Direct Distribution of Resource Revenues[1]

The most direct way to ensure that citizens in resource-rich countries benefit from their natural resources is to distribute resource revenues to them as an equal, universal and unconditional cash transfer, or Resource Dividend. The conceptual justification for this policy is that resource rents belong equally to all citizens, so each citizen should receive her or his per capita share. This is consistent with the standard formulation in international human rights treaties that natural resources should be at the free disposal of "peoples."[2]

Practical arguments in favour of direct distribution include:

- The Resource Dividend is the easiest form of expenditure to make transparent: once the media and population know the total quantity of resource revenues, and the size of the population, they know how much each individual should receive.
- Removing revenues from government expenditure budgets eliminates some standard mechanisms of corruption such as over-bidding for contracts.
- Governments that receive revenues from natural resources may have a freer hand in neglecting the well-being of their citizens. Direct distribution ensures that the government remains dependent on its citizens for tax receipts. This may improve its accountability to the population, and can encourage development of fiscal institutions.
- Cash transfers loosen the credit constraints that many poor people face and may enable them to make higher-return investments, including in education.
- If government is weak or unaccountable then households may be better at choosing both beneficial consumption expenditures and high-return investments—although effective private sector investment may require a good financial intermediation sector.
- It may make it politically easier to remove inefficient and regressive subsidies.

Ideally, the government pays out the Resource Dividend and independently levies general taxation to fund the optimal amount of government expenditures. However, developing countries face constraints in raising taxes, so withdrawing resource revenues from the government may lower public expenditures. In this case the potential trade-offs are:

- Reduced expenditure on infrastructure and other large-scale, high-return investments.
- Reduced provision of public goods.
- Reduced provision of public services.

Direct distribution does not preclude smoothing: as with resource revenues more generally, a stabilization fund may be used to reduce the volatility of the Dividend. The institutional questions then raised are similar to those raised by any Natural Resource Fund: should it be managed independently, or from within the government? The establishment of an independent agency may help to insulate funds from misuse.

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[1] This case study draws on Paul Segal, "Resource Rents, Redistribution and Halving Global Poverty: The Resource Dividend," *World Development,* forthcoming 2011.
[2] Leif Wenar, "Property Rights and the Resource Curse," *Philosophy and Public Affairs,* 2007, 36 (1), 2-32.