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The Prospects for Cash Transfers in the Niger Delta: A Skeptical View

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Abstract

This paper considers the implications of allocating a share of Nigeria's oil wealth directly to citizens of the Niger Delta. We argue that cash transfers could provide a more positive developmental return than many of the current applications of oil wealth in the region. While small, transfers would augment the wellbeing of most households in a meaningful way. However the economic impacts would not be transformational as the greatest barriers to development in the region are structural (such as the provision of infrastructure and security) which we argue still require government action. The limited economic benefits are outweighed by the potential associated conflict and governance risks. Cash transfers are unlikely to reduce conflict in the Niger Delta and could actually spark new tensions over the identification of recipients. More pervasively, transfers would likely broaden and deepen the already dominant focus on accessing state largesse which characterizes state-citizen relations and displaces the growth of a productive, non-oil economy. Rather than democratizing control over resources, cash transfers would likely further democratize rent-seeking.

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Preface

The discovery of oil in a developing country is potentially beneficial and, simultaneously, potentially calamitous. While this so-called resource curse is well established in the literature, solutions to counteract its corrosive effects remain highly elusive. CGD's Oil-to-Cash initiative is exploring one policy option that may address the root mechanism of the resource curse: using cash transfers to hand the money directly to citizens and thereby protect the social contract between the government and its people. Under this proposal, a government would transfer some or all of the revenue from natural resource extraction to citizens in universal, transparent, and regular payments. The state would treat these payments as normal income and tax it accordingly—thus forcing the state to collect taxes, fostering public accountability and more responsible resource management.

This background paper by Aaron Sayne and Alexandra Gillies, commissioned as part of CGD's Oil-to-Cash Initiative, explores the potential benefits and drawbacks of establishing a system of distribution of oil rents in the Niger Delta. The authors argue that cash transfers in this complex context may have some harmful effects, notably the potential for violence related to identifying who qualifies, that raise flags of caution. This is an important contribution and an issue that should be considered in other countries where differential local revenue allocation is a part of the political landscape.

Todd Moss
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Executive summary

This paper considers the implications of allocating a share of Nigeria's oil wealth directly to citizens of the oil-rich Niger Delta. Historically the delta has benefited little from large scale allocations and spending by federal, state and local governments and oil companies. Instead, these efforts have constructed a violent rentier economy that rewards political elites while providing few services or opportunities to most residents.

An organized cash transfer program would be a relatively new government strategy for allocating resources to this troubled region. A state governor, drawing on large budgets and significant policy autonomy, could choose to introduce such a program. Or more likely, the federal government could transfer a share of equity in oil ventures, or a share of oil revenues to citizens. Such a plan appears in recent drafts of the pending Petroleum Industry Bill.

Cash transfers could possibly provide a more positive developmental return than many of the current applications of oil wealth in the region. While small, transfers could augment the wellbeing of households in a meaningful way. However their economic impacts would likely be reduced by enduring structural barriers to development in the region—infrastructure and security above all—which require government action. The limited economic benefits are also outweighed by associated conflict and governance risks. Cash transfers are unlikely to reduce conflict in the Niger Delta and could actually spark new tensions. More pervasively, transfers would likely broaden and deepen the already dominant focus on accessing state largesse which characterizes state-citizen relations and displaces the growth of a productive, non-oil economy. Rather than democratizing control over resources, cash transfers would likely further democratize rent-seeking.

1 Introduction

Nigeria is sub-Saharan Africa's largest oil producer and the world's 15th largest, pumping out over 2 million barrels per day. Oil has netted Nigeria roughly $500 billion since large-scale production began in 1971—$250 billion in the last decade. Proven reserves stood at 37 billion barrels in 2010, the world's tenth largest. Tracking the rising price of oil, the economy has grown significantly in the past ten years, with GDP per capita (PPP) climbing from $1267 in 2000 to $2365 in 2010 (World Bank 2010a). Many analysts see this trend continuing, until Nigeria overtakes South Africa and Egypt to become Africa's biggest economy.[1]

Opportunities for economic transformation should abound, yet the country's oil wealth offers few benefits to most of its 150 million citizens. Instead, a political culture of corruption, waste, and low accountability has entrenched widespread poverty and stunted the non-oil sector. Nigeria's economy is overwhelmingly oil-dependent—year after year, petroleum accounts for roughly 80% of government revenues and over 95% of export earnings.[2] The gap between rich and poor is also widening, as perhaps 80% of Nigeria's oil wealth goes to 1% of the population (UNDP 2009: 25). And while the country's human development profile may be typical for West Africa (ibid.), its income is not.

These shortcomings are on dramatic display in the Niger Delta, a tropical area of around 40,000 square miles and 30 million people in Nigeria's coastal south. This is the seat of the Nigerian oil industry, with over 80% of production coming from 4 states: Akwa-Ibom, Bayelsa, Delta and Rivers.[3] In human development terms, the delta fares somewhat better than the rest of Nigeria—poverty rates are said to be lower by half, for instance (NBS 2008a). But the area remains starkly underdeveloped, with few jobs available in the formal economy, failing infrastructure and abysmal public services. As many as 75% of area residents rate themselves poor—a figure well above actual measurements—and perversely communities with oil wells perceive themselves as poorer on average than those without (Ibid.: 158, 167). Years of underdevelopment, environmental damage, and bad leadership have also encouraged high levels of violence, crime, and protest connected to the oil industry.

This scenario of great oil wealth, stunted development and conflict is hardly new. For years Nigeria has been a poster child for the "resource curse"—the idea that oil and mineral wealth often generate negative economic and political outcomes in developing countries. The long-standing puzzle is,

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[1] Such projections, it must be noted, rely heavily on Nigerian government statistics of arguable merit.

[2] One study found that only three countries in the world—Burundi, Ethiopia and Rwanda—have lower per capita non-oil exports (Nielsen 2005).

[3] The 9 states of the Niger Delta area are Abia, Akwa-Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Ondo, Rivers. The bulk of this paper, however, will focus on the "core" states of Akwa-Ibom, Bayelsa, Delta, and Rivers, where the negative effects of oil have arguably been the most pronounced.

therefore, how to translate Nigeria's oil wealth into better living conditions for its people, particularly residents of the oil rich delta.[4]

One option is cash transfers. What if, instead of relying on government to deliver development and security, individual Niger deltans were given a direct share of national oil wealth? This paper considers whether cash transfers are a promising policy alternative for the delta. The first section reviews how funds are currently allocated to the region, and their apparent inability to generate big developmental gains. Next, we identify two ways that a cash transfer program could emerge: as an initiative by an individual state governor, or as a federal program. Lastly, we consider the effects such a program might have.

2 The Allocation of Oil Revenues in Nigeria: Large Sums, Sub-optimal Effects

Given that the existing system for sharing Nigeria's oil revenues delivers remarkably limited public value, the consideration of alternate allocation strategies becomes crucial. In this section, we describe the ways that oil revenues currently flow to the Niger Delta. By understanding the status quo and its impacts, we can identify the baseline cash transfers would need to surpass to be worth considering. The discussion will also reveal some of the challenges cash transfers would face should they be tried in the delta.

2.1 Sub-national allocations: fiscal federalism and derivation

Nigeria's federal system provides the leading mechanism for spreading the country's oil wealth to its diverse regions, the Niger Delta included. Administrative partitioning of Nigeria has increased over time, from 3 broad regions in the early 1960s to today's configuration of 36 states and 774 local government areas (LGAs). This process was done largely to facilitate the sharing of government largesse among the country's political elite. Nigeria's power brokers are quite heterogeneous and spread across the country, and the allocation of revenues from the federal level to state and local authorities generates widespread buy-in to the political status quo and maintains a broadly stable political order.

The 1999 Nigerian constitution requires that all centrally collected revenues enter the "Federation Account." The balance of this account is then allocated to the three levels of government (federal, state, and local) according to a formula established by the National Assembly. Currently, the federal government receives about half of Federation Account disbursements, while state and local governments split the remainder. Figure 1 summarizes these transfers:

[4] Currently the World Bank labels Nigeria a "middle income" state. Yet the country also remains on lists of "failed" or "fragile" states kept by the OECD, Brookings Institute, and Carleton University (Economist 2011).

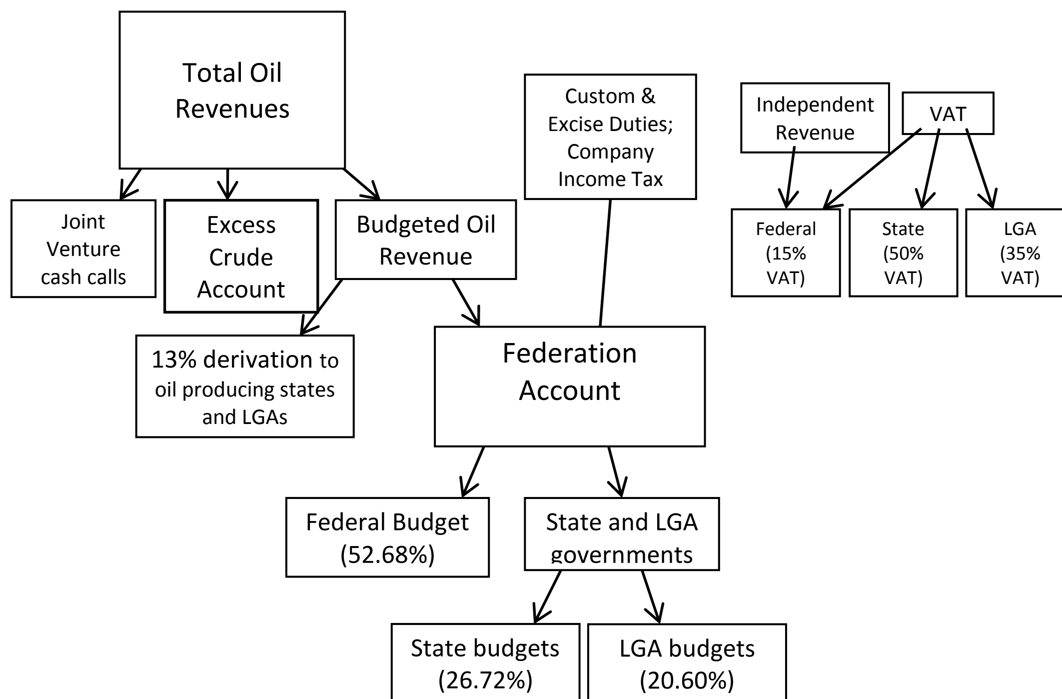

Figure 1. Principal financial flows

Historically speaking, the Niger Delta has enjoyed relatively limited representation in top federal positions. Current President Goodluck Jonathan is Nigeria's first Chief Executive from the area in 51 years of independence. For years the delta's dozens of minority ethnic groups could not compete for highest office against the larger Yoruba, Hausa and Igbo ethno-regional blocks. Beginning in the 1990s, however, Niger Delta activists and political elites mobilized against the central authorities, forcing the center to channel greater resources to the delta.

Perhaps most notable, the oil producing states today receive special transfers under a constitutional principle known as "derivation." As part of Nigeria's ever shifting political bargain, President Olusegun Obasanjo (1999-2007) included a provision in the 1999 constitution requiring the allocation of at least 13% of petroleum revenues to the states and local areas that produced the resources. As oil prices rose steadily since 2003, derivation resulted in rapidly escalating allocations to the Niger Delta states. At the height of the boom in June 2008, for instance, Rivers State alone (population 5.2 million) received $720 million for the month—38 times more than low scorer Osun State (population 3.4 million). Figure 2 examines total allocations to the state governments of the four main oil producers in 2008:

Figure 2. Revenue allocations to Niger Delta states

Main oil-producing Niger Delta states	Population (2006 Census)	2008 allocation	Percentage of total population	Percentage of total allocation
Akwa-Ibom	3.9 million	n157.2b ($1.3b)	2.8	7.7
Bayelsa	1.7 million	n117.4b ($978m)	1.2	5.9
Delta	4.1 million	n115.7b ($964m)	2.9	7.9
Rivers	5.2 million	n251.7b ($2.1b)	3.7	12.6
Cumulative	14.9 million	n642b ($5.4b)	10.6	34.1

A portion of these revenues could conceivably be used to fund per capita cash transfers. Certainly, as illustrated by the derivation system, the idea that residents of the Niger Delta enjoy a special claim on oil resources has precedents in the country, and the region's leaders enjoy sufficient political autonomy to consider launching such a non-traditional scheme.[5]

2.2 Special efforts to develop Niger Delta communities

There is no shortage of other initiatives to develop—or placate—Nigeria's oil-producing areas over and above the federal-to-state allocations just described. Much federal spending is channeled through the Niger Delta Development Commission (NDDC), a parastatal, and the Ministry for Niger Delta Affairs, both of which ostensibly exist to improve conditions in the region.[6] While most NDDC and Niger Delta Ministry spending goes towards infrastructure, nearly all projects involve some cash handouts (Author interviews with NDDC and Niger Delta Ministry Personnel, 2010). These pay-outs have increased since the 2009 "amnesty" between government and several leading militant groups, with both bodies spending heavily to buy peace from armed agitators and their handlers. State governments have also created special community development bodies: Ondo, Delta, and Imo, for instance, have state oil commissions that are supposed to spend portions of derivation income on grassroots development projects.

International oil companies (IOCs) allocate further funds to oil-producing areas. By their own claims they spend as much as $350 million a year on development projects alone, often through agreements signed with the communities where they work (OPTS 2009). Federal law also requires that 3% of their annual gross earnings go to NDDC. Most IOC development projects target areas like health and education, agriculture, local business development, or skills training, though some provide off-grid electricity or other infrastructure. This is in addition to sizable transfers which companies are known to

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[5] A late 2010 national poll found that a majority of Nigerians in 5 of the country's 6 geopolitical zones favor increasing derivation to the Niger Delta, some to as much as 19%. The average increase supported was 16% (NOI-Gallup Polling 2011).

[6] Together these two received over $2 billion in 2010 alone. The 2011 budget ceiling for the Ministry ($472m) is the nation's 5th highest, and far exceeds those of the water, agriculture and health ministries (Budget Office 2010).

make to local leaders, and for "security services" which can resemble extortion rackets more than anything else (Author interviews with oil company personnel and militia group members, 2010). The donor community does limited traditional development work in the delta.

Unfortunately, details on the cash payments government and the IOCs to communities are murky at best. In the mid-2000s most IOCs announced internal rules forbidding cash handouts to locals (e.g., SPDC 2004), and government officials tend to conceal their own largesse. Yet such practices live on, and in substantial volumes: cumulatively IOC payments alone total perhaps several hundred million dollars a year (Author interviews with oil company personnel, 2008-09). Meanwhile there has been almost no outside monitoring of what all the cash buys, or how it affects recipients.

2.3 A Principal-Agent Crisis

Although the Niger Delta receives an outsized share of national oil profits, these trillions of naira have largely failed to transform local economies and living conditions. A principle-agent crisis appears largely to blame: the representative "agents" that control funds—whether state or local governments, NDDC, the Ministry of Niger Delta Affairs, or community boards—chronically fail to serve their "principal," the public.

Politicians have gotten some things right: Obasanjo-era fiscal and economic reforms made for a decent macro-level showing in the 2000s.[7] At times non-oil sector growth topped 9%.[8] The country weathered the global financial crisis better than many oil producers, and the IMF has said aggregate growth will hold at 7.4% through 2011 (IMF 2010a). Most recently, President Jonathan appears to be making some efforts at reforming the power sector. Some state governors in the delta are said to be "performing" better than average, translating their large budgets into some perceptible improvements in public assets like roads. Still, only 3 percent of Nigerians polled in 2008 described the country's economic condition as "very good," and only 10 percent thought their living conditions "very good" (Afrobarometer 2009).

These perceptions reflect the prevailing reality in the Niger Delta that most development spending delivers few gains. Outlays suffer chronically from what is arguably the fundamental feature of Nigeria's political economy and its greatest governance challenge: a no-tomorrows focus on siphoning oil rents from the center for the purpose of enhancing one's own social and political standing (Suberu 2001). Government is the largest source of resources in Nigeria, and competition over access to these resources dominates economic and political life. This means the country's deep entrepreneurial

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[7] These included budget reforms, a Fiscal Responsibility Act, adoption of a benchmark oil price for appropriations purposes, a huge debt pay-down, improved access to credit , and useful deregulation and privatization processes, particularly in telecommunications (Callaghy 2009, Gillies 2007, Okonjo-Iweala 2007).

[8] Changes in the real economy over the last decade are largely unknown, though. It is often unclear whether Nigerian growth statistics are properly adjusted for inflation, which at times has exceeded 10 percent. Official data also attribute much of the country's recent growth to higher agriculture production, yet with most farming stuck at the subsistence level, securing credible figures for output is tough.

energies are spent disproportionately chasing contracts, pay-offs or other government resource flows. As in most “rentier states” (Beblawi 1990, Yates 1996, Ross 1999), this “rent-seeking” leads to the perception of government as a source of wealth rather than an agent of nation building, public service, or development.

In such a system, the current allocations of public funds enlarge rather than reduce the dysfunctions that inhibit broad-based economic growth. For instance, short planning horizons and extensive patronage demands keep public officials from protecting the economy from oil price volatility.[9] The short-term and scattered approach to expenditure also undermines efforts to tackle large scale problems, such as improving the delivery of health and education, stimulating industry, or the provision of more complex kinds of infrastructure like electricity. Public spending in the Niger Delta also falls prey to waste and politicization. Contracts awarded by state governments or institutions like NDDC or the Niger Delta Ministry frequently serve as patronage or elite pay offs; work under many is never finished. Today the area is arguably a case study of how overinvestment in poorly-executed development projects can actually retard growth (Rodriguez and Sachs 1999).[10] LGAs provide limited services, and typically act as local-level offices for the governor’s political machine.[11]

A culture of rampant corruption is central to this state of affairs. Holding public office is nearly synonymous with rent-seeking, and the prevailing logic of public resource management is neo-patrimonial, authoritarian, short-term, patronage-driven, and viciously zero-sum. Many citizens believe that rot pervades from the top down, and not without reason: Nigeria’s Economic and Financial Crimes Commission (EFCC) openly investigated eight of the Delta’s nine governors serving in 2003-07 of grand corruption. No clear figures exist for the value of mismanaged oil wealth, but Nuhu Ribadu, former head of the EFCC, has claimed elites “stole or wasted” $380 billion in four decades (BBC 2006). Illicit capital flight in the same period is estimated at $185 billion. As much as 70% of Nigerian wealth is kept outside the country (GFI 2010).

At the same time, low levels of accountability mean public sector officials and institutions face few consequences for poor performance. 2009 World Bank research suggested Nigeria in recent years has made significant progress on indicators like “voice and accountability,” “government effectiveness,” “control of corruption,” and the “rule of law” (Kaufmann et al. 2009). The situation on ground in the Delta however suggests such findings be taken with a pinch of salt. The area has hosted some of the world’s worst elections, with staggering levels of rigging, vote buying, process failure, and violent

[9] Bayelsa, for instance, after months of receiving record high transfers, stopped paying civil servant salaries for several months when its income plunged following the 2008 drop in oil prices.

[10] A 2010 survey found 278 uncompleted infrastructure projects in 120 Niger Delta communities, 248 of them commissioned by government since 2000 (NIDPRODEV 2011).

[11] 89% of respondents to a 2010 focus group survey of 120 Niger Delta communities said their local government Chairperson had not even visited their community in the prior 12 months (NIDPRODEV 2011).

contest (ICG 2007).[12] Government-led efforts at improving political accountability work only at the margins,[13] civil society faces threats and steep informational asymmetries, and state legislatures disregard for their fiscal oversight functions. When a 2005 survey asked Niger Delta residents what they liked least about the area, "poor leadership," "poor governance," and "corruption" were the top answers (UNDP 2006).[14]

3 How might cash transfers come about in the Niger Delta?

There are two main scenarios through which transfers might be introduced:

3.1 Decision by a state governor

Should a governor decide to initiate cash transfers in his state, little would stand in his way. The Nigerian constitution and prevailing rules of political engagement provide governors with high unilateral and discretionary control over state resources. Annual appropriation processes exist, but seemingly do little to tie a governor's hand. A cash transfer program would likely need approval by the state House of Assembly, but these are generally well controlled by the executive. Given the generous derivation allocations their states receive, Niger Delta governors could fund cash transfers while still meeting their patronage, political and personal obligations.

A governor who values public opinion would be more likely to introduce cash transfers. Recent elections in the Niger Delta suggest internal elite agreements rather than open competition decide who wins, yet popularity can still come in handy. For instance, several current delta governors have tenuous relations with the mainstream of the ruling People's Democratic Party. Such individuals might value a broader support base, as it would make it more difficult for party powers to arrange their replacement. Also, cash transfers could be seen as a strategy to reduce rivalries among intra-state factions or lessen support for militancy -- though, as discussed below [Section 4.3], such arguments should be approached with skepticism.

3.2 A federal program

Recently, the idea of the federal government granting communities a direct stake in oil has gained some momentum in Nigeria. Cash transfers are one way proceeds could be shared, and they have been mentioned by several of the parties discussing direct federal distributions. Most notably, in September

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[12] In 2000, one year after the end of military rule, 84 percent of Nigerians reported they were "fairly or very satisfied" with democracy. Only 5 years later, however, 71 percent said they were "not at all or not very satisfied" (Lewis 2006).

[13] Notable examples include the Nigerian Extractive Industries Transparency Initiative (NEITI) and the Fiscal Responsibility Laws passed recently in several Delta states.

[14] In one 2008 survey a whopping 79% of respondents reported having at least one bribe demanded of them in the previous 12 months (NOI-Gallup Polling 2007-08).

2009 then-President Umaru Yar'adua (2007-10) announced that Niger Delta communities would receive a "10 percent equity" stake in selected government oil assets. To date Abuja has not acted on Yar'adua's promise, but some version of it will likely pass with the Nigerian Petroleum Industry Bill, a major legal overhaul of the industry now with the National Assembly.

Since its introduction, the "10 percent" idea has shifted shape more than once. The original Yar'adua plan, for a community "equity" program, had the federal government ceding communities 10 percent ownership in six oil joint ventures with the IOCs, with rights to annual dividends.[15] Seeing constitutional and public finance roadblocks ahead,[16] later drafts proposed non-equity based annual revenue streams for locals, valued either as a percentage of gross oil revenues,[17] or as "compensation" for oil's impacts.[18] Proposals also split on whether funds should flow directly to locals' pockets, or be pooled in trusts.[19] It is not known which option will ultimately prevail.

The federal government's full menu of options is much richer than this, though politically the other choices are long shots. Interest-free government lending or an enterprise fund, for example, could seed promising entrepreneurs. In-kind transfers, vouchers or subsidies could ease local commodity shortages or other market failures. A "future generations" fund could fight waste and ensure longer-term benefits from oil.[20] Cash-for-work programs could create a few jobs (DfID 2011). Government could also try to

[15] The 1999 Privatization Act offers another model, under which community dividends from a given piece of public infrastructure are partly distributed to surrounding communities in cash, partly held in trust by the relevant state government. This approach has been slated for use around a number of public assets sold off over the last decade, notably the Eleme Petrochemical Company in Rivers State. Currently a few oil companies in the delta are also exploring ideas for granting communities equity in blocks the companies hold. Some contenders for 4 blocks recently sold by Shell (OMLs 30, 34, 40, 42), for instance, included community equity models in their tender packages.

[16] Again, section 162 of the 1999 Constitution mandates that all revenues from oil be deposited into the Federation Account, arguably making "equity" payments to communities an illegal front-line deduction. Early drafters of the "10 percent" also could not answer which stakeholders would foot the bill for the local stake (Author interviews with Nigerian government officials, 2009-10).

[17] The 2010 final draft of a joint National Assembly committee on the PIB, chaired by former Senator Lee Maeba (2003-2011), proposed creating a "Petroleum Producing Host Communities Fund" which would invest and distribute an annual amount equal to 10% of gross revenues from onshore oil production (SB. 236).

[18] The Inter-agency Team on the PIB, for instance, tried to force IOCs to pay locals $600m a year in "host community dividends," costs of which could be offset by tax deductions and production allowances (IAT 2010).

[19] Under the original 2009 proposal, for instance, the Federal Government would create an unknown number of trusts, the members of each consisting of designated "host communities." After government allocated total dividends among the trusts, the trusts would in turn split their portions among their various host communities. Each community—or possibly, trust—would then use funds for development efforts, or else allow residents to withdraw individual shares in cash. Decisions over use of funds would be made at "town hall-style meetings," and the trusts would be managed by some combination of locals and outside financial management firms (Author interviews with Nigerian federal government officials, 2009-10).

[20] In 2008 a high-level government committee on the delta recommended this (NTDC 2008). Nigeria's recently-created sovereign wealth fund also contains a "future generations" component.

leverage returns by focusing transfers narrowly on key or vulnerable populations, geographic areas, sectors, or value chains.

4 Likely impacts

We argue that cash transfers are a low value policy option for the Niger Delta, for two main reasons. First, we argue that while cash transfers might generate some marginal developmental gains—especially over the weak record of current spending—structural obstacles to growth in the region would limit their positive effects. Second, introducing transfers poses risks, above all of violent conflict and heightened rentier politics. Without recommending any particular design for a Niger Delta cash transfer program, the analysis that follows assumes annual transfers that would be (1) unconditional, (2) valued at between 2 and 10 of net federal oil revenues per year, (3) not targeted at any narrowly-defined group. We believe this reflects the most likely outcome under the prevailing political economy.

4.1 Administrative challenges

History suggests any effort to deliver cash directly to Niger deltans would be an administrative odyssey fraught with risk. Apart from contentious decisions over who should benefit, the success of any such program would be challenged from the first by technological weaknesses, literacy and financial literacy issues, and a plurality of community-based groups jockeying to take charge. Endemic fraud in community leaderships also makes credible local agents scarce. Management responsibilities could be outsourced, though local elites are sure to resist the loss of control. However, in the analysis that follows we black-box these problems, and assume that transfers indeed can occur.

4.2 Developmental effects

A country's chances of ducking the "resource curse" turn heavily on the quality of investments its public institutions make, suggests a growing body of research (Budina et al. 2006; Mehlum et al. 2006; Collier et al 2009).[21] Developmentally-speaking, a Niger Delta cash transfer program could prove a successful investment, if one defines "success" narrowly as any marginal improvement over the status quo. More cash in hand is not what residents need most for better living standards, though, nor are low incomes the chief hurdle to development.

Comparative research says reduced poverty is the biggest and surest developmental dividend cash transfers offer (DfID 2011). Poverty is no stranger to the delta: at least half of people in the main oil states live on $2 or less a day, spending over half of their total incomes on food. Over 30% regularly

[21] In this regard Nigeria is often contrasted with Indonesia. Both have large populations, high ethnic diversity, a history of military rule, and serious perceived governance problems. Indonesia, however, used its oil windfalls to invest strategically in people, new sectors, and new markets, which many analysts believe helped create decades of sustained growth above 7 percent and the transition from a poor, resource-dependent economy to a middle income industrializing one (e.g. Lewis 2007). Malaysia is sometimes cited as another example.

experience food shortage, 62% live in one-room dwellings, less than half own their homes outright, and only 17% of dwellings have indoor toilets (NBS 2009; UNDP 2009). Niger deltans could find extra cash a welcome windfall, whether it subsidized food and housing costs or boosted income security. Such improvements should not be dismissed out of hand as fleeting consumption—households, for instance, could arguably pool transfers to improve their health, education and prospects for generating regular income.

At the same time, cash transfers would face strong negative pressures. First, the delta's large population would make for small individual shares compared to other oil-rich enclaves. Early estimates for the proposed federal "10 percent" idea, for instance, showed each Niger Delta citizen taking home perhaps $100 a year.[22] The high local costs of goods and services could swallow such an amount quickly.[23]

Second, a Niger Delta cash transfer program probably would not yield many new jobs. Available research suggests poverty relief from cash transfers does not spur broad-based economic growth (DfID 2011). This is a critical point, as it is hard to imagine the delta outrunning its development demons without massive job creation. With over 30 million residents, 60% of them under age 30, the area's human capital is hugely under-leveraged (NCB 2006; British Council 2010).[24] Many factors account for this, not least dependence on activities with low growth potential,[25] the place's tough reputation and

[22] Author calculations based on 2010 federal oil revenue figures and interviews with Nigerian government officials, 2009-10. Or for a state-level example, take Bayelsa, which boasts the region's highest oil production per head. In 2009, Bayelsa received $365 million in federal transfers. If 20% of this were shared—a number well above the bounds of political likelihood—and funds split equally among all 1.7 million Bayelsans, each would receive only $43. By contrast, in 2009 an even per capita split of 20% of oil revenues would have netted each Equatoguinean $942, each Kuwaiti $5800.

[23] For instance, in September 2011 the average price of an egg in Port Harcourt was n30 ($0.18). Assuming this held, it would take $263 a year just to provide a family of four with one egg each per day (Author correspondence with Niger Delta NGO worker, 2011).

[24] Unemployment nationwide was 19% in 2009. As a nation Nigeria has the 41st highest GDP, but only the 161st highest GDP per capita (World Bank 2009b). During the 2000s, GDP and unemployment rose in near-parallel formation (NBS 2008b).

[25] Agriculture, for instance, has lately seen decent wage increases yet has not put many to work. Better land use and higher food prices, not increased manpower, account for most growth, and productivity—already low for Sub-Saharan Africa—appears to be stagnant (World Bank 2010b; Author interviews with development economists, 2010). Successive governments have also allowed industrial activity to wither. This leaves much economic aspiration focused on oil, which contributes tens of thousands of jobs at most, much of it short contract work.

investment climate,[26] and an obsessive focus on petroleum that chokes out private sector innovation.[27] Obstacles to starting new businesses are high.[28]

Third, parachuting transfers into the delta's relatively closed, cash-based "informal" economy could risk serious inflation. This would especially be a worry if more cash hiked consumption but outputs stayed flat.[29] Currently micro-level economic data for the area is not good enough to predict anything outright. But a responsible government would model effects before pressing send.

None of this means transfers would necessarily fall flat. Greater local purchasing power could help create some jobs, especially in agriculture or services. More cash in hand might theoretically boost local access to credit and basic financial services (DfID 2011).[30] Still, transfers would be a crude tool for harnessing the entrepreneurial energies of Niger deltans, and a weak catalyst for lasting wealth creation. Individual $100 handouts are unlikely to seed new value chains and medium-size enterprises,[31] or offset the high capital and operating costs—electricity above all—that drown area businesses.[32] Employment figures, meanwhile, are daunting: the labor force grows around 3 percent a

[26] Capital investment in Nigeria as a whole—the bulk of it focused on oil—stands at about 20% of GPD (World Bank 2007). Between 2006 and 2009, foreign direct investment fell from $13.9 billion to $5.8 billion, largely on evidence of bad governance in the oil sector.

[27] One study found that liquefied natural gas (LNG), itself an oil byproduct, was Nigeria's only economically significant product discovery in a decade (Klinger 2004).

[28] For instance, today few small businesses in the Delta can survive without a generator, yet sadly fewer can afford one. An informal survey conducted by authors in September 2011 found that an average small business—say a barber or news stand—could easily spend n600 ($3.75) to run a 2kva generator for six hours a day. Assuming a six-day work week, this adds up to n3600 ($22.50)/week, or n187,200 ($1170)/year (Author interviews, 2011). Notably, these figures exclude maintenance costs, and the capital costs of purchasing a generator in the first place. Industry and population surveys regularly cite poor electricity supply as the leading obstacle to wealth creation and top policy priority for government (NOI-Gallup Polling 2007, 2008). Today 150 million Nigerians share, unequally, a mere 4000 megawatts of grid power—30 times less per head than South Africa, 90 times less than the US. This forces most to produce their own power at 5 to 10 times the cost. In 2010 the country spent $13 billion—over 5% of GDP and 10% of gross national sales—firing a glut of diesel generators (FGN 2010). Government has also not invested in the sort of legal and institutional reforms needed to grow the private sector. Access to credit is low, ports are corrupt and slow-moving, incorporation and enforcement of contracts remain hit-or-miss. A recent study singled out Bayelsa as the hardest place in Nigeria to start a business (World Bank 2010c).

[29] In addition to the high obstacles start-ups face, the area's difficult terrain hikes transport costs and keeps long-distance trade relationships weak. Despite hosting major urban centers like Port Harcourt and Warri, the delta remains overwhelmingly rural, isolated, and hand-to-mouth. For most people the village is the basic unit of economic life—an estimated 94% of the area's 13,000 settlements have fewer than 5,000 residents (NDDC Master Plan 2007). Subsistence-level farming, fishing, gathering and trading occupy perhaps 80% of the work force (NDDC Master Plan 2007; Ministry of Finance 2009a). The main oil states ship very small quantities of goods like fish, rice, livestock and palm oil outside their borders, mostly to neighboring states. Apart from shrimping, which has found a tiny Asian market, none of the delta's local industries compete internationally in terms of price or quality (Author interviews with Niger Delta-based businesspeople, government officials and development economists, 2010-11).

[30] A recent poll found that only 39% of Niger deltans have a bank account (NOI-Gallup Polling 2011).

[31] Author interviews with Niger Delta private sector actors and microfinance experts, 2010-11.

[32] One survey found that only 1% of concerns employ over 35 people (NDDC 2004).

year, but the local economy absorbs only 5-10% of the millions of new entrants (World Bank 2009; Ministry of Labor 2007). As many as 6 out of 7 Niger Delta youth may be unemployed; many have never worked (NBS 2005).

The picture is similar with social services like health and education.[33] Evidence outside Nigeria suggests cash transfers can boost school enrollment and attendance, and improve access to health care among the poor (Moss 2010; DfID 2011). Yet in the delta access to services is not a simple function of cost, and historically supply has not risen to meet demand.[34] This is largely because government and the IOCs erect and run facilities in ways indifferent to public need or ability to pay. Hundreds of villages have schools and health centers that have been left to decay, never stocked with teachers, desks, or pills. The area's poor investment climate, more than low demand, keeps private service providers from filling the gaps (Human Rights Watch 2007a; Author interviews 2009-2010). Again cash transfers could have some marginal impacts here—they could buy access to more costly private services where available, or raise household incomes so more children could go to school full time. Unless recipients somehow pooled funds creatively to help fill the many public infrastructural sinkholes, though, it is hard to think much would change.[35] Finally, dismal outcomes, rather than high costs, are arguably the greatest single bane of Niger Delta healthcare and education, yet here again transfers likely would have small impacts.

By themselves, cash transfers could not reverse the complex structural problems that propagate poverty and economic decay in the Niger Delta. Some of the most pressing—terrible electricity supply, for instance—simply require action from government.[36] Signs that help is on the way are uncertain, of course, and cash transfers may indeed make some difference in individual lives, which is no small thing. They could be made part of a deeper course of investment and reform, but are no substitute for it.[37] On

[33] The Niger Delta's public health profile in particular is terrible: only half the population has safe drinking water, 1 in 5 children dies before its fifth birthday, and life expectancy is at 47 years (NDHS 2003: 12; UNDP 2009: 56, 93-94). As a nation Nigeria currently has 10% of the world's children out of school, 10% of the world's child and maternal deaths, and 25% of world-wide malaria cases.

[34] Statistics show residents traveling an average 52 miles to reach a health center, often on foot or through swampy terrain. 479,000 children squeezed into 3,200 primary school classrooms in Bayelsa, with a student-teacher ratio of 102:1. Akwa-Ibom had 112 doctors to treat 3.9 million people (NDES 2000; NBS 2009).

[35] Perceptions-wise, polls have also shown that 90% and 70% of residents think government, not communities, should be responsible for providing and maintaining infrastructure, respectively (NOI-Gallup Polling 2007-08).

[36] Here public investment and oversight are unavoidable parts of any real solution: even if it were heavily privatized, Nigeria's labyrinthine electricity supply chain still would use government-owned infrastructure and natural resources, involve over a dozen government agencies, and draw funds from a Tower of Babel-like gaggle of competing private interests, donors and multi-national investors. Meaningful reform is projected to cost at least $10 billion a year for the next 10 years. (Federal Government of Nigeria 2010).

[37] For examples of how cash transfers could complement other development initiatives in the delta, see (Sayne 2010b). Government's absence as a committed development actor also curbs gains from smaller efforts: IOC and donor personnel regularly complain, for instance, that lack of government coordination leaves their efforts in the Delta effectively "stuck" at the community level, unable to grow the sort of complex markets and value chains that put people to work and raise living standards (Author interviews with IOC and donor consultants and personnel, 2008-2010).

this point area residents seem to agree: in a 2009 poll, only 40% of Niger deltans supported handing out oil revenues in cash. A full 90%, by contrast, said government should "invest in infrastructure." And when asked "what more should the national government do" for the delta, only 6% favored "giving the people of the region more money," while 83% recommended building infrastructure and creating jobs (NOI-Gallop Polling 2009).

4.3 Conflict effects

A cash transfer program would struggle to reduce violent conflict in the Niger Delta and risk sparking fresh violence. Research implicates natural resource wealth in spiking conflict risks (Collier and Hoeffler 2000), and historically the oil-rich delta has been the part of Nigeria deepest mired in violence. In recent years dramatic attacks by non-state armed groups, some calling themselves "militants," have imposed huge costs on the nation.[38] Angry locals have also directly threatened the security of persons and property in less organized ways, regularly making on-ground conditions too dicey for oil extraction (Author interviews 2008-2010). Along with curtailing oil revenues, violence in the delta takes a direct human toll and discourages the kind of investment and planning development requires.

Much of the unrest operates on a logic that is already inseparable from how oil wealth is shared in the delta. For decades, political actors have managed the area's large, increasingly angry population using a system of threat and selective reward. Politicians directly fund, mobilize, and manipulate much of the area's worst violence, often as a survival mechanism.[39] At the same time, wealth unevenly trickles down to citizens through dense patronage webs, as the political class strives to keep the upheaval at relatively modest levels. Oftentimes those who threaten the use of violence receive financial reward (Author interviews 2009-2010).[40]

The order of politics that has resulted, driven by personal force, kinship, and tireless networking, becomes a series of evolving, informal agreements over who gets what. Yet too many broken pacts, along with the systematic use of violence and the distorting impacts of oil have frayed social ties and political institutions. This breakdown in turn has encouraged relationships built on opportunism over loyalty, extortion over trust, self-promotion over paternalism, and free use of self-help. Today organized crime thrives in the Delta on a scale unseen in the rest of Nigeria. Over time come residents have come to view violence as economically rational, politically necessary, morally defensible and social

[38] Between 2007 and 2009, insecurity shut down nearly half of Nigeria's onshore oil fields, costing government perhaps $24 billion in the first eight months of 2008 alone (NDTC 2008).

[39] This includes supporting and condoning state and non-state armed actors who rig elections; attacking oil infrastructure; steal oil; robbing banks; pirating vessels; dealing in arms and drugs; kidnapping Nigerians and foreigners; engaging in inter-communal warfare; carrying out politically motivated assassinations, disappearances, unlawful detentions and extra-judicial murder (Author interviews, 2008-2010).

[40] Though reliable numbers are hard to come by, it is generally thought casualties from politically-related violence stay below 1,000 most years. Destruction of property is also relatively low compared to levels seen in nearby resource conflict zones like DRC or Sudan, for instance.

productive.[41] The result is not a single violent conflict, but a tangled, fast-mutating system of wealth sharing in which violence plays many roles.[42] And paradoxically, the wealth-sharing system itself is both stabilizing and a key source of instability: many think, for instance, that billions of dollars in oil money shared among the political class helps keep peace, while a cadre of politicians, military brass and tycoons keep the area at least somewhat violent as a smokescreen for rampant profiteering.[43]

In this environment, cash transfers could be a relatively low-risk way to share oil money directly with locals. Ideally, a painstakingly-drawn program, fortified by strong transparency and procedural safeguards, would duck the sorts of administrative breakdowns that can lead to violence. Yet the roads to perdition are many, and a program that stumbled could quickly spark fresh conflict. For instance, if a cash transfer initiative required locals to prove residency in specific communities before qualifying for payments, it could run into the thorny question of who is an "indigene." Meaning roughly "original inhabitant of a place," this slippery administrative and constitutional category is used across Nigeria to limit access to public benefits. It has been subject to much opportunistic manipulation by the ruling class, stimulated ugly rivalries along ethnic and religious lines, and fed into some of the country's worst bloodshed (Human Rights Watch 2006). Today the indigeneity issue continues to fuel inter-communal clashes across Nigeria of the sort of which, according to one survey, killed over 15,000 people in under a decade.[44]

The proposed ideas for how cash transfers can actively resolve or prevent violent conflict are equally ill-suited to the Niger Delta. First, it is hard to think of a cash transfer program creating economic incentives against violence, as witnessed in places like Timor-Leste or Sierra Leone (Holmes 2009; Pires 2009). Small cash handouts could never match the potential returns on violence naira for naira. Likewise, if transfers would most fundamentally benefit the neediest Niger deltans, the people who foment area unrest are often far from poor.

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[41] As the Governor of Bayelsa said in a recent interview, "If a chief walks into my office, he expects me to take care of his problems. That's what he's used to. If I don't, I've got a very big political enemy….You will read that as corruption, but me, I probably will read that as political survival, because I have to survive before I become incorruptible" (Financial Times 2010).

[42] One 2007 UN estimate counted as many as "120 to 150 high risk and active violent conflicts in the key oil-producing states of Rivers, Delta, and Bayelsa" (UNDP 2007). Violence, and the percecived threat of violence, in this landscape sets price, regulates competition, controls access, limits demand, answers questions of fairness and equity, among other things.

[43] Such claims have figured in many of the diplomatic cables on the delta put out by Wikileaks, for instance. See e.g., 09LAGOS 14 (2009-01-12); 09LAGOS 74 (2009-02-19). One way to understand this is to see Niger deltans as having built a complex, multi-billion dollar conflict economy on top of the underperforming local economy (Ikelegbe 2004; Sayne 2010a). For instance, kidnappers nabbed an estimated $100 million in ransoms between 2006 and 2008, and the theft of as much as 300,000 barrels of crude per day costs the nation billions of dollars each year. Insecurity itself has become a profitable state of affairs—elites earn several billion dollars annually supplying perfectly licit things like armored cars, helicopters, or military housing (Davis and Von Kemedi 2006; NY Times 2009; Author interviews 2010).

[44] In the delta, the 1997-2005 "Warri Crisis" in Delta State is a notably bloody example (Human Rights Watch 2006), as is the repeated violence in Jos.

Second, it is hard to see cash transfers curbing violence by building new ties among divided neighbors.[45] Social divisions in the Delta can run deep, without question. Yet exactly whom should a cash transfer program help to reconcile? There is, again, no one "Niger Delta conflict," and the violence does not unfold predictably between a set number of factions, or along main fault lines. Moreover, if beneficiaries could simply take their individual handouts and go, chances for building relationships would seem limited.

Third, it is unclear how transfers would help ease tensions between citizens and government (Palley 2003; Pires 2009), or how much this would encourage peace. Articulated grievances and guerrilla strategies in the Niger Delta do at times target the state, and cash transfers certainly could inject fresh goodwill. But the area's worst outbreaks of violence are often more immediately about how a particular patron is performing, or rivalries among patrons, rather than the performance of government. Finally, cash transfers arguably would not do much to ease the various structural drivers of conflict in the delta, from inequality and youth unemployment to perceived political marginalization.

4.4 Rentier effects

If the dominance of rent-seeking is Nigeria's greatest governance failure, cash transfers for the delta would likely exacerbate the problem, not counteract it. This constitutes the most powerful argument against deploying transfers in this region. As noted above, many government allocations of oil wealth are discretionary and dictated by the political or personal agendas of those in power, rather than any greater legal, bureaucratic, or developmental logic. Individuals seek government jobs or alliances with those in office. Companies chase government contracts, licenses or preferential treatment. States seek larger allocations from the national treasury and strong representation in the capital. Nigerian political scientist Claude Ake summed up the resulting political economy: "The habit of consuming without producing underlies our fanatical zeal for political power, and our political fragmentation. For us the state is not so much the incarnation of a corporate political identity as a battlefield" (Ake 1992).

In this context, Niger deltans would likely see cash transfers as another rentier allocation, and respond accordingly. The popular notion of government as something to be milked for ever increasing amounts of money would grow, as almost certainly would the area's strong focus on oil despite its limited potential for broad-based economic change. Cash transfers could also further undermine accountability between citizen and state, whether by reducing pressure on the state to perform or deepening rent-seeking. Historically rent-seeking has shown a strong tendency towards escalation in the delta, as

[45] The sheer necessity of managing money as a group, analysts of other conflicts have argued, can (1) build relationships among divided neighbors, (2) strengthen local institutions that can help resist future violence, (3) channel energies that would otherwise go towards violence more positively (Holmes 2009; Palley 2003; Shaxson 2008).

shown by the overwhelming prevalence today of extortion. When one group captures funds, others soon up their demands, legitimate or not; cash over time becomes a highly addictive substance.[46]

Cash transfers could only counteract the rentier dynamic in the Niger Delta if they looked somehow different from it. The faintest whiff of corruption or waste would likely fuel perceptions that cash transfers are another part of the same system, a new chapter in a very old story. While we agree that transfers could be administered in the delta, chances are good the system would not look clean or distinctive enough to break the rentier trap. Finally, transfers could further erode the "work-reward causation" that often breaks down in rentier contexts (Yates 1996). Already some people in the delta enjoy wages for staying home, security contracts for not attacking, and service contracts without performance. Certainly transfers would not be large enough to keep many people from working. But they could shine further light on oil as the most promising economic avenue, further decreasing the perceived social and economic value of what other work there is to be done.

A leading notion of how cash transfers help break the rentier trap, drawn from social contract theory, says that giving people money and taxing some of it back will grow political accountability (Moss 2010). Yet resource rich governments tend to avoid collecting taxes precisely because taxation raises expectations, and because administrative costs are high. Personal income taxation in the Niger Delta certainly would be novel: for years state and local governments have survived almost exclusively on transfers from the Federation Account.[47] As long as oil revenues remain steady, though, incentives favoring new taxation may be low.

Rather than democratizing control over resources, then, cash transfers would likely further democratize rent-seeking. There are also bigger, thornier issues than low taxes that keep Niger deltans from challenging their rulers. Chief among these is the prevailing political economy of threat and reward: even as a full 75% of residents either "agree or strongly agree" that government's economic policies had "hurt most and only benefit a few" (Afrobarometer 2009), rewards to those who condone or actively promote the status quo can be gargantuan.[48] At the same time, a long history of brutal state reprisals

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[46] In just one vivid example, workers from two different communities took an oil service vessel hostage for two weeks after one group found out the other's workers—who were in fact more skilled—were earning more per day. Finally the company handed over enough cash to convince the workers to release the vessel, which was operating at a cost of more than $200,000 per day. Many local government officials report similar dilemmas, as groups come threatening violence unless they receive payouts (Author interviews 2010-11).

[47] Lagos State, the country's business capital and home to a state government that has prioritized the collection of taxes, stands alone in its ability to independently generate funds—in 2009, 66% of the state's $1.62 billion in revenues came from internal sources (Lagos State Government 2010). In the delta, meanwhile, the Bayelsa state government offers an example of the norm, estimating that only 2% of its $1.25 billion 2010 budget would be generated internally (BEITI 2010). Rivers, by contrast, is projecting 2010 tax receipts of $513 million, or 18% of total budget. It has also announced a 3% levy on residents to help cover health and education services, though the details have yet to be published.

[48] The delta's armed group leaders offer a strong example. Many began life among the ordinary poor, scrabbling in low income trades like fishing or mud brick sales. Yet today the most high-profile leaders, through systematic use of violence, opportunism, and price competition among themselves, have captured many revenue streams,

against dissenters means that holding government to account can cost, particularly when violence shows direct links to the political processes.[49] In this sort of environment, cash transfer recipients could hardly be blamed for keeping quiet, all the while positioning themselves to receive more next time around.

5 Conclusion

Ultimately, if the Niger Delta is to have peace, prosperity, and good leadership, citizens need more from government than money. Given the prevailing power and incentive structures, cash transfers would likely emerge as another exercise in rent-seeking, another effort to buy political support or placate the violent so oil could keep bubbling up. History counsels that such an effort would buy only time, with little to show for the billions eventually spent beyond temporary cease-fires and isolated economic gains. After decades of extraordinary outlays by government and oil companies, there is no real evidence that community health, wealth, or safety has increased in line with the resources expended. In many cases, shifting more rents to locals has only stoked conflict and perpetuated underdevelopment (WAC 2003). Sadly, for all the reasons described in this paper, cash transfers would most likely feed bad dynamics, rather than offer a departure.[50] Their economic benefits would be limited by the structural impediments to development, and outweighed by associated conflict and governance risks.

For the delta, there is no easy shortcut around the principal-agent crisis. Until public institutions and revenues begin to advance the public interest, progress on economic growth, security and governance is bound to be fitful. As one Niger Delta armed group lieutenant said (Author interview, 2010), speaking of the federal government plan to grant communities 10 percent “equity”: “If a thief gives you 10 naira from your own pocketbook, and you know he is keeping 90 for himself, will that 10 make your belly feel full? What can 10 naira buy in this climate, anyway?”

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including state “security” money; various federal contracts, payouts, and gifts in kind; oil company contracts and kickbacks; payments for protection rackets and political violence; funds from trafficking in arms, drugs, people, and stolen oil; other levies on “informal” economic activity in the communities they lord over (Author interviews 2008-2010).

[49] Merely on the issue of elections: the deepening cycles of conflict experienced across the area since roughly 2003 are directly tied to the electoral cycle (Human Rights Watch 2007b; Newsom 2011). In one 2008 survey, respondents identified “politics” as the number one cause of local conflict (Afrobarometer 2009). Two-thirds of the public believe their votes do not allow them to remove underperforming leaders, and 74 percent think competition between political parties “often or always led to violence” (Lewis 2006; Afrobarometer 2009).

[50] The current federal amnesty program, for example, includes a huge informal, closed-door cash transfer process that benefited a limited set of individuals. These transfers have bought some breathing room, allowing oil production increases worth $6 billion in the first quarter of 2010 alone (NBS 2010). Yet the program has produced few new economic opportunities, and there are deeper issues it has yet to touch.

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