

PETROLEUM REVENUE AND PUBLIC SPENDING IN NIGERIA 2005 - 2020

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ABSTRACT

The aim of this study is to investigate the impact of petroleum revenue on public spending in Nigeria with exchange rate as a moderating variable. To achieve this objective, research questions were raised, hypotheses were formulated and a review of the extant literature was made. The population of the study was the entire 36 states and the federal capital territory of Nigeria. Covering twenty (2005-2020) was considered for this study, and the ex-post facto research design, which investigates possible cause-effect relationship was adopted. The data for the study were obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin and the Nigeria Extractive Industries Transparency Initiative (NEITI) for the various years. The data for capital spending, petroleum profit tax, oil proceeds, oil royalty, concessional rentals, and foreign exchange rate generated in this study were analyzed using mean, standard deviation, minimum and maximum values, Skewness and Kurtosis, while the impact of petroleum revenue on public spending was statistically tested with the Auto-Regressive Distributed Lag (ARDL) with t-test as a test of significance. The findings of the study revealed that petroleum profit tax has a positive significant effect on capital spending in Nigeria; oil proceed has a positive but insignificant effect on capital spending in Nigeria; oil royalty has a positive insignificant effect on capital spending in Nigeria; concessional rental has a negative but significant effect on capital spending; oil proceeds has a negative significant effect on recurrent spending in Nigeria. Based on the above, it was recommended among others that the government should encourage more private company participation so that better equipped refineries can be built and the cost of refining crude oil will reduce; more so security should be boosted on the high sea where crude oil products are being smuggled. This will help reduce the loss from illegal export of crude oil products.

Keywords: Petroleum Revenue, Public Spending, Petroleum Profit Tax, Oil Royalty, Capital Spending, Oil Proceeds, Concessional Rental

INTRODUCTION

For the development and growth of any economy, the provision of basic infrastructure is quite necessary. Generally, government is saddled with the responsibility of providing basic infrastructure for her citizens. Governments at all levels federal, state, and local contribute to the nation's economy when they provide goods and services to the public and when they invest in capital infrastructures (Molefe, & Choga, 2017). Okoh et al., (2016), the money spent by the government on the acquisition of goods and provision of services such as education, healthcare, general administration, roads construction, and defense for the people, is known as public spending.

In lieu of the above, the government of any society seeks sources of fund to maintain the development needs of the society. In Nigeria, there are two ways of financing government expenditure in Nigeria; these are through oil revenue and non-oil revenue. The Nigerian government sources a large proportion of its total revenue from petroleum (Ogunlana, 2015). Okoh et al. (2016), Nigeria is the ninth largest oil exporter in the world in terms of value. For the country, this means that about 94 percent of export value is generated by mineral fuels, oils, and distillation products. The main destination area of crude oil from Nigeria is Europe, followed by Asia and Africa. Exports to Europe were worth 3.3 billion U.S. dollars only between January and March 2020, whereas exports of oil products other than crude oil recorded the highest value in the Asian market, with roughly 655 million U.S. dollars.

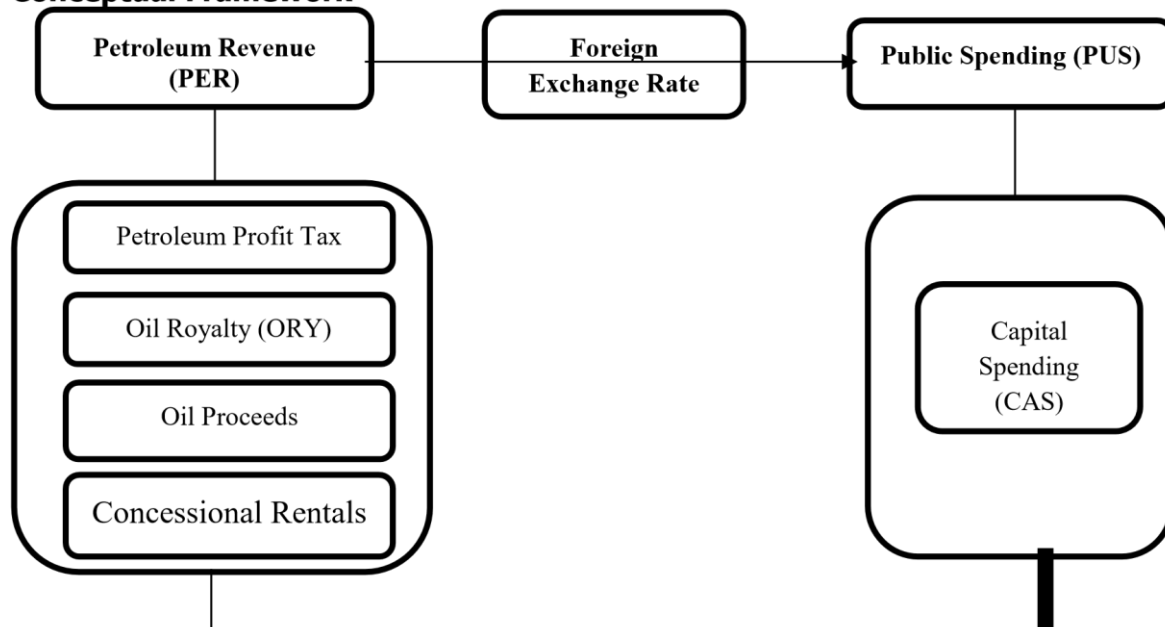
Popoola and Oladipo (2017), most of the largest oil companies operating in Nigeria are from the United States and Europe. For instance, the multinational oil and gas producer ExxonMobil produced 191 thousand barrels of liquids per day in Nigeria in 2019. Similarly, the daily crude oil and natural gas liquids production in Nigeria by another American oil giant, Chevron, amounted to 173 thousand barrels in 2019. Approximately nine percent of the total net liquids production of crude oil and natural gas of this company comes from Nigeria. During the same year, the BritishDutch multinational Royal Dutch Shell produced almost 57 million barrels in Nigeria. Udo (2020), the oil industry value generated by foreign companies represents an important source of income for the Nigerian government. In 2019, the Norwegian company Equinor paid 427 million U.S. dollars to the Nigerian government for extractive activities, of which the largest amount was derived from taxes. The petroleum industry generated about 82% income for federal government while 18% came from non-oil revenue. The petroleum industry constitutes a major source of income and occupies a strategic position in the economic development of Nigeria. Uwaezuoke (2018), Nigeria has been the largest oil producing country in Africa and the eleventh in the world. Petroleum production and export play a dominant role in the economy of Nigeria and account for about 70% of the nation's GDP and over 90% of her foreign earnings. For the past decade, the industry has been playing vital and dominant role to the economic growth of Nigeria, both in foreign exchange earnings and domestic income generation. Ibadin and Oladipupo, (2015), some of the sources of petroleum tax revenue includes the petroleum profit tax, oil royalty, oil rent, oil pipeline and license fees, signature bonuses penalty from gas flared, NNPC earnings from direct sales, proceeds from local sales of crude oil to NNPC, proceeds from export sales of crude oil and gas etc. But for the purpose of this research, we would be focusing on some aspects of the sources of petroleum revenue to the government which include the petroleum profit tax, oil sales, oil rent and oil royalty. Despite the fact that more than sixty percent (60%) of the population of Nigeria lives in abject poverty, and youth unemployment is close to eighty percent (Margaret et al., 2014), it is claimed in many quarters that the contribution of the petroleum industry to public spending has been phenomenal (Maccarthy & Omes, 2021). It is against this backdrop that we intend to investigate the impact of petroleum revenue on public spending in Nigeria. This of course is the crux of the matter.

Statement of the Problem

Considering the significant contribution of petroleum revenue to total revenue of an economy, it therefore becomes imperative to establish the link between petroleum revenue and public spending.

Petroleum revenue has scantily been conceptualized in the literature even though so much has been said about it by several authors and researchers. A review of the extant literature revealed that prior empirical studies such as Craig, et al., (2020), Osho, et al., (2019), Aregbeyen and Kolawole (2015), Dizaji, (2012) that relate petroleum revenue to public spending are very scanty thereby resulting in paucity of empirical studies on the impact of petroleum revenue on public spending. More so, most of the few available studies were conducted in the advanced economies and therefore the findings of the studies may not be adequately applicable in developing countries as Nigeria. Additionally, none of the prior studies has empirically investigated petroleum revenue and public spending in Nigeria from 1980 to 2020 with moderator variable of Foreign Exchange Rate (Forex). In order to close this existing gap and expand the frontier of knowledge in this area of study, this research work is consummated by investigating the impact of petroleum revenue on public spending in Nigeria. The present study therefore seems to be more robust, current and relevant for policy making.

Conceptual Framework



Source: Donwa, et al., (2015); Dizaji, (2012); Ogbonna and Ebimobowei (2012); Cohen, et al., (2012).

Aims and Objectives of the Study

The aim of this study is to investigate the impact of petroleum revenue on public spending in Nigeria. Specifically, the objectives are to:

- (i) examine the impact of petroleum profit tax on capital spending in Nigeria for the period of 2005 to 2020;
- (ii) determine the implications of oil proceeds on capital spending in Nigeria for the period of 2005 to 2020;

- (iii) investigate the effect of oil royalty on capital spending in Nigeria for the period of 2005 to 2020;
- (iv) ascertain the extent to which concessional rentals affect capital spending in Nigeria for the period of 2005 to 2020;
- (v) explore the extent to which foreign exchange earnings moderate the relationship between petroleum revenue and public spending in Nigeria for the period of 2005 to 2020.

Research Hypotheses

- Ho₁: Petroleum revenue has no significant impact on capital spending in Nigeria for the period of 2005 to 2020.
- Ho₂: Oil proceeds have no significant implication on capital spending in Nigeria for the period of 2005 to 2020.
- Ho₃: Oil royalty has no significant effect on capital spending in Nigeria for the period of 2005 to 2020.
- Ho₄: Concessional rentals do not significantly affect capital spending in Nigeria for the period of 2005 to 2020.
- Ho₅: Foreign exchange rate do not significantly moderate the relationship between petroleum revenue and public spending in Nigeria for the period of 2005 to 2020.

Conceptual Review

Petroleum Revenue

Petroleum revenue is the revenue flow to the federation, other tiers of government and subnational entities from sources such as crude oil sales, taxes, royalties and other incomes. Petroleum revenue has scantily been conceptualized in the literature even though so much has been said about it by several authors and researchers (Abdullahi et al., 2015). According to Sunley et al. (2021), oil and gas extraction plays a dominant role as a source of export earnings and, to a lesser extent, employment in many developing countries. But the most important benefit for a country from development of the oil and gas sector is likely to be its fiscal role in generating tax and other revenue for the government. To ensure that the state as resource-owner receives an appropriate share of the economic rent generated from extraction of oil and gas, the fiscal regime must be appropriately designed. The government, as resource owner, has a valuable asset in the ground. This asset a crude oil or natural gas deposit can only be exploited once. In order to convert this asset into financial resources, the government must attract capital on terms that ensure it gets the greatest possible value for its resources.

Sunley et al. (2021), further assert that, the government can collect revenue from the oil and gas sector by a variety of tax and nontax instruments. Most countries collect the government share of economic rent primarily through production-based or profit-based instruments. In some countries, the government participates more directly in project by taking an equity interest. Policymakers will

also have to decide on the treatment of indirect taxes such as VAT and customs duties. In addition to product-based and profit-based instruments, there may be bonuses and rental payments of various types. Bonuses can ensure some up-front revenue for the government and may encourage companies to explore and develop contract areas more rapidly.

In many countries with petroleum resources, revenues from different instruments accrue to different parties; for example, as contained in Sunley et al. (2021), royalty payments may be made to local units of government, landowners or the petroleum ministry, income tax, resource rent tax, production sharing, state equity, indirect taxes, import duties, value added taxes, export duties and other nontax payments. The Nigerian government sources a large proportion of its total revenue from oil since Nigeria has been seen as some country rich with the natural resources. The petroleum industry generated about 82% income for federal government while 18% came from non-oil revenue (Obi, 2012). The petroleum industry constitutes a major source of income and occupies a strategic position in the economic development of Nigeria (Barineka, 2018).

For the past decade, the industry has been playing vital and dominant role to the economic growth of Nigeria, both in foreign exchange earnings and domestic income generation (Ibadin & Oladipupo, 2015). It was determined that the main petroleum revenues due to the national treasury in respect of oil and gas activities in Nigeria are: Domestic Crude Oil Sales, Equity Crude Oil Sales, Gas Sales, Refined Petroleum Products sales, Profits from NNPC subsidiaries, Petroleum Profits Tax, Company Income Tax, Signature Bonus, Concession Rentals, Royalties from Oil and Gas, Gas Flare Penalties, and Miscellaneous Oil Revenues (Udo, 2020). As a result of the dwindling revenue of the petroleum industry in Nigeria, the government set up a task force to inquiry into the industry. The Task Forces key findings are presented below according to revenue streams.

Dimensions of Petroleum Revenue

Petroleum Profit Tax

According to Odusola (2006) petroleum profit tax (PPT) is a tax applicable to upstream operations in the oil industry. It is particularly related to rents, royalties, margins and profit sharing elements associated with oil mining, prospecting and exploration leases. It is the most important tax in Nigeria in terms of its share of total revenue contributing 95 and 70 percent of foreign exchange earnings and government revenue, respectively. Section 8 of Petroleum Profit Tax Act (PPTA) states that every industry engaged in petroleum operations is under an obligation to render return, together with properly annual audited accounts and computations, within a specified time after the end of its accounting period. Petroleum profit tax involves the charging of tax on the incomes accruing from petroleum operations (Nwezeaku, 2005). He noted that the importance of petroleum to the Profitability of oil and gas firms in Nigeria gave rise to the enactment of a different law regulating the taxation of incomes from petroleum operations. The petroleum profit tax is charged, assessed and payable upon the profits of each accounting period of any industries engaged in petroleum operations during any such accounting period, usually one year (January to December) (Anyanwu, (1993).

According to Ofe et al. (2018) the administration of PPTA is under the care and management of the Federal Board of Inland Revenue. Ofe et al. (2018) brought out further that the Board may do all

acts as may be deemed necessary and expedient for the assessment and collection of the tax and shall account for all amounts so collected in a manner to be prescribed to the Federal Minister of Finance. Whenever the Board shall consider it necessary with respect to any tax due, it may acquire, hold and dispose of any tax or of any judgment debt due in respect of any tax and shall account for any such property and the proceeds of sale thereof in a manner to be prescribed by the Minister. The Board may sue and can be sued in its official name. In the exercise of the powers and duties conferred upon it, the Board shall be subject to the authority, direction and control of the Minister of Finance. Any written direction, order or instruction given by the Minister after consultation with the chairman of the Board shall be carried out by the Board. Any Act, matter or thing done by or with the authority of the Board in pursuance of the provisions of PPTA shall not be subject to challenge on the ground that such was not or was not period to be in accordance with any direction, order or instruction given by the Minister (Ofe et al., 2018).

Oil Proceeds

In many oil-producing countries, the national oil company (NOC) sells vast quantities of physical oil and gas. These physical assets are available to sell by NOCs as a result of: the NOC's upstream activities; the oil and gas resulting from the government's equity share in operating joint ventures and participation in production sharing contracts; and the oil and gas received as in-kind payments made by private companies. The revenue generated from the sale of this oil and gas, often referred to as commodity trading, is a significant revenue stream for certain oil-producing countries, and in some cases, constitutes a country's largest source of income. Despite the economic importance of the sale of oil and gas for oil-producing countries, this form of physical commodity trading is currently subject to limited scrutiny or regulation, and is open to abuse. While revenue generated from the sale of the government's share of oil and gas remains an opaque economic activity, "payments to governments" (PtG) laws in Europe and Canada require companies to publish annual PtG reports focused on their "extractive activities" (the payments they make for the right to extract resources). The resulting data enable citizens in resource-rich countries to scrutinize certain tax, royalty and other payments made to government entities by companies engaged in the exploration and extraction of natural resources. At the time of writing, a website maintained by NRGi that compiles data from these PtG reports in a central location, ResourceProjects.org, included over USD 292 billion in company payments to government entities in 138 countries.³ These PtG laws have brought unprecedented levels of recent payment data into the public domain, as a complement to voluntary disclosures under the Extractive Industries Transparency Initiative (EITI). These PtG reports often include in-kind payments made in the form of physical oil and gas, which are transferred to an NOC. These in-kind payments can arise both when a company makes a production entitlement payment, often paid to the government as part of a production sharing contract, and when it makes in-kind payments to meet royalty and tax obligations.

In order to transform production entitlements or other in-kind payments into revenue that can be transferred to the national treasury and used to fund national priorities such as health and education, the NOC engages in commodity trading activities, marketing and selling this oil to domestic and foreign buyers. This briefing uses this in-kind payment disclosure data for extractive activities to identify countries that receive a significant percentage of their payments in the form of physical oil and gas from companies covered by PtG laws, thereby indicating a potential reliance on the sale of oil and gas as a significant government revenue stream. One of the central motivations

behind the push for greater commodity trading transparency is to address the governance and corruption risks brought about by these activities. Using NRGi's 2017 Resource Governance Index (RGI), this briefing examines how oil-producing countries perform in indicators that assess governance and corruption risks that arise from commodity trading and the conduct of NOCs, namely: the NOC's selection of buyers; determining the price, value and volume sold; and the transfer of revenues by the NOC to other parts of government, such as the treasury. RGI data demonstrate how poorly NOCs perform in providing their own citizens with information on the buyers of the state's oil and gas, the volume of oil and gas sold to those buyers and the amount received for such sales. Given the governance challenges identified by the RGI in terms of the performance of NOCs in relation to commodity trading, as well as the large amount of physical oil and gas that NOCs have available to sell, there is a clear rationale for the companies that purchase these physical commodities to improve the transparency of these transactions. Currently only one commodity trading company, Trafigura, proactively provides some of this information. The inclusion of these transactions in PtG laws would fill a major gap in these regulations and enable commodity trading hubs such as the United Kingdom and Switzerland to fulfill commitments that they have made to enhance transparency in this area.

Oil Royalties

Oil royalties are payments made by international oil companies (IOC's) as compensation for the exploitation of irreplaceable natural resources (Richard & Dominic 2015). It is paid based on a percentage of the quantity of oil produced. It is fixed as follows: On shore production 20%, Off shore up to 100m – 18.5%, Off shore 100m-200m- 16.6% Off shore 201m-500m –12.00%. Many investors look toward commodities that have potential earning values that have a little downside and great upside potential. Buying and selling oil and gas royalty interests is a valuable and timetested investment protocol for many investors. Oil royalties along with gas royalty payments can be lucrative investment opportunities for both buyers and sellers. The important thing to remember is regardless of whether you're buying or selling oil and gas royalty payments as an investment, you need a reliable, trusted, and experienced brokerage. Like royalties paid on manufactured products to their inventors or musicians for their songs, oil and gas royalties are paid on how much material is produced and the current value of the oil or natural gas at the time of its extraction. The first thing to consider when looking at oil and gas royalty payments is how much interest an investor has in a particular well. Landowners can potentially receive 100% of the royalty payments generated by a well on their property, or they can sell shares in future royalty payments to make cash for themselves. It is worth taking the time to understand the type of investment commodity, the industry it exists inside, the trends for the commodity's use, the commodity's longevity, and many other issues and factors (Ibadin & Oladipupo, 2015).

Royalty interest is an oil and natural gas lease that gives the owner of the interest the right to receive a portion of the production from the leased acreage (or of the proceeds of the sale thereof), but generally does not require the owner to pay any portion of the costs of drilling or operating the wells on the leased acreage. Whether the royalty owner's interest in the lease is purely due to an investment scenario or due to being in the oil and gas drilling industry, it is essential to consider the source of the property or the lease holder's interest before deciding to invest. There are two designations for investors in oil and gas royalties: interest owner and non-interest owner (Popoola et al., 2017). An interest owner is an investor who also owns the property and/or the company that is prospecting, drilling, or extracting materials from the ground. An interest owner can be an oil

drilling and/or production company. A Non-interest owner is an investor who is not responsible for prospecting, drilling, or extracting material. The Non-interest royalty owner only has an interest in the output of the well, not the costs involved in discovery, accessing, or production costs of underground commodities.

Working Interest (WI) – Exploration & Production (E&P) companies lease all or part of the subsurface rights from the landowner through a WI lease. The owner of the WI can explore, drill, and produce the mineral reserves under the land. The WI owner incurs all of the costs associated with exploration and development activity. All of the profits (revenues – costs) go to the owner after revenues are paid on any share in the mineral interests leased to third parties. **Royalty Interest (RI)** – In exchange for granting a WI in mineral resources, a landowner receives a royalty interest in the mineral estate. In addition to a right to a percent of the revenues if and when a well goes into production, the royalty owner has executory rights and is entitled to bonuses and lease payments (Ibadin & Oladipupo, 2015). These revenues are paid out in regular royalty streams. The RI holder shares in their proportional ownership share of the revenues. This revenue share is typically 12.5 – 25 percent of the revenue generated from the mineral reserves under the WI. The RI does not reflect production costs. The royalty owner retains ownership of the mineral interest after production stops, although royalty payments will cease with production. Both WI and RI holders can lease a share of their interests to third parties. An AR can lease an interest with or without rights to the bonus and revenue sharing (Ibadin & Oladipupo, 2015). **Non-Participating Royalty Interest (NPRI)** – The NPRI is a lease granted by the RI owner. It includes a share in royalties from production revenues but no executory rights to issue new leases or receive bonuses or lease payments.

Overriding Royalty Interest (ORRI) – When a working interest owner leases a part of the WI to a third party, it is called ORRI. It is an undivided, non-possessory right to a share of the production, excluding production costs of the mineral lease. The federal government charges oil and gas companies a royalty on hydrocarbon resources extracted from public lands. The standard Federal royalty payment was 12.5%, or a 1/8th royalty. The Trump Administration drastically cut royalty rates by linking the rates to the price of oil. On some lands, the rates have fallen as low as 0.5 percent. The royalty rates charged by states and private landowners have risen in recent years. Oil and gas companies are paying the highest royalty payments in the states with productive shale plays. Texas has the highest royalty rates of 20–25%. Royalties in the Permian Basin spanning Texas-New Mexico and North Dakota Bakken Basin range from 18–20%. Many western states charge royalties of 16.67 percent. Royalties on private lands are influenced by state rates. They generally range from 12–25 percent. Before negotiating royalty payments on private land, careful due diligence should be conducted to confirm ownership. Mineral ownership records are often outdated.

Concessional Rentals

Rents are paid annually as consideration for the concession of the oil prospecting license (OPL) and the Oil mining lease (OML) granted to the company (Richard & Dominic 2015). The oil rent is also known as concessionary rights. In Regulation 59 (Paragraph 2) of the petroleum (Drilling and Production) Regulations (as amended in statutory instrument No. 3 of 2001) they are as follows: Oil

prospecting License-for each square mile US \$ 19 Oil Mining Lease for each Kilometer thereof US \$ 20.00 for the first ten years and upon renewal...us \$ 15.00. A concession agreement is a contract that gives a company the right to operate a specific business within a government's jurisdiction or on another firm's property, subject to particular terms. Concession agreements often involve contracts between the nongovernmental owner of a facility and a concession owner, or concessionaire. (John, 1992) The agreement grants the concessionaire exclusive rights to operate their business in the facility for a stated time and under specified conditions. In typical oil and gas Concession Agreement, oil producing countries or a relevant administrative agency grant the contractors to operate petroleum projects and the right to develop the projects in exchange for a stream of payments or payments in-kind. This government revenue stream may take several forms, but typically includes one or more of the following: Fixed rents, Royalties (based on sales), Profit overrides (effectively reducing the upside potential to sponsors), and Taxes (Income and Tariff). (Kholi, 1996)

Public Spending

Public spending in Nigeria can also be classified into four primary categories: Administration which involves normal administration, safeguard, inside security and country wide meeting. The second category involves social and group services like schooling, wellbeing, and different social and neighborhood offerings. The third category involves economic offerings like agriculture, development, transport & verbal exchange, other monetary services. The final class includes transfers like public debt provider, pensions and gratuities, contingencies, subventions and other charges. An alternative characterization of expenditures divides total expenditure into two; recurrent and capital expenditure as cited by Anyanwu (1994, 1997) referred to in Njoku, et al., (2014). The expenditure of government which occurs regularly throughout the year is referred to as recurrent expenditure. Connected to this, recurrent expenditure entails; administration (examples includes, normal administration, protection, inside protection); financial offerings (entails, agriculture, development, transport, communication and amongst others); social and neighborhood services (includes, schooling, wellbeing, housing). The scale of the federal government sector within the economic climate could be measured in terms of employment, monetary pursuits or expenditure (Aloysius, 1998) cited in Agu, et al., (2014). Capital expenditure on the other hand are the expenditures of government on the acquisition of things of permanent nature (Nwaeze, 2010). They include all expenditure on capital projects such as buildings, construction of roads, bridges and all permanent structures and assets.

The purposes of public spending include: the supply of goods and services that are not supplied by the private sector, such as defense, roads and bridges; merit goods such as hospitals and schools, and welfare payments and benefits including unemployment. Structural unemployment is a type of unemployment caused by the discrepancy between the skills possessed by the unemployed population and the jobs available in the market. Structural unemployment is a longlasting event that is caused by fundamental changes in the economy and disability benefits. To achieve improvements in the supply-side of the macro-economy, such as spending on education and training to improve labor productivity, the provision of subsidies to industries that may need financial support for either their operations or expansion. The private sector is not able to meet such financial requirements and, hence, the public sector plays a crucial part in lending necessary support. For

example, transport infrastructure projects do not attract private finance unless the government provides expenditures for the industry. Finally, government expenditure helps in redistributing income and promotes social welfare. Government expenditure is a term used to describe money that government spends in an economy. Government expenditure occurs on every level of government, from local city councils to federal organization. Government intervention in resource allocation arose due to the failure of the market mechanism to effectively and efficiently allocate these resources. The Nigeria economy operates a mixed economy, which is the combination of both the capitalist and socialist system, that is, the interaction between the private and public sector in an economy. Economists classify government expenditure into three main types. Government purchases of goods and services for current use which is also referred to as government consumption. Government purchases of goods and services intended to create future benefits such as infrastructure investment or research spending which is referred to as government investment. Government expenditures that are not directly purchases of goods and services, they are also referred to as transfer payments. Government expenditure in Nigeria is financed through a variety of methods. Most often, government uses taxes to fund programs and expenditure, but this is far from the only means of creating assets for spending, where government may borrow based on future projected budgets in order to fund programs. Government may also choose to take loans from foreign countries to finance expenditure. How money is spent and from what source is the main component in a government's fiscal policy.

Foreign Exchange Earnings

This refers to the monetary gain made by selling goods and services or by exchanging currencies in global markets. Foreign exchange, or forex, is the conversion of one country's currency into another. In a free economy, a country's currency is valued according to the laws of supply and demand. In other words, a currency's value can be pegged to another country's currency, such as

the U.S. dollar, or even to a basket of currencies. A country's currency value may also be set by the country's government. However, many countries float their currencies freely against those of other countries, which keeps them in constant fluctuation (Udo, 2020). The value of any particular currency is determined by market forces based on trade, investment, tourism, and geo-political risk. Every time a tourist visits a country, for example, they must pay for goods and services using the currency of the host country. Therefore, a tourist must exchange the currency of his or her home country for the local currency. Currency exchange of this kind is one of the demand factors for a particular currency. Another important factor of demand occurs when a foreign company seeks to do business with another in a specific country. Usually, the foreign company will have to pay in the local company's currency. At other times, it may be desirable for an investor from one country to invest in another, and that investment would have to be made in the local currency as well. All of these requirements produce a need for foreign exchange and contribute to the vast size of foreign exchange markets. Foreign exchange is handled globally between banks and all transactions fall under the auspice of the Bank for International Settlements (BIS) Inflation can have a major effect on the value of a country's currency and its foreign exchange rates with other currencies. While it is just one factor among many, inflation is more likely to have a significant negative effect on a currency's value and foreign exchange rate. A very low rate of inflation does not guarantee a favorable exchange rate, but an extremely high inflation rate is very likely to have a negative impact. Inflation is also closely related to interest rates, which can influence exchange rates. The interrelationship between interest rates and inflation is complex and often difficult for currency-issuing countries to manage. Low interest rates spur consumer spending and economic growth, and generally positive influences on currency value. If consumer spending increases and demand grows to exceed supply, inflation may ensue, which is not necessarily a bad outcome. However, low interest rates don't usually attract foreign investment the way higher interest rates can. Higher interest rates attract foreign investment, which is likely to increase demand for a country's currency.

The significant decline of Nigeria's foreign exchange earnings as well as revenue accruable to the federation account have persisted due to declining crude oil prices at the international market, the Governor of the Central Bank of Nigeria (Emefiele, 2020). He also attributed the decline to a cut in the country's crude oil production quota in compliance with the Organization of Petroleum Exporting Countries (OPEC) resolution last April. Also, the Minister of Finance,

Theoretical Framework

Wagner's Law of Increasing State Activities

Adolph Wagner (1835-1917) was a German economist who based his law of increasing state activities on historical facts, primarily of German. According to Wagner, there are inherent tendencies for the activities of different layers of a government (such as central and state governments) to increase both intensively and extensively. There was a functional relationship between the growth of an economy and the growth of the government activities so that the governmental sector grows faster than the economy. In the original version, it is not clear whether Wagner was referring to an increase in (a) absolute level of public expenditure (b) the ratio of government expenditure to GNP, or (c) proportion of public sector in the total economy. Musgrave's interpretation is that Wagner was thinking of (c) above. F.S. Witt not only supported Wagner's thesis but also concluded with empirical evidence that it was equally applicable to several other

governments which differed widely from each other. All kinds of governments, irrespective of their levels, intentions and size had exhibited the same of increasing public expenditure as a result of the understated points. Foremost as the traditional functions of the state were expanding, defence was becoming more expensive than ever before. Within the country, administrative set up was increasing both in coverage and intensity. The government machinery had to be manned by experts in their field. Administration justice and so on was becoming more extensive and cumbersome as the society progressed.

An additional force pushing up public expenditure here is the fact that various complexities of social and economic nature develop which made an efficient administration also more complex and expensive. Secondly, the state activities were increasing in their coverage. Traditionally, the state was limited to only defence, justice, law and order maintenance of the state and social overheads. But with the growing awareness of its responsibilities to the society, the government was expanding its activities in the fields of various welfare measures. These include the measures to enrich the cultural life of the society and also those design to provide social security to the people. State activities were also increasing on account of its effort in redistributing income and wealth. Thirdly, the need to provide and expand the sphere of public goods was being increasingly recognized. The state was trying to shift the composition of national product in favour of public goods and this necessitated the expansion of the investment activities of the government. Wagner's law was based on historical facts. It did not show the inner compulsions under which a government has to increase its activities and public expenditures as time passes. His law was applicable to modern progressive governments only; in which the state was interested in expanding the public sector of the economy and undertakes other activities for the general benefit. This general tendency of expanding state activities has a definite long term trend, though in the short run, financial difficulties could come in the way. "But in the long run, the desire for development of a progressive people will always overcome these financial difficulties".

Empirical Review

Ilori and Akinwunmi (2020), examined the effects of generating oil and non-oil revenues on Nigeria's economic development from 1989 through 2018 using secondary data extracted the statistical bulletin of the Central Bank of Nigeria. The study employed the model for analytical cointegration and error correction. Similar analytical processes were applied to the multivariate data on components of oil and non-oil revenue, exchange rates, and real gross domestic products. Results generated indicated that the oil revenue harms real gross domestic products in Nigeria, but this is the same with effects reported from non-oil revenue. Nonetheless, Nigeria's exchange rate gives a positive sign and statistical significance for real gross domestic products. Consequently, the study concludes that the continuing decline in global crude oil prices, resistance from insurgents in Nigeria's oil-producing area, the profligate expenditure of the Nigerian Government, the global COVID-19 health pandemic, among other factors, are harming the economic development of Nigeria.

Maccarthy and Omes (2022), the study examined federal taxes and infrastructural development in Nigeria ((2081-2020). The study among others examined the relationship between company income tax and electricity in Nigeria, also evaluated the relationship between company income tax and road infrastructure in Nigeria, as well investigated the relationship between petroleum profit tax and

electricity in Nigeria and determined the relationship between petroleum profit tax and road infrastructure in Nigeria. The study adopted ex-post facto designs. The population and sample size of the study is the entire 36 states and the federal capital territory of Nigeria. The instrument of the study was secondary data. The formulated research questions were analyzed with descriptive statistics. The hypotheses were tested using the least square panel data regression analysis with the aid of E-view (10). The findings of the study were that there is a significant relationship between company income tax and electricity supply in Nigeria. There is a significant relationship between company income tax and road infrastructure in Nigeria. There is a significant relationship between Petroleum Profit tax (PPT) and Road infrastructure) in Nigeria. There is no significant relationship between petroleum profit tax (PPT) and electricity supply in Nigeria. The study recommends that government should continue in a more transparent and judicious manner of revenue generation and utilization of company income tax and petroleum profit tax by investing in more road and electricity infrastructures. Also, it recommends that government should minimize or strictly enforce penalties for offenders / officials of corruption, in order to eliminate totally the widespread leakages in the petroleum profit tax and company income tax administration and road and electricity constructions in Nigeria. Thus, there will be more physical infrastructures commiserate to billions wasted every year.

Madugba et al., (2016), did a study on the evaluation of the contributions of oil revenue on economic development in Nigeria tested the impact of growth rate in oil revenue and growth rate in Gross Domestic product and growth rate in total federally collected revenue of the Government from 1991 to 2012. Regression analysis was used to carry out data analysis with the aid of SPSS version 20. Results showed that a unit change in growth rate of oil revenue will lead to an equal unit change in growth rate of gross domestic product. The study recommends that federal government should intensify efforts to increase revenue derived from oil especially as it impacts on GDP and federally collected revenue.

Adelowokan and Osoba (2015), examine the impact of revenue from oil proceeds and disaggregated government spending on poverty rate in Nigeria. Different econometrics tests i.e. pre-estimation test, estimation techniques and diagnostic tests such as Augmented Dickey Fuller, Engel-Granger co-integration, Ordinary Least squares and Granger causality were analysed using the data sets within the period of 1970 and 2013. Empirical result disclosed that gross domestic product and revenue from oil proceeds exert negative effect on poverty rate in Nigeria during the reviewed period. This revealed that oil proceeds being the main revenue source in Nigeria have greater impact in ensuring equal distribution of income as a means of reducing poverty level among her citizens. Painstakingly, these proceeds are not channelled into right directions with regards to government spending on capital projects and recurrent expenditure. This further exacerbates the poverty level in Nigeria.

Maku and Oyelade (2018) investigated the dynamic relationship between oil revenue, government spending and economic growth in Nigeria over the period 1980 to 2014. Econometric techniques which included correlation analysis, unit root test, co-integration, Granger causality and error correction model were employed to determine the direction of causality and the magnitude of impacts. The estimated coefficient of the error correction term, ECM(-1) which is also the speed of adjustment to equilibrium, was negative and statistically significant as required by the Granger

representation theorem. The speed of adjustment to equilibrium required 46 per cent within a year when the variables drifted away from their equilibrium values. Also, the ECM result revealed that capital expenditure (CEXP); recurrent expenditure (REXP); oil revenue (OREV) and gross capital formation (GCF) drove economic growth positively at 5 per cent level of significance, respectively. This implied that a hundred percentage point increase in capital expenditure (CEXP); recurrent expenditure (REXP); oil revenue (OREV) and gross capital formation (GCF) caused a rise in growth of about 44 per cent; 97 per cent; 85 per cent and 29 per cent, respectively. Broad money supply (M2) negatively affects economic growth and it is insignificant. Aregbeyan and Kolawole (2015) examined the relationships among oil revenue, government spending, and economic growth in Nigeria. By implication, it investigated whether oil revenue impacted on government spending, as well as on economic growth in the country over the period from 1980 to 2012. Time series data were analyzed using econometric techniques which included Ordinary Least Square (OLS), cointegration, Vector error correction model (VECM), and Granger causality to determine the direction of causality and the magnitude of impacts of the variables. The variables used are oil revenue, government spending and economic growth. Findings from the analysis revealed that oil revenue Granger caused both of total government spending and growth, while there was no causality between government spending and growth in the country.

Aminu et al. (2020) examined impact analysis of petroleum profit tax and economic growth in Nigeria with a view of investigating the potential impacts of the revenues from petroleum profit tax on the growth of Nigerian economy on the basis of time series data for the variables such as economic growth proxied by real gross domestic product, petroleum profit tax, non-oil tax revenue and governance proxied by government accountability specified in the estimated models. Upon verifying the stationarity properties of the series of the variables, the study employed Cointegration and fully modified ordinary least squares as the techniques of analysis to reveals: the existence long-run relationship between petroleum profit tax and economic growth in Nigeria; petroleum profit tax impact positively on economic growth at a statistical significant level; governance impact positively on economic growth in Nigeria; while non-oil tax revenue impact negatively on economic growth in Nigeria. The study therefore recommends that: Reviewing the current administration of PPTA in Nigeria to reflect the international standard on the petroleum profit tax Act; According priority to non-oil sector so as to improve government earnings from other non-oil sectors; Deliberate investment of revenue from PPT to develop other non-oil sectors and; Full entrenchment of good governance in the administration of tax system in Nigeria.

Yahaya and Bakare (2018) examined effect of petroleum profit tax and companies income tax on economic growth in Nigeria. Sustainability of economic growth and development which remains the true essence of governance is threatened in Nigeria due to insufficient fund caused by declining petroleum revenue upon which the country relies for development. This over reliance had placed the country in a position as at now in which the entire petroleum revenue is used for recurrent items by the government. It is against these setbacks that this study is design to evaluate the effect of petroleum profit tax and company income tax on Nigerian economy growth. Fully Modified Least Square (FMOLS) Regression Technique was used to estimate the model over a 34 years period (1981-2014) while Augmented Dickey Fuller Unit Root Test and Single Equation Cointegration Test were carried out. It was found that petroleum profit tax (PPT) and company income tax (CIT) have positive significant impact on gross domestic product (GDP) in Nigeria with the Adjusted R² of

87.6% which directly enhanced growth in Nigeria. The study then concluded that PPT and CIT serves as the major source of revenue to the Nigeria economy, and contribute to the growth of Nigeria economy. Based on these findings, the Study recommends that government should transparently and judiciously account for the revenue it generates through petroleum profit tax by investing in the provision of infrastructural facilities, FIRS should properly monitor the activities of companies to achieve optimum collection of taxes payable to the government as CIT. Revenue accrue to government through PPT and CIT should be judiciously used to develop the economy.

Abdul-Rahamoh et al. (2018) examines the effect of petroleum profit tax (PPT) on Nigeria economy, in line with the objectives of this study, secondary data were obtained from central bank of Nigeria statistical bulletin covering the period of 1970 to 2010. In concluding the analysis, multiple regressions were employed to analyze data on such variables Gross Domestic Product (GDP), petroleum profit tax, inflation, and exchange rate were all found to have significant effects on the Economics Growth with the Adjusted R2 of 86.3%. Following the outcome of this study, it is therefore concluded that the abundance of petroleum and its associated income has been beneficial to the Nigerian economy for the period 1970 to 2010. Income from a nation's natural resource has a positive influence on economic growth and development. It is recommended that Government should transparently and judiciously account for the revenue it generates through PPT by investing in the provision of infrastructure and public goods and services. It is expected that the more effectively and efficiently revenue is utilized by Government to create growth, employment opportunities and wealth in the economy, the more willing taxpayers would be to meet their obligations to the Government and discharge their duties in the overriding goal of achieving National Development.

METHODOLOGY

The ex-post facto research design. The population and sample size of the study is the entire 36 states and the federal capital territory of Nigeria. A 16 years (2005-2020) petroleum revenue (petroleum profit tax, oil proceeds, oil royalty, and concessional rentals) and infrastructural data (Electricity and Road). Secondary data was adopted, spanning from 2005-2020 that were sourced from Federal Government Annual budget, the Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN) Statistical Bulletin and the Nigeria Extractive Industries Transparency Initiative (NEITI). The data for this study was analysed via descriptive and multiple regression: Autoregressive Distributed Lag (ARDL) analysis tools using the Eviews.

Model Specification and Estimation

The following model is use to test all the research hypotheses.

$$\text{CAS} = f(\text{PPT})$$

$$\text{CAS} = f(\text{OPR})$$

$$\text{CAS} = f(\text{ORY})$$

$$\text{CAS} = f(\text{COR}) \text{ In functional form:}$$

$$\text{CAS} = f(\text{PPT}, \text{OPR}, \text{ORY}, \text{COR}) \text{ ----- (1) In econometric form:}$$

$$CAS_t = (\beta_0 + \beta_1 PPT_t + \beta_2 OPR_t + \beta_3 ORY_t + \beta_4 COR_t + \beta_5 FOREX_t + \dots + \mu_i) \text{----- (2) Where:}$$

- f = Function of the model β = Beta
- coefficient β_0 = Interception of the model
- $\beta_1, \beta_2, \beta_3,$ = Co-efficient of the model t
- t = Annual time period CAS = Capital spending
- PPT = Petroleum profit tax
- OPR = Oil proceeds
- ORY = Oil royalty
- COR = Concessional rental
- FOREX = Foreign exchange rate
- μ_i = Error term of the model

Data Presentation

The data used for this study are as presented in the table below:

Table 1: Dataset for the Study

<u>YEARS</u>	<u>CAS</u>	<u>PPT</u>	<u>OPR</u>	<u>ORY</u>	<u>COR</u>	<u>FOREX</u>
2005	5195.0	1352200	3987937.64	785.10	4,762.40	134.0
2006	5523.9	1349500	3528079.14	677.54	5,287.57	130.15
2007	7593.2	1132000	3577073.75	1,264.60	4,462.91	122.50
2008	9608.9	2060900	4858660.00	1,336.00	6,530.60	117.75
2009	11528.0	939400	3097656.04	1,652.65	3,191.94	150.97
2010	8838.7	1480400	4914554.49	1,907.58	5,396.09	152.80
2011	9185.5	3070600	7011745.56	2,237.88	8,878.97	157.40
2012	8748.3	3201300	6629694.75	2,628.78	8,025.97	158.30
2013	11083.9	266400	6049789.46	2,950.56	6,809.23	158.06
2014	7831.2	2453900	5733532.74	3,275.03	6,793.82	184.45
2015	8183.5	1097900	3217851.52	3,082.41	3,830.10	250.00
2016	6347.9	2072700	2770476.15	2,922.50	2,693.91	439.50
2017	7454.2	1874800	4434191.74	3,335.20	4,109.80	333.71
2018	7328.5	1681800	5677634.63	4,006.00	5,545.80	360.00
2019	7043.53	1876433.33	4498898.25	4,725.60	5,536.66	305.00
2020	7275.41	1811011.11	4870241.54	4,022.27	5,064.09	384.01

Source: Central Bank of Nigeria (CBN) Statistical Bulletin and the Nigeria Extractive Industries Transparency Initiative (NEITI)

Table 2: Descriptive Analysis

	CAS		PPT	OPR	ORY COR FOREX	
Mean	8048.103	1732578	4678626	2550.606	5432.491	221.1625
Median	7712.2	1746406	4678779	2775.64	5341.83	158.18
Maximum	11528	3201300	7011746	4725.6	8878.97	439.5
Minimum	5195	266400	2770476	677.54	2693.91	117.75
Std. Dev.	1757.316	758869	1284432	1205.936	1672.657	107.471
Skewness	0.378692	0.278799	0.249424	0.026494	0.373132	0.803522
Kurtosis	2.660858	2.897031	2.02254	2.020819	2.607491	2.126526
Jarque-Bera	0.459099	0.214345	0.802852	0.641069	0.473982	2.230365
Probability	0.794892	0.898371	0.669365	0.725761	0.788999	0.327855
Sum	128769.6	27721244	74858017	40809.7	86919.86	3538.6
Sum Sq. Dev.	173250.2	46322400	8.64E+12	2.47E+13	21814210	41966730
Observations	16	16	16	16	16	16

The descriptive statistics of the dependent and independent variables in the model are displayed in table 4.2. From 2005 to 2020, the average value of CAS, PPT, OPR, ORY, COR and FOREX are 8048.103, 1732578, 4678626, 2550.606, 5432.491 and 221.1625 respectively. These figures may be compared with the maximum values of CAS, PPT, OPR, ORY, COR and FOREX which are 11528, 3201300, 7011746, 4725.6, 8878.97 and 439.5 respectively. It can be concluded that the means of all the variables are significantly lower than its maximum values. Skewness is a measure of asymmetry of the distribution of series around its mean. The skewness of all the variables are above zero. It indicates a positive skewness, Thus, there is a right long-tailed distribution for the observation of each of the variables. The Kurtosis of a normal distribution is 3. Table 4.2 further shows that all the variables have a Kurtosis of less than three, indicating that each of the distributions is platykurtic, The Jarque Bera statistics of all the variables show that all the series are normally distributed since the Jarque Bera probability values of CAS, PPT, OPR, ORY, COR and FOREX which are 0.794892, 0.898371, 0.669365, 0.725761, 0.788999 and 0.327855 are all greater than 0.05. Table 4.3 is interpreted in like manner with Table 4.2.

Unit Root Test

Unit root test is used in determining the characteristics of time series variables, It is a preliminary analysis to test whether the series are stationary or not. In other words, this preliminary analysis is

conducted to test for the presence of a unit root in the series. The Augmented Dickey Fuller (ADF) unit root test was applied and the results are shown in Tables 4.4 and 4.5 below.

Table 3 Summary of Unit Root Test for CAS Model

VARIABLES	ADF STAT	1% CRITICAL LEVEL	5% CRITICAL LEVEL	10% CRITICAL LEVEL	REMARK
Log_CAS	-6.526918	-4.605593	-3.081002	-2.681303	Stationary
Δ Log_CAS	-7.143174	-4.600987	-3.098896	-2.690439	Stationary
log_PPT	-5.361854	-4.600987	-3.081002	-2.681313	Stationary
log_OPR	-7.327203	-4.605593	-3.081002	-2.681313	Stationary
Δ log_OPR	-8.762634	-5.60981	-3.098896	-2.690439	Stationary
log_ORY	-6.359443	-5.600987	-3.098896	-2.690439	Stationary
log_COR	-7.451136	-4.605836	-3.081002	-2.681323	Stationary
Δ log_COR	-6.083368	-4.600987	-3.098896	-2.690439	Stationary
log_FOREX	-2.449715	-4.935001	-3.081002	-2.681313	Not-stationary
Δ log_FOREX	-6.896733	-4.605836	-3.098896	-2.690439	Stationary

Test of Hypotheses

The hypotheses earlier stated in chapter one of this study, are hereby tested in this section.

Regression Estimate for CAS Model

Dependent Variable: LOG_CAS

Method: ARDL

Date: 12/21/22 Time: 15:26

Sample (adjusted): 2006 2020

Included observations: 15 after adjustments

Maximum dependent lags: 2 (Automatic selection)

Model selection method: Akaike info criterion (AIC)

Dynamic regressors (0 lag, automatic): LOG_PPT LOG_ORY

LOG_OPR

LOG_FOREX LOG_COR Fixed

regressors: C

Number of models evaluated: 2

Selected Model: ARDL(1, 0, 0, 0, 0, 0)

Note: final equation sample is larger than selection sample

	Variable		Coefficient Std.	
LOG_CAS(-1)	0.125968	0.204212	0.616850	0.5545
LOG_PPT	0.049816	0.063736	2.781598	0.0020
LOG_ORY	0.268984	0.161094	1.669738	0.1335
LOG_OPR	0.745765	0.428747	1.739406	0.1202
Error t-Statistic Prob.*	LOG_FOREX		-0.582757	
	0.210351	-2.770403	0.1243	
LOG_COR	-0.808497	0.401249	-2.014949	0.1787
C	5.075897	3.235228	1.568946	0.1553

R-squared	0.694329	Mean dependent var	8.998451
Adjusted R-squared	0.640075	S.D. dependent var	0.196535
S.E. of regression	0.117909	Akaike info criterion	1.133089
Sum squared resid	0.111219	Schwarz criterion	0.802666
Log likelihood	15.49817	Hannan-Quinn criter.	1.136609
F-statistic	5.149505	Durbin-Watson stat	2.431816
Prob(F-statistic)	0.018765		

*Note: p-values and any subsequent tests do not account for model selection.

Source: Eviews version 10

H0₁: Petroleum revenue has no significant impact on capital spending in Nigeria for the period of 2005 to 2020.

Table 4.5 shows the Autoregressive Distributed Lag (ARDL) result for the study. According to the results, Petroleum Profit Tax (PPT) has a positive coefficient of 0.049816 which is significant with a p-value of 0.0020. The interpretation of the negative coefficients of PPT indicates that an increase in PPT by a unit will lead 0.0498 units decrease in Capital Spending holding every other thing constant. The value of the Adjusted R-Squared of 0.640075 implies PPT, OPR, ORY and COR explained about 64.01% systematic variations in the dependent variable Capital Spending (CAS) over the observed years while the remaining 35.99% variations are explained by other

determining variables outside the model. The F-statistic shows a significant probability value ($0.018765 < 0.05$). This means that the effect of the independent variables (PPT, OPR, ORY and COR) on the dependent variable (CAS) did not happen by chance. The Durbin-Watson statistic of 2.431816 indicates absence of autocorrelation. Since the probability value of Petroleum Revenue (PPT) of 0.4570 is greater than the 5% level of significance, the null hypothesis is hereby accepted

H0₂: Oil proceeds have no significant implication on capital spending in Nigeria for the period of 2005 to 2020.

According to the results, Oil Proceeds (OPR) has a positive coefficient of 0.745765 which is insignificant with a p-value of 0.1202. This means that a unit increase in oil proceeds will lead to increase in capital spending. The p-value of 0.1202 is greater than 5% critical level we therefore accept the null hypotheses.

H0₃: Oil royalty has no significant effect on capital spending in Nigeria for the period of 2005 to 2020.

The result in table 4.5 above shows that Oil royalty (ORY) has a positive coefficient value of 0.268984. This means that increase in oil royalty will lead to increase in oil capital spending. The p-value of 0.1335 shows that oil royalty has no significant effect on capital spending we therefore accept the null hypotheses.

H0₄: Concessional rentals do not significantly affect capital spending in Nigeria for the period of 2005 to 2020.

The result above indicates that Concessional rentals has a negative coefficient value of -0.808497. This means that a unit increase in Concessional rentals will lead to decrease in Capital spending. the p-value of 0.0787 shows that concessional rentals has a significant effect on capital spending at 10% critical level we therefore reject the null hypotheses.

H0₅: Foreign exchange rate do not significantly moderate the relationship between petroleum revenue and public spending in Nigeria for the period of 2005 to 2020.

The result further reveals that the moderating variable Foreign exchange earnings has a negative coefficient of -0.582757 and a p-value of 0.0243. This shows that foreign exchange earnings have a negative significant effect on capital spending in Nigeria between 2005 to 2020.

CONCLUSION

The results from the analyzed data shows that oil revenue play significant role in Nigeria's economy through its contribution to public spending. The principal concern of the study is to examine the impact of Petroleum revenue on public spending in Nigeria. Thus, this study also looks at Petroleum Profit Tax, Oil proceeds, Oil royalty, Concessional rental as determinants of petroleum revenue in Nigeria. Based on the Analysis done, the following findings were:

1. Petroleum Profit tax has a negative insignificant effect on Capital Spending in Nigeria
2. Oil Proceeds has a positive but insignificant effect on Capital Spending in Nigeria
3. Oil royalty has a positive insignificant effect on Capital Spending in Nigeria
4. Concessional rental has a negative but significant effect on Capital spending
5. Foreign exchange earnings have a negative significant effect on capital and recurrent spending in Nigeria.

Substantial resources should be made available to the agriculture sector where cash crops produce like rubber, cocoa, palm oil and kernel, ground nut, cola nuts, and so forth could be largely produced for export, and local consumption. Also, the manufacturing sub-sector should be provided with resources like electricity, road infrastructure, long- and medium-term credit facilities, and enabling business environment in order to boost production for export, and possibly help in the manufacture of some goods that are presently imported. If the government does this it would broaden the revenue base, and assist in stabilizing the economy in the period when revenue from oil drops as a result of resource depletion or decline in the international price of oil as currently being experienced.

RECOMMENDATIONS

that the government should encourage more private company participation so that better equipped refineries can be built and the cost of refining crude oil will reduce, The government should encourage more private company participation. So that better equipped refineries can be built and the cost of refining crude oil will reduce. Nigerian National Petroleum Corporation (NNPC) should diversify its export baskets through downstream production. This will enhance the refined petroleum for exports. In order to adequately harness the expected returns of public capital spending in the economy, the Nigerian government has to be decisive and more transparent in its fight against financial corruption and diversion of public funds especially those that are allocated for the execution of capital projects across the country.

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