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Economic Analysis of Revenue and Expenditure of Delta State

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Abstract *This study explores government revenue and expenditure from 2012 and 2022*

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Corresponding author Abdulmumini Baba Alfa balfa80@gmail.com Tel: 08036901810 fiscal years. Quarterly data was used from 2012Q1 to 2022Q1 which was largely sourced from the Delta State fiscal strategy paper and the Delta State audit report. The study applied trend analysis, Pearson correlation, and Pairwise Granger causality. Finding shows that there is a correlation between the main components of revenue (Internally Generated Revenue and Federal Allocation Account Committee) and aggregate revenue. Also, there is a correlation between the main component of expenditure (CAPEX and recurrent) and the aggregate expenditure. Through a comprehensive trend analysis spanning the fiscal years of 2012 to 2022, it becomes evident that Delta State's deficit budget consistently exceeds its revenue. However, an exceptional occurrence transpired in the fiscal year of 2021, wherein revenue momentarily exceeded expenditure. This study therefore recommends that decision or policy makers should implement fiscal alignment policies to prevent recurring deficits by synchronizing revenue and expenditure and potentially serving as a valuable reference point for similar studies in other regions or time periods.

1. Introduction

Government revenue and expenditure play a significant role in shaping fiscal landscape and economic growth. There has been a significant difference between government spending and revenue in numerous nations, which has raised concerns among economists, policymakers, and scholars. This difference not only reflects the ability to finance its operations and provide essential services by government, but also its capacity to stimulate economic growth while maintaining a balanced budget or managing deficits or surplus. Moreover, revenue and expenditure serve as reflections of economic priorities and policy objectives, guiding the spending decisions of governments. The balance between revenue generation and expenditure allocation not only underscores the government's commitment to addressing societal needs but also fosters economic development and promotes an equitable distribution of resources. Consequently, analyzing the dynamics between revenue and expenditure helps economists, policymakers, and scholars understand this relationship, providing insights into governance effectiveness, policy efficacy, identifying areas

for improvement, and facilitating informed decision-making. According to the World Bank (2021), revenue plays a pivotal role in maintaining economic stability. Also. government revenue enables the provision of essential public services like education, healthcare, and infrastructure (IMF, 2023). According to IMF (2023), revenue by government means income obtained from both tax and non-tax sources in order to fund public projects. Whereas, Government expenditure refer to the entire amount of resources utilized by public sector for financial transfers, provision of goods and essential services, and other activities (OECD, 2021). Mainly, industrialized and emerging economies use public spending to adjust national income through income distribution and efficient allocation of resources in regions (World Bank, 2008; Assi et al., 2019; Vtyurina, 2020). At the subnational level, the nuanced interaction between government revenue and expenditure highlights their profound impact on regional economic dynamics and social welfare policies, in which subnational authorities possess significant influence in resource allocation, striving to finance vital services, promote regional growth, and maintain fiscal stability.

Despite diverse challenges unique to specific regions, subnational governments often share a critical struggle, such as resource scarcity, inefficient tax collection, limited revenue base, economic dependence, and unstable policy coordination. For instance, limited tax powers constrain their ability to generate sufficient revenue, particularly as local needs for essential services like education and healthcare escalate (World Bank, 2023). Furthermore, compounding this issue is the inequitable distribution of existing resources, leading to disparities in service delivery (IBP, 2021). The trend of decentralization in many developing countries adds another layer of complexity, entrusting subnational governments with greater responsibilities without a corresponding increase in resources (Alam & Alam, 2022). This creates a paradox of responsibility: increased mandates coupled with insufficient means to fulfill them. As a result, this study attempts to delineate these challenges and provide economic clarity on the revenue and expenditure framework at the subnational level. This study distinguishes itself from existing literature by focusing on a specific economic evaluation of revenue and expenditure in Delta State, Nigeria, within a distinct timeframe of 2012-2022. This approach builds upon Oniore's (2014) study by offering a more microeconomic analysis. Specifically, it narrows the time frame and delves deeper into the evaluation of government revenue and expenditure. Whereas Oniore's study broadly examined budget planning, implementation, and their economic development implications, this study delves deeper into these aspects, offering a more nuanced and detailed understanding of the revenue and expenditure dynamics within Delta State. Revenue and expenditure play intertwined and fundamental roles in determining Delta State's fiscal policy. This dynamic duo wields immense power, shaping the state's ability to deliver essential services, fuel development projects, and ensure long-term economic stability. Like many subnational governments in Nigeria, Delta State grapples with several hurdles in managing its finances. One major challenge is its reliance on federal allocations, rendering its budget vulnerable to external factors (NDCBP, 2009). Additionally, the state struggles to generate sufficient internally generated revenue due to a narrow tax base and dependence on the informal sector. On the expenditure side, challenges include high recurrent expenditure, poor budget planning and execution, and a lack of prioritization, as highlighted by the Delta State Needs Assessment Report (2020). Overcoming these difficulties is crucial for achieving a sustainable fiscal policy. Potential solutions include diversifying revenue sources, improving tax collection, prioritizing capital expenditure, strengthening budget processes, and promoting transparency. Recognizing the key role of revenue and expenditure in influencing fiscal policy, and acknowledging the challenges faced by Delta State, it is necessary to know the causal relationship between revenue and expenditure by government in Delta State from 2012Q1 to 2022Q1. Following this introduction, sections two and three present the study's literature review and methodology, section four analyzes the findings and section five draws conclusions and recommendation.

2. Literature review

2.1 Theoretical review

The theoretical review offers multiple theories that aim to elucidate the correlation between government income and spending. Chang (2009) investigated the link between government income and spending through the lens of four established theoretical frameworks such as fiscal independence hypothesis, fiscal synchronization hypothesis, the revenue-spend hypothesis, and the spend revenue hypothesis. The fiscal independence theory as suggested by Baghestani and McNown (1994) centers on the concept of separating the government's tax and expenditure decisions at an institutional level. The absence of causation between government spending and government income is a defining characteristic of this phenomenon (Chang et al., 2015). Similarly, the fiscal synchronization concept as developed by Meltzer and Richard (1981) and Musgrave (1969) suggests that decisions regarding public expenditure revenue and public are interdependent and impact each other. According to this hypothesis, voters consider the incremental costs and benefits of government services when deciding on the appropriate government spending amounts of and government income. Although, the revenue-andspend hypothesis proposed by Friedman (1978) indicates that variations in government revenue result in equivalent adjustments in government expenditure. The phenomenon is marked by a

partial relationship where government income influences government spending. Friedman contends that a rise in revenue will lead to a corresponding increase in government expenditure, thus posing challenges in the reduction of budget short falls (Kiminyei, 2018). However, this study is hinged on the spend-andrevenue hypothesis proposed by Peacock and Wiseman (1961, 1979). The theory posits that variations in government expenditure lead to corresponding variations in government revenue. This theory illustrates a one-way causality that goes from government expenses to government income. The theory contends that in times of severe crises, when government spending exceeds receipts, certain revenue increases that were initially justified by the crisis may ultimately evolve into permanent revenue policies. The "displacement effect" refers to the phenomenon where transitory increases in government expenditure resulting from economic and political crises can ultimately contribute to enduring increases in government revenues through taxation (Bhatia, 2015; Chang, 2009). The spend-revenue theory was adopted by this study because the State government has a tendency to give higher importance to expenditure and subsequently increase taxes in order to finance the resulting costs.

2.2 Empirical review

This study conducted a comprehensive review of the relevant empirical literature, focusing on the dynamic bond between government revenue and expenditure. Onifade *et al.* (2020) conducted an empirical study to examine the link between Nigerian government spending and earnings. The Central Bank of Nigeria provided time series data from 1970 to 2007 for the study (2004, 2007). Within the Error Correction Modeling (ECM) framework, the Granger causality test, the Johansen cointegration method, and the Engel-Granger two-step cointegration approach were employed as part of the methodology. The study focused on analyzing the independent variable of government revenue and its relationship with the dependent variable of government expenditure. The findings revealed a persistent and enduring correlation between the income and spending of the Nigerian government over an extended period of time. Furthermore, the study revealed a one-way causal relationship, where government revenue has an impact on government expenditure thus providing evidence to the contrary of the revenue-spend hypothesis for Nigeria.

The objective of Shen et al. (2018) study was to underscore the importance of government spending effect. The study found external financing to increase income, and public investment not to be effective in aiding output in the short run. Alade (2022) examined the association between the overall revenue, government expenditure, and indebtedness of the Nigerian government. The study utilized data covering the period from 1984 to 2019, obtained from the Nigerian Central Bank. It employed descriptive methods and conducted a Granger-Causality test. The interconnections between revenue, expenditures, and public debt were examined. The findings validated the presence of co-integration and a Granger causality association, providing support for the spend-tax theory. The report emphasized the importance of promptly allocating funds to ensure revenue stability, advised against growing foreign debt for the purpose of public goods and revenue development, and cautioned that financial limitations could exacerbate poverty, crime, and social problems in Nigeria.

In a study conducted by Oniore (2014), the correlation between budget execution and economic development in Delta State during the period of 1991-2010 was examined. The study aimed to investigate three research objectives utilizing descriptive methods, including simple percentage calculations, graphs, and pie charts for analysis, in response to the state's lack of substantial economic advancement. Both primary and secondary data were employed. The

study revealed that budget failures in the state can be attributed to various issues, including budget indiscipline, lack of accountability, disregard for reasonable ideas from interest groups, inadequate monitoring tools, political instability, improper utilization of data, and uneven economic planning. Suggestions encompassed the enforcement of stringent budgetary discipline, the establishment of a favorable operational setting, the implementation efficient supervisory systems, of the consideration of input from interest groups, the introduction of timely corrective actions, and the use of precise data in forthcoming budgetary preparations. Although the budget implementation was not fully completed, the research highlighted that state budgets have played a significant role in the advancement of politics and the economy. In summary, the empirical review indicates substantial research and findings about government income and spending on a national scale. Nevertheless, it appears that there is a scarcity of work conducted at the state or subnational level. Similarly, the literature research indicates а lack of comprehensive economic analysis of government income and government spending, specifically in Delta State. This study addresses the existing gap by doing an economic analysis of revenue and spending in Delta State from 2012 to 2022. It also builds upon the previous research conducted by Oniore in 2014 by providing a detailed understanding of the revenue and expenditure dynamics within Delta State. Specifically, it narrows the time frame and delves deeper into the evaluation of government revenue and expenditure

3. Methodology

In examining the causal relationship between revenue and expenditure in Delta State, this study used a quarterly data obtained from Delta State Audit-General and Delta State Fiscal Strategy Papers for a period of 2012Q1 to 2022Q1. The variables used by the study include Government Revenue proxied by cash obtained from taxes, fines, fees, and grants. Government Expenditure measured by financial resources allocated and utilized by the government within an economy. Allocation of financial resources for the acquisition of various assets is used as a proxy for capital expenditure. Routine costs involved in the operation of the country are used as a proxy for recurrent expenditure. A substantial part of the revenue for many government bodies that involves mandatory transfers to the general government sector is used as a proxy for tax revenue. The increase in the government's overall value resulting from transactions that are not related to tax collections is used as a proxy for non-tax revenue.

The study analyzed the data, a descriptive statistic was employed to provide a detailed and concise summary of the variables used. Also, correlation was used to determining the direction and strength of a linear relationship between two continuous variables. The quarterly data, as utilized by Charemza and Deadman (1992) was employed to analyze Granger causality. In analyzing the time data, the Dickey-Fuller unit root test was employed to account for the likelihood of serial correlation in the series. The Augmented Dickey-Fuller generalized test equation is expressed as: equation 1 constant only (i.e. without trend), equation 2 constant with trend; and equation 3 with no constant and no trend.

$$\Delta y_t = \alpha + \theta y_{t-1} + I \Delta y_{t-1} + \varepsilon_t$$

$$\Delta y_t = \alpha + \beta T + \theta y_{t-1} + {}_{I} \Delta y_{t-1} + \varepsilon_t \qquad 2$$

$$\Delta y_t = \theta y_{t-1} + {}_{I} \Delta y_{t-1} + \varepsilon_t \qquad 3$$

1

For the Granger causality as used by Cunado and Perez (2005), the baseline equation model for the analysis is specified as follows.

$$D(Revenue_t) = \Sigma\beta Expenditure_{t-1} + \sum \gamma Revenue_{t-1} + \mu_{1t}$$

$$D(Expenditure_t) = \Sigma \beta Revenue_{t-1} +$$

$$\sum \gamma Expenditure_{t-1} + \mu_{2t}$$
 5

4. Results

Descriptive Analysis

This analysis provides an understanding of the fundamental attributes of government revenue, non-tax revenue, tax revenue, government expenditure, capital and recurrent expenditure in Delta State throughout the selected timeframe. From the results presented in Table 1, the mean value for IGR is 0.45 and CAPEX is 1.05, indicating that the variables exhibit an upward trend throughout the estimation period. For the Standard Deviation, the analysis shows that the average values of government revenue, IGR, FAAC, and CAPEX, are lower than their corresponding standard deviations. These findings indicate that the variable had a higher frequency of negative shocks compared to positive ones during the period from 2012 to 2022. Nevertheless, the results revealed that the mean expenditure surpassed the measure of variability. This suggests that the variable saw a higher ratio of positive shocks relative to negative shocks throughout the period from 2012 to 2022. Among the variables used in the study, the FAAC has the lowest value of 0.01, indicating a lower value compared to the other variables. Also, the result revealed that among the factors included in the study, government expenditure had the highest value of 4.79, when compared to other variables.

Variables	Mean	Standard Deviation	Minimum	Maximum		
Government Revenue	1.55	1.66	0.16	3.99		
Government Expenditure	2.70	1.15	1.75	4.79		
IGR	0.45	0.49	0.04	1.18		
FAAC	0.56	0.61	0.01	1.42		
Capital Expenditure	1.05	1.09	1.12	2.91		
Recurrent Expenditure	1.39	0.30	1.01	1.88		

Table 1. Descriptive Statistics Result of Government Revenue and Expenditure.

Note: Number of observations is 41 from the quarterly data used from 2012Q1 to 2022Q1 Source: Author's Computation

To determine the stationarity properties of the variables used in the study using the Phillips-Perron (PP) and Augmented Dickey-Fuller (ADF) tests, the unit root test is crucial. Revenue and expenditure were found to be stationary at first difference, 1(1), but not at levels, 1(0), according to the results of the ADF and PP test statistics. The result showed that the probability value of revenue at levels (0.716) is greater than

the critical value of 10%. At the first difference, the probability value of (0.003) is significant at 1% critical value. Hence, the null hypothesis was not accepted. The outcome demonstrated that the likelihood of spending at levels (0.907) is higher than the 10% essential criterion. The probability value of (0.032) for the first difference is significant at the 5% critical value. The null hypothesis was not accepted.

Variables	ADF			Decision	
	I (0)	I (1)	I (0)	I (1)	
Revenue	-1.075 (0.716)	-4.046 (0.003)***	-0.986 (0.749)	-4.046 (0.003)***	I (1)
Expenditure	-0.349 (0.907)	-2.146 (0.032)**	1.934 (0.985)	-2.625 (0.096)*	I (1)
CAPEX	-1.127 (0.695)	-6.208*** (0.000)	-1.127 (0.695)	-6.208*** (0.000)	I (1)
Recurrent	-0.468 (0.886)	-6.123*** (0.000)	-0.468 (0.886)	-6.123*** (0.000)	I (1)
FAAC	-1.395 (0.574)	-6.082*** (0.000)	-1.471 (0.537)	-6.082*** (0.000)	I (1)
IGR	-1.097 (0.707)	-6.087*** (0.000)	-1.129 (0.694)	-6.087*** (0.000)	I (1)

Table 2. Result of Unit Root Test

Note; ***, ** and * denotes 1%, 5%, and 10% critical level respectively Source: Author's Computation

This study seeks to identify times of surplus or deficit in the government budget by analyzing and comparing the trends of revenue and expenditure. The analysis can provide insights into the government's budgetary sustainability throughout several time periods. By doing an extensive trend study from 2012 to 2022, it is clear that Delta State constantly operated with a deficit budget, with expenses consistently exceeding its receipts. Nevertheless, а remarkable event occurred in the fiscal year of 2021, where revenue briefly surpassed spending. The recurring occurrence of increased spending relative to income indicates that the State depends on additional sources of finance to support its budget, which may include both domestic and foreign indebtedness. These loans could be earmarked for specific projects or allocated to larger financial purposes. The 2020 Delta State audit report offers valuable insights. From 2015 to 2019, the total external debt of Delta State increased significantly to a huge of ₩80,922,096,333. The amount debt accumulation can be observed as follows: in 2015, it amounted to ₩11,831,688,700.85; in 2017, it increased to ₩17,809,404,779.4; and by

2019, it further rose to ₩19,071,473,444.65. The trajectory clearly demonstrates a swift increase in the State's external debt accumulation. On the other hand, the State's internal debts exhibit a divergent path. The domestic debt amounted to ₦320,605,705,560.12 in 2015. Nevertheless, this number experienced a decline, reaching ₦228,805,996,159.83 in 2018, and subsequently dropping to N233,892,694,776.08 in 2019. The interplay between varying external and local loans highlights the ever-changing financial environment of Delta State. During the analyzed period, there was an increase in external debt and a decrease in domestic debt. This financial scenario highlights the State's strategic financial actions to handle its fiscal responsibilities in a quickly changing economic environment.



Source: Author's Compilation

On the nature and direction of relationship, the correlation results in Table 3 ranges from 0.81 to 0.99 which indicates that there is a very strong positive correlation between government revenue and expenditure, as well as their

components in Delta State between 2012 and 2022. This means that as revenue increases, expenditure will also increase; and likewise, as revenue decreases, expenditure will decrease.

Table 5. Correlation Result						
	IGR	FAAC	CAPEX	Recurrent	Revenue	Expenditure
IGR	1.00					
FAAC	0.99	1.00				
CAPEX	0.92	0.88	1.00			
Recurrent	0.84	0.81	0.83	1.00		
Revenue	0.99	0.99	0.92	0.83	1.00	
Expenditure	0.92	0.88	0.98	0.90	0.92	1.00

Table 3 Correlation Posult

Source: Author's computation

To determine how revenue and expenditure influence each other, Granger Causality was employed to ascertain whether revenue has the ability to forecast or "Granger-cause" spending, or vice-versa. Based on the findings in Table 4, the revenue in Delta State does not have a significant influence or predictive power on expenditure. This is indicated by the probability value of 0.488, which is not statistically significant at a 10% level of significance. Consequently, the null hypothesis could not be rejected. Nevertheless, there exists a granger causality relationship from expenditure to revenue, as indicated by the statistically

significant probability value of 0.015 at a 5% critical threshold. Therefore, the null hypothesis could not be accepted. Put simply, the budgeting system of Delta State supports the spend-revenue theory, which suggests that government expenditure has an impact on government revenue. Additionally, this implies that the government has a tendency to engage in spending prior to increasing taxes in order to compensate for the expenditure. Consumers' apprehensions about increased future taxes, as highlighted by Narayan and Narayan (2006) and Eita and Mbazima (2008), could potentially result in capital outflow.

Table 4. Granger Causality Test Result between Government Revenue and Expenditure

Null Hypothesis	Obs	F-Statistic	Prob.
Log (Revenue) does not Granger Cause Log (Expenditure)	39	0.730	0.488
Log (Expenditure) does not Granger Cause Log (Revenue)	39	5.220	0.015
Source: Author's Computation			

5. Conclusion and Policy Implications

This concludes that Delta State constantly experiences recurrent budget deficits, wherein its expenditures consistently exceed its receipts. This requires a dependence on alternative sources of income, such as domestic and external debt, to fill the gap and maintain government operations. There has been a significant growth in external debt, whereas domestic debt has decreased during the analyzed period. This emphasizes the proactive financial measures made by the State to address its budget shortfall. Robust revenue and expenditure Positive Correlation: A robust positive correlation is present between government revenue and spending in Delta State. Put simply, higher revenue results in higher expenditure, and vice versa. The Granger causality study demonstrates that there is a relationship between expenditure and revenue in Delta State, providing evidence for the "spend-revenue" theory. This implies that the State government has a tendency to give importance expenditure higher to and subsequently increase taxes in order to finance the resulting costs.

However, from the conclusion, this study recommends that with budget deficits, it is crucial for the State Government to broaden its

revenue streams, seek alternative sources of income beyond oil. Investing in key sectors such as agriculture, tourism, and technology can diversify and increase overall revenue. Also, implantation of stringent budget controls and efficiency measures is essential to keep expenditures in check. This includes regular audits, cutting unnecessary spending, and prioritizing high impact investments. A comprehensive debt management strategy is necessary to ensure sustainable borrowing. The state should negotiate favorable terms, explore concessional loans, and to avoid high interest commercial debt. Likewise, mandating balanced budgets or limiting deficits to a certain percentage of revenue can institutionalize fiscal discipline and promote long term financial Adopting revenueexpenditure stability. synchronization is important. Given the robust positive correlation exists between revenue and expenditure; the state should align expenditure growth with sustainable revenue increases by setting expenditure caps based on projected revenue growth. Implementation of policies that stimulate economic growth such as improving infrastructure. enhancing education and healthcare, and creating a favorable environment that will naturally lead to higher revenues without excessive borrowing or taxation.

Lastly, increasing transparency and ensuring accountability in both revenue collection and expenditure builds public trust and can improve compliance with tax regulations, thereby increasing revenue. By adopting these recommendations, Delta State can aim to achieve a more balanced budget, reduce its dependence on debt, and ensure sustainable financial health in the long term.

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