

External Borrowing, Tax Revenue, and Infrastructural Development in Nigeria

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Certification

This is to certify that **Martins Olajide ADEWINLE** with the matriculation number **LCU/PG/001880** carried out this research work titled “External Borrowing, Tax Revenue, and Infrastructural Development in Nigeria” in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University Ibadan, Oyo State, Nigeria for the award of Doctor of Philosophy (PhD) in Finance and has not been previously submitted.

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Dedication

This research work is dedicated to God Almighty and my beloved family, who have been my primary source of inspiration by continually offering their moral, spiritual and emotional support.

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Abstract

Economic growth, improved living conditions, and a higher human capital development index all depend on investments in infrastructure. Even though these infrastructures are regarded as essential services, most developing economies lack the financial resources to keep up with their expanding infrastructural investment requirements. Extant literature has mixed thoughts on these issues warranting the need to empirically examine the interaction between external borrowing and tax revenue on infrastructure development in Nigeria. This study adopted the

ex-post facto research design to examine the interaction between External Borrowing (EB), Tax Revenue (TR), and Infrastructure Development (ID) from 1991-2022 and adopted the Auto-regressive Distributed Lag (ARDL) model framework as the analytical technique to substantiate the hypotheses formulated. The ARDL long-run result at 5% showed that in Nigeria; EB had a significant influence on Government Expenditure (GE) on road construction ($\beta = -0.258, p= 0.050$); EB has a significant effect on GE on agriculture ($\beta = -0.436, p= 0.003$); EB has a significant effect on GE on transport and communication in Nigeria ($\beta = -0.483, p= 0.000$); EB has a significant effect on GE on social and community services ($\beta = -0.213, p= 0.050$); and TR interaction with EB to significantly influence ID ($\beta = -0.312, p= 0.007$). The study concluded that EB and TR when efficiently utilized play a complementary role in enhancing ID in Nigeria. The study recommended that the Federal government of Nigeria needs to be systematic in their sourcing for funding to provide infrastructure development facilities. While EB is critical, looking inwardly to create additional tax means needs to be looked into because it is cheaper and the burden imposed by exchange rate fluctuations and interest rate payment on EB is very high and is not sustainable in the light of Nigeria's economic growth and development. Although funding can be obtained internally and externally to address developmental challenges, researchers seem to have mixed thoughts on funding domestic investment through external borrowing. Some scholars claim it is insufficient, while others affirm its adequacy. Those in support claim that external borrowing will only aid infrastructure development only if it is used wisely in productive activities. Those who advocate internal borrowing argue that it offers result to the economy and create a less international burden on the need to pay back in foreign currency. This debate suggests that there is no consistency in finance literature regarding the relevance of debt for infrastructural development and also, this study argues for tax revenue because of its relevance as a source of revenue to the federal government. The advocacy is that if the government channels appropriate strategy to tax creation and collection, it can lower government debt exposure and enhance the provision of infrastructural amenities in the country. The argument also needs to be examined empirically. Although several studies have positioned the value of debt to infrastructural development, likewise how tax revenue can bolster economic growth through infrastructural development in developed and emerging economies. On this strength, the study examines the effect of external borrowing, tax revenues, and infrastructural development in Nigeria.

Keywords: External borrowing, Tax revenue, Infrastructure development, Nigeria, Economic growth, Social Services

Word Count: 500

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Table of Contents

Content	Page
Title Page	i
Certification	ii
Dedication	iii
Acknowledgement	iv
Abstract	v
Table of Contents	vi
List of Tables	ix
List of Figure	x
List of Acronyms	xi
Chapter One: Introduction	1
1.1 Background to the Study	1
1.2 Statement of the Problem	5
1.3 Aim and Objectives of the Study	7
1.4 Research Questions	7
1.5 Hypotheses	8
1.6 Significance of the Study	8
1.7 Scope of the Study	10
1.8 Limitation of the Study	10
1.9 Operationalization of the Research Variables	11
1.10 Operational Definition of Terms	13
Endnotes	15

Chapter Two: Literature Review	18
2.1 Conceptual Review	18
2.2 Theoretical Framework	54
2.3 Review of Empirical Studies	61
2.4 Conceptual Framework	125
2.5 Summary of Gap in Literature Reviewed	126
Endnotes	129
Chapter Three: Methodology	149
3.1 Research Design	149
3.2 Population of the Study	149
3.3 Sample and Sampling Technique	149
3.4 Description of Research Instrument	150
3.5 Validity of Research Instrument	150
3.6 Reliability of Research Instrument	150
3.7 Administration of Research Instruments and Method of Data Collection	150
3.8 Method of Data Analysis	151
Endnotes	162
Chapter Four: Results and Discussion of Findings	163
4.1 Presentation of Data	163
4.2 Test of Hypotheses	167
4.3 Discussion of Findings	189

Endnotes	194
Chapter Five: Conclusion	196
5.1 Summary of Findings	196
5.2 Conclusion	197
5.3 Recommendations	198
5.4 Contributions to Knowledge	199
5.5 Suggested Area of Further Research	200
Bibliography	202
Bio-data	225
The University Compliance Certification	227

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List of Tables

Tables	Title	Page
3.1	Measurement of Variable	151
3.2	Data Sources and Definition	157
4.1	Descriptive Statistics	163
4.2	ARDL Result for Model I	171
4.3	Breusch-Godfrey Serial Correlation Test	173
4.4	Breusch-Pagan Godfrey Heteroskedasticity Test	174
4.5	ARDL Result for Model II	174
4.6	Breusch-Godfrey Serial Correlation Test Model II	177
4.7	Breusch-Pagan Godfrey Heteroskedasticity Test Model II	177
4.8	ARDL Result for Model III	178
4.9	Breusch-Godfrey Serial Correlation Test	181
4.10	Breusch-Pagan Godfrey Heteroskedasticity Test	181
4.11	ARDL Result for Model IV	182
4.12	Breusch-Godfrey Serial Correlation Test	184
4.13	Breusch-Pagan Godfrey Heteroskedasticity Test	185
4.14	ARDL Result for Model V	185
4.15	Breusch-Godfrey Serial Correlation Test	188
4.16	Breusch-Pagan Godfrey Heteroskedasticity Test	189

List of Figure

Figure	Title	Page
2.1	Research Conceptual Model	125

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List of Acronyms

Abbreviation	Meaning
ADF	Augmented Dickey Fuller
AFRODAD	African Forum and Network on Debt and Development
AICD	Africa Infrastructure Country Diagnostic
ARDL	Autoregressive Distributed Lag
CBN	Central Bank of Nigeria
DMO	Debt Management Office
DRS	Debtor Reporting System
DSA	Debt Sustainability Analysis
ECM	Error Correction Method
EFCC	Economic & Financial Crime Commission
EU	European Union
FDI	Foreign Direct investment
FGN	Federal Government Nigeria
FMOLS	Fully Modified Ordinary Least Squares
GCVEC	Granger Causality Vector Error Correction
GDP	Gross Domestic Product
GDPPC	Gross Domestic Product Per Capita
GFCE	Gross Fixed Capital Formation at Current Prices
HCD	human capital development
HIPC	Heavily Indebted Poor Countries
ICM	International Capital Market
ICPC	Independent Corrupt Practices Commission
IFIs	International Financial Institutions

IGR	Internal General Revenue
IMF	International Monetary Fund
LLC	Levin-Lin-Chu
MNEs	Multinational Enterprises
NBS	National Bureau of Statistics
NEED	National Economic Empowerment and Development Strategy
OLS	Ordinary Least Squares
PFI	Private Finance Initiatives
PPBS	Planning Programming Budgeting Systems
PPP	Public Private Partnerships
PSI	Policy Support Instrument
RGDP	Real Gross Domestic Product
SSA	Sub-Saharan African
UK	United Kingdom
UN	United Nations
VAR	Vector Auto-Regression
WDI	World Bank development indicators
ZBB	Zero-Based Budgeting

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