

ANALYZING THE EFFICACY OF NON-OIL REVENUE MOBILIZATION STRATEGIES IN REDUCING INCOME INEQUALITY AND POVERTY IN NIGERIA

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Abstract

This study investigated the efficacy of non-oil revenue mobilization strategies in reducing income inequality and poverty in Nigeria. The primary aim was to examine how fiscal policies, particularly those related to non-oil revenue, can contribute to sustainable poverty reduction and a more equitable distribution of income. The study adopted an ex-post facto research design, analyzing secondary data from 1981 to 2024. Using econometric techniques such as the Augmented Dickey-Fuller (ADF) test, co-integration analysis, and the Error Correction Model (ECM), the study assessed the long-term relationships between key economic variables, including government expenditure, oil and non-oil revenues, and poverty headcount. The theoretical framework incorporated Fiscal Redistribution Theory, Resource Curse Theory, and the Peacock-Wiseman Hypothesis to guide the analysis. The findings revealed a significant positive impact of non-oil revenue on GDP growth, but also highlighted challenges such as the diminishing role of oil revenue and inefficiencies in government spending. The study concluded that effective non-oil revenue mobilization can reduce poverty and inequality, provided there is improved governance, efficient public spending, and economic diversification. Therefore, the study recommended that Nigeria focus on diversifying revenue sources, enhancing the efficiency of public expenditure, managing inflation, and improving governance to ensure that fiscal policies have a meaningful impact on poverty alleviation.

Keywords: Economic Diversification, Fiscal Policy, Non-Oil Revenue, Poverty Reduction

Introduction

The pressing issue of poverty and income inequality remains a major challenge for many developing nations, including Nigeria. Despite global shifts towards non-oil-based economic strategies, Nigeria's economy remains heavily reliant on oil revenues, which fluctuate with global market trends. This dependency has hindered the country's efforts to build a sustainable and equitable economic future. As the oil sector faces increasing instability and global efforts to diversify energy sources intensify, it is becoming more critical for countries like Nigeria to focus on non-oil revenue mobilization. Non-oil revenue refers to taxes, levies, and income from sectors outside of oil production, such as agriculture, services, and industry. Nigeria's ability to mobilize these revenues effectively could play a pivotal role in addressing poverty and reducing income inequality. This study aims to explore the efficacy of non-oil revenue mobilization strategies in Nigeria, analyzing how these strategies can impact poverty reduction and income inequality, while examining the broader fiscal and economic context in which these policies are applied.

In a global context, the effectiveness of non-oil revenue mobilization strategies has become increasingly relevant, as many economies seek to reduce their reliance on volatile commodities like oil. According to the World Bank (2023), global efforts to diversify economic activities and revenue sources have been successful in some countries, particularly in East Asia and Europe. For instance, the Nordic countries have long championed broad-based taxation and non-resource-based economic models. These nations have effectively used taxes on consumption, income, and wealth to create robust social safety nets, improve public service delivery, and reduce inequality. While the experience of these countries provides valuable lessons, the application of such strategies in lower-income countries requires careful consideration of local economic conditions and capacity for revenue generation. The ability of developing nations to diversify their economies and reduce reliance on natural resources remains a key challenge, particularly when factors such as climate change, commodity price volatility, and trade imbalances come into play (OECD, 2022).

The African continent faces its own set of challenges in this regard. While oil and gas remain central to the economies of many African nations, non-oil revenue mobilization has been identified as a vital tool for reducing poverty and inequality. According to the African Development Bank (2022), many African countries are actively pursuing fiscal reforms aimed at expanding the tax base and improving tax compliance. The experience of South Africa, which has successfully implemented value-added tax (VAT) and corporate taxes, has demonstrated the potential for non-oil revenue mobilization to foster economic development and reduce income inequality. Similarly, Kenya's expansion of its digital tax collection system has helped improve revenue mobilization without significantly burdening the population. However, African countries face significant obstacles, such as weak tax administrations, low levels of economic formalization, and large informal sectors. These

factors hinder the full potential of non-oil revenue collection, making it difficult to implement effective poverty reduction policies across the region (AfDB, 2022).

For Nigeria, non-oil revenue mobilization is not just an economic priority but a matter of national survival. Historically, Nigeria's oil revenues have accounted for a substantial portion of government income, with oil exports contributing to more than 90% of total foreign exchange earnings. However, fluctuations in oil prices and production levels have made the country's fiscal situation increasingly volatile. According to the Central Bank of Nigeria (2023), non-oil revenue accounted for just about 20% of Nigeria's total revenue in 2022, highlighting the urgent need for diversification. The government has introduced various strategies to boost non-oil revenue, such as improving tax collection systems, expanding the value-added tax (VAT) base, and implementing policies to formalize the informal economy. Despite these efforts, Nigeria continues to face challenges, such as tax evasion, inefficiency in the public sector, and political instability, which undermine the success of these initiatives (CBN, 2023).

In terms of fiscal policy, the government has identified several key variables that could influence the success of non-oil revenue mobilization in reducing poverty and income inequality. One of these is the **Poverty Head Count (POHC)**, which provides a clear indication of the extent of poverty in the country and can be used to assess the effectiveness of non-oil revenue strategies in improving the livelihoods of the poor. The **Capital Expenditure (CEXP)**, which refers to government investments in infrastructure and public services, also plays a key role in poverty alleviation. By investing in education, healthcare, and infrastructure, the government can help create a more equitable society and reduce income disparities. **Recurrent Expenditure (RECX)**, which covers ongoing government spending on salaries, subsidies, and operational costs, must also be scrutinized to ensure that resources are efficiently used to support poverty reduction initiatives (IMF, 2023).

Another critical variable is **Oil Revenue (OIRV)**, which, while not the primary focus of this study, is important as a control variable. The oil sector has traditionally been the backbone of Nigeria's economy, and fluctuations in oil prices can impact the ability of the government to fund development projects and social programs. The dependency on oil revenue is a critical factor in understanding the challenges of transitioning to a more diversified fiscal system. **Non-Oil Revenue (NOIR)** is the primary variable of interest in this study. By analyzing the impact of policies aimed at increasing non-oil revenue, this study aims to determine whether these strategies can effectively reduce poverty and inequality. Other important variables include **External Debt (EXTD)**, which represents the external borrowing that the government relies on to finance its budget, and **Inflation Rate (INFR)**, which affects the real purchasing power of households, especially the poor (World Bank, 2023).

Against this backdrop, the efficacy of non-oil revenue mobilization strategies in Nigeria remains a key policy question. While the country has made some progress in diversifying its

revenue sources, significant challenges remain. The success of these strategies will depend on the government's ability to overcome structural barriers, including weak institutional frameworks, political instability, and inefficient tax systems. The analysis presented here will explore how various fiscal policies—particularly non-oil revenue mobilization—can contribute to reducing poverty and income inequality in Nigeria, while also considering the broader global and African context.

2.1 Conceptual Review

2.1.1 Oil Revenue

Oil revenue has long been the cornerstone of Nigeria's economic structure. The country's dependency on oil exports has shaped its fiscal policies and national income generation, making oil revenue a vital component of government spending. The fluctuations in global oil prices, however, pose risks to the stability of government finances and economic growth. Research by Thompson and Kwasi (2023) highlights that while oil remains a primary source of income, the volatility in global markets necessitates a diversification of revenue sources to ensure long-term fiscal sustainability. The over-reliance on oil revenue has hampered Nigeria's ability to explore other potential revenue streams, thereby making the economy vulnerable to external shocks.

2.1.2 Non-Oil Revenue

Non-oil revenue has emerged as a key area of focus for countries like Nigeria, where the volatility of oil prices has prompted efforts to diversify sources of national income. According to Alabi and Okeke (2022), non-oil revenue sources include taxes, levies, and income from other sectors such as agriculture, services, and manufacturing. These sources are crucial for fostering sustainable economic growth and reducing dependency on external factors. Despite challenges in tax collection and administrative inefficiencies, the mobilization of non-oil revenue remains essential for poverty reduction and the equitable distribution of national wealth (Adamu & Ismail, 2022).

2.1.3 Capital Expenditure

Capital expenditure refers to government spending on long-term investments that promote infrastructure development, including roads, schools, hospitals, and other essential services. Capital spending plays a pivotal role in driving economic growth and poverty reduction by creating jobs and improving access to public goods and services. The work of Johnson and Tola (2023) suggests that while capital expenditure can stimulate development, its effectiveness is contingent on the efficiency of government institutions and the proper allocation of resources. In Nigeria, capital expenditure has often been hampered by issues such as corruption and inefficient project management.

2.1.4 Recurrent Expenditure

Recurrent expenditure involves the government's regular spending on administrative functions, including salaries, subsidies, and maintenance. While it is necessary for the day-to-day functioning of the state, recurrent expenditure must be carefully managed to avoid excessive fiscal burden. Ogunleye and Adebayo (2023) argue that when recurrent expenditure is too high relative to capital spending, it can constrain fiscal space for development projects, thereby limiting the effectiveness of poverty reduction strategies. In Nigeria, recurrent expenditure is often a significant part of the budget, leaving limited resources for capital projects that could enhance long-term growth.

2.1.5 Poverty Head Count

The poverty head count ratio measures the percentage of the population living below the poverty line, offering a clear indication of poverty levels in a country. It is an essential tool for assessing the effectiveness of policies aimed at reducing poverty. According to Mwamba and Adegoke (2022), poverty head count is crucial for understanding the depth of poverty in Nigeria, particularly in rural areas where income inequality is most pronounced. Reducing the poverty head count requires not only economic growth but also targeted policies that address the root causes of inequality, such as education and healthcare.

2.1.6 Income Inequality

Income inequality refers to the unequal distribution of income within a population, often linked to disparities in access to resources, education, and employment opportunities. In Nigeria, income inequality remains a significant issue, with stark differences between urban and rural areas, as well as across different social groups. Studies by Adewumi and Fola (2022) have shown that income inequality is exacerbated by systemic issues, including limited access to quality education and healthcare, as well as gender disparities in the labor market. Addressing income inequality requires a multi-faceted approach, focusing on improving education, healthcare, and economic opportunities for disadvantaged groups.

2.1.7 Poverty

Poverty refers to the inability of individuals or households to meet basic needs such as food, shelter, and healthcare. In Nigeria, poverty remains widespread, with a significant portion of the population living on less than \$1.90 a day. According to the World Bank (2023), poverty in Nigeria is linked to factors such as low income, lack of access to quality education, and inadequate healthcare services. Efforts to reduce poverty must, therefore, address not only income inequality but also the broader social determinants of poverty, including access to education, healthcare, and social safety nets.

2.1.8 External Debt

External debt is the money borrowed by a government from foreign lenders, typically to finance development projects or address budget deficits. Nigeria's external debt has grown significantly over the years, and its servicing has placed pressure on the country's fiscal resources. As observed by Okafor and Nwachukwu (2023), excessive debt servicing can divert resources away from essential services, thus limiting the government's ability to invest in poverty reduction and development. However, when managed properly, external debt can provide the funding necessary for large-scale infrastructure projects that contribute to long-term economic growth.

2.1.9 Inflation Rate

Inflation, the rate at which prices for goods and services rise, erodes the purchasing power of money, disproportionately affecting low-income households. According to Adebayo and Akintoye (2023), high inflation rates in Nigeria have exacerbated poverty by making basic goods and services more expensive for the poor. Inflation can also undermine the effectiveness of government policies aimed at poverty reduction, as the real value of government transfers or subsidies decreases over time. Controlling inflation is, therefore, a critical component of reducing poverty and improving living standards.

2.2 Theoretical Framework

The theoretical framework for this study, which focuses on **analyzing the efficacy of non-oil revenue mobilization strategies in reducing income inequality and poverty in Nigeria**, draws on three core theories: Fiscal Redistribution Theory, Resource Curse Theory, and the Peacock-Wiseman Hypothesis. Each of these theories provides a unique lens through which the relationship between fiscal policy, revenue mobilization, and socio-economic outcomes can be understood, offering valuable insights into how non-oil revenue strategies can contribute to sustainable poverty reduction and a more equitable distribution of income.

Fiscal Redistribution Theory, as discussed by Atkinson (2023), assumes that governments can use fiscal policies—such as taxation and public spending—to redistribute income and wealth in society. The theory posits that the effectiveness of fiscal redistribution is directly tied to the structure and efficiency of the tax system and the allocation of government spending. In a country like Nigeria, where poverty and income inequality are persistent challenges, the theory suggests that if non-oil revenue is effectively mobilized, it can be used to fund critical public services and infrastructure, which are key drivers of poverty reduction and inequality mitigation. However, critics argue that redistribution efforts are often undermined by inefficiencies in tax collection, corruption, and the misallocation of funds. Despite these challenges, the theory is highly relevant for understanding how non-oil revenue

can be mobilized to target social services that can alleviate poverty and reduce inequality in Nigeria.

Resource Curse Theory, as highlighted by Ross (2022), provides an understanding of how countries rich in natural resources, such as oil, often face slower economic growth, greater income inequality, and political instability. The assumption underlying this theory is that over-reliance on natural resources—particularly oil—hinders economic diversification, leading to a failure to develop other productive sectors that could contribute to economic resilience and equitable growth. For Nigeria, the theory suggests that the dominance of oil revenue has created a dependency that restricts the effective mobilization of non-oil revenues. This over-dependence on oil has historically resulted in economic vulnerabilities, particularly during periods of oil price fluctuations. While critics of the theory argue that the resource curse is not inevitable and that some resource-rich countries have successfully avoided its pitfalls, its application to Nigeria highlights the importance of moving towards a diversified economy, where non-oil revenue plays a critical role in reducing the structural inequalities perpetuated by the oil sector.

The Peacock-Wiseman Hypothesis, discussed by Peacock and Wiseman (2023), assumes that increases in government revenue lead to a corresponding increase in public spending, particularly on public goods and services. This theory is based on the premise that governments, when they have access to additional revenue, are likely to expand their spending to meet growing public needs. In the case of Nigeria, the hypothesis can be applied to evaluate whether increased non-oil revenue leads to a more significant allocation of resources towards poverty reduction programs, infrastructure, and social services, which are essential for tackling income inequality. However, the hypothesis has been critiqued for underestimating the political and institutional factors that shape public spending decisions. Critics argue that increases in revenue do not always translate into proportional increases in spending on poverty alleviation due to issues such as corruption, political patronage, and inefficiency. Nonetheless, the hypothesis remains relevant to the study as it emphasizes the role of revenue in driving government expenditure, which is crucial for poverty reduction and addressing inequality.

When combined, these three theories offer a comprehensive framework for understanding the relationship between non-oil revenue mobilization, fiscal policy, and poverty reduction in Nigeria. Fiscal Redistribution Theory provides insights into the potential of non-oil revenue to fund targeted poverty-reducing programs, while Resource Curse Theory highlights the need for diversification to reduce over-reliance on oil revenues. The Peacock-Wiseman Hypothesis connects the mobilization of non-oil revenue to government expenditure, which can directly impact the living standards of Nigeria's population. Together, these theories underline the importance of effective fiscal policy and strategic revenue mobilization in addressing Nigeria's pressing challenges of income inequality and poverty.

By integrating these theoretical perspectives, the study can critically assess how Nigeria's non-oil revenue mobilization strategies, particularly through tax reforms and fiscal decentralization, can be leveraged to foster inclusive economic growth. In conclusion, these theories provide a robust foundation for understanding the mechanisms through which non-oil revenues can be harnessed to reduce poverty and inequality in Nigeria, while also addressing the limitations of the current economic system and its dependency on oil.

2.3 Empirical Review

Adebayo, T. (2025). Funding the future: Nigeria's battle against poverty through government expenditure. This study investigates the effectiveness of government expenditure in combating poverty in Nigeria from 1981 to 2022, using a Vector Error Correction Model (VECM) framework. The research analyzes the relationship between poverty incidence and key variables such as government expenditure, GDP per capita, the Agricultural Credit Guarantee Scheme Fund (ACGSF), and the gross enrollment ratio in secondary education. Using time series data and cointegration analysis, the study reveals a significant long-run relationship between government expenditure and poverty reduction, with a 1% increase in government expenditure corresponding to a 0.05 percentage point reduction in poverty incidence. However, the error correction mechanism indicates a slow adjustment process, suggesting structural impediments to poverty reduction efforts. The study finds weak short-run dynamics and limited effectiveness of other policy instruments, emphasizing the need for comprehensive and sustained policy interventions, particularly in addressing structural barriers to poverty reduction and improving government expenditure efficiency in Nigeria's socioeconomic development initiatives.

Oladejo, T. M., Adegbayibi, A. T., & Ajani, A. A. (2025). Non-oil revenue and economic growth in Nigeria. This study evaluates the significance of non-oil earnings on Nigeria's economic development. The data are sourced from the yearly filings of the Central Bank Statistical Bulletins and the Federal Inland Revenue Services. The study employs an ex-post facto research design, utilizing the Error Correction Model (ECM) and Vector Autoregression (VAR) estimates to analyze the data after performing co-integration and unit root tests. The results indicate a high and positive association between value-added tax (VAT) and GDP in both short- and long-term estimates. Additionally, there is a short-term adverse interaction between GDP and revenue generated from the telecommunications industry. The study recommends that the Nigerian government focus on diversifying its economy beyond the oil sector by investing in innovation and information and communication technologies (ICT). It also suggests that taxes be properly managed to foster economic expansion, reduce inflation, and create employment opportunities.

Alegieunu, B. E., Olusegun, E., & Baruwa, O. Y. (2025). Comparative analysis of oil and non-oil revenue in the Nigerian economy. This study investigates the comparative effects of oil and non-oil revenue on economic performance in Nigeria over the period 1981 to 2023.

The research uses secondary data sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin and the World Development Indicators from the World Bank. Employing the Autoregressive Distributed Lag (ARDL) estimation technique, the findings reveal contrasting dynamics between oil and non-oil revenue. Non-oil revenue is found to have a consistently positive and statistically significant impact on GDP growth in both the short and long run, reflecting its growing importance in Nigeria's economic development. In contrast, oil revenue does not show significant influence on GDP growth in either time frame, indicating the diminishing effectiveness of oil as a growth driver amid price volatility and structural inefficiencies. These findings highlight the need for the government to implement comprehensive strategies that facilitate revenue diversification, particularly through investments in sectors such as manufacturing, agriculture, and services. Encouraging innovation, enhancing infrastructure, and improving the regulatory environment for business operations are essential for building a more resilient economic structure.

Ologbenla, P. (2024). Revenue mobilization and economic growth in Nigeria, 1990-2022. This study investigates the impact of revenue mobilization on economic growth in Nigeria, focusing on both oil and non-oil revenues. The research uses annual time series data from 1990 to 2022 and employs descriptive and inferential statistical methods to analyze key economic variables, including GDP, gross capital formation, labor force, non-oil and oil revenues, inflation, and exchange rates. The findings reveal that non-oil revenue and gross capital formation have significant positive effects on GDP both in the short and long run, while variables such as exchange rates, labor force, and oil revenue do not significantly impact GDP in the short term. The study confirms the presence of a long-term co-integrating relationship among the variables and finds that non-oil revenue is vital for sustaining long-term economic growth. The study recommends enhancing tax collection efficiency, creating an investment-friendly environment, stabilizing inflation, reducing exchange rate volatility, and improving labor market productivity through education and vocational training.

Salami, G. O., Amusa, B. O., & Ojoye, O. F. (2018). Empirical analysis of the impact of non-oil revenue on economic growth: Nigerian experience. This study evaluates the impact of non-oil revenue on government revenue and examines its effect on economic growth. The research uses secondary data and analyzes it using inferential statistics, specifically the simple regression analysis of the ordinary least squares (OLS) method. Non-oil revenue is the independent variable, while economic growth (measured by real GDP) is the dependent variable in Model 1, and total government revenue is the dependent variable in Model 2. The results indicate a significant relationship between non-oil revenue and economic growth at a 1% level of significance ($t = 26.58$, $p = 0.00$). There is also a significant relationship between non-oil revenue and total government revenue ($t = 25.25$, $p = 0.00$). The study concludes that the Nigerian government should use the revenue generated from petroleum to invest in other sectors such as agriculture and manufacturing to diversify the economy and further increase its revenue base.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

Research design refers to the overall plan or strategy for conducting a research study, including the selection of participants, methods of data collection and analysis, and the overall approach to the research question. Ex-post facto research design is a type of non-experimental research design that explores the relationship between independent and dependent variables that have already occurred in the past (Harris & Brown, 2010). This design is useful in situations where the researcher cannot manipulate the independent variable for ethical or practical reasons.

Functional Model

$$POHC_t = f(CEXP_t, RECX_t, OIRV_t, NOIR_t, EXTD_t, INFR_t) \quad (1)$$

The mathematical form of the model is:

$$POHC_t = \beta_0 + \beta_1 CEXP_t + \beta_2 RECX_t + \beta_3 OIRV_t + \beta_4 NOIR_t + \beta_5 EXTD_t + \beta_6 INFR_t \quad (2)$$

The econometric form of the model is:

$$POHC_t = \beta_0 + \beta_1 CEXP_t + \beta_2 RECX_t + \beta_3 OIRV_t + \beta_4 NOIR_t + \beta_5 EXTD_t + \beta_6 INFR_t + \epsilon_t \quad (3)$$

Where:

POHC	=	Poverty Head Count
CEXP	=	Capital Expenditure
RECX	=	Recurrent Expenditure
OIRV	=	Oil Revenue
NOIR	=	Non-Oil Revenue
EXTD	=	External Debt
INFR	=	Inflation Rate
β_0	=	Intercept,

β_1 to β_6 = Coefficients for the independent variables,

ϵ_t = Error term or disturbance,

t = Denotes time period.

4.0 ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Unit Root Test

A unit root is a feature of a time series variable that indicates that the variable is non-stationary and has a stochastic trend. It means that the variable tends to move over time and that its statistical properties are not constant.

Table 1: Presentation of Unit Root Test Result

Variables	Prob. @ Level	Prob . @ 1 st -diff	Augmented Dickey- Fuller Test Statistic	Critical Values @5%	Order of Integration
POHC	0.1491	0.0000	-6.438464	5%level=-3.536601	I(1)
Log(CEXP)	0.7904	0.0000	-6.588063	5%level=-3.529758	I(1)
Log(RECX)	0.9999	0.0000	-8.654806	5%level=-3.529758	I(1)
Log(OIRV)	0.9922	0.0003	-5.564690	5%level=-3.533083	I(1)
Log(EXTD)	0.9318	0.0000	-4.492784	5%level=-1.949609	I(1)
INFR	0.0544	0.0001	-6.038053	5%level=-3.529758	I(1)
Log(NOIR)	0.9911	0.0000	-7.814722	5%level=-3.529758	I(1)

Source: Extraction from E-view Output

Interpretation of the Augmented Dickey-Fuller Test Result

The Augmented Dickey-Fuller (ADF) test is used to test for the presence of unit root in a time series data. In Table 1, the ADF test was conducted on several variables including POHC, CEXP, RECX, OIRV, NOIR, EXTD, and INFR. For all the variables, the ADF test statistic is more negative than the critical values at 5%, % level of significance, indicating that we can reject the null hypothesis of the presence of unit root and conclude that all the variables are stationary at the first difference, or I(1).

4.2 Co-Integration Test

Co-Integration Test is a statistical method used to determine the long-term relationship between two or more time series variables. It tests whether the variables move together in the long run, indicating a stable relationship. Co-Integration is commonly used in economics and finance to analyze the equilibrium relationship between economic variables.

Table 2: Presentation of Co-Integration Test Result

Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None*	0.835961	184.2619	125.6154	0.0000
At most1*	0.679817	115.5711	95.75366	0.0011
At most2*	0.564822	72.29432	69.81889	0.0313
Atmost3	0.387719	40.67834	47.85613	0.1991
Atmost4	0.274983	22.03691	29.79707	0.2965
Atmost5	0.219640	9.817636	15.49471	0.2950
Atmost6	0.010305	0.393637	3.841466	0.5304
Trace test indicates 3 cointegrating eqn(s) at the 0.05 level				
*denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None*	0.835961	68.69085	46.23142	0.0001
At most1*	0.679817	43.27675	40.07757	0.0211
Atmost2	0.564822	31.61598	33.87687	0.0909
Atmost3	0.387719	18.64142	27.58434	0.4427
Atmost4	0.274983	12.21928	21.13162	0.5262
Atmost5	0.219640	9.423999	14.26460	0.2526
Atmost6	0.010305	0.393637	3.841466	0.5304

Source: Extraction from E-View Output

Interpretation of the Co-Integration Test Result

The co-integration test result presented in Table 2 suggests that there exists a long-term relationship among the variables in the model. The variables included in the analysis are POHC, LOG (CEXP), LOG (RECX), LOG (OIRV), LOG (NOIR), LOG (EXTD), and INFR. The results indicate that fiscal policy and inflation variables such as Capital Expenditure (CEXP), Recurrent Expenditure (RECX), Oil Revenue (OIRV), Non-Oil Revenue (NOIR),

and External Debt (EXTD) are cointegrated with the poverty headcount (POHC) variable. The test is based on the trace test and shows that the null hypothesis of no cointegration is rejected at 5% significance level. The trace statistic has a value of 184.2619, which is greater than the critical value of 125.6154 for three cointegrating equations. Therefore, we can conclude that there are three cointegrating equations among the variables.

The cointegration of these variables suggests that they move together in the long run, and changes in one variable will have a long-term impact on the others. This result implies that government policies aimed at reducing poverty should take into consideration the long-term relationship between poverty, fiscal policy, and inflation. Therefore, it is important to consider these factors in designing policies to reduce poverty.

Moreover, the test results provide information on the number of cointegrating equations. The result shows that there are three cointegrating equations among the variables. This information is useful in estimating the long-run relationship between the variables and in conducting further analysis to determine the short-run dynamics of the variables. Overall, the co-integration test result indicates the importance of considering the long-term relationship between poverty, fiscal policy, and inflation in policy-making decisions.

4.3 LagSelection

The Lag Order Selection Criteria table provides information on the selection of the appropriate number of lags in the model. The table shows four possible lag orders, ranging from zero to three. The selected lag order for the model is determined based on several criteria, including the log-likelihood function, the final prediction error (FPE), and the information criteria such as Akaike Information Criterion (AIC), Schwarz Information Criterion (SC), and Hannan-Quinn Information Criterion (HQ). The VAR model is a multivariate time series model that incorporates multiple variables that influence each other. In this case, the endogenous variables include POHC, LOG(CEXP), LOG(RECX), LOG(OIRV), LOG(NOIR), and LOG(EXTD), and the exogenous variable is a constant (C). The goal of the VAR model is to estimate the dynamic relationship between these variables over time.

Table 3: Lag Order Selection Criteria

VAR Lag Order Selection Criteria						
Endogenous variables: POHC LOG (CEXP) LOG (RECX) LOG (OIRV) LOG (NOIR) LOG (EXTD) INFR						
Exogenous variables: C						
Date:03/21/23Time:13:17 Sample: 1981 2022						
Included observations:39						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-472.1377	NA	417.5013	25.89933	26.20410	26.00678
1	-286.6545	290.7575	0.273970	18.52186	20.96001*	19.38142
2	-227.4813	70.36803*	0.212792	17.97196	22.54349	19.58364
3	-151.2832	61.78228	0.122302*	16.50179*	23.20670	18.86559*
*indicates lag order selected by the criterion LR: sequential modified LR test statistic(each test at 5% level) FPE: Final prediction error AIC: Akaike information criterion SC: Schwarz information criterion HQ: Hannan-Quinn information criterion						

Source: Extraction from E-View Output

Analysis VAR Lag Order

Looking at the table 3 above, the lag order selection criteria suggest that the appropriate number of lags for this VAR model is one. This is indicated by the asterisk next to the lag order one in the LR, FPE, and AIC columns, and the lag order three in the SC and HQ columns. Judging with the AIC, and FPE measures the mean squared forecast error for a given lag order. The asterisk indicates that the FPE and AIC is minimized for the lag order of three, indicating the optimal lag order to minimize forecast errors.

4.0 Error Correction Model (ECM).

The Error Correction Model is a statistical technique used to select a subset of variables from a larger set of candidate variables for use in an ECM. The method involves using statistical tests and economic theory to identify the most parsimonious model that encompasses all relevant variables. The purpose of this technique is to obtain a more efficient model that can provide accurate forecasts of the dependent variable while minimizing the risk of overfitting or omitting important variables. The ECM is used to analyze the dynamics of the dependent variable and to determine which variables are most relevant in explaining its behavior.

Table 4: Parsimonious Encompassing ECM Result

Dependent Variable: D (POHC) Method: Least Squares				
Date: 03/21/23Time: 14:07				
Sample(adjusted):19852019				
Included observations: 35 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2.296729	2.425061	-0.947081	0.3577
D(POHC(-3))	0.208209	0.171067	1.217114	0.2412
D(LOG(CEXP(-1)))	7.662265	5.012655	1.528584	0.1459
D(LOG(CEXP(-3)))	13.68646	5.491961	2.492090	0.0241
D(LOG(RECX))	11.56956	5.713326	2.025013	0.0599
D(LOG(RECX(-2)))	20.30583	7.416723	2.737844	0.0146
D(LOG(RECX(-3)))	-4.564183	6.927114	-0.658887	0.5193
D(LOG(OIRV))	-10.65650	4.247563	-2.508851	0.0233
D(LOG(OIRV(-2)))	-26.81903	4.981774	-5.383429	0.0001
D(LOG(OIRV(-3)))	-3.428402	4.725997	-0.725435	0.4787
D(LOG(NOIR(-2)))	18.13473	4.990856	3.633592	0.0022
D(LOG(NOIR(-3)))	-11.83760	5.119249	-2.312370	0.0344
D(LOG(EXTD))	-9.852251	3.135532	-3.142131	0.0063
D(LOG(EXTD(-2)))	-6.319589	3.899023	-1.620813	0.1246
D(LOG(EXTD(-3)))	14.21016	3.404719	4.173665	0.0007
D(INFR)	0.080707	0.103569	0.779263	0.4472
D(INFR(-1))	-0.032900	0.091623	-0.359081	0.7242
D(INFR(-2))	-0.015498	0.097722	-0.158592	0.8760
ECM(1)	-0.354128	0.151905	-2.331244	0.0331
R-squared	0.763165	Mean dependent var		0.285714
Adjusted R-squared	0.496725	S.D. dependent var		9.665956
S.E. of regression	6.857209	Akaike info criterion		6.991433
Sum squared resid	752.3410	Schwarz criterion		7.835765
Log likelihood	-103.3501	Hannan-Quinn criter.		7.282896
F-statistic	2.864308	Durbin-Watson stat		2.388712
Prob (F-statistic)	0.019751			

Source: Extraction from E-View Output

Analysis of the Parsimonious Encompassing ECM Result Global Statistics

It can be deduced from Table 4 above, that the R-squared value of 0.763165 suggests that the model explains a significant portion of the variance in the dependent variable, D(POHC). The adjusted R- squared value is a modified version of the R-squared

statistic that adjusts for the number of independent variables in the model. In this case, the adjusted R-squared is 0.496725, indicates that approximately 49.67% of the variation in the dependent variable (Poverty Head Count) can be explained by the independent variables included in the model, the remaining 50.33% of the variation is due to factors not captured by the model. Meanwhile the adjusted R-squared of the parsimonious encompassing ECM is higher than that of the overparametrized ECM, this simply means that the parsimonious model is a better fit for the data than the overparametrized model. This suggests that the additional variables included in the overparametrized ECM are not necessary to explain the relationship between the variables of interest, and may even be introducing noise into the model. Therefore, the parsimonious ECM is preferred over the overparametrized ECM as it provides a better balance between explanatory power and model simplicity.

The F-statistic is a measure of the overall significance of the model. In this case, the F-statistic is 2.864308, with a corresponding p-value of 0.019751. This suggests that the model as a whole is statistically significant, and that at least one of the independent variables is significantly related to the dependent variable. The probability value (p-value) associated with the F-statistic is a measure of the statistical significance of the overall model. In this case, the p-value of 0.019751 indicates that there is a statistically significant relationship between the independent variables and the dependent variable.

The Akaike Information Criterion (AIC) value of 6.991433 is relatively low, indicating that the model fits the data well with minimal complexity. Overall, these metrics suggest that the model is parsimonious. The Durbin-Watson statistic of 2.388712 suggests that there may be some positive autocorrelation in the residuals, but the degree of autocorrelation is relatively low. It is generally desirable for the Durbin-Watson statistic to be as close to 2 as possible, as this indicates that the residuals are uncorrelated and the model is correctly specified.

The coefficient of the error correction term (ECM(1)) is negative and statistically significant at the 5% level, indicating that deviations from the long-run relationship between poverty and its determinants are corrected at a speed of 35.41%. This implies that the model has a good long-run relationship between the variables.

Relative Statistics

The results from the parsimonious encompassing ECM suggest that the lagged poverty variable and the log of capital expenditure from three periods ago have a statistically significant impact on poverty in Nigeria. The coefficient on the lagged value of poverty variable (D(POHC(-3))) is 0.208209, which implies that a one-unit increase in poverty three periods ago is associated with a 0.21 unit increase in current poverty, *ceteris paribus*. Moreover, the coefficient is statistically significant at the 2.41% level of significance (Prob. = 0.0241), which means there is strong evidence to suggest that the coefficient is truly different

from zero. In other words, we can be reasonably confident that there is a positive relationship between government spending and poverty in Nigeria.

This suggests that poverty in Nigeria is persistent over time, and therefore, short-term policies may not be effective in reducing poverty in the long run. However, the coefficient is only statistically significant at the 24.12% level of significance (Prob. = 0.2412), which means there is uncertainty about whether the coefficient is truly different from zero.

The coefficient on the log of capital expenditure from three periods ago ($D(\text{LOG}(\text{CEXP}(-3)))$) is 13.68646, which implies that a one-unit increase in the log of capital expenditure from three periods ago is associated with a 13.69 unit increase in current poverty, *ceteris paribus*. When capital expenditure is concentrated in specific regions or sectors, it can lead to an uneven distribution of economic activity and resources. This imbalance can create inflationary pressures in those regions or sectors where there is excessive demand for goods and services due to the concentration of wealth and investment.

Inflation occurs when the overall price level in an economy increases over time. In the context of the unequal distribution of capital expenditure, inflation can be driven by factors such as increased demand for limited goods and services in certain areas. As the concentration of wealth leads to higher demand in these regions, the prices of goods and services can rise, contributing to inflationary pressures. Conversely, in areas or sectors that receive less capital expenditure, there may be limited economic activity and slower growth. This can result in lower demand and reduced price pressures, leading to relatively lower inflation rates in these regions. Overall, the unequal distribution of capital expenditure can contribute to regional disparities in inflation rates, with higher inflation in areas with concentrated investment and lower inflation in regions with limited investment. This can further exacerbate income inequalities and poverty levels by affecting the purchasing power and affordability of goods and services for different segments of the population.

The coefficient on the log of recurrent expenditure from two periods ago ($D(\text{LOG}(\text{RECX}(-2)))$) is 20.30583, which implies that a one-unit increase in the log of recurrent expenditure from two periods ago is associated with a 20.31 unit increase in current poverty, *ceteris paribus*. Moreover, the probability is statistically significant at the 1.46% level of significance (Prob. = 0.0146). This finding did not agree with our a priori expectation earlier anticipated, while that of ($D(\text{LOG}(\text{RECX}(-3)))$) conforms with the earlier anticipated a priori expectation.

The coefficient on the log of recurrent expenditure from three periods ago ($D(\text{LOG}(\text{RECX}(-3)))$) is -4.564183, which implies that a one-unit decrease in the log of recurrent expenditure from three periods ago is associated with a 4.56 unit increase in current poverty, *ceteris paribus*. However, this coefficient is not statistically significant at the 5% level of significance (51.93%, Prob. = 0.5193). One possible economic reason why $D(\text{LOG}(\text{RECX}(-3)))$ is not

statistically significant could be that recurrent expenditure from three periods ago may not have a direct and immediate impact on poverty in Nigeria. Other factors such as corruption, inefficiencies in public spending, and inadequate implementation of social welfare programmes may be more important in explaining poverty changes.

On the other hand, the coefficient on the log of oil revenue ($D(\text{LOG}(\text{OIRV}))$) is -10.65650, which implies that a one-unit decrease in the log of oil revenue is associated with a 10.66 unit increase in current poverty, *ceteris paribus*. Moreover, the probability is statistically significant at the 2.33% level of significance ($\text{Prob.} = 0.0233$), which means there is strong evidence to suggest that the coefficient is truly different from zero. Oil revenue is negative and statistically significant because oil revenue is largely controlled by the government, and if mismanaged, can lead to a lack of investment in critical sectors like education, health care, and infrastructure, which are essential for reducing poverty. This finding also suggests that the government is overly reliant on oil revenue and is not diversifying its sources of revenue enough to effectively combat poverty. Another reason could be that fluctuations in the global oil market can have a significant impact on Nigeria's economy, which in turn can affect poverty levels. For instance, a decline in oil prices can reduce government revenue and lead to budget cuts, which can negatively impact poverty reduction efforts.

The coefficient of the lagged value of $D(\text{LOG}(\text{OIRV}(-3)))$ is negative and statistically insignificant at the 5% level. This means that a one-unit increase in the lagged value of $D(\text{LOG}(\text{OIRV}(-3)))$ will lead to a decrease of 3.43 units in $D(\text{POHC})$, but this effect is not statistically significant. Oil revenue appears to have no significant impact on poverty reduction, indicating that policies focused solely on oil revenue may not be effective in reducing poverty in Nigeria. Due to the shortage of foreign exchange, inflation may rise to import goods, making it harder for people to afford basic necessities, thus exacerbating poverty.

On the other hand, the coefficients of the lagged values of $D(\text{LOG}(\text{NOIR}(-2)))$ and $D(\text{LOG}(\text{NOIR}(-3)))$ are positive and statistically significant at the 5% level. This means that a one-unit increase in the lagged values of $D(\text{LOG}(\text{NOIR}(-2)))$ and $D(\text{LOG}(\text{NOIR}(-3)))$ will lead to an increase of 18.13 units and a decrease of 11.84 units in $D(\text{POHC})$, respectively. One possible reason for the significant reduction identified in $D(\text{LOG}(\text{NOIR}(-3)))$ on $D(\text{POHC})$ is that an increase in non-oil revenue can stimulate economic growth and create job opportunities, which can help to reduce poverty in the long term.

The coefficient of the lagged value of $D(\text{LOG}(\text{EXTD}))$ is negative and statistically significant at the 1% level, which implies that a one-unit increase in the lagged value of external debt will lead to a decrease of 9.85 units in $D(\text{POHC})$. On the other hand, the coefficient of the lagged value of $D(\text{LOG}(\text{EXTD}(-3)))$ is positive and statistically significant at the 1% level, indicating that a one-unit increase in the lagged value of external debt three periods ago will

lead to an increase of 14.21 units in D(POHC). One possible reason for these findings is that external debt may have a short-term negative impact on poverty reduction because debt service payments can increase the government's budget deficit, reducing its ability to spend on poverty reduction programmes. This can result in a decline in the standard of living for the poor, leading to an increase in poverty rates. External debt can also have positive effects on poverty reduction in the long run. Debt can facilitate investment and economic growth, leading to increased employment opportunities and higher incomes for the poor. This can ultimately lead to a reduction in poverty rates.

4.4 Serial Correlation Diagnostic Test

Table 5: Breusch-Godfrey Serial Correlation LM Test Result

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.700932	Prob. F(2,27)	0.2015
Obs*R-squared	4.252068	Prob. Chi-Square(2)	0.1193

Source: Extraction from E-View output

Analysis

Based on the results of the Breusch-Godfrey Serial Correlation LM Test, there is no significant evidence of serial correlation in the model at conventional significance levels. Since the associated probability for the F-statistic is 0.2015. This probability value is used to assess the statistical significance of the F-statistic. The calculated F-statistic is 1.700932. This statistic measures the overall significance of the test. In this case, it has a value of 1.700932. In this case, the probability is 0.2015, which suggests that the F-statistic is not statistically significant at conventional significance levels (e.g., 0.05 or 0.01). The associated probability for the Obs R-squared statistic is 0.1193. This probability value is used to assess the statistical significance of the ObsR-squared statistic. In this case, the probability is 0.1193, suggesting that the Obs*R-squared statistic is not statistically significant at conventional significance levels. However, it is important to note that further analysis and consideration of the specific context and assumptions of the model may be required to draw more conclusive interpretations.

4.5 Discussion of Findings

The findings of this study provide valuable insights into the relationship between non-oil revenue mobilization, fiscal policy, and poverty reduction in Nigeria. The results from the unit root test show that all the variables are stationary at the first difference, which is consistent with the need for non-oil revenue mobilization to address persistent issues like poverty and income inequality. The findings of the co-integration test further support this idea, as they reveal a long-term relationship between key variables such as fiscal policy, government expenditure, and poverty headcount. This implies that the strategies for

mobilizing non-oil revenue can be instrumental in addressing Nigeria's socio-economic challenges, aligning with the perspectives from Fiscal Redistribution Theory. As argued by Atkinson (2023), fiscal policies that effectively mobilize non-oil revenue have the potential to redistribute wealth and provide funding for social services, which are essential in tackling poverty and inequality.

However, the Resource Curse Theory, as discussed by Ross (2022), highlights the paradox that Nigeria's over-reliance on oil has often hindered economic diversification and equitable growth. Despite the potential benefits of non-oil revenue mobilization, the historical dominance of oil revenue has led to structural inefficiencies and economic vulnerabilities, particularly during periods of oil price fluctuations. This was evident in the analysis of the Parsimonious Encompassing ECM, where the significant impact of non-oil revenues like VAT on GDP growth was contrasted with the ineffective contribution of oil revenue. This finding resonates with Alegieunu, Olusegun, and Baruwa's (2025) study, which shows that while non-oil revenue has a consistent positive impact on GDP, oil revenue's influence is waning, suggesting a diminishing role for oil in driving sustainable economic growth.

In contrast to the Resource Curse Theory, the Peacock-Wiseman Hypothesis offers an optimistic view of how increased revenue can lead to expanded government spending, particularly on poverty-reducing programs. The findings from the ECM analysis indicate that government expenditure, driven by non-oil revenue, has the potential to contribute to poverty reduction. Specifically, the lagged effect of capital expenditure was found to have a significant positive impact on poverty headcount, reflecting a direct relationship between fiscal policies and socio-economic outcomes. However, this aligns with the critique of the Peacock-Wiseman Hypothesis, where critics argue that political and institutional factors can distort the translation of revenue into productive public spending. This was evident in the mixed results of the ECM, where some expenditure variables, such as recurrent expenditure, showed weak and insignificant relationships with poverty reduction. This suggests that despite an increase in government revenue, inefficiencies and misallocation of funds could limit the effectiveness of public spending.

Moreover, the study corroborates several empirical findings from the reviewed literature. For instance, Adebayo's (2025) research emphasizes the slow adjustment process of government expenditure to reduce poverty, suggesting that the Nigerian government's efforts to combat poverty through fiscal policy face structural barriers, including inefficiencies in spending. This is consistent with the slow pace of poverty reduction observed in the current study's ECM results, which reflect a 35.41% adjustment rate to long-term equilibrium. Additionally, Oladejo, Adegbayibi, and Ajani's (2025) study on non-oil revenue and economic growth highlights the importance of diversifying Nigeria's revenue sources, with VAT being a significant contributor to GDP in the long run. This observation is mirrored in the current study, where the positive and statistically significant impact of non-oil revenue on economic growth reinforces the need for diversification.

Finally, the empirical review also includes Salami, Amusa, and Ojoye's (2018) findings, which affirm that non-oil revenue has a significant positive relationship with economic growth. This is echoed in the current study, where the long-term co-integrating relationship between non-oil revenue and GDP underlines the growing importance of these revenue streams for Nigeria's economic development. However, the study also highlights the challenge of ensuring that non-oil revenue mobilization is effectively translated into poverty-reducing outcomes, particularly given the political and institutional challenges that shape fiscal policy and public expenditure decisions.

In conclusion, the findings of this study align with and expand on the theoretical framework provided by Fiscal Redistribution Theory, Resource Curse Theory, and the Peacock-Wiseman Hypothesis. The positive relationship between non-oil revenue and economic growth underscores the potential of non-oil revenue mobilization to address poverty and inequality in Nigeria. However, the mixed results regarding the impact of government expenditure on poverty reduction highlight the need for improved governance, better allocation of resources, and enhanced efficiency in public spending to fully realize the benefits of fiscal policy interventions.

5.1 Conclusion

This study analyzed the efficacy of non-oil revenue mobilization strategies in reducing income inequality and poverty in Nigeria. The findings highlight a long-term relationship between fiscal policy, government expenditure, and poverty headcount, supporting the relevance of Fiscal Redistribution Theory. However, the persistent over-reliance on oil revenue has contributed to structural inefficiencies, echoing the Resource Curse Theory, which impedes sustainable economic growth and equitable development. Despite the potential benefits of non-oil revenue mobilization, the political and institutional challenges that shape fiscal policy and public expenditure decisions remain significant obstacles. The positive relationship between non-oil revenue and GDP emphasizes the need for diversification to reduce Nigeria's dependency on oil. The mixed effects of government expenditure on poverty reduction, particularly with regard to recurrent expenditure, underscore the need for better governance and more efficient resource allocation. Overall, the study suggests that non-oil revenue mobilization can play a crucial role in reducing poverty and inequality, but its success depends on improved fiscal management, targeted investment in key sectors, and a broader structural shift towards diversification.

5.2 Recommendations

1. **Diversification of Revenue Sources:** The Nigerian government should prioritize diversifying revenue sources beyond oil by investing in sectors such as agriculture, manufacturing, and tourism. This will reduce the country's dependence on oil and enhance economic resilience to global price fluctuations.

2. **Efficient Allocation of Government Spending:** Policymakers must ensure that government spending is allocated effectively, particularly toward poverty reduction programs. This includes targeting social safety nets, improving access to education, and investing in infrastructure and healthcare to drive sustainable development.
3. **Inflation Control:** To reduce poverty, the government should implement policies aimed at controlling inflation, such as managing the growth of the money supply and stabilizing the exchange rate. This will help preserve the purchasing power of the poor.
4. **Improved Governance and Public Spending:** Strengthening institutions to combat corruption, enhance transparency, and improve public spending efficiency is essential. This will help ensure that non-oil revenues are used effectively for poverty alleviation.
5. **Strategic Management of External Debt:** Policymakers should manage external debt carefully to avoid it becoming a fiscal burden. External debt should be used to finance productive investments that promote economic growth and poverty reduction in the long term.

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