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NON-OIL REVENUE AND ECONOMIC GROWTH: EVIDENCE FROM NIGERIA

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Abstract

The neglect of the non-oil sector by successive governments in Nigeria over the years due to the oil boom of the seventies has contributed immensely to the current situation of the country. Governments at various levels – Federal, State and Local, today complain of inadequate funds to cater for the welfare of citizens. This paper thus, examined the impact of non-oil revenue on the growth of the Nigerian economy for the period 1994 to 2015. Real Gross Domestic Product (RGDP) proxy for economic growth is adopted as the dependent variable while Agricultural Revenue (AR), Manufacturing Revenue (MR) and Value-Added Tax Revenue (VATR) are adopted as the independent variables. Using the Ordinary Least Squares (OLS) technique involving multiple regression analysis, the empirical findings show that all three explanatory variables exert positive and significant impacts on economic growth in Nigeria for the period under study. The paper therefore recommends that government should sustain and improve its agricultural policies where necessary to further boost agricultural production. The manufacturing sector should be reinvigorated for increased production through creating of enabling environments by government while the VAT base should be enlarged to incorporate more items into the VAT net. All these will help shore up revenue in Nigeria.

Keywords: Agricultural Revenue, Manufacturing Revenue, VAT Revenue, Economic Growth

1.0 Introduction

1.1 Background of the Study

Prior to the discovery of oil in Nigeria, agriculture was the mainstay of the economy. Agriculture was the highest earner of foreign exchange for the country. Nigeria’s export earnings increased
from N339.4 million in 1960 to N14,077 million in 1980s, (Oladipo,1998). Nigeria was also largely self-sufficient in the area of food production. Nigeria is well known in the production of cash crops like Groundnut, Cocoa, Rubber, Cotton, Millet, Palm Oil, etc. and there is a readily available market for these products outside the shores of the country. Nigeria is also blessed with fertile land and good climatic conditions which serve as an added advantage over its counterparts, (Okunnu, 2008).

The importance of the Agricultural sector in the country can indeed never be over-emphasized especially since we are no strangers to how life was before and during the colonial era when we depended solely on the production of food crops and cash crops. Food crops did more than enough in sustaining the everyday domestic food requirements and cash crops generated bountiful revenue which pulled the economy on an upward motion. The 1970s saw the oil boom period and with the dominant poor maintenance culture, and non-challant attitude, Nigeria left the agricultural sector in a pathetic state of retrogression (Olomola, 1998). The rise in the oil sector’s fortune led to gross neglect of the non-oil sector particularly agriculture which provided food for the people and export earnings (Nwaeze, 2005). This position occupied by agriculture was overtaken by the oil sector in the mid 70s.

The monoculture nature of the economy has turned back to bite the country real hard. Oil price plummet is even beginning to tell on the economy and has shown that crude oil is not the best commodity to bank on. Though, Nigeria experienced substantial capital inflow largely in the form of oil sector earnings, the large oil revenue coupled with the accumulation of reserves in major foreign currencies became enabling factor in the decision to revalue the naira (Adeyemi, 2004). Over the years, the non-oil sector of the Nigerian economy such as agriculture, manufacturing and other businesses which could generate funds in the form of tax revenues have been neglected due to the boom in the oil revenue in the past. The resultant effect today is the recession in which the country has found itself, coupled with its attainment effects such as sky rocketing prices of goods and services (inflation), decayed infrastructures, poor power supply, non-payment of salaries, closure of industries, youth restiveness, high unemployment rate among others.

The inability of the Nigerian government to meet up with its responsibilities to its citizens in the area of provision of welfare services, security, employment, basic infrastructures etc. motivated this study towards investigating the impact of contributions of non-oil revenue. Agricultural revenue, Manufacturing revenue and Value Added Tax (VAT) revenue on the Nigerian economy for the period 1994 – 2015.

1.2 Statement of the Problem
The earnings from the oil sector had an impact on the poor performance of non-oil sector which has resulted to a whole number of economic problems being faced by the country. The total oil revenue generated between 2000 and 2009 amounted to N34.2 trillion while non-oil was N73 billion representing 82.36% and 17.64% respectively (CBN Statistical Bulletin, 2009). This is a clear indication that the dependency on oil is high and therefore caused a neglect of the non-oil
sector and then leading to the low level of economic activities. Some of these problems include: Rising cost of goods and services (inflation), non-payment of salaries of public and civil servants, loss of jobs (unemployment), decayed infrastructure, poor security, poor power supply and others. The study is therefore intended to examine the impact of the non-oil revenue on the economic growth of Nigeria.

1.3 Objectives of the Study
The general objective of the study is to examine the impact of non-oil revenue on the economic growth in Nigeria.

The specific objectives include:
(i) To identify whether or not there is a significant impact of Agricultural Revenue on economic growth in Nigeria.
(ii) To determine the impact of Manufacturing Revenue on economic growth in Nigeria.
(iii) To determine the impact of Value Added Tax Revenue (VATR) on economic growth in Nigeria.

1.4 Research Questions
The following research questions were formulated as a basis for effective conduct of this research and in line with objectives of the study:
(1) To what extent do the earnings from the agricultural sector contribute to economic growth in Nigeria?
(2) To what extent does manufacturing revenue impact on the economic growth in Nigeria?
(3) How far does Value Added Tax Revenue impact on economic growth in Nigeria?

1.5 Statement of Hypotheses
In line with the objectives of the study the following hypotheses are formulated:
\(H_0^1\): There is no significant impact of Agricultural Revenue on economic growth in Nigeria.
\(H_0^2\): There is no significant impact of manufacturing Revenue on economic growth in Nigeria.
\(H_0^3\): There is no significant impact of Value Added Tax Revenue (VATR) on economic growth of Nigeria.

2.0 Review of Related Literature

2.1 Theoretical Review
The theoretical review of the study is hinged on the theories of taxation.

2.1.1 Cost of Service Theory
According to the Cost of Service Theory, the cost incurred by government in providing certain services to the people must collectively be met by the people who are the ultimate receivers of the service, (Jhingan, 2009).
This theory believes that tax is similar to price. So if a person does not utilize the services, he should not be charged any tax. Some criticisms have been leveled against this theory. According to Jhingan (2009), the cost of service theory imposes some restrictions on government services. The objective of government is to provide welfare to the poor. If the theory is applied, the state will not undertake welfare activities like provision of medical care, education, social amenities, etc. It will also be difficult to compute the cost per head of the various services provided by the state, again the theory has violated the correct definition of tax, hence the theory as propounded is misleading.

2.1.2 The Benefit Received Theory of taxation
This theory stipulates that citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the government. The theory assumes that there is an exchange relationship between tax payer and government. But the inability to measure the benefits received by an individual from the services rendered by the government has rendered this theory inapplicable (Ahuja, 2012).

2.2 Empirical Review
Ogbonna and Appah (2012) investigating the impact of tax on economic growth of Nigeria using time series data from 1994 to 2009 (a period of 11 years) utilizing petroleum profit tax, companies income tax, education tax, Value Added Tax, Personal Income Tax and Custom and Excise Duties as proxy for tax (Independent Variable) and Gross Domestic Product (GDP) as the dependent variable, claimed that there is a positive relationship between the revenue and economic growth of Nigeria. They argued that 54% variation in the dependent variable (GDP) is as a result of change in the revenue and that there exist long run equilibrium relationship between GDP and the independent variables.

In Ude and Agodi (2014), the study investigated the time series role of non-oil revenue variables on economic growth in Nigeria. The study thus extends tax literature on this area by employing co-integration methodology alongside error correction mechanism to investigate the impact of non-oil revenue on economic growth in Nigeria. The study employed annual observations from 1980 to 2013. The non-oil revenue variables analyzed are agricultural revenue and manufacturing revenue and interest rates have significant impact on economic growth in Nigeria. Result also shows the existence of long-run equilibrium relationship and short-run dynamic adjustment with speed of about 529 to restore equilibrium.

Onwuchekwa and Aruwa (2014) investigated the impact of tax on the economic growth of Nigeria and used ex-post facto research method to articulate their position. They employed Ordinary Least Square Technique (OLS) to analyze their data. They discovered that VAT contributes significantly to the total revenue of government and growth of Nigeria, though the increase is not explosive. They were of the opinion in their recommendation that to boost the tax revenue, government needs to boost revenue collected from VAT, not by increasing VAT rate of 5% but by closing every VAT revenue leakage, sensitizing the management of companies
on the need to remit VAT revenue collection and adequate training of staff of Federal Inland Revenue Services (FIRS).

Okafor (2012) used multiple correlation and regression method to evaluate the relationship between tax revenue generation and economic development of Nigeria (1981 – 2007) and concluded that there exists a strong significant relationship between tax revenue and Gross Domestic Product (GDP).

3.0 Research Methodology

3.1 Research Design
Research design is a blueprint which guides the researcher in his scientific inquiry, investigation and inquiry, Amaechi and Amara (2005). In this study, ex-post facto design is adopted in obtaining, analyzing and interpretation of data relating to the objectives of the study.

3.2 Nature And Source Of Data
Historic data were collected from secondary sources such as the Central Bank of Nigeria Statistical Bulletin. Others include textbooks, journal articles and materials from the internet.

3.3 Description Of Research Variable
Dependent and independent variables were made use in this work.

3.3.1 Dependent Variable
The dependent variable in the study is the Real Gross Domestic Product (RGDP). It shows the value of all output produced in a country valued at the cost of the factor services that went into production.

3.3.2 Independent Variable
The major explanatory variable in the study include Agricultural Revenue (AR), Manufacturing Revenue (MR) and Value Added Tax Revenue (VATR).

3.4 Techniques Of Analysis
The Ordinary Least Squares (OLS) Technique involving multiple regression was used in this study. The adoption of this technique is based on the premise that the OLS is assumed to be the best linear unbiased estimator (Uremadu, 2002).

\[ Y = \beta_0 + \beta_1 X_1 + \mu \]

Where:
- \( Y \) = Dependent Variable
- \( \beta_0, \beta_1 \) = Regression Coefficient
- \( X_1 \) = Independent Variable
- \( \mu \) = Error term or stochastic variable

Source: (Uremadu, 2002).
3.5 Model Specification As

\[ \text{RGDP} = f(\text{NOR}) \] .............................. (1)

Where:
\[ \text{RGDP} = \text{Real Gross Domestic Product} \]
\[ \text{NOR} = \text{Non-oil Revenue} \]

NOR is made up of:
\[ \text{AR} = \text{Agricultural Revenue} \]
\[ \text{MR} = \text{Manufacturing Revenue} \]
\[ \text{VATR} = \text{Value Added Tax Revenue} \]
\[ \text{RGDP} = f(\text{AR}, \text{MR}, \text{VATR}) \] .............................. (2)

The mathematical form of this model is thus:
\[ \text{RGDP} = \beta_0 + \beta_1 \text{AR} + \beta_2 \text{MR} + \beta_3 \text{VATR} + \mu \] .............. (3)

This model is adopted from the works of Joseph and Abubakar (2016).

4.0 Data Presentation And Analysis
### 4.1 Data on RGDP, Agricultural Revenue, Manufacturing Revenue and VAT in ₦ Billion

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RGDP</th>
<th>AR</th>
<th>MR</th>
<th>VAT</th>
<th>LOGRGDP</th>
<th>LOGAR</th>
<th>LOGMR</th>
<th>LOGVAT</th>
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<td>1994</td>
<td>19979.12</td>
<td>3839.68</td>
<td>1670.72</td>
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<td>1592.49</td>
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<td>1996</td>
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<td>4133.55</td>
<td>1599.94</td>
<td>11.29</td>
<td>4.325883</td>
<td>3.616323</td>
<td>3.204104</td>
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<td>1609.83</td>
<td>13.91</td>
<td>4.338239</td>
<td>3.634042</td>
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<td>1999</td>
<td>22449.41</td>
<td>4703.64</td>
<td>1459.02</td>
<td>23.75</td>
<td>4.351205</td>
<td>3.672434</td>
<td>3.164061</td>
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<td>2000</td>
<td>23688.28</td>
<td>4840.97</td>
<td>1505.66</td>
<td>30.64</td>
<td>4.374534</td>
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<td>2001</td>
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<td>5024.54</td>
<td>1666.49</td>
<td>44.91</td>
<td>4.402563</td>
<td>3.701096</td>
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<td>2002</td>
<td>28957.71</td>
<td>7817.08</td>
<td>1813.81</td>
<td>52.63</td>
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<td>2003</td>
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<td>1918.09</td>
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<td>4.501189</td>
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<td>3.948832</td>
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<td>2005</td>
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<td>9516.99</td>
<td>2350.99</td>
<td>87.45</td>
<td>4.573741</td>
<td>3.9785</td>
<td>3.371251</td>
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<td>2006</td>
<td>39995.5</td>
<td>10222.47</td>
<td>2574.29</td>
<td>110.57</td>
<td>4.602011</td>
<td>4.009556</td>
<td>3.410657</td>
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<td>2007</td>
<td>42922.41</td>
<td>10958.47</td>
<td>2823.53</td>
<td>144.37</td>
<td>4.632684</td>
<td>4.03975</td>
<td>3.450792</td>
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<td>2008</td>
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<td>11645.37</td>
<td>3079.04</td>
<td>198.07</td>
<td>4.662876</td>
<td>4.066153</td>
<td>3.488415</td>
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<td>2009</td>
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<td>12330.33</td>
<td>3323.41</td>
<td>229.32</td>
<td>4.697718</td>
<td>4.090975</td>
<td>3.521584</td>
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<td>2010</td>
<td>54612.26</td>
<td>13048.89</td>
<td>3578.64</td>
<td>275.57</td>
<td>4.73729</td>
<td>4.115574</td>
<td>3.553718</td>
<td>2.440232</td>
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<td>2011</td>
<td>57511.04</td>
<td>13429.38</td>
<td>4216.19</td>
<td>318</td>
<td>4.759751</td>
<td>4.128056</td>
<td>3.62492</td>
<td>2.502427</td>
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<td>2012</td>
<td>59929.89</td>
<td>14329.71</td>
<td>4783.66</td>
<td>347.69</td>
<td>4.777643</td>
<td>4.156237</td>
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<tr>
<td>2013</td>
<td>63218.72</td>
<td>14750.52</td>
<td>5826.36</td>
<td>389.53</td>
<td>4.800846</td>
<td>4.168807</td>
<td>3.765397</td>
<td>2.590541</td>
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<td>2014</td>
<td>67152.79</td>
<td>15380.39</td>
<td>6684.22</td>
<td>388.85</td>
<td>4.827064</td>
<td>4.186967</td>
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<td>2015</td>
<td>69023.93</td>
<td>15952.22</td>
<td>6586.62</td>
<td>381.27</td>
<td>4.839</td>
<td>4.202821</td>
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<td>2.581233</td>
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</table>
Table 4.1.2: Ordinary Least Squares (OLS) Regression Result

Dependent Variable: LOGRGDP
Method: Least Squares
Date: 05/12/17   Time: 21:42
Sample: 1994 – 2015
Included observations: 22

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.993282</td>
<td>0.165306</td>
<td>12.05813</td>
<td>0.0000</td>
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<tr>
<td>LOGAR</td>
<td>0.323944</td>
<td>0.058774</td>
<td>5.511713</td>
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<td>LOGMR</td>
<td>0.338179</td>
<td>0.027614</td>
<td>12.24660</td>
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<td>LOGVAT</td>
<td>0.075631</td>
<td>0.018531</td>
<td>4.081344</td>
<td>0.0007</td>
</tr>
</tbody>
</table>

R-squared 0.996903  Mean dependent var 4.553113
Adjusted R-squared 0.996387  S.D. dependent var 0.189833
S.E. of regression 0.011410  Akaike info criterion -5.945709
Sum squared resid 0.002343  Schwarz criterion -5.747338
Hannan-Quinn
Log likelihood 69.40280  criter.
F-statistic 1931.669  Durbin-Watson stat 1.829153
Prob(F-statistic) 0.000000

Critical values:
(a) t-statistic, t_{0.05} = 1.721
(b) F-statistic, F_{0.05} (3, 18) = 3.16

Source: Author’s computation using E-views 8.0

The Ordinary Least Squares (OLS) result above was interpreted based on economic, statistical and econometric criteria. First, the result reveals that there exist a positive and significant relationship between agricultural revenue and gross domestic product (proxy for economic growth) in Nigeria. This result is in conformity with economic a priori expectation because as agricultural (non-oil) revenue increases, Nigeria’s economic growth increases. From the result, one percent increase in agricultural revenue leads to 0.32 percent decrease in gross domestic product in Nigeria. The computed t-statistics for agricultural revenue (5.51) is greater than the critical t-statistic (1.72) at five percent level of significance. The probability value of agricultural revenue (0.0000) is less than the test significant level (i.e. P < 0.05). Hence, we conclude that agricultural revenue has a significant effect on economic growth (proxied by GDP) in Nigeria.

Second, the result reveals that there is a positive and significant relationship between manufacturing revenue and gross domestic product in Nigeria. This result conforms to economic theoretical expectation because the more revenue the government generates from the manufacturing sector, the higher the non-oil revenue and the higher the economy grows. From
the result, one percent increase in manufacturing revenue lead to 0.34 percent rise in gross domestic product. The computed t-statistic for manufacturing revenue (12.24) is greater than the critical t-statistic (1.72) at five percent level of significance. The probability value of manufacturing revenue (0.0000) is less than the test significant level (i.e. P < 0.05). Hence, we conclude that manufacturing revenue has a significant effect on economic growth (proxied by GDP) in Nigeria.

Third, the result shows that there is a positive but significant relationship between value added tax revenue (VATR) and gross domestic product in Nigeria. This result conforms to economic a priori expectation because as revenue generated through value added tax increases, the nation’s economy is enhanced. From the result, one percent increase value added tax revenue leads to 0.08 percent increase in gross domestic product (proxy for economic growth) in Nigeria. The computed t-statistic for value added tax revenue (4.08) is greater than the critical t-statistic (1.72) at five percent level of significance. The probability value of saving deposit (0.0007) is less than the test significant level (i.e. P < 0.05). Hence, we conclude that value added tax revenue has a significant effect on economic growth (proxied by GDP) in Nigeria.

The coefficient of determination (R-squared) shows that 99.7 percent of the variations in gross domestic product (proxy for economic growth) in Nigeria are due to changes in agricultural revenue, manufacturing revenue and value added tax revenue. Thus, the remaining 0.3 percent of the variations in gross domestic product is caused by factors not included in the model. This represents a good-fit. The computed F-statistic (1931.67) is greater than the tabulated F-statistic (3.16) and this indicates that the entire model adopted for the study is significant as well as reliable. Thus, the model can be relied upon for policy making. The Durbin-Watson statistic (1.83) lies within the acceptable region and indicates that there is no presence of autocorrelation since 2 ≤ DW < 4. Hence, the regression result is not spurious.

4.2 Test of Hypotheses

4.2.1 Hypothesis One

H₀: Agricultural revenue does not have significant effect on gross domestic product in Nigeria.

Decision: The decision rule follows that if the computed t-statistic is greater than the tabulated (critical) t-statistic, we reject the null hypothesis and vice versa. From the result, since the computed t-statistic for agricultural revenue is greater than the tabulated (critical) t-statistic at five percent level of significance, we reject the null hypothesis that agricultural revenue does not have significant effect on economic growth in Nigeria. Hence, we conclude that agricultural revenue has significant effect on Nigeria’s economic growth.

4.2.2 Hypothesis Two

H₀: Manufacturing revenue does not have significant effect on gross domestic product in Nigeria.

Decision: Since the computed t-statistic for manufacturing revenue is greater than the tabulated (critical) t-statistic at five percent level of significance, we reject the null hypothesis that manufacturing revenue does not have significant impact on economic growth (proxied by GDP) in Nigeria. Hence, we conclude that manufacturing revenue has a significant effect on economic growth in Nigeria.

4.2.3 Hypothesis Three

H₀: Value added tax revenue does not have significant effect on gross domestic product in Nigeria.

Decision: Since the computed t-statistic for value added tax revenue is greater than the tabulated (critical) t-statistic, we reject the null hypothesis that value added tax revenue does not have significant effect on economic growth in Nigeria. Hence, we conclude that value added tax revenue has a significant effect on economic growth in Nigeria.

4.3 Findings of the Study

This study has the following findings:

(1) That agricultural revenue significantly contributes to the growth of the Nigerian economy.

(2) That manufacturing revenue has a significant impact on economic growth in Nigeria.

(3) That Vale Added Tax revenue has a significant impact on economic growth in Nigeria.

4.4 Discussion of Findings

First, the study reveals that there exists a positive and significant relationship between agricultural revenue and economic growth (proxied by GDP) in Nigeria. This finding conforms to economic theoretical expectation because the higher the revenue generated from agriculture, the higher the non-oil revenue and the higher the economic growth in Nigeria. This finding corroborates the work of Ude and Agodi (2012) which established a positive relationship between agricultural sector performance and economic growth in Nigeria. This finding may be attributed to the efforts made by the government towards the agricultural sector which has increased agricultural sector productivity. As agricultural productivity increases, agricultural revenue increases thereby enhancing Nigeria's economic growth.

Second, the study reveals that there exists a positive relationship between manufacturing revenue and economic growth (proxied by GDP) in Nigeria. This finding concurs with economic theoretical expectation because an increase in manufacturing revenue is expected to further boost the productivity of the manufacturing sector thereby leading to an increase in economic growth. This finding corroborates Ademola et al., (2012) which argued that the manufacturing sector has a positive and significant effect on economic growth in Nigeria. This outcome may be attributed to the current emphasis of the government on the growth of the Small and Medium Scale (SMEs) which has made the government come up with various growth-enhancing policies in order to boost manufacturing sector productivity. As manufacturing sector productivity increases, manufacturing sector revenue increases and economic growth in Nigeria increases.
Finally, the study reveals that there exists a positive and significant relationship between Value-Added Tax revenue and economic growth in Nigeria. This result conforms to economic theory as it is expected that as more revenue is generated through value-added tax, the government is equipped with more fund to carry out infrastructural development which would lead to increasing its economic growth. This finding corroborates the works of Onwuchekwa and Aruwa (2014) and Adegbie et al., (2016) which argued in favour of a positive and significant effect of Value-Added Tax on economic growth in Nigeria. This finding may be attributed to the nature and collection of value-added tax which being an indirect tax is usually imposed on every goods/services paid for by Nigerians. Hence, the more Nigerians buy goods or pay for services, they inadvertently pay VAT and VAT revenue increases. The VAT revenue is then plunged into the provision of basic amenities to the populace which increases the standard of living of the people. As the standard of living of the people is enhanced, productivity increases and economic growth in Nigeria increases.

5.0 Conclusions and Recommendations

5.1 Conclusions

In conclusion, this study shows that non-oil revenue has the potential to generate more revenue in an economy if reinvigorated and this will enhance the growth of the economy.

The study specifically investigated the effect of agricultural revenue, manufacturing revenue and value added tax revenue on gross domestic product in Nigeria. Agricultural revenue, manufacturing revenue and value added tax revenue served as the measures of non-oil revenue and the independent variables while gross domestic product served as the dependent variable.

5.2 Recommendations

Based on the findings of this study, the following recommendations are made:

1. The government - Federal, State and Local should sustain its policies on the agricultural sector in order to boost agricultural production. Policies on fertilizer sales and distribution should be sustained in order to have increased agricultural yields which would increase agricultural revenue such that Nigeria’s economic growth would be better enhanced.

2. The manufacturing sector in Nigeria should be reinvigorated for increased production. This can be achieved by the government through creating an enabling environment especially through increased power supply and removal of multiple taxes. These would lead to increased manufacturing revenue thereby increasing Nigeria’s economic growth.

3. Instead of increasing VAT rate as being suggested by many, the government should increase revenue without making it become cumbersome. With increased VAT revenue, economic growth in Nigeria would further increase.
REFERENCES


