Moreover, the political incentives for keeping the system in place once it is established are much less in doubt: once a population becomes accustomed to regular cash payments, it would be extremely politically costly to stop them. The example of Alaska, reviewed later in the chapter, bears this out.

A final category of concern is that direct distribution will create perverse effects. For example, an approach in which different resource dividends are paid to different regions or only to selected regions may not only create grievances, but may also generate a tremendous incentive for migration, which can stir up tensions in a fragile post-conflict environment. This concern justifies making direct distribution as universal as possible. Also in the category of potential perverse effects are new problems that may upset the equilibrium required for peace. For example:

- Recipients may waste the money on unproductive consumption.
- Direct distribution may lead to inflation rather than to development.
- A system in which people receive cash at regular intervals may encourage criminality, such as extortion by gangs on "payday."
- The distribution system itself may attract corrupt individuals, just as normal fiscal processes do when institutional controls are weak.

The answer to these objections is that the correct comparison is not between the behavior of an ideal government and the behavior of private individuals or public officials under a direct distribution system, but between direct distribution and business as usual—that is, channeling resource revenues to the public treasury, despite the governance failures exhibited by most resource-rich countries. Using the appropriate comparison, there seems little reason to fear that the results of direct distribution would be any worse than those of the usual scenario. So entrenched are the criminality and corruption that distort the public use of resource revenues in most countries—especially conflict-torn countries—that even a widely flawed direct distribution system (which is likely to be the case, at least in the early phases) may well be an improvement. As for concerns that the private sector will waste the resource dividends, as the next section will demonstrate, evidence suggests that the private sector, on the whole, does a better job of managing windfalls than the public sector.

EXAMPLES AND EVIDENCE

This section considers evidence of the outcomes of direct distribution systems, in both natural resource contexts and other contexts.

Schemes related to natural resources

As noted earlier, the only jurisdiction in the world that has a formal, ongoing direct distribution scheme is the state of Alaska, which in 1982 began to pay annual "dividends" from the Alaska Permanent Fund to each long-term resident in the state (children included). Today there is only a one-year residency requirement to receive payment. Under the state constitution, 25 percent of extractive revenues are paid into the permanent fund, whose principal may not be drawn down. The dividend amounts roughly correspond to the five-year annual average return on the investment of the fund's assets (calculating the return only after enough has been added to the principal to keep its real value from being eroded by inflation).

Studies of the effects of the Alaska scheme are surprisingly scarce, but three documented facts are relevant to this discussion. First, the system is virtually irreversible, not just because of its constitutional anchoring, but also because it would be politically suicidal for any politician to try to change it (Goldsmith 2002). Second, the distribution of dividends has coincided with, and most likely contributed to, a decrease in income inequality.[15] Third, by and large, recipients seem to save their dividend payments rather than to use them to fund consumption sprees, which suggests that one of the common misgivings about cash payouts is misplaced (Hsieh 2003).

There are a smattering of examples of ad hoc direct distribution—that is, one-time cash payments that were financed by natural resource revenue but that did not continue in any regular or institutionalized way: in 2006, for example, the Canadian province of Alberta paid a C$400 "rebate cheque" to its residents. These ad hoc distributions were derived from windfall public revenues that occurred when commodity prices were unexpectedly high, and probably resulted from electoral or other political calculation. Cash payments have also been made as compensation for environmental damage or expropriation; the Chad-Cameroon pipeline project was reported to have made one-time payments to farmers who lost mango trees during the construction (*Economist* 2003).

Though Alaska's approach has not been replicated in other countries, proposals have not been lacking. A few advocates (including this author) argue that direct distribution should become part of the standard set of policy options considered by resource-rich countries and by the international institutions and nongovernmental organizations that are active in natural resource governance (Shaxson 2007; Shaxson and Sandbu 2009). More commonly, proposals for direct distribution schemes are made for specific countries. Manuel Rosales, the opposition candidate for president in Venezuela's 2006 election, included such a scheme in his platform, but he lost the election (*BBC News* 2006). Scholars, politicians, and policy analysts have proposed direct distribution schemes for Bolivia, Ghana, Iraq, and Nigeria.[16] Libya's leader, Muammar Qaddafi, has ordered—somewhat

[15] In the 1990s, income inequality fell considerably in Alaska: the incomes of the poorest quintile increased by 28 percent and those of the richest quintile by only 7 percent. This stood in marked contrast to the United States as a whole, where the corresponding income increases were 12 percent for the poorest and 26 percent for the richest quintiles (Goldsmith 2002). Though other explanations cannot be ruled out, the drop in inequality is most likely attributable to Alaska Permanent Fund dividends.

[16] On Bolivia, see *La Razón* (2009). On Ghana, see Moss and Young (2009). On Nigeria, see Sala-i-Martin and Subramanian (2003). With respect to Iraq, in 2008, U.S. senators Hillary Clinton and John Ensign sponsored a "sense of the Senate" resolution that advocated an oil revenue trust fund with a direct distribution component (S. 3470: Support for Iraq Oil Trust Act of 2008). Policy analysts who have recommended something similar include Palley (2003) and Birdsall and Subramanian (2004).

quixotically—that government ministries be abolished and that direct distribution replace public goods.

Among the most exciting initiatives at the time of writing was the reported interest, on the part of the Nigerian president, to implement direct distribution as part of a scheme to end the debilitating conflict in the Niger Delta. According to news reports, 10 percent stakes in the government's oil ventures could be transferred to delta residents, with the explicit goal of bypassing corruption and waste at all levels of government and giving citizens an incentive to support oil exploration in the region, rather than to view it as the source of their sufferings (Burgis 2009a, 2009b). But the plan is still in its infancy, and it remains unclear whether and how it will be implemented—in particular, whether there will be cash distributions or whether the alternative suggestion, for community trust funds, will be adopted. If authorities choose the trust fund option, there is reason to fear that it will simply recreate, at the local level, the problems of corruption and waste that have ruined Nigerian governance at the federal and state levels. A positive sign, however, is that the Movement for the Emancipation of the Niger Delta, the main armed resistance group in the delta, has given the proposals a cautious welcome. All observers and practitioners interested in the conflict-resolving potential of direct distribution will be closely following developments in Nigeria.

Evidence from other contexts

Two other sets of evidence are relevant to assessing the possible consequences of direct distribution. One, mentioned earlier in the chapter, is evidence on how well the private sector manages windfall revenue in comparison with the government. The studies conducted by David L. Bevan, Paul Collier, and Jan Willem Gunning (1987, 1989, 1992) of a Kenyan coffee boom that produced windfalls for both the private and public sectors show that the private sector had a much higher propensity to save out of windfall income than the public sector.

Some countries use nearly unconditional cash distributions—which are not linked to resource revenue—to alleviate poverty. The most thoroughly studied examples are Mexico's Progresa and Oportunidades programs, through which cash payments have been made to female heads of households, provided that the children go to school and have annual medical exams.[17] Contrary to stereotype, poor recipients of cash transfers spend the money, in part, to buy more nutritional food—essentially an investment in human capital—and the payments do not reduce the likelihood that adults will work (Skoufias and McClafferty 2001). Moreover, a significant share of the money (about 25 percent) is used on investment goods such as animals (Gertler, Martinez, and Rubio 2005).

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[17] Mexico established Progresa (an acronym for Programa de Educación, Salud y Alimentación—the Education, Health, and Nutrition Program) in 1997; in 2002 the name was changed to Oportunidades.

Despite the seemingly positive effects of the simple conditions associated with Mexico's program, many advocates of direct distribution caution against setting any conditions. The reason is that in resource-rich countries, it is particularly important to close off opportunities for corruption and embezzlement; the more complex the system is—and that includes any conditions attached to the distribution—the easier it is to hide the fact that funds are being diverted. Moreover, in post-conflict settings, conditions can easily become real or perceived ways of excluding certain groups from the benefit, inflaming latent conflict. It is thus best to view previous experiences with cash transfers elsewhere as primarily demonstrating how little evidence there is for the notion that the poor cannot manage regular cash transfers wisely.

CONCLUSION

Direct distribution is gradually being recognized as having the potential to produce highly beneficial effects in resource-dependent countries: by increasing both the motivation and the ability of a population to hold its political leaders to account, it can counteract the nefarious effects of extractive resource rents on the countries that receive them.

This brief analysis of direct distribution suggests that it can be particularly useful in post-conflict environments. In the immediate aftermath of violent conflict, direct distribution can, on the one hand, offer a quick peace dividend to a traumatized population, and on the other hand, create incentives for political leaders to provide for the well-being of the populace, and to be perceived to do so. In the medium term, direct distribution may help kick-start economic growth and increase the likelihood that such growth will become sustainable. This, in turn, may reduce the risk that underdevelopment will spur renewed conflict. Although there are clear dangers, and any direct distribution scheme must be planned with extreme care, the time may well be ripe to give the policy a chance.

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