

Nigeria's oil rent can still count: Lessons from Kuwait

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Abstract: Nigeria and Kuwait were former British colonies, both having oil-based economies with exports of over 2.4 million barrels of oil per day and oil exports accounting for a clear majority of their export earnings. But funnily enough, the standards of living of the citizens of these two are poles apart as Kuwait's oil rent has been successfully used to benefit its citizens while Nigerians still grapple with low living standards in the midst of plenty. This study employs a comparative approach in assessing the nexus between oil rents and living standards for both countries and seeks to draw the attention of Nigeria to the oil rent distribution channels of Kuwait. The conclusion of the study is that Nigeria can still change the fortunes of her citizenry by tapping into the wealth of knowledge from Kuwait's oil rent distribution channels.

Keywords: Nigeria, Kuwait, Comparative, Channel of Distribution, Oil rent, Living Standards

1. Introduction

Globally, crude oil has played a predominant role in providing much of the energy that drives the economy in both industrialised and developing countries. With respect to the strategic nature of the Petroleum Industry as the predominant source of global energy, it has become a prime source of revenue generation to many countries, Kuwait and Nigeria inclusive.

These two countries have some denominators in common: former British colonies; members of OPEC; oil exports account for about 95% of their total exports; ranked 10th and 11th position (Nigeria and Kuwait respectively) in the world in terms of total oil production with the former producing about 2, 458, 000 barrels per day and the latter about 2, 450, 000 barrels per day as at 2010; the former ranked 10th position and the latter 9th position in terms of the value of oil exports i.e. with oil revenue of US\$ 87.923 billion and US\$ 88.214 billion as at 2010 (1).

However, despite all these similarities, the standards of living for both countries are incomparable as an average Nigerian would not even see the 'brake light' of an average Kuwaiti as the latter is far ahead. In the case of Kuwait, (2) stated "Oil wealth has transformed Kuwait within decades from a modest, trade-based desert emirate into a modern city-state. It has also created a relatively egalitarian economy based on an extensive distributive system that

provides Kuwaiti citizens with essential services including free healthcare, education and social security. Therefore, the most important fact about Kuwait's oil wealth is that it has been successfully used to benefit its citizens. This feat has been achieved through a broad distributive welfare state. On the flip side, Iweala (3) stated "Nigeria squandered its oil windfall of the 1970s which led to three decades of economic stagnation and the degradation of public institutions. The reason was a mix of bad fiscal and macroeconomic policy, corruption and poor governance." These and more are pointers to the fact that the welfare situations of the two countries are dissimilar in spite of a number of similarities between them.

Importantly, the term *rent* could mean different things, but in this work, we take the standard economists' definition of rents as *payments to a factor of production over and above that required to induce it to do its work* (4). This definition implies that resource rents are any payments to the owner of a natural resource that remain once labour (including highly skilled labour), capital (including technology) and any other inputs to the extraction of the resource have been paid. It is also worthy of note that the management of oil rents in an economy like Nigeria is dependent on the government since oil revenues accrue to her (the government).

Now, suffice it to say that this paper does not intend to emphasize the woes that betide Nigeria if she continues her

over-dependence on oil as literatures are already rife on the dangers of over reliance on oil and the need for diversification of the economy; it rather intends to reveal how she can make optimal use of her oil wealth to turn the fortunes of her citizens for better.

Consequent upon the foregoing, the remaining parts of this study will be considered under these sections: (a) Oil rent and living standards in Kuwait (b) Oil rents and living standards in Nigeria (c) Channels of Kuwait's oil rent distribution: lessons for Nigeria (d) Conclusion.

2. Oil Rent and Living Standards in Kuwait

Oil has made Kuwait rich. Oil is by far Kuwait's largest productive sector, and oil rents are the foundation of even the non-oil economy. However wealth does not automatically translate into economic and social development; Kuwait's achievement is that it has, for the most part, used its oil income to provide a high standard of living for full Kuwaiti citizens, while to a much lesser extent also benefiting non-Kuwaitis. Oil wealth has transformed the country within decades from a modest, trade-based desert emirate into a modern city-state and also created a relatively egalitarian economy based on an extensive distributive system that provides Kuwaiti citizens with essential services which include free healthcare, education and social security. To this end, the most important fact about Kuwait's oil wealth is that it has been successfully used to benefit its citizens (2).

The discovery of oil in 1934 transformed the economy. Kuwait's enormous oil reserve of 94 billion barrels and huge quantities of natural gas have provided the base for an economic presence of worldwide significance. By the early 1980s, the standard of living of Kuwait was among the highest in the Middle East and in the world. Oil wealth has enhanced trade, fishery development, and service industries. The government has used its oil revenues to build ports, roads, an international airport, a seawater distillation plant, and modern government and office buildings. Large-scale construction of public works, free public services, and highly subsidized public utilities have also been rendered to the public thereby transforming Kuwait into a fully developed welfare state. Judicious management of budgetary allocations and development priorities, as well as substantial interest from overseas investment, helped to lessen the adverse impact, in 1982, of: the collapse of the Souk al-Manakh which was an unregulated curbside securities market, the collapse in world oil prices in the mid-1980s, and the 1980–1988 Iran-Iraq War. In addition, acquisition of 5,000 retail outlets in Western Europe (marketed under the name "Q-8") and expansion into the manufacture and sale of refined oil products have bolstered the Kuwaiti economy (5).

Talking about oil rent and income inequality, (2) posited that based on the household expenditure survey data which

was presented in Kuwait's Annual Statistical Abstract, a Gini Coefficient of 21.8 percent was estimated for Kuwaiti national population in 2010. This, they stated, was an exceptionally low level of income inequality than any recently recorded Gini Coefficient for any whole country. For the whole population, an estimate of 28.0 percent Gini Coefficient was observed in 2010 which is also a very low level of inequality.

How about oil rent and poverty line in Kuwait? (2) Further remarked that while employing a US – based poverty line as used by OECD, which is US\$ 8, 087 per capita, and if taken at face value, the household survey data revealed that 27% of Kuwaitis & 58% of non – Kuwaitis live below this poverty line. However, going by the household consumption expenditure reported in the national accounts, then no Kuwaitis and only 6% of non – Kuwaitis live below this poverty line.

3. Oil Rent and Living Standards in Nigeria

Anyim (6) stated "though the oil and gas sector had dictated the pace and structure of growth in the nation's economy for the past decades, its impact on employment generation and value addition remained comparatively suboptimal."

After over five decades of oil production and exports, earning the country hundreds of billions of dollars, Nigeria, which is Africa's most populous country, has some of the world's worst human development indicators, indicating the case of an immense oil wealth and poverty paradox (7).

Oil's discovery, for the past two decades, has transformed Nigeria's political economy, and provided approximately 90% of foreign exchange earnings and 80% of federal revenue. Nigeria also has huge reserves of natural gas, which is still exploited sub-optimally. Instead of boosting Nigeria's economy and helping it become one of the most prosperous states in Africa, these natural resources have only improved the lot of a small minority while leaving the majority impoverished. According to (8), with a per capita gross national product of US\$260 a year, Nigeria is one of the poorest countries in the world.

In Nigeria, the production of oil has had severe environmental and human consequences for the citizens whose residences have proximity to the areas surrounding oil extraction. Nigeria's export of 12 million barrels of oil a day comes from 12% of the country's land, and indigenous minority communities in these areas receive no economic benefits. Indigenous groups are actually further impoverished due to environmental degradation from oil production and the lack of adequate regulations on multinational companies, as they become more vulnerable to food shortages, health hazards, loss of land, pollution, forced migration and unemployment (9).

In comparison to other countries in the world for human development in 2008, Tivnan (10) stated that Nigeria

ranked 154 out of 179.

Using the words of Ihua (11), despite being a major oil producing country for decades and accruing huge revenues from oil, Nigeria is ranked as one of the poorest countries in the world. Furthermore, the lack of equitable distribution of the oil wealth and environmental degradation resulting from exploration activities have been identified as key factors aggravating actions from environmental rights groups, inter-ethnic conflicts, and civil disturbances from ethnic militias such as the Movement for the Emancipation of the Niger Delta (MEND) and Niger Delta Vigilante Force.

A scholar asked - what has become of Nigeria's oil wealth? Nigeria was rated the world's most corrupt country (out of 52) by Transparency International's Corruption Perception Index. Much has been made of the fact that money generated from Africa's oil reserves has been lost in corruption, mismanagement and violent conflict. In Nigeria, an estimated \$4 billion in government funds was stolen by the dictatorship of General Sani Abacha in the 1990s. Some estimate that as much as \$50 billion in oil revenue has been stolen since production began in Nigeria (12).

In spite of massive revenues from oil, however, Nigeria (along with other Sub-Saharan African oil exporters) has not risen above the poor mass of countries in the region, and 37% of the population is in extreme poverty according to IMF and World Bank sources (13).

According to Sanusi (14), a large proportion of oil revenue has never reached the citizens. The World Bank estimate shows that 80% of revenues from Nigeria's oil industry accrue to only 1% of the general population. The poor macroeconomic performance of Nigeria coupled with crippling debt and debt service burden is unarguable despite her abundant oil resource endowment.

Talking about income inequality, Gini Coefficient, according to Nigeria Economic Report published by The World Bank (15), Household Survey data recorded a slight increase in inequality between 2003 to 2004 and 2009 to 2010. The Gini Coefficient moved from 0.39 to 0.42

With respect to poverty line, the same source above recorded poverty headcount ratio of Nigeria as 68.0% in 2010 with \$1.25 a day (PPP - % of population) as a benchmark, that is, 68% of Nigerians live below \$1.25 per day despite the huge oil revenues. The World Bank (15) also reported that Lagos State has the lowest estimated poverty rate of 22.9%, while Jigawa has the highest at 77.5%. Poverty is said to be particularly concentrated in the North. One half -18 Nigerian states actually experienced increases in the estimated poverty headcount between 2004 and 2010.

4. Channels of Kuwait's Oil Rent Distribution: Lessons for Nigeria

4.1. Domestic Public Investment

Kuwait invested heavily in the construction of schools.

Education is still free to both Kuwaiti nationals and non-Kuwaitis, and includes free books, school uniforms, meals, transportation and for low-income families, a parental allowance. University education includes free dormitories, meals, sportswear, transportation and field trips. Expenditure on education in Kuwait (although still less than the 26% benchmark for expenditure on education as stipulated by the United Nations) has accordingly been one of the largest items on the government's budget, typically representing some 5 percent of GDP and 13 percent of total government expenditure, comparable to, if not higher than, spending in high-income OECD countries (MBRF and UNDP/RBAS and World Bank (16). Kuwait has one of highest literacy rates in the MENA region – more than 94 percent – including the MENA's highest rate of literacy for women of 91 per cent, and among the region's highest rates of gross school enrolment of 75 percent (15).

In the case of health, according to a World Bank Report published in 2012, Kuwait's public health expenditure as a percentage of total health expenditure was 80.37% in 2010 while the public health expenditure as a percentage of government expenditure for the same year was 6.2%.

However, considering similar statistics for Nigeria, her case is appalling: According to Household Survey data, net enrolment data from UNESCO, and data from UNICEF country offices in 2007, public spending on education as a percent of total GDP was 0.89% and she ranked 136th of 136 countries. In addition, according to CBN (provisional statistics) 2010, her expenditure on education as a percent of total recurrent expenditure was about 5.4% in 2010. Her literacy rate for adult as a percent of total number of people aged 15 and above was 48.66% and ranked as the 96th of 121 while her literacy rate of adult female as a percent of females aged 15 and above was 38.4% making her rank as the 93rd of 121 (World Development Indicators) (17). In addition, Alabi and Chime (18) opined that about 0.5% of GDP that was allotted to the education sector in Nigeria is much below the Sub – Saharan African countries' average of about 4.5% which is also relatively low compared to the OECD average of 6%.

Also, according to Usman and Nurudeen (19), every state of the federation in Nigeria has less to spend on education. Also, Nigeria was ranked as one of the countries in Africa that will not achieve Education for All target of the MDG in 2015 according to the Education for All Global Monitoring Report, 2008. These reports however lend credence to that of UNESCO (20) on higher education which confirmed that the educational system of Nigeria is facing a serious reduction with respect to the quality of its research due to lack of adequate funding. This is why, according to (19) there are shortages of: material and human resources, qualified teachers, classrooms etc. in the nation's education system.

Considering health, Nigeria's public health expenditure as a percentage of total health expenditure and as a percentage of government expenditure was 37.89% and 4.41% respectively in 2010 as compared to Kuwait's

80.37% and 6.2% respectively.

To this end, if at all Nigeria wants her citizens to benefit from her oil rents, she needs to place more priority on funding of education and investment in health because no nation can develop beyond its investment in human capital.

4.2. Public Employment

For Kuwaiti nationals, a job in the public sector is guaranteed with attractive salaries and packages. Consequently, 91% of the Kuwaiti national labour force are engaged in the public sector while 98% of private sector jobs are occupied by non – Kuwaitis. Government's expenditure on wages and salaries as a percentage of total expenditure is about 20% and this is second largest item after transfers.

The case of Nigeria:

According to Nigeria Economic Report by The World Bank (15), 44.6% of the working age population in Nigeria in 2011 was categorized as being either unemployed or out of the work force.

In addition, World Bank (17) attributed the decline in wage employment in Nigeria to developments in three areas in the country:

- (a) The laying off of civil servants and the privatization of a lot of parastatals brought about a drastic decline in employment in the public service which for a long time has dominated total public sector employment and represents the largest share of wage employment.
- (b) A lot of private industries with large wage employment especially the textile industry have been declining and shedding quite a significant part of their labour force. Momoh (2008) in Oloni (21) stated that the most labour intensive industry in Nigeria is the textile industry because 700 workers can be employed by a single textile factory. He further stated that in the 1980s, there were 128 textile firms as compared to 37 textile firms in 2010 who only employed 17,632 workers
- (c) Informal workers have dominated the sectors of the economy – wholesale / retail, construction and agriculture – that have grown rapidly. On the contrary, industries that are fast – growing in the formal sector such as financial services and hospitality do not make a reasonable difference in the growth of wage employment as they are either not very employment intensive or added labour from a very low base.

All these are pointers to the fact that active measures must be taken by the Nigerian government to ensure that increased government expenditures to boost job creation are indispensable in order to improve the welfare of citizens.

4.3. Transfers to the Business Sector

In Kuwait, private sector dominates services, manufacturing, catering, transportation and logistics, community and social services, emerging banking and

finance sectors, real estate and trade. Public infrastructure and services required by business are provided by the government and the government does not charge personal or corporate income tax which is one of the personal channels of indirect rent distribution to the private sector.

Furthermore, every sector of the economy is reported to have benefitted from large government expenditure on infrastructure projects including roads, electricity, water projects and public works, particularly in current years of high oil prices. However, many other measures have been adopted in the past fifty years and they include: technical aid and preferential government purchases, low-interest or interest – free loans provided by institutions created by the government, like the Industrial Bank of Kuwait, were designed to fund the expansion of the private sector. Transfers also include bail – outs to private investors and institutions.

Table A. Summary of Kuwait and Nigeria Statistics.

	KUWAIT	NIGERIA
Major economic product	Oil	Oil
Oil production per day (2010)	Approximately 2,450,000 bpd	Approximately 2,450,000 bpd
Oil revenue	US\$88.214billion	US\$87.923 billion
Percentage of oil to total export	About 95%	About 95%
Gini Coefficient (2010)	28.0 percent	42.0 percent
Per capita GNP	US\$ 8,087	US\$260
Percentage living below poverty line (\$1)	Kuwaitis-27%; Non-Kuwaitis-58%	68%
Literacy rate	94%	48.66% (ranked 96 th out of 121)
Female literacy rate	91%	38.4% (ranked 93 rd out of 121)
Public spending on education as a percentage of total expenditure (2007)	13%	0.89% (ranked 136 out of 136)
Public health expenditure as a percentage of total health expenditure (2010)	80.37%	37.89%
Public health expenditure as a percentage of government expenditure (2010)	6.2%	4.41%

In Nigeria, there is yet to be substantive transfers to the private sector from the huge oil rents despite that this sector employs a large percentage of the labour force. Institutions meant to provide credit to private entrepreneurs and investors such as commercial banks, development banks credit guarantee schemes etc. have under – performed. Reasons for this low performance, inter alia, are not unconnected to: mismanagement of funds by top executive of some of those institutions, poor governance and favouritism (discrimination in treatments given to different

individuals in need of funds) such that the ‘god-father’ counts a great deal.

In addition, growth in infrastructure such as road, water projects, electricity etc. for many states, have been low. An underlining factor behind this is corruption on the part of project supervisors and consultants who collect money but do (or permit) sub-optimally executed jobs.

All these undoubtedly serve as deterrents to improvement in living standards as infrastructural developments and availability of credits for investments are key to improving living standards.

5. Conclusion and Recommendations

Given the oil revenue / Excess Crude Account (allocation formula of the 1999 Nigerian constitution, oil revenue amongst the Federal, State, Local Governments and Special Funds) and the risks associated with dependence on oil, these three policies below would help Nigeria in minimizing these risks and making oil rents and transfers beneficial to Nigerians:

(1) Maintenance of a countercyclical fiscal policy strong enough to protect the country from oil price volatility. This is possible by (a) preventing excessive real appreciation of the naira (b) using wealth / rents from Excess Crude Account to boost key inputs like infrastructure, education, research and development etc. and saving surpluses in times of surplus while increasing government expenditures in times of low resource prices.

(2) Coordination in fiscal policies particularly to ensure connectivity of markets and improvement of public services. This would require unity amongst Nigerian States in order to remove inter-state market barriers by enforcing the absence of (a) excessive checkpoints and (b) institutional barriers to transportation.

(3) Realizing national standards in the management of public finance, especially for the purpose of accounting and disclosure to the populace. This can be achieved by ensuring that Federal and State Government regulations and important information on public finance are made more readily available to the citizens through the Internet, mass media and the likes. The Governors’ forum could also be used in ensuring dissemination and cross-pollination of effective governance ideas amongst State Governors.

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