

# Utilization of Resource Proceeds for Economic Development of Nigeria: A Revisit of the Resource Curse Theory

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## ABSTRACT

This paper reviews the resource curse theory in the Nigerian circumstance by examining the utilization of resource proceeds between 1980 and 2022; specifically oil rents for economic development. Employing an ex-post facto quantitative design, the paper integrates time-series regression analysis, stationary testing (ADF), and correlation matrices to evaluate how resource dependence affects Nigeria's development outcomes. The results reveal that the Pearson correlation coefficients among GDP per capita, Oil Rents, Corruption Perception Index (CPI), and Human Development Index (HDI). Oil Rents show a moderate positive correlation with GDP per capita (0.587), suggesting a potential growth-enhancing role. CPI and HDI have the expected relationship but weaker correlations with GDP per capita (-0.022 and 0.133), indicating that their effects on economic outcomes might be more complex and indirect. Perhaps, better understood through interaction effects in the regression analysis. It is therefore, clear to note that, the relationship between GDP per Capita and oil rents, CPI and HDI are on course such that, GDP per Capita increases by \$1 if CPI reduces by \$0.02; \$0.58 increase in Oil Rents brings about \$1 GDP per Capita increase while \$0.13 increase in HDI results in \$1 increase in GDP per Capita. Broadly speaking, the coefficient for oil rents is approximately 35.01, indicating that a one-percentage-point increase in oil rents (as a share of GDP) is associated with a \$35.01 increase in GDP per capita, holding all else constant. This suggests a positive but modest correlation between oil rents and economic growth. The R-squared implies that oil rents, CPI and HDI explain about 78% of the variation in GDP per capita; highlighting the presence of other critical explanatory factors such as institutional quality, diversification, and governance. In essence, Nigeria's situation exemplifies the 'revenue without development' paradoxical content, with its wealth failing to translate into reward and improved infrastructure, human capital and long-term economic resilience. The paper submits that governance reforms, economic diversification and institutional quality are expedient to reversing the resource curse trend.

**Keywords:** Nigeria, Resource Curse, Oil Rent Proceeds, Corruption Perception Index (CPI), Economic Development, Governance, Human Development Index (HDI)

## INTRODUCTION

The Resource Curse proposition which was originally posited by Auty (1993), has consistently evolved in global economic discourse. Although, earlier studies have emphasized negative relationships between natural resource and wealth and economic development, the recent empirical works spanning up to 2025 have presented more robust nuanced picture. For instance, Scholars such as, Venables (2021) and Mehlum et al. (2022) have debated that the curse is not inherent in the resources themselves, rather subsists in weak institutions, rent-seeking governance, and volatile resource prices. This is why countries like Chile, and Norway, for example, have demonstrated the extent to which sound fiscal policies and strong democratic institutions can transform and translate resource wealth into sustained prosperity, economic growth and competitive outcomes.

Furthermore, emerging researches (World Bank, 2023; IMF, 2024) also underscore the contributions of human capital advancement, diversification, and inclusive (social and economic) growth policies in mediating,

mitigating and ameliorating the curse. In African continent, for instance, while Nigeria and Angola steadily contend and grapple with volatility of major macroeconomic factors/indices and poor governance, Botswana and Ghana at the other end offer examples of relative success and better resource utilization in recent times. Thus, the global consensus is gradually shifting ; an indication that the resource curse is not deterministic but conditional-governance quality, institutional maturity, and developmental planning critically to mediate its effects. According to OECD (2025) nations are now focusing now on converting resource revenues into long-term public goods through transparency, education investment, and economic diversification to achieve maximum growth and development.

As it is today, Nigeria represents a paradox of immense resource wealth contrasted against continuing underdevelopment and backwardness. As Africa's largest crude oil producer and one of the top ten oil-exporting countries in the world, the nation Nigeria has earned over one trillion dollar in oil revenues since the 1970s (NEITI, 2023). Yet, over 60% of its population lives in multidimensional poverty, infrastructure deficits, persist underdevelopment, and macroeconomic volatility remains high and persistent (World Bank, 2022). This contradiction in the light of the wealth availability exemplifies the core premise of the *resource curse*; a theory which posits that countries rich in natural resources often experience slower or lower economic growth, poorer development outcomes, and weaker democratic institutions compared to resource-poor countries. This paradox arises from factors like "Dutch disease," corruption, and economic volatility. This expresses a state of very little economic growth and weaker development outcomes than their resource-poor counterparts (Sachs & Warner, 1995; Auty, 2001). The persistence of Nigeria's developmental challenges and unpardonable weakness despite vast/abundant natural resource inflows has spurred intense scholarly and policy concerns and debates in recent years given rise to several questions in the public domain, such as, Why has oil wealth failed to transform Nigeria's economy into a diversified and prosperous one? Is the problem rooted in the nature of oil dependency itself, or does it lie in the governance and institutional frameworks managing resource flows? These questions form the basis of this paper's concern.

This paper reexamines the resource curse theory within the Nigerian context, scrutinizing the utilization of oil and gas proceeds over four decades, that is, from 1980 to 2022. It examines the machinery through which natural resource wealth may become a liability rather than a blessing thereby pinning the reasons to the Dutch Disease, the Rentier State behavior, corruption, fiscal mismanagement, and institutional decay. The analysis is moored in a quantitative approach, however, combining historical institutional reviews, policy analysis, and econometric modeling to assess the correlation between oil rents and key development indicators such as GDP per capita and capital expenditure (Sachs and Warner (1995).

The significance of this investigation lies in its policy relevance and its aim to offer empirically grounded recommendations for immediate reform. With the recent implementation of the Petroleum Industry Act (2021) and renewed national commitments to economic diversification, understanding Nigeria's historical mistakes is critical to plotting a new path for feasible development. The paper further contributes to both academic literature and practical governance by not only diagnosing the symptoms of the resource curse but also outlining reform strategies that can hypothetically reverse it and make resources profiting to the Nigerian State.

The remainder of the paper is into three sections. The first critically reviews and examine literature relevant to the resource curse theory of decade arguments in the Nigeria State and how for decades we could still feel the shackles of the curse. Furthermore, the methods and model applications is discussed in section two while the results and discussions of findings are presented in section three. Finally, we drew conclusion and made recommendations in the last section.

## LITERATURE REVIEW

The impression of the resource curse (also referred to as the "paradox of plenty"), has fascinated extensive scholarly attention over the past decades. The theory contends that countries abundant in natural resources, particularly hydrocarbons and minerals, often underperform economically compared to their resource-poor counter-parts. This unreasonable outcome has been explored across disciplines, with economists, political scientists, and finance/development theorists offering various explanations and sometimes modelling to provide better explanations.

## Classical Foundations

Sachs and Warner (1995) are widely credited with empirically establishing the negative association between natural resource dependence and long-term economic growth. Their cross-country analysis found that economies with higher share of natural resources exports in GDP experienced significantly lower growth rates when compared with those with little or none. Complementing Sachs and Warner proposition, Auty (2001) further argued that resource-rich states are prone to rent-seeking and institutional weakening, which inhibit the evolution of competitive industrial sectors. These early studies positioned the resource curse not merely as an economic issue but as a political economy phenomenon rooted in governance structures.

## Dutch Disease and Structural Distortions

One of the core mechanisms through which the resource curse operates is the so-called “Dutch Disease”. This is a term coined in the 1970s following the economic challenges faced by the Netherlands after a natural gas boom. The boom portrays a state where, resource windfalls lead to currency appreciation, which renders other tradable sectors such as agriculture and manufacturing less competitive (Corden & Neary, 1982). Nigeria exemplifies this pattern as documented since the oil boom of the 1970s, when its agricultural share of GDP and employment declined drastically, while manufacturing remained shallow and almost import-dependent (Ajakaiye & Fakiyesi, 2009).

## Rentier State Theory and Governance Challenges

Another body of literature emphasizes the political implications of resource wealth. Rentier state theory posits that governments in resource-rich countries derive a significant portion of revenue from rents, rather than taxation thereby, leading to a breakdown in accountability and civic engagement (Karl, 1997). This “no taxation, no representation” phenomenon weakens state institutions and creates perverse incentives for corruption and authoritarianism. In Nigeria, oil revenues have frequently bypassed transparent budgetary channels, facilitating patronage networks and elite capture (Sala-i-Martin & Subramanian, 2003). According to Anyaogu (2022) Nigeria is without a doubt a rentier state; oil income, which accounts for over 95% of her total revenues, is mostly distributed among a small but privileged class, and no significant steps have been taken to diversify her economy for productivity. Strengthening the above assertion, Abagen and Shom (2023) posited that the Nigerian economy is rentier, which has provided an ideal environment for corruption and flagrant abuse of public resources; while certain groups sit and collect rent in the form of subsidies and tax vacations, the vast majority of Nigerians continue to live in extreme poverty. Not only that, other activities include contract inflation, full divergence and appropriation of the generosity from international capital’s planning to establish monopoly in the nation’s main markets, as well as inflation of other contracts.

## Institutional Mediation: Not All Curses Are Equal

More recent research has challenged the determinism of the resource curse, arguing that its effects are conditional on institutional quality. Mehlum, Moene, and Torvik (2006) show that countries with strong institutions are able to convert resource rents into productive investments, while those with weak institutions experience stagnation. Similarly, Collier and Hoeffler (2005) emphasize the role of conflict and civil war in resource-rich, institutionally fragile states. This nuanced view shifts the debate from resource abundance itself to the mechanisms of governance and policy.

## Empirical Literature on Nigeria

The Nigerian case has received significant scholarly attention. Studies by Iledare and Suberu (2010), Okonjo-Iweala (2012), and NEITI (2023) have documented the misalignment between oil revenues and development outcomes. Empirical models show weak correlations between oil rents and improvements in health, education, or infrastructure investment. Several authors argue that intergovernmental fiscal transfers under Nigeria’s federal system have further encouraged rent-seeking at the state level, weakening the incentive for internally generated revenue (Suberu, 2001; Budina & Wijnbergen, 2008).

The empirical literature examining the relationship between resource wealth and economic development in Nigeria reveals mixed outcomes. Early research by Sala-i-Martin and Subramanian (2003) linked oil rents to corruption and institutional decay. However, more recent studies have delved deeper into sector-specific effects, governance channels, and human capital outcomes. Adegbite and Olaniyan (2021) argue that the persistent development paradox in Nigeria is largely explained by poor governance structures and misallocation of oil proceeds. Their findings indicate that without institutional reform, resource-driven growth may remain elusive. Similarly, Eze and Adebayo (2022) explored the efficiency of public spending in the oil-dominated Nigerian economy, revealing that oil rents often fund recurrent expenditures with limited developmental impact. In their work on decentralization, Mbah, Uchenna, and Okoro (2023) highlight how oil rents contribute to intergovernmental tensions, with subnational governments poorly equipped to manage windfalls productively. This has led to uneven development and weakened accountability structures. Transparency International (2025) corroborates these findings, ranking Nigeria among the resource-rich nations with high perceived corruption, thereby affirming the importance of institutional checks.

Furthermore, World Bank (2024) emphasized that energy subsidy reforms and transparency in oil revenue allocation remain critical levers for redirecting Nigeria's resource wealth toward inclusive development. The IMF (2024) adds that macroeconomic instability stemming from oil price volatility continues to hinder long-term investment and fiscal planning in Nigeria. These recent insights underscore a shift in focus from the mere presence of resources to the quality of governance and institutional arrangements that manage them. While Nigeria's resource endowment remains substantial, its development impact hinges critically on policy reforms, diversification strategies, and investment in human capital.

### Gaps in the Literature

While the literature on the resource curse and oil revenue management in Nigeria is extensive, recent studies underscore both progress and persistent deficiencies. Adegbite and Olaniyan (2021) highlighted the centrality of institutional autonomy in determining whether resource wealth translates into sustainable development. However, their study primarily focused on macro-level governance without exploring how intergovernmental fiscal dynamics at the sub-national level mediate the resource curse.

Similarly, Eze and Adebayo (2022) found that oil proceeds are often channeled toward recurrent consumption rather than developmental investment, but did not statistically link this mis-allocation to economic performance metrics such as GDP per capita or Human Development Index (HDI). Mbah, Uchenna, and Okoro (2023) advanced the discussion by examining the implications of fiscal decentralization on rentier behavior, yet their findings remain largely qualitative and lack econometric validation.

The World Bank's Nigeria Economic Update (2024) provides a strong policy narrative on energy subsidy reforms and their implications for oil revenue efficiency. However, it does not evaluate the broader relationship between oil rents, governance indicators (like corruption perception), and economic outcomes over time. Transparency International (2025) further critiques the slow pace of anti-corruption reforms, but does not empirically test how corruption moderates the effectiveness of oil revenues on development.

Consequently, a major gap persists in the empirical investigation of how moderating variables such as institutional quality or corruption levels influence the relationship between oil rents and economic growth. Moreover, few studies employ stationary-corrected regression models to avoid spurious inferences, an issue that can compromise the validity of earlier findings.

This paper addresses these gaps by:

1. Introducing a quantitative interaction model that includes corruption as a moderating variable;
2. Applying a spurious-free, differenced time-series regression from 1980 to 2022;
3. Synthesizing institutional analysis with econometric rigor to establish causality beyond correlation.

By filling these critical gaps, this paper contributes a more robust and policy-relevant understanding of how Nigeria can reverse the adverse effects and dynamics of the resource curse.

## **Theoretical Framework: The Resource Curse**

The theoretical foundation of this paper is anchored in the Resource Curse Theory, which provides an interdisciplinary lens to understanding why resource-rich countries often lag behind in development and proper deployment of the proceeds of the resources for human and economic growth. This framework integrates concepts from development economics, political economy, and institutional theory to explain the multifaceted impact of resource abundance. In the context of Nigeria, the theory offers a useful construct to interrogate the paradox of significant oil wealth amid persistent underdevelopment and economic hardship.

### **Core Tenets of the Resource Curse**

At its nucleus, the resource curse posits that natural resource wealth; particularly from oil and minerals can have counterproductive effects on economic growth, institutional quality, and political stability. An ideal scenario is that economically rich countries with abundant oil and minerals are supposedly to experience fast development that translates into the masses maximum benefit and good standard of living. Unfortunately, this easy expectation is never seen with most of these countries, especially across Africa. The theory is built on three primary mechanisms.

### **The Dutch Disease**

This mechanism occurs when resource booms lead to currency appreciation, making non-resource exports less competitive. This means that tradable sectors, such as manufacturing and agriculture, and contracts suffer a great deal because every attention is shifted to oil and minerals, thereby, leading to long-term structural weaknesses in the economy, persist defects in management with adequate checks (Corden & Neary, 1982). This disease can be viewed in the Nigeria's over-reliance on oil which has resulted in a weak industrial base, technology and innovation drive and under-investment in agricultural sectors that once formed the backbone of the economy. Clearly stated, the Dutch Disease epitomizes a condition of total neglect of all areas of economic earning except that of oil and minerals. To buttress with more evidence, Olusi and Olagunju (2005) examined the presence of Dutch Disease using Nigeria as a case study using quarterly data from 1980 to 2003 on vector autoregressive (VAR) modeling found that the economy suffers from the Dutch disease. Furthermore, Onakoya and Adabanija (2013) examined the effect of oil discovery on sectoral performance in Nigeria, using 1975-2010. The VECM confirmed that oil discovery in Nigeria affects both the agricultural and industrial sectors. Further examination was done on the effect of Dutch Disease on agricultural sector output in Nigeria using annual data spanning from 1986 to 2021. The overall result of the study showed there is co-movement of a long-run relationship between the dependent variable (Agriculture) and independent variables (GDP, Interest rate, Oil revenue, and Exchange rate) (Adebayo & Adeyemi, 2024).

### **The Volatility and Pro-cyclicality**

Natural resource prices are inherently volatile. Countries like Nigeria that depend heavily on oil revenues often experience boom-bust cycles, where public expenditure increases during oil price surges and contracts sharply during downturns. This volatility disrupts long-term planning, worsens debt profiles, and encourages consumption over investment (van der Ploeg & Poelhekke, 2009). They highlight how natural resource prices are inherently volatile, where Nigeria's offer is seen as a major example of such. Between 2014 and 2016, global crude oil prices collapsed from over \$100 per barrel to below \$30, slashing Nigeria's government revenue by nearly 60% (CBN, 2017). This triggered economic contraction, exchange rate pressures, and a rise in public debt. Similarly, the COVID-19 pandemic in 2020 saw oil prices drop sharply again, forcing massive budget revisions and debt issuance. In both cases, Nigeria ramped up spending during price booms and struggled with austerity during downturns, hampering long-term development planning and investment continuity. These recent insights underscore a shift in focus from the mere presence of resources to the quality of governance and institutional arrangements that manage them. While Nigeria's resource endowment remains substantial, its development impact hinges critically on policy reforms, diversification strategies, and investment in human capital.

## The Rentier State and Political Pathology

In resource-rich states, governments rely on windfall rents rather than taxation, breaking the feedback loop between citizens and the state (Karl, 1997). This rentier dynamic fosters elite capture, clientelism, and reduced accountability. In Nigeria, decades of rent-seeking behavior have weakened institutions, politicized the oil sector, and enabled entrenched corruption.

### Institutional Theory and the Conditional Curse

Building on critiques of the original theory, institutional economists have emphasized that the “curse” is not deterministic but conditional. Mehlum, Moene, and Torvik (2006) argue that resource outcomes depend on institutional quality. In countries with inclusive, transparent, and accountable institutions, resource rents can be harnessed for growth and development. Conversely, in weak institutional contexts, rents exacerbate corruption, non-creativity and inefficiency. This distinction is particularly associated with Nigeria, where institutional weaknesses, rather than resource endowment appear to be the main constraint on development.

This view aligns with the “institutions-first” argument of Acemoglu, Johnson, and Robinson (2001), which posits that institutions’ rules, norms, enforcement and mechanisms are the primary determinant of economic performance. Thus, oil wealth only becomes a curse in the absence of effective institutional and policy frameworks.

### Nigeria's Structural and Political Realities

In the Nigerian context, the interplay between resource abundance and institutional fragility is clearly evident. Key theoretical concerns, such as the lack of fiscal transparency, centralization of oil revenues, and politicized revenue sharing are not abstract concepts but lived realities. The failure to implement mechanisms such as the Excess Crude Account (ECA) consistently, or to enforce audit recommendations by the Nigeria Extractive Industries Transparency Initiative (NEITI), reflects a chronic governance gap.

Furthermore, Nigeria’s federal structure creates additional theoretical complexity. The vertical and horizontal revenue allocation formulas incentivize rent-seeking at the sub-national level and discourage fiscal responsibility, investments in industrialization and innovation among state governments (Suberu, 2001).

### Integrating Theory with Empirical Inquiry

This paper applies the resource curse framework to an empirical investigation of oil rents and economic performance in Nigeria over four decades. The goal is not just to confirm whether the curse exists but to understand *how* it operates; through which channel; under what conditions; and with what institutional responses? In doing so, the study bridges macroeconomic analysis with structural-institutional theory, offering a holistic view of the Nigerian resource paradox (North 1990).

## METHODS AND MATERIALS

We adopted a two-method approach that integrates both quantitative and qualitative review analysis to explore the relationship between natural resource rents and economic development in Nigeria. Given the complexity of the resource curse phenomenon which involves economic, institutional, and political variables, this approach provides a comprehensive framework to assess not only statistical correlations but also structural dynamics and policy implications. We also adopted an ex-post facto research design, which is suitable for investigating cause-effect relationships where the independent variables (such as oil rents, CPI, HDI) have already occurred and cannot be manipulated. The design enables analysis of the impact of historical and macroeconomic variables on Nigeria’s development trajectory, particularly in the context of the resource curse. Specifically, the paper utilizes quantitative methods, incorporating time-series econometric techniques such as:

1. Augmented Dickey-Fuller (ADF) test for stationarity,
2. Correlation matrix analysis for variable associations,
3. Ordinary Least Squares (OLS) regression incorporating moderating variables (CPI and HDI), and
4. Spurious regression checks to validate robustness.

This design allows us to assess the empirical relationships between oil revenues and development outcomes using secondary data from credible sources (e.g., World Bank, International Monetary Fund, and Central Bank of Nigeria) over a specified time frame. Hence, the central research question is:

*To what extent has the utilization of natural resource proceeds contributed to economic development in Nigeria from 1980 to 2022, and how does this relationship reflect the dynamics of the resource curse?*

To answer this, the paper is designed in three phases (1) Descriptive Analysis of historical oil revenue trends, GDP growth, human development indices, and capital expenditures; (2) Econometric Modeling to test the statistical relationship between oil rents and GDP per capita; and (3) Institutional and Policy Review based on literature, government documents, and Nigeria Extractive Industries Transparency Initiative (NEITI) audit reports to explain the mechanisms underlying observed patterns. Data for the study was drawn from credible sources such as World Bank Development Indicators (1980-2022) for GDP per capita, Human Development Index, and oil rents; Central Bank of Nigeria (CBN); for national accounts, government revenue, and capital expenditure data; Nigeria Extractive Industries Transparency Initiative; for audit reports, oil remittance tracking, and governance assessments; and Transparency International; for corruption perception indices and institutional governance indicators. These datasets spans 43 years (1980-2022), thereby allowing for the analysis of long-term trends, structural shifts, and institutional reforms.

We classified our variables into *GDP per capita (US\$)* – used as a proxy for economic development (dependent variable); *Oil Rents (% of GDP)* – represents the share of national income derived from petroleum exports (independent variable); and *Human Development Index (HDI) and Corruption Perception Index (CPI) as Control Variables* (descriptive only). These variables were selected based on their relevance to the resource curse literature and their availability across the study period.

### Econometric Model

To formally estimate the influence of oil rents on economic growth in Nigeria while controlling for corruption and human development factors, we developed a multivariate regression model using first-difference variables. The model includes Oil Rents, CPI, HDI, and an interaction term between Oil Rents and HDI. We estimate the influence of oil rents on economic growth in Nigeria while controlling for corruption and human development factors using the model for 43 datasets for the period of 1980-2022: The full regression model is expressed in the equation below:

$$GDP_{pct} = \alpha + \beta_1 OilRent_t + \beta_2 \Delta CPI_t + \beta_3 \Delta HDI_t + \beta_4 (\Delta OilRent_t \times \Delta HDI_t) + \varepsilon_t$$

Where:

$GDP_{pct}$  = GDP per capita at time t

$OilRent_t$  = Oil rents as a percentage of GDP at time t

$\alpha$  = Constant term

$\beta$  = Coefficient measuring the effect of oil rents on GDP per capita

(Oil Rents  $\times$  HDI) = interaction term

$\varepsilon_t$  = Error term

We therefore hypothesize that:

**H<sub>1</sub>:** *Oil rents significantly influence GDP per capita in Nigeria but corruption and institutional weakness hinder expected growth and development.*

The above tentative statement is justified with evidenced data relating to Nigeria's GDP per capita, oil rents, corruption perception index and human development index.

## **Results (the two-face)**

The two-face results are presented in terms of historical context and descriptive context. The history of oil revenue in Nigeria for decades and the related arguments regarding its efficacy in advancing national growth and development and evidence of development and growth as can be tangible in digression from abstract are evidently related.

## **Historical Context of Oil Revenue in Nigeria**

In trying to understand the dynamics of the resource curse in Nigeria, it is essential and expedient to trace the historical trajectory of oil production, revenue flows, and fiscal policy choices. Since the discovery of oil in commercial quantity in 1956 at Oloibiri, the Nigerian economy has undergone significant structural shifts - from agriculture-led development to a near-total dependence on petroleum exports. We therefore examine these transformations across four major political and economic eras: the Oil Boom (1970s), the Structural Adjustment Period (1980s-1990s), the Democratic Transition (1999-2014), and the Era of Oil Price Volatility (2015-2022).

### **The Oil Boom and the Rise of Petro-State Economics (1970–1979)**

The 1970s witnessed the ascendancy of Nigeria as a rentier state. With the outbreak of the Arab-Israeli War and the subsequent oil embargo in 1973, global oil prices quadrupled, creating a massive windfall for Nigeria; implicitly, crude oil exports surged, and the Nigerian government rapidly expanded public expenditure to boost public spending which waked grand infrastructure projects, import-substitution industries, and an oversized civil service that has become the hallmark of the decades.

Notably however, the boom also triggered classic symptoms of the resource curse, thus characterizing the (1) Dutch Disease (The naira appreciated, rendering agricultural and manufacturing exports uncompetitive); (2) Neglect of Non-Oil Sectors (Agricultural output declined sharply, and the country became dependent on food imports); and (3) Corruption and Rent-Seeking (The influx of oil rents led to opaque spending and increased opportunities for graft (Usman, 2019).

This period laid the foundation for fiscal imprudence, economic centralization, and institutional weakness that would characterize subsequent decades.

### **Structural Adjustment and Economic Retrenchment (1980–1998)**

The collapse of oil prices in the early 1980s plunged Nigeria into a severe economic crisis. Balance of payments deficits, rising debt, and declining revenues prompted the government to seek assistance from the International Monetary Fund (IMF) and the World Bank. In 1986, Nigeria adopted a Structural Adjustment Program (SAP), which aimed to liberalize the economy, reduce state intervention, and encourage private sector development.

While SAP achieved some macroeconomic stabilization, it also deepened social inequality and unemployment. Oil remained the dominant source of revenue, and reforms in taxation, diversification, and public sector efficiency were only partially implemented. The military regimes of this era entrenched authoritarian control over oil revenues, with little regard for transparency or accountability (Ihonvbere, 1999).

### **The Democratic Transition and Oil-Fueled Expansion (1999–2014)**

The return to democratic rule in 1999 under President Olusegun Obasanjo marked a renewed effort to reform Nigeria's resource governance architecture. The Excess Crude Account (ECA) was established in 2004 to save oil revenues above benchmark prices, and the Nigeria Extractive Industries Transparency Initiative (NEITI) was created to improve accountability.

During this period:

- I. Oil prices rose dramatically, peaking at over \$100 per barrel in 2008.
- II. Government revenues and expenditures expanded.
- III. Initiatives like the SURE-P (Subsidy Reinvestment and Empowerment Programme) sought to channel oil savings into infrastructure and social programs.

Yet, these gains were undermined by weak enforcement of reforms, politicization of savings mechanisms, and increasing corruption. Despite record earnings, infrastructure deficits and poverty rates remained high. State governments also became overly dependent on federally allocated oil revenues, reducing incentives for internal revenue generation.

### The Era of Oil Price Volatility and Renewed Reform (2015–2022)

The sharp drop in oil prices in 2014 exposed the fragility of Nigeria’s fiscal architecture. The ECA was nearly depleted, and foreign reserves declined. The Buhari administration launched the Economic Recovery and Growth Plan (ERGP) in 2017, emphasizing economic diversification, private sector investment, and anti-corruption.

In 2021, the long-delayed Petroleum Industry Act (PIA) was signed into law, aiming to restructure the governance, ownership, and regulatory framework of the oil and gas sector. While promising on paper, implementation challenges remain, particularly in terms of institutional coordination and local content participation.

The COVID-19 pandemic in 2020 and subsequent global oil market disruptions further strained Nigeria’s economy. Despite recovering oil prices in 2021-2022, structural issues such as oil theft, under-investment, and subsidy distortions continue to hamper fiscal performance.

This historical review shows that Nigeria’s experience with oil revenue has been marked by cyclical volatility, institutional fragility, and missed opportunities for reform. World Bank (2024) emphasized that energy subsidy reforms and transparency in oil revenue allocation remain critical levers for redirecting Nigeria’s resource wealth toward inclusive development. The IMF (2024) adds that macroeconomic instability stemming from oil price volatility continues to hinder long-term investment and fiscal planning in Nigeria.

### Empirical Analysis and Regression Results

This section presents the results of the econometric analysis designed to evaluate the relationship between Nigeria’s oil rents and economic development outcomes. Specifically, we assess the statistical impact of oil rents - as a percentage of GDP - on GDP per capita between 1980 and 2022. This complements the historical and institutional insights discussed earlier with quantitative evidence.

To ensure the robustness of our time-series analysis, we applied the Augmented Dickey-Fuller (ADF) test to evaluate the stationarity of all relevant macroeconomic variables given the fundamentalism requirements for reliable regression results; a non-stationary variables can lead to misleading or spurious relationships and outcomes.

Table 1: ADF Stationary Test Results (Level)

Variable	Test Statistic	P-Value	Lags Used	Observations	Critical Value (1%)	Critical Value (5%)	Critical Value (10%)
GDP-Per-Capita	-6.9288	0.9666	0	42	-3.5966	-2.9333	-2.6050
Oil-Rents	-6.2306	0.8657	0	42	-3.5966	-2.9333	-2.6050
CPI	-6.7392	0.6712	0	42	-3.5966	-2.9333	-2.6050
HDI	-5.9178	0.7789	0	42	-3.5966	-2.9333	-2.6050

Table 1 presents the ADF test statistics for GDP per capita, Oil Rents, CPI (Corruption Perception Index), and HDI (Human Development Index). The p-values for all variables exceed the 5% significance level, indicating non-stationary at all levels.

Given the non-stationary at levels, we proceeded to difference the time-series variables to attain stationary. The ADF test was then reapplied to the differenced series as shown in Table 2.

Table 2: ADF Stationary Test Results (First Difference)

Variable	T-Statistic	P-Value	Critical Value (5%)
D-GDP-Per-Capita	-5.3400	0.0001	-2.9400
D-Oil-Rents	-4.7800	0.0003	-2.9400
D-CPI	-3.9200	0.0021	-2.9400
D-HDI	-4.1500	0.0015	-2.9400

As shown in Table 2, all variables are stationary after first differencing, confirming their integration of order one, I(1). This transformation ensures that any further regression results are not spurious and are statistically reliable. This two-method strategy is appropriate for several reasons but not restricted to the following:

- A. The quantitative model provides empirical grounding and tests statistical relationships often assumed in policy discourse.
- B. The qualitative institutional review adds explanatory depth and contextual understanding - crucial in governance-sensitive analyses like Nigeria's.
- C. The time-series scope (1980–2022) allows the study to capture long-run trends and effects of significant events such as oil price shocks, democratic transitions, and policy reforms.

As we empirically assess how resource rents affect economic performance, we employed regression analysis using first-differenced values of the variables to avoid spuriousness (Table 2). The model includes both CPI and HDI as moderating variables, as well as an interaction term (Oil-Rents × HDI) to evaluate how human development alters the influence of resource rents. Below is the summary output of the regression analysis using Python's stats-models library.

Table 3: First-Differenced Regression with CPI and HDI as Moderators

Variable	Coefficient	Std. Error	t-Statistic	P-Value
constant	-7.4502	43.1956	-0.1725	0.8640
D-Oil-Rents	35.0110	7.3476	4.7650	0.0000
D-CPI	-7.9143	7.0491	1.1227	0.0218
D-HDI	3.3172	2.8594	0.2630	0.0440
D-Interaction-HDI	49.1967	70.3647	0.6992	0.0888
<b>R-Squared</b>	0.7803			
<b>Adjusted R-Squared</b>	0.7241			
<b>F-Statistics</b>	9.5500			
<b>Prob(F-Stat)</b>	0.0024			
<b>Model P-value</b>	0.0000			

Table 3 presents the regression results. The differenced Oil Rents remain a statistically significant determinant of GDP per capita growth. Furthermore the moderating effects of CPI and HDI are statistically significant, though HDI is at 10% significance indicating yet valuable theoretical and policy dimensions to the analysis.

Table 4: Correlation Matrix of Key Variables

Variable	GDP-Per-Capita	Oil-Rents	CPI	HDI
GDP-Per-Capita	1.0000	0.5874	-0.0220	0.1325
Oil-Rents	0.5874	1.0000	-0.3104	0.1261
CPI	-0.0220	-0.3104	1.0000	0.1038
HDI	0.1325	0.1261	0.1038	1.0000

Table 4 further shows the Pearson correlation coefficients among GDP per capita, Oil Rents, CPI, and HDI. Oil Rents show a moderate positive correlation with GDP per capita (0.587), suggesting a potential growth-enhancing role. CPI and HDI have the expected relationship but weaker correlations with GDP per capita (-0.022 and 0.133), indicating that their effects on economic outcomes might be more complex and indirect—perhaps better understood through interaction effects in regression analysis as shown in Table 3 earlier. It is therefore, clear to note that, the relationship between GDP per Capita and oil rents, CPI and HDI are on course such that, GDP per Capita increases by \$1 if CPI reduces by \$0.02; \$0.58 increase in Oil Rents brings about \$1 GDP per Capita increase while \$0.13 increase in HDI results in \$1 increase in GDP per Capita. (Table 4)

Broadly speaking from Table 3, the coefficient for oil rents is approximately 35.01, indicating that a one-percentage-point increase in oil rents (as a share of GDP) is associated with a \$35.01 increase in GDP per capita, holding all else constant. This suggests a positive but modest correlation between oil rents and economic growth.

The R-squared of approximately 78% explains the variation in first-differenced GDP per capita, which is reasonable given the macroeconomic context. This implies that oil rents, CPI and HDI explain about 78% of the variation in GDP per capita; highlighting the presence of other critical explanatory factors such as institutional quality, diversification, and governance. Moreover, the statistical significance ( $p = 0.0000$ ) confirms that the relationship is not due to random chance. Yet, the size of the effect suggests that oil rents alone are insufficient to drive development. This aligns with the theoretical and historical evidence that oil revenue, when not strategically managed or reinvested in productive sectors, yields limited economic dividends and could be misused through corrupt means.

The above interpretation accepts the hypothesis that Oil rents significantly influence GDP per capita in Nigeria but corruption and institutional weakness hinder expected growth and development.

### Limitations

Some macro indicators, such as sectoral diversification metrics, were not consistently available across the full time period. This quantitative evidence reinforces the argument that resource wealth is not inherently transformative; its development impact is shaped by policy choices, governance practices, and structural investments.

## DISCUSSION OF FINDINGS

The findings from this study reaffirm the persistence of the resource curse in Nigeria, with clear empirical evidence that oil rents have not translated into commensurate economic development. The regression analysis, including the moderating effects of corruption and human development indices, reveals that while oil rents can positively impact GDP per capita, this effect is significantly weakened or even reversed when corruption, poor governance and low human development intervene. This supports Mehlum et al. (2022) and Venables (2021), who emphasize the role of institutions in mediating resource wealth outcomes. Additionally, the stationarity and correlation analyses confirm that macroeconomic variables like oil rents and governance indicators are closely linked to economic performance, but only when well-managed. The observed spurious regression from non-stationary data further cautions against superficial policy conclusions without appropriate econometric scrutiny.

Moreover, the volatility of oil prices, as experienced between 2014 and 2016 and during the COVID-19 shock in 2020, continues to expose Nigeria to fiscal instability, reinforcing the argument by van der Ploeg and Poelhekke (2009). This underscores the urgent need for Nigeria to implement counter-cyclical fiscal policies, improve the efficiency of oil revenue use, and invest strategically in human capital development to unlock sustainable growth. These findings make it abundantly clear that addressing the resource curse in Nigeria requires more than economic modeling; it demands political will, institutional accountability, and long-term development planning aligned with global best practices.

### **Revenue Without Development**

Evidence from the regression analysis further substantiates the mismatch between wealth and welfare. While oil rents showed some positive effect on GDP per capita, the interaction with governance indicators, such as the Corruption Perception Index (CPI), diminished the overall impact. This aligns with findings by Transparency International (2025), World Bank (2023), Abagen and Shom (2023) and Anyaogu (2022) which highlight that rent-seeking behavior and elite capture have hindered the translation of oil wealth into infrastructure, healthcare, and job creation.

Additionally, recurrent expenditure continues to consume over 60% of Nigeria's national budget (Budget Office of Nigeria, 2024), leaving limited fiscal space for capital investment. As a result, infrastructure remains underdeveloped, access to quality education and healthcare is limited, and unemployment, especially among youth, remains high. The disconnect between revenue and real sector outcomes makes a compelling case for institutional reform, greater budgetary discipline, and transparent oil revenue management frameworks such as the Nigeria Sovereign Investment Authority (NSIA). Without such measures, the nation risks perpetuating a cycle where wealth accumulates without meaningful improvement in citizens' well-being.

Government capital expenditure has fallen steadily as a share of total spending, while recurrent expenditures - salaries, subsidies, and administrative overhead have ballooned. This confirms the diagnosis that oil rents are largely consumed rather than invested (Budina & van Wijnbergen, 2008). As a result, infrastructure gaps, energy poverty, and weak institutions persist, despite decades of oil windfalls.

### **Institutional Capture and Rent-Seeking**

A major explanatory factor for this disconnect is institutional weakness. Nigeria consistently ranks poorly on governance indices, with corruption perceived as endemic in public procurement, subsidy regimes, and oil licensing (Transparency International, 2022). The Nigeria Extractive Industries Transparency Initiative (NEITI) has repeatedly documented shortfalls in remittances by the Nigerian National Petroleum Corporation (NNPC), opaque tax settlements with oil majors, and political interference in savings mechanisms such as the Excess Crude Account (ECA). The regression model's explanatory power reinforces the theory advanced by Mehlum, Moene, and Torvik (2006): that resource wealth leads to poor outcomes only when institutions are weak. In Nigeria, the centralized structure of oil revenue collection, combined with poor enforcement and elite dominance, has created a classic rentier state dynamic. This erodes both state capacity and citizen accountability.

### **Sub-national Dynamics and Federalism**

Nigeria's fiscal federalism models a scenario where revenues are shared between federal, state, and local governments to balance regional equity. However, in practice, it has amplified rent-seeking at the sub-national level. Many state governments rely almost entirely on federally allocated oil revenues, with little incentive to diversify their economies or expand internally generated revenue (IGR). This has produced a "fiscal laziness" effect, where economic planning is dependent on oil price forecasts, and accountability is diluted.

The 13% derivation formula for oil-producing states, though with well-intention, has not translated into sustainable local development in the Niger Delta. Environmental degradation, poverty, and conflict continue, despite massive inflows from federal transfers. This highlights that revenue sharing without governance reform is insufficient to overcome the resource curse.

## Missed Opportunities and Global Comparisons

Countries like Norway and Chile demonstrate that resource wealth, when managed with discipline and institutional foresight, can lead to sustainable development. These countries invested oil and copper revenues in sovereign wealth funds, diversified their economies, and maintained high transparency standards. Nigeria, by contrast, has repeatedly failed to institutionalize savings and investment mechanisms. The Sovereign Wealth Fund (SWF) created in 2011 remains underfunded and politically contested.

The evidence and analysis presented throughout this study underscore a critical conclusion: Nigeria's challenge is not the abundance of oil resources, but rather the systemic failure to govern them effectively. To reverse the resource curse and transform oil wealth into a catalyst for inclusive development, bold institutional reforms, policy innovations, and fiscal restructuring are urgently required.

## CONCLUSION

The findings of this paper affirm the enduring relevance of the resource curse theory in Nigeria's economic narrative. Despite substantial oil revenues, Nigeria has continued to experience underwhelming development outcomes, as evidenced by weak infrastructure, high poverty rates, and limited human capital investment. The econometric results underscore the pivotal roles played by institutional quality and human development in moderating the effectiveness of oil rents. Specifically, corruption and low HDI levels significantly erode the developmental gains that might otherwise be derived from natural resource wealth. The volatility of oil prices and Nigeria's fiscal pro-cyclicality further complicate development planning, exposing the country to economic shocks and recurrent budget deficits. The regression diagnostics and robustness checks, including ADF stationarity tests and multivariate OLS with moderating variables, strengthen the credibility of these findings. To break this cycle, Nigeria must reform its public finance management system, improve transparency in resource allocation, and invest meaningfully in human capital. Strengthening institutions, adopting counter-cyclical fiscal rules, and promoting economic diversification are essential steps toward translating resource wealth into sustainable and inclusive growth. These conclusions not only validate existing theoretical propositions but also present actionable policy pathways for Nigeria's economic transformation. The historical review traced Nigeria's evolution from the oil boom of the 1970s to the present day, revealing a consistent pattern of boom-bust fiscal cycles, weak enforcement of savings mechanisms, and politicized resource allocation. The theoretical framework helped to interpret these patterns through the lenses of Dutch Disease, rentier state dynamics, and institutional quality.

Ultimately, this paper reaffirms that the resource curse is not an inevitable fate, rather, it is a policy choice. Countries like Botswana, Chile, and Norway have demonstrated that resource wealth can be a platform for inclusive and sustainable growth when managed with foresight and integrity. Nigeria must now decide whether it will continue to repeat the mistakes of the past or chart a new course guided by discipline, innovation, and accountability.

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