

Relevance of Oil Revenue in Economic Growth in Contemporary Nigeria

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Abstract

Oil revenue is still one of the most relevant sources of foreign earner in contemporary Nigeria despite the systematic and the numerous challenges bedeviling the management of oil revenue. The study therefore, examined the relevance of oil revenue in economic growth in contemporary Nigeria using annual time series data from 1981-2020. The data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, Volume 31, 2020. The data obtained were modelled using the Ordinary least square (OLS) method; three control variables “non-oil revenue, government expenditure and exchange rate” were included to moderate for the effect of crude oil revenue, while economic growth was proxied by real GDP. The OLS estimate suggests that a significant (0.0000) and negative (-2.083536) relationship exists between oil revenue and Real GDP in Nigeria; while non-oil revenue have a positive and significant relationship with real GDP. The negative relationship as shown between oil revenue and real GDP in Nigeria in this study is buttressed by the Resource Curse Theory. We therefore recommend amongst others that government should rehabilitate and upgrade our refineries to increase efficiency, capacity and product quality to burst economic growth that will lead to the reduction in poverty, inequality and unemployment.

Keywords: Crude Oil Revenue, Non-Oil Revenue, Economic growth, Government expenditure and Exchange rate.

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INTRODUCTION

Crude oil revenue has become the main stay in the Nigerian economy since the mid -1970s and it is now the back bone of the country’s economic growth. It is a dominant resource in the country with an on - shore oil exploration accounting for about 65% and 35% represents offshore production. The former is found mainly in the swampy areas of the Niger Delta, while the latter represents offshore production and involves drilling for oil in the deep waters of the continental shelf. Though, before the discovery of crude oil in commercial quantity in Oloibiri in 1956, in the present day Bayelsa State of Nigeria, Agriculture was occupying the center stage in the country.

Agricultural contribution to Gross Domestic Product (GDP) in Nigeria, depict a dominance in the early 60s. However, its dominance decline drastically below 50% in the mid-1970s immediately after the Arab-Israeli War that lasted for about 18 days (6th-24th), October, 1973 which created unexpected, unplanned and unprecedented wealth for Nigeria, which caused the dramatic change of policies from a holistic approach to

monolithic approach in benchmarking the country’s economy and budgetary planning against the crude oil sector (Ndem, 2021, Agbede and Asagunla, 2018, Covi, 2014, Oladipo and Fabayo, 2012). The resultant fortune to the Nigerian Government with this skyrocketing revenue from crude oil dampened the agricultural sector.

It is unfortunate that, few years after the discovery of oil in commercial quantity, Agriculture which contributed 61.65% to GDP between 1960-1964, decline to 53.27% between 1965-1970, with a further decline by 13.58% to 39.69% between 1970-1974. It was further worsened by 15.89% to 23.80% between 1975-1979, resulting to the biggest woes of the sector after discovery of oil and independence. However, it increased marginally between 1980-1984 to 31.30% and 38.12% in 1985-1989. The easy money from oil has kept Agriculture as a competitive sector to less preferred sector and this has negated the positive effort of repositioning the sector since the last 50 years of oil discovery. Agricultural sector contribution to the GDP is still around 37.02% between 2010-2012 and further decline to 26.09% in the last quarter of 2019. These figures were consistent with the observations of

academicians and statistical publications by (Worldometers, 2021, CBN, 2020, National Bureau of Statistics, 2018, Ahungwa, *et al.*, 2014, Yusuf, 2014).

Many studies have shown that crude oil revenue influences economic growth in oil producing countries and a study by Nwoba, *et al.*, (2017) gave evidence to that fact. They studied the Impact of Fallen Oil Prices on the Nigeria Economy and found that Oil price has a significant impact on foreign exchange earnings which apparently led to decrease in oil revenue for economic growth. It is obvious that, economic growth in Nigeria is majorly dependent on soaring oil price and down turn in oil prices will have adverse effect on the economy. It is against this backdrop, that the study tends to examine the impact of crude oil revenue on the economic growth in Nigeria. The Nigerian economy is heavily dependent on crude oil revenue and according to KPMG (2020) and National Bureau of Statistics (NBS) (2020), they opined that the Gross Domestic Product (GDP) grew by 2.38% in the fourth quarter of 2018, while in 2019, during the first, second and third quarters, it was followed by a 2.10%, 1.94% and 2.28% growth respectively. However, this represents an improved performance compared to the previous period but constant in GDP as Nigeria exited from economic recession since the second quarter of 2017. Crude oil production of 1.938 million barrels per day (bpd) with a daily consumption of 0.428 million barrel per day in 2021. This was as a result of Federal Government intention to increase oil production to over 2 million bpd in 2030 (Worldometer, 2021). Though, this projection has been affected by the COVID-19 Pandemic that has ravaged the entire globe in 2020.

According to the NBS, the petroleum sector, contribute only 8% to the GDP, 70% to government revenue and 90% to foreign exchange earnings over the years. Contribution of the non-oil sector to GDP remains significant at over 90% in the last two quarters of 2019. Notwithstanding, the economy is still exposed to the risk of oil price shocks. In 2018, the First Inland Revenue Service (FIRS) achieved a record-breaking total revenue collection of ₦5.32 trillion. However, this revenue collection was 22% lower than the budgeted revenue. As at September 2019, the FIRS had collected a total revenue of ₦4.01 trillion against a budget of ₦6.6 trillion. Therefore, this study aims at establishing empirically the relative impact of crude oil revenue on the Economic growth of Nigeria.

The growth of any Economy dependent on the available material and human resources. This is why there have been a growing interest on the contribution of the petroleum and non-petroleum sector to the Nigerian Economy. Therefore, the specific objective of this study was to find out the impact of crude oil revenue on economic growth in Nigeria from 1981-2020 and base on the above objectives, the following null hypothesis: crude oil revenue does not affect economic growth in Nigeria was tested. Study believed that the result will

direct government to promote and invest more in the oil and the non-oil sector. The outcome of this study will also guide the government, researchers, student and the private sector as a source of information (data) in their field of study. The study will also provide a platform for directing and regulating the oil industry. It will equally serve as a source of information for the policy makers and stakeholders in the industry.

The study examines the impact of crude oil on the economic growth of Nigeria from 1981-2020. The study employed Real GDP as the dependent variable while oil revenue, non-oil revenue, government expenditure and exchange rate were employed as the independent variables. In achieving this, the Ordinary Least Square (OLS) technique was employed, given its property of BLUE (best linear unbiased estimator), the Augmented Dickey Fuller (ADF) unit root was also employed to guide against spurious regression and to estimate for the stationarity.

The study covers the period of 1981-2020 to examine the impact of crude oil revenue on economic growth of Nigeria. This 40 year was chosen because it will enable the observation for the research work compensate for degree of freedom that could have lost. The remaining session will dwell on the literature review, methodology, presentation of results, conclusion and recommendations.

LITERATURE REVIEW

The theoretical background of this work was form from the following theories: the resources curse theory, environment externalities theory, the staple theory, the Harrod-Domar (H-D) theory of economic growth, the classical growth theory, and the traditional neo-classical growth model. However, for the purpose of this study, we look at the resources curse theory and the staple theory. These theories argued that a neglect of important sectors such as manufacturing, service etc will result to a negation relationship between revenue from mineral export and economic growth.

Empirical Literature

Nenubari, *et al* (2021), examined economic growth and crude oil in Nigeria: A control for industrial shocks using Auto Regressive Distribution Lag (ARDL) and concluded that the size of individual income in Nigeria is sensitive to the explorative environment of the Nigerian oil industry. Asagunla and Agdbede (2018), also examined the contribution of oil revenue to Nigerian output growth for the period of 1981 to 2014, using Beghebo and Atima model with little modification, the study employed fully modified ordinary least squared method (FMOLS) to examine the relationship with data covering the period 1981-2014. The study discovered that, oil revenue does not have short run impact but has a long run on the economic activities of Nigeria. The paper recommends, that the government should effectively and efficiently utilize the oil fund into

strategic developmental projects so as to reduce the rate of poverty and facilitate output growth. Sunday (2014), investigated the Impact of crude Oil Export on Economic growth in Nigeria using data from (1970-2010). Time series data were employed through the use of Ordinary Least Square (OLS) estimation techniques. His result, revealed that there exists a negative relationship between growth rate of RGDP and growth rate of crude oil export revenue in Nigeria, with coefficients value of 0.79. Crude oil export has a negative but insignificant coefficient value of -0.065 with RGDP growth. Overall, the Durbin-Watson value of 2.4 shows the absence of auto-correlation. The study, also showed a result of R^2 value of 0.76 and F-test value of (31.66), which uphold to the fact that, the entire explanatory variables were statistically significant at all level with a probability value of 0.0000. Therefore, the study concluded that there was a negative relationship between crude oil export and economic growth in Nigeria; as most of the revenue gains are loss to corruption menace in the country and thus, recommend that diversification of the economy is a crucial step towards economic growth and development and that corruption in the system should be reduced to the minimum.

Omo A. and Bashir O. K. (2015), studied the relationships among oil revenue, government spending, and economic growth in Nigeria. In their study they 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. 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. The study therefore suggested that government should increase spending on capital projects as well as intensify efforts at increasing output in the oil sub-sector in order to boost economic growth in Nigeria.

Nwoba and Abah, (2017), examined the impact of crude oil revenue on the growth of the Nigerian economy between (1960-2010). Hence the specific objectives are to ascertain the extent of economic growth impacted by the oil proceeds and multinational oil companies in Nigeria and also to establish the long run relationship between crude oil proceeds and Gross domestic product (GDP). The findings revealed the extent of economic growth impacted by the oil industries was significant based on the ordinary least square (OLS) regression analysis result where the calculated F-Statistics of (212.1293) is greater the tabulated F-statistics of (5.35147). The study also found the long run positive relationship between oil revenue and gross domestic product.

Okonkwo and Madueke (2016), examined the impact of Petroleum Revenue and Economic development and find out that Petroleum revenue has increased but economic development in Nigeria is not commensurate with the rise in petroleum revenue. The study used single linear regression models to test the impact of petroleum revenue on economic development of Nigeria between 1980 and 2013. The results showed that petroleum revenue has an insignificant effect on economic development of Nigeria in the short run and the long run. The study recommends that Government must therefore diversify the economy via promotion and creating enabling environment for non-oil sector development in Nigeria

Nweze and Greg (2016), empirically investigated oil revenue and economic growth in Nigeria between 1981 to 2014. Secondary data on gross domestic product (GDP), used as a proxy for economic growth; oil revenue (OREV), and government expenditure (GEXP) which represented the explanatory variables were sourced mainly from CBN publications. In the course of empirical investigation, various advanced econometric techniques like Augmented Dickey Fuller Unit Root Test, Johansen Cointegration Test and Error Correction Mechanism (ECM) were employed and the result reveals among others: That all the variables were all stationary at first difference, meaning that the variables were not integrated of the same order justifying cointegration and error correction mechanism test. The cointegration result indicated that there is long run relationship among the variables with three cointegrating equation(s). The result of the error correction mechanism (ECM) test indicates that all the variables except lag of government expenditure exerted significant impact on economic growth in Nigeria. However, all the variables exhibited their expected sign in the short run but exhibited negative relationship with economic growth in the long run except for government expenditure, which has positive relationship with economic growth both in the long run and short run. The study concluded that Government should use the revenue generated from petroleum to invest in other domestic sectors such as Agriculture and manufacturing sector in order to expand the revenue source of the economy and further increase the revenue base of the economy. Odularu (2008) and Ibeh (2013), examined the relationship between the crude oil sector and the Nigerian economic performance, using the Ordinary Least Square regression method, the study revealed that crude oil consumption and export contributed to the improvement of the Nigerian economy. The study recommends that government should implement policies that would encourage the private sector to participate actively in the oil sector.

However, Odularu (2008), finds a positive relationship between oil sector and the Nigeria economic performance.

Akinlo (2012) assessed the importance of oil in the development of the Nigerian economy in a multivariate VAR model over the period 1960-2009. He modelled oil sector against other four sectors i.e. manufacturing, agriculture, trade, service and building and construction. Empirical evidence shows that the five subsectors are cointegrated and that the oil can cause other non-oil sectors to grow. However, oil had adverse effect on the manufacturing sector. Granger causality test finds bidirectional causality between oil and manufacturing, oil and building and construction, manufacturing and building and construction, manufacturing and trade and services, and agriculture and building and construction. It also confirms unidirectional causality from manufacturing to agriculture and trade and services to oil. No causality was found between agriculture and oil, likewise between trade and services and building and construction. The paper recommends appropriate regulatory and pricing reforms in the oil sector to integrate it into the economy and reverse the negative impact of oil on the manufacturing sub sector.

The works of Nwezeaku (2010), Shihab (2001) and Ibaba (2005) provided evidence to contradict the facts that abundance of natural resources do not really spur economic growth but rather leads to several ethnic crisis and civil unrest. At the same vein Sachs and Warner (1997), provide empirical evidence to explain the slow growth in Sub Saharan Africa from 1965-1990. They hypothesize that, factors such as geography, economic policy, demography and initial conditions all explain the growth in Africa in recent decades. Therefore, they run regressions using a variety of variables as determinants of growth and estimate a variety of factor which were shown to influence growth in Africa. Natural resource endowments were found to correlate with slower growth as the work from Sachs and Warner (1995) also showed. The regression showed that as natural resource exports increased GDP by .1, growth was projected to decrease by .33 percentage points annually (Sachs and Warner, 1997). Ibaba (2005) posits that the Nigeria economy has been facing developmental crisis such as high level of poverty, declining economic growth, collapse of local economics and social infrastructure.

METHODOLOGY

Research design stipulates the framework for finding solution to the problems of study. This study performs a time series analysis by examining the relationship between crude oil revenue and real GDP in

Nigeria, using secondary data. The study covers a period of forty years (1981 – 2020) using the ex-post facto research design. Ex Post Facto design uses historical information in studying existing phenomenon, with the intent of using the result to understand the current trend. For the purpose of this study, Real GDP, which measures the economic performance of a country over a period of time as a proxy for economic growth as the dependent variable was adopted in the model, while the independent variables were; oil revenue (OILREV), non-oil revenue (NOILREV), government expenditure (GEXP) and exchange rate (EXCHR). The data were sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, volume 31, 2020.

Given our variables of interest, our model can be mathematically depicted as follows;

$$RGDP = OILREV \text{ NOILREV } GEXP \text{ EXCHR} \quad (1)$$

We express the above mathematical relationship into functional relationship as follows;

$$RGDP = f(OILREV \text{ NOILREV } GEXP \text{ EXCHR}) \quad (2)$$

We further, transform the functional relationship into an econometric model, which gives the following;

$$RGDP_{i,t} = \beta_0 + \beta_1 OILREV + \beta_2 NOILREV + \beta_3 GEXP + \beta_4 EXCHR + \varepsilon_{i,t} \quad (3)$$

Where;

RGDP= Real Gross Domestic Product

OILREV= Oil Revenue

NOILREV= Non-Oil Revenue

GEXP= Government Expenditure

EXCHR= Exchange Rate

We employed the use of Ordinary Least Square Method as the Best Linear Unbiased Estimator. Finally, all statistical estimation was done using E-Views 10⁺ statistical software.

Presentation of Result and Discussion of findings

The following diagnostic tests were conducted to make sure that the estimated results from the econometrics analysis are reliable.

Presentation of Result

The following diagnostic tests were conducted to make sure that the estimated results are reliable, namely: Unit Root, Multicollinearity, Normality Test, Spurious Regression, Serial Correlation and Heteroskedasticity Test.

Unit Root Test

Table 1: Unit Root Test Results

Variables	ADF Test	Remarks	PP Test	Remarks
RGDP	-2.565434*	I(1)	-2.755444*	I(1)
OILREV	-6.564342*	I(0)	-6.186554*	I(0)
NOILREV	-6.075343**	I(0)	-8.567433**	I(0)
GEXP	-4.435676*	I(0)	-5.656416*	I(0)
EXCHR	-4.658393*	I(0)	-4.542242*	I(0)

Critical Values of ADF Test:

1% level = -4.252879

5% level = -3.548490

10% level = -3.207094

Critical Values of PP Test:

1% level = -4.252879

5% level = -3.548490

10% level = -3.207094

*/**/***, indicates significance at 1%, 5% & 10% respectively.

Test includes Trend and Intercept

Source: Author’s Computation Using Eviews 10+

Stationarity implies that the mean, variance and covariance are constant across different periods. Existence of unit roots can lead to serious issues such as; spurious regressions and errant behaviour variables, due to econometric assumptions for analysis not being valid. The study utilized the Augmented Dickey Fuller (ADF) and Phillip Perron (PP) test to access the order of integration amongst the variables. From Table 1, all variables were stationary at levels I(0), apart from RGDP. Multicollinearity.

model. This research tested for the presence of multicollinearity using both the VIF (Variance Inflation Factor) and the pairwise correlation matrix. If the VIF is greater than 10 or less than 1, then multicollinearity is said to exist in the model. Likewise, according to Gujarati (2006), if the pair-wise correlation among the independent variables is greater than 80%, then multicollinearity is said to have occurred. From table 2 below, the results showed that the VIF (Variance Inflation Factor) ranges from 1 to 4, for all variables. The highest been 4.958584 for OILREV (Oil Revenue) and the lowest been 1.588459 for RGDP (Real GDP).

Multicollinearity occurs when there is a strong correlation between the independent variables in a

Table 2: Multicollinearity Test (Variance Inflationary Factor)

Variable	Coefficient	Centered
	Variance	VIF
RGDP	2.575781	1.588459
OILREV	2.915674	4.958584
NOILREV	2.04E-07	2.957574
TEXP	3.02E-04	1.738921
EXCHR	2.773719	2.038282

Source: Author’s Computation Using Eviews 10+

Spurious Regression

As a rule of thumb, if the $R^2 >$ Durbin-Watson statistics, spurious regression is said to have occurred in the model. From figure 1 below, the results confirmed

the absence of spurious regression, since the value of R^2 (0.957722) is less than DW statistics of 2.088360.

Normality Test

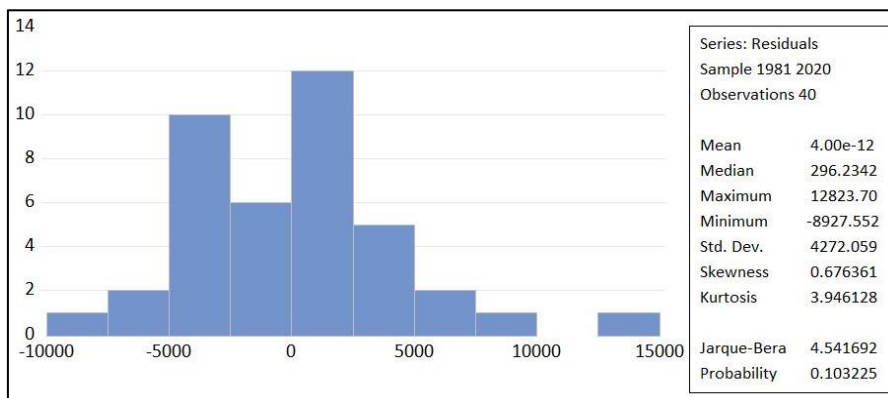


Figure 1: Residual Normality Tests

The Jarque-Bera test is a statistical process used to determine, if a sample or any group of data fits a standard normal distribution. The result of the Jarque-Bera normality test (4.541692) with a probability value of 0.103225 in figure 1 above, indicates that the model residuals are normally distributed because the probability value is greater than 0.05 %, (p-value > 0.05).

Serial Correlation

Serial correlation occurs in a time series, when a variable and lagged version of itself (for instance a

variable at times T and T₁) are observed to be correlated with one another over a period of time or over various time intervals is termed serial correlation. Table 3 below shows, that the F-Statistics at lag 2 with p-value of 0.4522 indicates the absence of serial correlation in the model since the p-values are greater than the critical value at 5% level of significance. It further reaffirms the Durbin-Watson statistics of 2.088360 as shown in Table 4 below. Thus, we can conclude that there is absence of serial correlation in the model.

Table 3: Breusch-Godfrey Serial Correlation LM Test:

Null hypothesis: No serial correlation up to 2 lag			
F-statistic	0.003523	Prob. F(2,15)	0.4522
Obs*R-squared	0.003450	Prob. Chi-Square (2)	0.2551

Source: Author's Computation Using Eviews 10+

Heteroskedasticity

Heteroskedasticity occurs when the residuals for a regression model do not have a constant variance. Table 4, below indicates that the ARCH Heteroskedasticity test with F-statistics value of 0.055329 and a p-value of 0.5321 confirms the absence of Heteroskedasticity in the model since its p-values are greater than the critical values at 5% level of significance.

Also in table 5 below, the co-efficient of determinant (R Square) of 0.966366 suggests that about 96.63% of the variation in dependent variable; Real GDP is explained by the independent variables (Oil Revenue,

Non-Oil Revenue, Government Expenditure and exchange rate). The 3.37% variance in Real GDP is explained by other factors not captured in this research. Also, the standard error of 16.23742, indicates that on the average, 16.23% of changes in the dependent variable; Real Gross Domestic Product (RGDP) will not be explained by the independent variables.

Also, the F-statistic of 251.4048 with a p-value of 0.00000 suggests that the model is significant at a 1% level. While the Durbin-Watson statistic of 2.088360 indicates the absence of autocorrelation or serial correlation in the model.

Table 4: Heteroskedasticity Test: ARCH

F-statistic	0.055329	Prob. F(1,21)	0.5321
Obs*R-squared	0.045951	Prob. Chi-Square (1)	0.5952

Source: Author's Computation Using E-views 10+

Table 5: OLS Estimates

Dependent Variable: RGDP				
Method: Least Squares				
Date: 08/10/21 Time: 19:03				
Sample: 1981 2020				
Included observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
OILREV	-2.083536	0.372696	-5.590442	0.0000
NOILREV	12.71015	2.699827	4.707765	0.0000
GEXP	-3.018010	1.573972	-1.917450	0.0634
EXCHR	60.29329	20.10341	2.999157	0.0050
C	16763.67	997.3317	16.80852	0.0000
R-squared	0.966366	Mean dependent var	35593.67	
Adjusted R-squared	0.962522	S.D. dependent var	20776.95	
S.E. of regression	16.23742	Akaike info criterion	19.55353	
Sum squared resid	5.66E+08	Schwarz criterion	19.76464	
Log likelihood	-386.071	Hannan-Quinn criter.	19.62987	
F-statistic	251.4048	Durbin-Watson stat	2.088360	
Prob(F-statistic)	0.000000			

Test of Hypothesis

In accepting or rejecting our null hypothesis the p-values of the t-statistic were used. The study adopted 10% level of significance. As p-values in excess of 10% were considered not significant. As shown in table 5. above, the OLS estimate suggests that a significant (0.0000) and negative (-2.083536) relationship exists between oil revenue and Real GDP in Nigeria. Hence, we reject the null hypothesis that uphold the view that, there is no significant relationship between crude oil revenue and real GDP in Nigeria.

DISCUSSION OF FINDINGS

Four explanatory variables were taken into account namely; oil revenue, non-oil revenue, government expenditure and exchange rate to examine their impact on real GDP in Nigeria. However, the variables “non-oil revenue, government expenditure and exchange rate” were inserted into the OLS equation as control variables to moderate for the effect of oil revenue on Real GDP in Nigeria. Our OLS model suggests that oil revenue has a negative and significant impact on real GDP in Nigeria; while non-oil revenue was observed to have a positive and significant relationship with real GDP. The negative relationship as shown between oil revenue and real GDP in Nigeria, buttressed by the Resource Curse Theory, which states that “resource rich countries, like Nigeria is not properly utilizing her revenue earnings from mineral resources to ultimately enhance the welfare of her citizen. Furthermore, our findings was buttressed by those of Ndem, (2021), Asegunle and Agdbed (2018), Sunday (2014), Ibeh (2013) and amongst others.

CONCLUSION AND RECOMMENDATION

Our findings revealed that over time increases in oil revenue brings about a fall in the Real GDP of the Nigerian economy; while increases in non-oil revenue and government expenditure triggers a spike in real GDP. This shows that non-oil revenue drives the economy as opposed to oil revenue. Furthermore, these findings throw insights to the fact that the enormous wealth gotten from crude oil sales has not been properly channelled to the appropriate sectors of the economy; indicating that the economy is bedeviled with the Dutch Disease or paradox of plenty.

Owing to the pivotal nature of crude oil revenue in Nigeria, its contribution to economic growth and development cannot be overemphasized; if adequately utilized and channelled to critical infrastructural development and key sectors in the economy. Hence to this extent, the study recommends that;

1. Government should refine her crude oil domestically to harness the full potential in the sector.
2. Government should promote transparency and openness in the administration of the petroleum sector and channel revenue towards the diversification of the economy.

3. The market forces of demand and supply should be allowed to determine the price of petroleum products in the country. This will eventually lead to the total removal of subsidies, thereby bring more investment to the sector in the long run.
4. Considering the positive impact of non-oil revenue on economic growth, this study recommends that government of Nigeria should channelled the crude oil revenue to other sector of the economy to burst economic growth that will lead to the reduction in poverty, inequality and unemployment as postulated by (Seers, 1969).
5. The study also recommends that government should implement policies that would encourage the private sector to participate actively in the crude oil sector.

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