How to avoid the resource curse & promote local development, By Dr. Marianne S. Ulriksen[1]

Many African countries have, or are about to have, access to natural resource wealth. The assumption is that wealth from resources should benefit the country as a whole. Yet access to natural resources such as oil, gas and minerals can be accompanied by a *resource curse*, where local markets are distorted and corrupt behaviour seeps out the country's wealth.

Too many countries experience extreme levels of corruption and misuse of funds while broad-based developments, especially in rural areas, are inadequate and many people are poor. This is a persistent predicament in many African contexts. Breaking this cycle requires radical changes, and what follows is a radical but plausible proposal which I hope can stimulate a constructive debate.

The idea: Taxable basic income grant to all citizens funded by resource wealth

The idea is simple: if a country has access to resource wealth – why not share it directly with the citizens?[2] This has been done successfully elsewhere in the world:

It can be done: natural resource funded income grants

Iran:

The Iranian government distributes parts of its oil revenue to the Iranian population. As Iran has a large informal economy, the authorities decided that the only workable way to reach the broader population, including the poorest, was to pay a universal, rather than a means-tested, cash benefit.

Alaska:

A portion of the state's oil revenue is deposited into a sovereign wealth fund, and each year a portion of the returns to that fund are distributed to the Alaskans. The size of the payment is based on the average returns to the fund over a five-year period. Alaska is the most economically equal state in the USA.

(Van Parijs, P. 2013. The Universal Basic Income: Why utopian thinking matters, and how sociologists can contribute to it. *Politics & Society* 41(2):171–182; Murray, M. & Pateman, C. 2012. *Basic Income Worldwide: Horizon of Reform*. Basingstoke: Palgrave Macmillan.)

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* The views presented in this brief is that of the author and are not the official position of the CSDA or the University of Johannesburg

[2] A similar idea has been developed by Todd Moss and colleagues at the Center for Global Development, see www.cgdev.org for some good papers

The idea is that part of the central government's resource revenue could be paid **directly** to citizens as a small **basic income grant** – cash transfer – no matter a person's income, ability or work situation. That is, the grant is **universal**. However, in return, each citizen must pay parts of the grant, and other income, to the **local government** in **tax**. This builds administrative capacity and allows for local initiatives and investments with a direct oversight position of the citizens.

Why a direct grant to citizens?

It is manifestly evident in countries such as Nigeria and Angola that resource wealth is greedily being accessed and consumed by elites with limited impact on the ground. There is no reason to believe that citizens will spend their grant any worse than centrally placed, and often corrupt, politicians and bureaucrats.

In fact, research shows that cash transfers given directly to citizens are usually spent well – on food, clothes, transport, schooling, medicine, savings, job search and income generating activities.[3] Grants can provide people with a regular income that allow them to take the risk of extra investments needed for improving skills or acquiring products useable in business or for a less strenuous daily life. Grants may in turn also increase local consumption – particularly in cash constrained areas.

Why universal grants?

In many African countries the majority of people are poor and bureaucratic administrative capacities weak. Universal grants are cheaper and simpler to administer than targeted grants, which are paid to people below a defined income threshold. Of equal importance: universal grants do not stigmatise grant recipients but instead – as everyone receives a grant – emphasise equal treatment and thus offer the possibility of enhancing social cohesion.

Why taxable? Why to local government?

Research shows that the need to collect taxation has strong capacity and accountability building effects.[4] Simply: taxation can improve responsible and efficient spending. Often local governments are under-resourced and have weak capacity. By giving local administrations the ability to collect tax revenue from grant recipients – that is all citizens in the local area – the link between the state and its citizens become a direct relationship forcing local governments to show good use of the collected funds. This also constitutes indirect funding from central to local government with citizens as the crucial intermediate – citizens wants to see 'their money' being spent well. This is why the seemingly cumbersome solution of taxing is important.

As everyone will receive grants, everyone is liable to pay tax and therefore need to register – no tax registration, no grant. Therefore, assuming that citizens want to receive the grant there is an obvious incentive to report earnings which may help formalise informal activities. Registration of citizens through the grant-taxation system can also assist in the implementation of other important developmental areas such as voter registration and building of health insurance funds.

On revenue and affordability

It is often claimed that universal grants are too expensive for poor developing countries. However, nominally small universal grants will take up only a small share of government budgets. In addition, the idea here is that

[3] There is substantial and growing evidence for this across developing countries; for South Africa alone, key reports include: Devereux, S. et al. 2011. *Child Support Grant Evaluation 2010: Qualitative Research Report*. Pretoria: Department of Social Development; Neves, D. et al. 2009. *The Use and Effectiveness of Social Grants in South Africa*. Cape Town: FinMark Trust, PLAAS, EPRI; Samson, M et al. 2004. *The social and economic impact of South Africa's Social Security System*. Cape Town: EPRI.

[4] This is increasingly being recognised; see the seminal book by D. Brautigam and colleagues from 2008: *Taxation and State-Building in Developing Countries: Capacity and Consent*, Cambridge: Cambridge University Press

the grants will be funded through revenue from resource wealth. A challenge for governments is to encourage private sector exploration and extraction of natural resource while also ensuring a fair share of the revenue. This has been done successfully in Botswana.[5]

Do governments dare?

Arguments against this kind of programme tend to be of three types: (1) The fear that citizens might not use the money responsibly; research has shown this to be largely unfounded. (2) Institutional weakness will slow or block smooth delivery of the programme; however, part of the benefits of this idea is to *build* institutions by offering a space where citizens can demand accountability from the institutions using their money. Also, universal transfers and universal taxation are far less complicated than targeted programmes. (3) Central governments may be worried about losing control; however, giving grants to citizens may be seen as a very popular political move, which will strengthen political support for governments. I believe that a taxable grant has the potential of improving well-being, encouraging activity in many poor and cash constrained areas, building relationships between citizens and the local government, enhancing administrative capacity and promoting local development. What's stopping us?

[5] See for instance: Leith, J.C. 2005. *Why Botswana Prospered*. Montreal et al.: McGill-Queen's University Press