Chapter 55
Sustainability of Public Finance of Rentier States

Lukman Raimi
https://orcid.org/0000-0002-5329-8715
American University of Nigeria, Nigeria

Abdussalam Aljadani
Taibah University, Saudi Arabia

ABSTRACT

Embedding this discourse on rentier state theory (RST), this chapter discusses the quest for sustainability of the public finance system of Nigeria and Saudi Arabia. The inability of these rentier states to meet their economic, social, and political commitments led to the adoption of value-added tax (VAT) and economic diversification as sustainability strategies. The findings from the macroeconomic data indicated that Nigeria and Saudi Arabia have large markets that provide opportunities for the introduction of VAT. These two countries also have huge deposits of natural resources, including oil, which could be developed for accelerating economic diversification. This chapter validates the appropriateness of VAT and post-rentier economic diversification as sound policies for industrial, services, tax, and tourism development. The findings from this chapter need to be strengthened with a more rigorous empirical investigation. The chapter concludes with far-reaching policy suggestions.

1.0 INTRODUCTION

In recent times, sustainability has emerged as an inevitable phenomenon because of the scarcity of economic resources at individual, organizational and national contexts. Consequently, Nigeria and Saudi Arabia, as two important oil-dependent developing countries have formulated sustainability policies to cope with difficult economic, social and political realities caused by dwindling oil revenues, rising populations and growing expectations of the citizens. Both countries are heavily dominated by the public sector in terms of production, distribution and income generation, while the contributions of the private sector marginally complement. Nations with the above socio-economic snapshots are described as rentier

DOI: 10.4018/978-1-6684-7460-0.ch055

states. The rentier political economy that prevailed in the two countries engendered laziness, patronage and culture of entitlement, while the drive towards economic diversification, particularly industrialization and enterprise development is relatively weak and not really significant in spite of the endowed natural resources, rising population and large markets (Hertog, 2010; Aljadani and Raimi, 2018).

In the quest for sustainability, Nigeria introduced VAT in 1994, while Saudi Arabia adopted VAT in 2018 to strengthen their respective Gross National Incomes (GDPs). Furthermore, both countries (as leading oil-dependent developing nations) have consistently advocated the need for economic diversification to reposition their economies. The policymakers of both countries adopted VAT as a non-oil revenue option to augment their budgetary obligations in view of unprecedented growth in their recurrent and capital expenditures (Raimi & Aljadani, 2019). Let us do a brief review of the economic profiles of both counties to gain better insights on the imperative of sustainability strategies.

Nigeria is a populous black African nation with a population of over 180 million. It presently has 36 states and a Federal capital, but Lagos remains the commercial and industrial hub of Nigeria (See Figure 1). It has a nominal GDP of $375.77 billion and per capita income of $5680 (World Development Indicators database, 2018) and a large untapped domestic market for foreign investment (Alkali, 2008; Mahajan, 2009), as well as array of incentives and opportunities for prospective local and foreign investors (Nigerian Investment Promotion Commission, 2013). Economic data indicated that the average return on investment (ROI) in Nigeria stands at 20% per annum, and the micro, small and medium enterprises (MSMEs) sub-sector constitutes over 95% of the nation's enterprises and proudly accounts for over 50% of formal employment (Alkali, 2008; Raimi, 2015). The country has a very low industrial growth rate because of poor access to finance, the rising cost of electricity/energy, transport, infrastructural neglect, multiple taxes, poor incentives, crime, insecurity, corruption and bad governance (Raimi, 2015; Oyelola et al., 2013).

The Nigerian economy is largely dependent on the oil sector for its foreign exchange earnings – an indication that oil resource is the driver of the nation's economy, while the non-oil sector only complements (Raimi, 2015). The oil revenue that accrued to the country led to appreciable growth in the gross domestic product (Oil GDP) at different periods, but there was no real economic development because of the rentier political economy that engendered dysfunctional economic structure. Adibe, Nwagwu, and Albert (2018) recounted that the phenomenon of rentierism and its attendant patronage and culture of entitlement have combined to mess up the Nigerian petroleum industry. The government in an attempt to appease the elites sponsoring militant activities in the oil-producing areas, awarded oil pipeline surveillance/protection contracts, with little consideration for merit, organizational capacity, and competencies of the contractors. Other militant groups that are discontented for not being appropriately rewarded with oil pipeline surveillance/protection contracts intensified attacks on oil installations and infrastructures in the oil-producing communities in the Niger-Delta. The humongous oil wealth that accrued to the nation could not translate into economic development due to institutional corruption, oil theft, profligacy and bad governance leading to mismanagement of oil resources with impunity by the political elites (Watts, 2009; McLoughlin and Bouchat, 2013).

Moreover, Saudi Arabia is a leading Arab country with 13 provinces with rich natural and cultural endowments (GeoCurrents.info, 2016). Like other Gulf countries, the Kingdom of Arabia, with a population of 32.94 million, is largely driven by revenue from crude oil (Krane, 2012; World Development Indicators database, 2018). Official records indicate that Saudi Arabia is the largest producer and exporter of oil in the world (The Embassy of the Kingdom of Saudi Arabia, 2018).

Related Content