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Government Revenue and Agricultural Sector Output in Nigeria: An Empirical Analysis (1993–2023)

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Abstract

This study examines the impact of government revenue on agricultural sector output in Nigeria from 1993 to 2023, a period marked by economic reforms, oil revenue fluctuations, and renewed policy attention to non-oil sectors. The agricultural sector, being vital for food security, employment, and economic diversification, depends significantly on public investment, which is largely influenced by government revenue. Using an ex post facto research design and annual time series data obtained from the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS), the study employs the Autoregressive Distributed Lag (ARDL) model to assess both the short-run and long-run effects of government revenue on agricultural output. The findings reveal a positive and statistically significant long-run relationship between government revenue and agricultural sector output, indicating that increased revenue enhances government capacity to invest in rural infrastructure, input subsidies, extension services, and agricultural research. However, in the short run, the relationship is weak and insignificant, suggesting delays in policy execution and the time lag between investment and agricultural productivity outcomes. The study concludes that consistent and adequate government revenue plays a crucial role in driving agricultural development in Nigeria. It recommends the adoption of strategies to diversify revenue sources, strengthen fiscal discipline, and prioritize agricultural funding to ensure sustained sectoral growth. These findings offer important insights for policymakers seeking to leverage fiscal tools to enhance agricultural productivity and achieve broader economic development goals.

Keywords: *Government revenue, agricultural output, fiscal policy, economic diversification, ARDL model, Nigeria, 1993–2023*.

INTRODUCTION

Agricultural output, a key driver of economic development in emerging economies, is significantly shaped by the availability and utilization of public resources. Within the framework of production theory, government revenue constitutes a vital institutional input that facilitates the transformation of agricultural resources into productive outputs (Ekine, 2018). In Nigeria, agriculture not only supports food security and employment but also plays a pivotal role in poverty alleviation and rural development (Gatawa, 2017). However, the sector's performance has been persistently undermined by inconsistent public investment, often traceable to fluctuations in government revenue.

Government revenue—derived primarily from oil exports, taxes, and non-oil sources—plays a crucial role in financing public goods and services that underpin agricultural growth, including infrastructure, research, irrigation, and extension services (Oladipo et al., 2020). Yet, Nigeria's overreliance on oil revenue has led to significant fiscal volatility, constraining consistent budgetary support to the agricultural sector. For instance, despite commitments to agricultural transformation, capital expenditure on agriculture fell from ₦60.9 billion in 2014 to ₦44.47 billion by 2016, reflecting both revenue shortfalls and shifting fiscal priorities (Central Bank of Nigeria [CBN], 2017). As a result, only a fraction of the country's estimated 84 million hectares of arable land is cultivated (Federal Ministry of Agriculture and Rural Development [FMARD], 2012).

Empirical evidence suggests that the composition and

stability of government revenue directly affect the state's capacity to implement productivity-enhancing agricultural policies (World Bank, 2024). Revenue surpluses tend to enable investment in mechanization, infrastructure, and innovation, while revenue downturns often lead to expenditure cuts that hamper sectoral output. Against this backdrop, this study investigates the relationship between government revenue and agricultural sector output in Nigeria from 1993 to 2023. The objective is to assess the extent to which variations in public revenue impact agricultural productivity and to offer policy insights that ensure sustainable financing and sectoral growth.

Statement of the Problem

Agriculture remains a foundational pillar of Nigeria's economy, serving as a major source of employment, food supply, and rural livelihood (FAO, 2021; CBN, 2020). Despite its significance, the sector has consistently underperformed relative to its potential. One critical issue that has drawn attention from scholars and policymakers is the relationship between government revenue and agricultural sector output. This concern is heightened by the realization that public revenue—especially that derived from oil—plays a central role in financing agricultural policies and development programmes (Eboh, Ujah, & Achike, 2009; Ogbalubi & Wokocha, 2013).

Over the years, fluctuations in government revenue, largely driven by volatility in global oil prices, have had cascading effects on the fiscal capacity of the Nigerian government to invest in agriculture (Ademola & Akinbobola, 2016; IMF, 2022). Although various agricultural development initiatives have been launched—such as the Agricultural Transformation Agenda (ATA) and the Anchor Borrowers' Programme—there remains a gap in understanding the long-term empirical impact of government revenue on sectoral output (Ogunlela & Mukhtar, 2009; NBS, 2021).

Inconsistencies in budgetary allocations, issues of fund mismanagement, and institutional inefficiencies have further limited the effectiveness of public spending in agriculture (World Bank, 2019; Otekunrin et al., 2020). While some studies have examined public expenditure and economic growth broadly, few have specifically assessed how government revenue patterns influence agricultural output over time in Nigeria (Lawal, 2011; Abu & Abdullahi, 2015).

Given the strategic role of agriculture in achieving economic diversification and sustainable development, there is a pressing need for a rigorous empirical assessment of the relationship between government revenue and agricultural sector output from 1993 to 2023. Such a study is expected to provide data-driven insights for designing more effective fiscal and agricultural policies.

Objective of the Study

The specific objective of this study is to:

1. Investigate the impact of total government revenue on agricultural sector output in Nigeria.

Research Question

The study was guided by the following research question:

1. What is the impact of total government revenue on agricultural sector output in Nigeria?

Hypothesis

The study was guided by the following null hypothesis:

H_{01}: Total government revenue does not have a significant impact on agricultural sector output in Nigeria.

Review of Related Literature

Total Government Revenue

Government revenue refers to the total income generated by the state through a combination of tax and non-tax sources, which are critical for financing public expenditure and ensuring the effective functioning of governance structures (Musgrave & Musgrave, 2004; Aregbeyen & Akpan, 2013). In most economies, the dominant revenue streams are taxes and social contributions. However, governments also derive income from administrative fees, fines, licenses, state-owned enterprises, and natural resource royalties, which may constitute a substantial portion of revenue in resource-rich countries (OECD, 2018; IMF, 2021).

Public revenue, often synonymous with government revenue, encompasses various income sources such as taxation, levies, penalties, investment income, returns from public corporations, voluntary donations, grants, and foreign aids (Okafor, 2012; Izedonmi & Okunbor, 2014). These funds are essential for supporting state activities, providing public goods, and achieving socio-economic development objectives (Adegbite, 2010; Ojong, Ogar & Oka, 2016).

In Nigeria, government revenue is broadly classified into oil and non-oil revenue. Oil revenue—generated from crude oil sales, petroleum profit tax, royalties, and related levies—has historically been the dominant source of public income. Nevertheless, non-oil revenue, particularly tax revenue, remains crucial for ensuring fiscal sustainability, especially in the face of global oil price volatility (CBN, 2022; Eze & Ogiji, 2016). Taxation in Nigeria serves not only as a stable and legitimate source of public income but

also as a fiscal policy instrument used to manage the economy, redistribute income, and promote equity (Obiechina, 2012; Uwuigbe, Peter & Oyeniyi, 2016).

Scholars such as Bayer and Cowell (2016) have argued that taxation can have far-reaching consequences on economic performance—serving either as a catalyst for growth or a constraint when poorly managed. Mittone and Saredi (2016) further contend that taxation is a powerful mechanism for ensuring equitable wealth distribution and stimulating inclusive socio-economic development. However, despite its significance, the Nigerian tax system is plagued by inefficiencies, administrative lapses, and pervasive corruption, all of which hinder effective revenue mobilization (Olaoye, 2009; Ibadin & Eiya, 2013).

Empirical evidence shows that Nigeria's tax-to-GDP ratio remains among the lowest globally, averaging less than 10%, compared to a regional average of over 15% in Sub-Saharan Africa (World Bank, 2020; McCulloch, 2019). This low performance is attributed to widespread tax evasion, weak enforcement mechanisms, lack of trust in government, and poor tax compliance culture (Ojong et al., 2016; McCulloch, 2020). In a recent survey, McCulloch (2020) reported that nearly 50% of respondents admitted they would avoid paying taxes if they believed they would not be caught. This reflects a systemic challenge in cultivating tax morale and building public confidence in fiscal governance.

Furthermore, Nigeria's extensive use of tax expenditures—such as exemptions, holidays, and generous allowances—has significantly eroded the country's tax base, contributing to persistent revenue shortfalls (FIRS, 2021; IMF, 2019). The country's VAT collection efficiency is among the lowest in Africa, further exacerbating its revenue constraints (OECD, 2018; World Bank, 2020).

The implications of weak revenue generation are far-reaching. A decline in government revenue, coupled with rising public expenditure demands, often leads to fiscal deficits. When the government is compelled to borrow to bridge the revenue gap, a large portion of public funds is redirected toward debt servicing, thereby limiting investment in key sectors such as agriculture, education, and infrastructure (Iyoha & Oriakhi, 2013; CBN, 2022). Specifically, in the agricultural sector, constrained public spending can reduce government support for farmers, hinder research and extension services, and ultimately impair productivity and food security (Lawal, 2011; Aregbeyen, 2006).

Agricultural Sector Output

Agriculture remains a critical component of economic development, encompassing a wide range of interrelated activities aimed at satisfying human needs. These activities span the cultivation of land for crops, livestock rearing, forestry, fisheries, and wildlife management. In addition to production, agriculture also involves value-added processes such as food preservation, storage, processing, and marketing (Akinboyo, 2018). As such, agriculture is broadly conceptualized as the deliberate production and preparation of plant and animal goods for human consumption and commercial use.

Akinboyo (2018) defined agriculture as the scientific utilization of land for the cultivation of crops and animals. His perspective reflects the dynamic relationship between nature's ecological systems—such as food webs—and human intervention to channel energy for productive purposes. This view underscores the functional significance of agriculture in reshaping natural resources for human benefit.

Eboh (2015), in his presentation at the 4th National Economic Summit Group on Agriculture, extended the understanding of agriculture by characterizing it as a productive and commercial enterprise. He emphasized the sector's integration with input and service delivery systems that support primary production. Eboh argued that the input sector enables efficient agricultural activities by facilitating access to necessary goods and services, while the output sector focuses on processing, marketing, and storage. From a contemporary systems perspective, agriculture is increasingly viewed as an interconnected value chain encompassing production, processing, and commercialization of outputs from crop farming, livestock, and forestry.

Awolaja et al. (2018) defined agricultural sector output as the total quantity and value of agricultural goods produced for local consumption and export. They noted that Nigeria's agriculture sector is vital to the economy due to the country's extensive arable land, water availability, labor force, and agroecological diversity. The sector's contributions to gross domestic product (GDP), employment generation, and export earnings highlight its strategic importance.

Supporting this view, Olabanji, Adebisi, Ese, and Emmanuel (2017) described agricultural output as the value of raw agricultural products produced during a specific accounting period. These outputs, they explained, are ready for consumption or export and are measured before undergoing industrial processing. This definition

emphasizes the economic valuation of unprocessed agricultural goods within the production cycle.

Ekine (2018) also examined agricultural output and defined it as the volume of products generated within a set period through crop cultivation and animal husbandry. He identified several factors that contribute to agricultural output, including labor, capital, agricultural experience, water management, and biological resources. Capital, in this context, refers not only to financial resources but also to physical assets such as equipment and infrastructure that support agricultural activities. Ekine observed that capital accumulation through savings and investment is often constrained in developing economies, leading to limited productivity. In response, many farmers rely on financial institutions for credit to acquire seeds, fertilizers, and machinery.

Labor remains a central input in the agricultural production process. It encompasses the human effort required for production activities, often measured in man-days. According to Ekine (2018), capital accumulation enhances labor efficiency and delays diminishing marginal returns in agricultural systems—a common issue in low-income countries.

In the context of this study, agricultural sector output is defined as the GDP derived from agriculture during the study period. This includes outputs from sub-sectors such as crop production, fisheries, forestry, and livestock (Awolaja et al., 2018; Ekine, 2018).

Methodology

Research Design

This study adopted an ex post facto research design, appropriate for analyzing historical data without manipulating any variables (Kerlinger, 1964). The design was suitable for investigating the impact of government revenue on agricultural sector output in Nigeria over a 30-year period (1993–2023), as it relies on already existing secondary data.

Nature and Sources of Data

The study utilized annual time-series data spanning 1993 to 2023. Data were sourced from the 2023 Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS), and the World Bank World Development Indicators (WDI). Agricultural sector output was proxied by agriculture's contribution to Gross Domestic Product (AGDP), while total government revenue (TGR)—measured in billion Naira—represents the government's fiscal receipts from taxes, trade, and duties.

Model Specification

Grounded in Hirschman's unbalanced growth theory, which supports the role of government finance in stimulating sectoral growth, this study specifies a functional relationship between government revenue (GR) and agricultural output (AO). Adapting from Hafeez and Sajid (2021), the model is specified as a log-linear regression, suitable for capturing elasticity and stabilizing variance. The econometric model is thus:

[\log AO_t = \alpha_0 + \alpha_1 \log GR_t + \mu_t]

Where (\alpha_0) represents the intercept, (\alpha_1) is the coefficient of the logarithm of Government Revenue, and (\mu_t) is the error term. This equation helps us understand how changes in Government Revenue impact Agricultural Output.

Thus, if the coefficient (\alpha_1) is positive, it implies that an increase in Government Revenue leads to a proportionate increase in Agricultural Output. On the contrary, a negative coefficient suggests an inverse relationship between the two variables.

Analytical Techniques

The following econometric techniques were employed:

1. Descriptive Statistics: Summary statistics (mean, standard deviation, Jarque-Bera test) were computed to understand the distributional properties of the variables.

2. Correlation Analysis: Pearson correlation coefficient was used to examine the strength and direction of the relationship between GR and AO.

3. Unit Root Test: The Augmented Dickey-Fuller (ADF) test was conducted to assess the stationarity of the variables, a prerequisite for reliable time-series estimation.

4. Cointegration Test: The Autoregressive Distributed Lag (ARDL) Bounds Test by Pesaran et al. (2001) was employed to determine the existence of a long-run equilibrium relationship between government revenue and agricultural output.

5. Error Correction Model (ECM): Upon establishing cointegration, the ECM was estimated to capture both short-run dynamics and long-run relationships.

Data Analysis and Results

Trend analysis

The study began by analyzing the historical trends of government revenue and agricultural sector output in Nigeria from 1993 to 2023. Trend analysis was used to examine the long-term relationship between the two variables and to identify patterns that may inform future projections. Graphical illustrations and descriptive analysis were employed to visualize and interpret these trends.

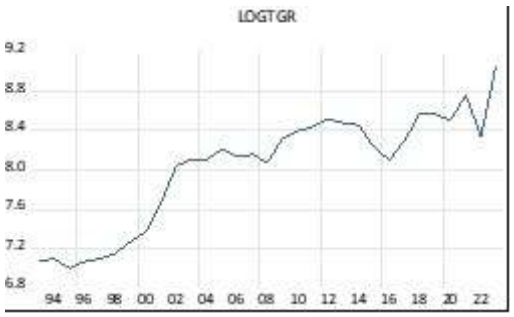

Figure 1: Trend Analysis between Total Government Revenue and Agriculture Sector Output

Source: Researcher's Computation (2024) Employing E-Views 12

As can be seen in figure 1 located above, the trend of agricultural sector production (LOGAO) displayed a record low of 0.2% in the year 1994, followed by a fast increase that reached its greatest point of 9.2% in the year 2005. This was then followed by a period of stagnation, which continued until 2023, when it reached its greatest point of 10.1%.

Relationship between Government Revenue (GR) and Agriculture Sector Output (AO)

The government uses the Government Revenue (GR) as a tool to influence economic activity, notably boosting expenditure on actual areas of the economy. It is an essential predictor of the fiscal imbalance and a tool that the government uses. The dynamics that are revealed by analysing the link between GR and AO throughout the course of the research period are fascinating.

A simple examination of the trajectory of total government revenue (LOGTGR) revealed that it went through an increasing trend which began in 1993 and continued until it reached 8.04% in 2002. The conclusion that can be drawn from this is that a fairly high GR that does not match with good financial stability in terms of appropriate investment in the agricultural sector will result in poor production. As a result, the Gross Domestic Product (GR) saw a range of variations between 8.0 and 8.8 percent from 2004 to 2008, indicating that the government's earnings were unstable before to reaching their highest point of 9.07% in 2023. It is interesting to note that the production of the agricultural sector saw a significant increase, reaching its maximum point of 9.2% in 2005, but then experiencing some variations before reaching its peak point of 10.1% in 2023.

rate has contributed significantly to low agriculture productivity. This is so because Nigeria depends heavily on imports of both food and materials for production.

Descriptive statistics

Table 1: Summary of Descriptive Statistics

	AO	TGR
Mean	9404.617	3530.920
Median	11645.00	3493.580
Maximum	23654.00	8657.000

Minimum	1.180000	1098.240
Std. Dev.	8102.969	1774.621
Skewness	-0.093017	0.517690
Kurtosis	1.455415	3.509891
Jarque-Bera	3.126289	1.720503
Probability	0.209476	0.423056

Source: Researcher's Computation (2024) Employing E-Views 12

In Table 1, the Agriculture Sector Output (AO), which is the measure of agricultural contribution to Gross Domestic Product (AGDP), has a mean value of 9404.6, indicating that on average, Nigerian economy has maintained a relatively encouraging platform over the period studied. The standard deviation of 8102.969 shows moderate variability around this mean, suggesting that while there has been some fluctuation in AO, the deviations are not extreme. The skewness of -0.09 indicates that the distribution of AO is negatively skewed, meaning that there are lower than average agricultural growth rates than higher ones. The kurtosis value of 1.455 is below the normal value of 3, indicating a normal distribution. The Jarque-Bera statistic of 3.13 with a probability value of 0.209476 indicates that the AO distribution is normally distributed, which is consistent with the near normal kurtosis. These results imply that Nigerian economy has maintained a relatively encouraging platform over the period studied and if more investments are made, there would be an appreciable level of output productivity.

The Total Government Revenue (TGR), which represents government's earning through taxes, import duties and trade, has a mean value of 3530.920, reflecting a relatively low government earning over the period studied. The standard deviation of 1774.621 shows low variability around the mean. The skewness of 0.517690 indicates that the distribution of TGR is almost symmetrical, suggesting that deviations from the mean are equally likely to be above or below it. The kurtosis value of 3.509891 is below the normal value of 3, indicates a distribution with heavier tails than the normal distribution, meaning that extreme values were common than in a normal distribution. The Jarque-Bera statistic of 1.72 with a probability value of 0.423 indicates that the distribution of total government revenue is not significantly different from normality. These findings align with the earlier discussion where higher government earnings were not followed by increased agricultural productivity, as more of government's earning went into other economic activities in the economy.

Correlation analysis

Table 2 : Summary of Correlation

Probability	LOGAO	LOGTGR
LOGAO	1.000000	

LOGTGR	0.881837	1.000000
	0.0000	-----

Source: Researcher's Computation (2024) Employing E-Views 12

The data shown in Table 2 above demonstrates that there is a link between LOGTGR and LOGAO that is both positive and statistically significant. The value of the correlation coefficient, which was discovered to be 0.881837, further contributed to the conclusion that this association is rather robust.

Unit root test result

Table 3: Summary of Unit Root Test

Variable	ADF Test Statistics	5% critical value	P-Value	Order of integration
AO	-4.933684	-3.574244	0.0023	I(1)
TGR	-8.043224	-3.574244	0.0000	I(1)

Source: Researcher's Computation (2024) Employing E-Views 12

The estimated result in Table 4 found AO and TGR to be stationary at first difference (i.e. integrated of order one).

Model Estimation Result

Parsimonious ARDL error correction regression result for the model

Table 4: Summary of Short Run ECM Results:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	26.70084	2.335477	11.43271	0.0003
@TREND	2.548706	0.236588	10.77276	0.0004
D(LOGAO(-1))	-0.627958	0.078908	-7.958105	0.0014
D(LOGTGR)	8.384905	1.068401	7.848090	0.0014
D(LOGTGR(-1))	0.296446	0.943030	0.314354	0.7690
D(LOGTGR(-2))	4.194986	0.922806	4.545904	0.0105
				0.0004
CointEq(-1)*	-0.662367	0.059474	-11.13715	
R-squared	0.966943	Mean dependent var		0.344971
Adjusted R-squared	0.900829	S.D. dependent var		1.265300
F-statistic	14.62545	Durbin-Watson stat		3.297563
Prob(F-statistic)	0.000141			

Source: Researcher's Computation (2024) Employing E-Views 12

The Error Correction Model (ECM) results in Table 4 revealed a strong relationship between government revenue and agricultural sector output in Nigeria. With an adjusted R-squared of 0.90 and a significant F-statistic (p = 0.0001), the model explains a large portion of the variation in agricultural output. In the short run, current government revenue significantly boosts agricultural output (coefficient = 8.39, p = 0.0014), while its effect also persists with a lag of two periods (coefficient = 4.20, p = 0.0105). However, the one-period lag is not statistically significant.

The error correction term is negative and highly significant (coefficient = -0.662, p = 0.0004), indicating a strong long-run equilibrium relationship and that about 66% of deviations are corrected each year. A significant upward time trend also reflects consistent growth in the agricultural sector over the study period. Overall, the results confirm that government revenue positively influences agricultural output both in the short and long term.

Table 5: Summary of the Long-Run Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOGTGR	47.76098	29.31889	1.629017	0.0017

Source: Researcher's Computation (2023) Employing E-Views 12

The coefficient for Total Government Revenue is 47.76098, with a t-test statistics of 2.0265 and a p-value of 0.0017. this coefficient is positive and statistically significant at 5% level suggesting that an increase in total government revenue influences Nigeria's agriculture sector output growth in the long run. Specifically, a 1% increase in total Government revenue is associated with a 47.76098 increase in AO. This result aligns with correlation discussions where it is noted that increased government revenue contributes significantly to a productive growth in the agriculture sector by driving and stimulating high investment in agriculture production.

Test of Hypotheses

H_{01}: total government revenue does not have a significant impact on the agriculture sector output in Nigeria.

Table 6 : Summary of Statistical Test of Hypotheses Result

Variable	t -Statistic	Probability
TGR	1.629017	0.0017

Source: Researcher's Computation (2024)

According to the data shown in Table 6, it suggests that total government revenue (TGR) has a significant impact on agriculture sector output. The t-statistics for TGR in the ARDL long-run estimates is 1.629017, and the p-value that is connected with it is 0.0000. It may be concluded that the null hypothesis is not true since the probability value is lower than 0.05. Consequently, this demonstrates that the overall income of the government has a substantial influence on the productivity of the agricultural sector with regard to Nigeria. This supports earlier discussions made where it was stated that increased government revenue Contributes positively to increase in agriculture sector output by stimulating higher investment opportunities by the government on agriculture production.

Discussion of Findings

The analysis revealed that government revenue significantly influences agricultural output in Nigeria both in the short and long run. In the short run, variations in total government revenue had a measurable impact on agricultural productivity, indicating that fiscal inflows are

critical in addressing immediate sectoral needs. The model's error correction mechanism also showed that any short-run disequilibrium adjusts over time, affirming a stable long-run relationship.

In the long run, the study found a positive and statistically significant relationship between government revenue and agricultural output. Specifically, a 1% increase in revenue led to a corresponding rise in agricultural output. This aligns with Hirschman's (1958) theory of Directly Productive Activities, which emphasizes the importance of targeted fiscal injections in stimulating growth in key sectors like agriculture.

This finding corroborates the work of James and Uduak (2022), who observed a strong link between government fiscal capacity and agricultural performance. Increased revenue provides the foundation for investments in rural infrastructure, input subsidies, and support services essential for productivity growth.

Overall, the result underscores the importance of robust revenue mobilization and effective fiscal allocation to the agricultural sector. Strengthening these mechanisms is crucial for enhancing long-term agricultural development and ensuring food security in Nigeria.

Conclusion

This study revealed a positive and statistically significant relationship between total government revenue and agricultural sector output in Nigeria from 1993 to 2023. The finding indicates that increased government revenue—particularly through improved tax collection—can enhance public investment in agriculture, leading to higher productivity and sectoral growth.

As Nigeria continues its economic diversification efforts, channeling more revenue into agriculture remains vital. The study emphasizes that strategic allocation and efficient use of government revenue can significantly boost agricultural output, supporting broader economic development. Thus, fiscal policies should prioritize agriculture to fully harness its potential as a driver of sustainable growth.

Policy Recommendations

1. Increase Budgetary Allocation to Agriculture

A larger share of government revenue should be consistently allocated to agriculture, focusing on infrastructure, irrigation, research, and mechanization to boost productivity.

2. Link Revenue Growth to Agricultural Investment

Adopt a flexible funding model where increases in government revenue automatically trigger proportional investments in agricultural inputs, credit schemes, and extension services.

3. Support Agricultural Exports with Targeted Revenue Use

Use revenue gains to improve export capacity through investments in quality control, storage, processing, and compliance with international standards.

4. Ensure Transparency and Accountability in Agricultural Spending

Implement strong monitoring and evaluation systems to ensure agricultural funds are used effectively, with active stakeholder participation and independent audits.

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