

# Budgetary Provision and Economic Growth in Bayelsa State

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## ABSTRACT

This study examines budgetary provision and economic growth in Bayelsa state. The research design used in this research work is ex-post facto. Multiple regression analysis was used to establish a long run relationship between budgetary provisions and real gross domestic product in Bayelsa state. In the short run, the study reveals that budgetary provisions has positive impact on economic growth of Bayelsa state is significant and this may be as a result of proper management of funds meant for capital projects in the state. For the re-current expenditure, the impact has been consistently being positive and significant on real gross domestic product in Bayelsa state. Also, the estimated result shows that the joint effect of the explanatory variables is statistically significant. The following recommendations are made based on the researcher's findings: There is a need for the establishment of an appropriate institution that will be responsible for monitoring the disbursement and the usage of government allocation for the development of manpower in the state. To sustain positive and significant relationship between fiscal policy and manpower development, there is a need for more proactive measures within the public sectors to ensure disbursement and usage of government allocation to the manpower development.

**KEYWORDS:** *budgetary provision, real gross domestic product, fiscal policy.*

## INTRODUCTION

Government spending in Bayelsa State has continued to increase due to huge receipts from crude oil proceeds and 13 percent derivative, the increased demand for public utilities like good roads, communication power, education, health, housing, water etc. There is increasing need to provide internal security for the people of Bayelsa State in general. Available statistics shows that total government expenditure (capital and recurrent) has continued to rise in decades. Public expenditure is the spending made by the government of a country on the collective needs and wants of her citizenries such as spending on; the provision of infrastructures, pension provision etc. Until the 19th century, public expenditure was limited as laissez faire philosophies which believed that money left in private could bring better returns. In the 20th century John Maynard Keynes argued the role of public expenditure in determining levels of income and distribution in the economy. Since then, government expenditures have shown an increasing trend. In the 17th and the 18th Century public expenditure was considered as

wastage of money (Inalegwu, 2019). Thinkers are of the view that government should stay with their traditional functions of spending on defense and maintaining law and order. Public expenditure, therefore is expenditure incurred by government in order to build infrastructure, pay salaries and do other things which will benefit her citizens. In the past, public expenditure was an area of study relatively unexplored despite the significant increase that have been recorded over time, this field has still not gained a prominent position in our national economy nor has the focal point been a well-balanced one. Easily, economist who was actually concerned with the economics of public spending was more engaged with the taxation aspects rather than with the expenditure of public monies. The circumstance surrounding the law spread of development in this field of human endeavor could perhaps be ascribed to many factors such as lack of readily accessible information about the composition and incident of expenditure and also the structure of institution which surround public expenditure decisions. However, of recent, there has

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been rapid increase in public expenditure in West African countries, particularly in Nigeria due to the fact that the functions of the various levels of government have equally increased both intensively and extensively. In modern times the application of public expenditure by the government as a variable tool for development is a clear manifestation of its overriding importance (Ademolokun, 2021). Government performs two important functions, namely protection of life and property (security) and provision of public goods. These arguments among scholars include increase in government expenditure on socio-economic and physical infrastructures encourage economic growth. For example, government expenditures on health and education raise the productivity of labour and increase the growth of the state. Also, government expenditures such as roads, bridges, power, communication etc reduces the cost of production and increases the private sector investment and profitability of businesses, thereby encouraging economic growth (Al-Yusuf, 2020), he opined that the general view is that government expenditures either recurrent or capital expenditure on social and economic infrastructures can be growth-oriented.

The provision of infrastructural services to meet business demand households, and other users is one of the major challenges of economic development in a developing state like Bayelsa. From creation of Bayelsa state capital and recurrent expenditure have regularly increased in the budget of the state. However, it does not appear as if the increase in capital and recurrent expenditure has translated into increase in the performance of economic growth in Bayelsa State. The relationship between government expenditure on economic growth has attracted a lot of debate among economic scholars and politicians over the years. There is a strong argument that the solution to economic depression is to induce firms to invest through some combination of reduction in interest rate and government capital investment including infrastructure. It is against this background that this study seeks to examine budgetary provision as it impacts economic growth in Bayelsa State.

### **Objectives of the Study**

The main objective of this study is to examine the impact of budgetary provision on economic growth in Bayelsa State. The specific objectives are:

To examine the impact of government budgetary provision on economic growth in Bayelsa State

Ascertain the impact of capital and recurrent budget on economic growth in Bayelsa State

The following research hypotheses stated in their null and forms will guide this study

1. Ho 1: Government budgetary provision has no significant impact on economic growth in Bayelsa State.
2. Ho 2: Government capital and recurrent budget has no significant impact on economic growth in Bayelsa State.

## **LITERATURE REVIEW**

### **Conceptual Framework**

#### **Government Accounting**

The primary purpose of a private sector organization is to make profit. As a result of this, the focus of accounting in private sector is to enable the business to determine the profit of the business over a given period. However, because government ministries are not run for the purpose of profit making, many factors influence government accounting such as the role of government in the different fields like health and education and the methods set by government to achieve its set objectives (Jones & Bendiebury, 2019). The focus of accounting in government is the determination of how much money was received and the sources of such receipts, how much money was spent and for what purposes and what remains after meeting the financial obligations. This then means that government accounting is more concerned with information gathering that will enable government to prepare Receipts and Payments accounts as it is the case with Clubs and Societies rather than the profit and loss account of a private sector business (Kam, 2021). This point is reinforced by the fact that the accountant-General of the Federation is referred to as the "Chief Accounting Officer for the receipts and payments of the government of the federation. As a result of more interest in receipts and payments account, the government accounting practice that evolved over the years focused on cash receipts and disbursements on the basis of budgetary headings to reveal the balances available at a given time under various heads and sub-heads of votes. This therefore means that the basis of accounting in government is normally the cash basis (or modified cash) rather than the accrual basis of the private sector. Wynne, (2022) stated that under the cash basis, the government revenue is recorded and accounted for when cash is received and expenditure is incurred when cash is paid irrespective of the accounting period in which the benefit is received or the service rendered. This therefore means that the amount incurred by the government to purchase official car will be treated the same way as salaries paid to the workers in that both will be written off as part of expenditure for the period the costs were incurred. Since the payments

made for the acquisition of fixed assets by the government are written off in the year of acquisition irrespective of the useful life of the fixed assets, it follows those non-current assets like buildings and motor vehicles which will normally be seen on the statement of financial position of a private sector business would be absent in the case of government. This explains why, for example, the accountant-General's Statement which is a statement of assets and liabilities of government does not indicate anything on the fixed assets of the government (Shearer, 2024). Since fixed assets are not capitalized, it follows that there is no room for depreciation in government accounting system that uses cash basis of accounting. It should also be pointed out that since revenue is recognized only when cash is received, debtors as it is known in the private sector will be absent from government financial statements (but will, of course, be recorded). In the private sector, accrued expenses are recognized as current liabilities and taken into consideration in determining the total debt of the organization. Government departments do not recognize current liabilities thereby giving a wrong impression of total government debt (if the liabilities are significant).

One other point to discuss on the topic is the role of fund accounting in government. Onuorah, and Ebimobowei. (2022) stated that in the case of a private sector business, the whole of the business is treated as an accounting entity. This implies that accounting measures and reporting are carried out in the name of one single entity. As a result, unless an asset is set aside for a specific purpose (such as replacement of a fixed asset) the organization's resources are available as a pool which can be used in any area of its operation to achieve the main goal of profit making. Thus, the pool of resources can be used to acquire fixed assets, pay wages or pay debt. However, in the case of the government that has diversity of goals and functions to carry out, the resources are not available as a pool to be spent on just any area of government operation at the discretion of the officials. There are often restrictions on how available resources may be utilized on individual areas of government operation. The mechanism for carrying out the restriction is the fund accounting (Inalegwu, 2019). Under this arrangement, separate funds are provided for carrying out different specific functions of government. A fund is the total amount of money set aside for a specific purpose. Each fund is then accounted for separately, so that the fund is the accounting entity on which accounting reports are based. Thus fund accounting can be defined as a method of accounting, which treats a fund as the accounting entity on which accounting

reports are based rather than the organization as a whole (Ndubuisi, 2021). Synder, (2020) stated that the purpose of fund accounting is to ensure that the government organization uses the resources provided for each fund only for the purposes designated for the fund. Thus, the fund of motor vehicle advances can only be used to advance vehicle loans to the civil servants and money for other funds cannot be used by them as vehicle loans. In the private sector, the technique of flexible budgeting has been developed to set standard for cost in the light of output achieved. The absence of output measure in the delivery of public goods means that such technique cannot be used in a typical government department.

### **Government Expenditure**

Inalegwu, (2019), states that government expenditures are the costs that are usually incurred by the government for the provision and maintenance of itself as an institution, the economy and society. Government expenditures tend to increase with time as the economy becomes large and more developed or as a result of increase in scope of activities. He further identified recurrent and capital budget as one of the major types of budgets in an economy. It is sometimes referred to as revenue budget and it covers recurrent items or expenditures. The capital budget has to do with expenditures necessary to procure capital assets. Government's spending is a fiscal instrument which serves a useful role in the process of controlling inflation, unemployment, depression, balance of payment equilibrium and foreign exchange rate stability. In the period of depression and unemployment, government spending causes aggregate demand to rise and production and supply of goods and services follow the same direction. As a result of the increase in the supply of goods and services, coupled with a rise in the aggregate demand exerts a downward pressure on unemployment and depression. In Nigeria, the federal government's expenditures are broadly divided into capital and recurrent expenditures. In most cases, government intervention has brought stability in income and employment in the economy. Public expenditure is therefore, an important tool that brings about an egalitarian society through the provision of welfare facilities (Olisa, 2021). Public expenditure is functionally classified into four categories in Nigeria: administration, economic services, social and community services, and transfers with capital and recurrent expenditure consumptions for each class.

### **Economic Growth**

Maimako, (2022) defined a country's economic growth as a long-term rise in capacity to supply increasing diverse economic goals to its population.

This growth capacity based on advancing technology and the institutional and ideological adjustment that is demanded. In other words, economic growth refers to increase in a country's potential gross domestic product (GDP), although this differs depending on how national product is being measured. Maimako, (2022) states that, economic growth must be sustainable for a developing economy to break the circle of poverty. Iyoha and Oyerinde, (2020), economic growth can be defined as the steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income. However, it is pertinent to note that growth is concerned solely with quantitative and measurable attributes. Furthermore, Ezejelue, (2022). regarded economic growth as the engine for generating long-term increase in the overall standard of living. This justifies why every economy aims at achieving economic growth annually. Economic growth is also defined as the increase in the market value of the goods and services produced by an economy overtime. It is conventionally measured as a percentage rate of increase in real gross domestic product. This conceptualization is adopted as the working definition of economic growth.

### **Government Expenditure and Economic Growth**

Economic growth refers to increase in a country's potential gross domestic product (GDP), although this differs depending on how national product has been measured. Economic growth must be sustained for a developing economy to break the cycle of poverty. Countries usually pursue fiscal policy to achieve accelerated economic growth. Ezejelue (2022), observed that fiscal policy applies to the use of fiscal instruments (taxation and spending) to influence the working of the economic system in order to maximize economic welfare with the overriding objective of promoting long-term growth of the economy. The mechanism in which government spending on public infrastructure is expected to affect the pace of economic growth depends largely on the precise form and size of total public expenditure allocated to economic and social developmental projects in the economy. When public expenditure is incurred, by itself it may be directed to particular investments or may be able to bring about re-allocation of the investible resources in the private sector of the economy. This effect is basically in the nature of re-allocation of resources from less to more desirable lines of investment. An important way in which public expenditure can accelerate the pace of economic growth is by narrowing down the difference between social and private marginal productivity of certain investments (Carlin, 2023).

For decades, public expenditures have been expanding in Nigeria, as in any other country of the world. Akpan (2021) opined that the observed growth in public expenditure seems to apply to most countries irrespective of their level of economic development. Over the years, increase in the finances of the Nigerian government has led to a number of investigations of the sources of such increase. Abdullahi (2020) observed that government expenditure has continued to rise due to the huge receipts from production and sales of crude oil and the increased demand for provision of basic social amenities. Besides, there is increasing need to provide both internal and external security for the people and the nation.

### **Theoretical Framework**

#### **Musgrave Theory of Public Expenditure Growth.**

This theory was propounded by Musgrave as can be found in changes in the income elasticity of demand for public services in three ranges of per capita income. He posited that at low levels of per capita income, demand for public services tends to be very low (Carlin, 2023). This is so because according to him, such income is devoted to satisfying primary needs and that when per capita income starts to rise above these levels of low income, the demand for services supplied by the public sector such as health, education and transport starts to rise, thereby forcing government to increase expenditure on them. He observed that at the high levels of per capita income, typical of developed economies, the rate of public sector growth tends to fall as the more basic wants are being satisfied. **Keynesian Theory.** Economists who discussed the relationship between public expenditures and economic growth, John Maynard Keynes (1883-1946) was among the most noted with his apparent contrasting viewpoint on this relationship (Ezejelue, 2022). Keynes regarded public expenditures as an exogenous factor which can be utilized as a policy instrument which promotes economic growth. From the Keynesian thought, public expenditure can contribute positively to economic growth. Therefore, an increase in the government consumption is likely to lead to an increase in employment, productivity, profitability and investment through multiplier effect on aggregate demand. As a result, government expenditure augments the aggregate demand, which provokes an increased output depending on expenditure multipliers. Ezejelue, (2022)

### **Empirical Framework**

Many researchers have attempted to examine the impact of government expenditure on economic growth, using different countries and periods. Aruwa,

S. (2015).) employed the triradiate causality test to examine the relationship between government expenditure and economic growth using data on Greece, United Kingdom and Ireland. The authors found out that government size causes economic growth in all countries they studied. The finding was true for Ireland and United Kingdom both in the long-run and in the short-run and economic growth causes government expenditure for Greece. Baird, (2017), investigated the relationship between government expenditure and economic growth for a group of thirty (30) organizations of Economic Cooperation (OEC) countries and during the period of 1970-2005. The regression results showed the existence of a long-run relationship between government expenditure and economic growth. In addition, the authors observed a unidirectional causality from government expenditure to growth of 16 out of the countries, thus supporting the Keynesian theory. However, causality runs from economic growth to government expenditure in 10 out of the countries confirmed the Wagner's law. Barton, (2018) examined the causal relationship between gross domestic product (GDP) and government expenditure for the US data during the period 1947-2002. The result revealed that the total government expenditure causes growth of GDP. On the other hand, GDP growth does not cause expansion of government expenditure.

In Nigeria, many scholars have also attempted to examine government expenditure- economic growth relationship. Akpan (2021) used a disaggregate approach to determine the components of government that enhance economic growth (which include capital expenditure, recurrent expenditure, administrative service, economic service, social and community services and transfers) and those that do not. The authors concluded that there was no significant association between most components of government expenditure and economic growth in Nigeria. Bello-Immam, (2020) used time series data for the period 1961 to 2007 and applied cointegration test and

granger causality test to examine government expenditure disaggregate into general administration and community and social services in Nigeria. The result revealed negative impact of government expenditure on economic growth. Burton, (2021) investigated the impact of government expenditure on economic growth in Nigeria between 1980 and 2008, and applied Johansen cointegration technique and error correction model. The result inferred that in the short-run, expenditure on agriculture and education were negatively related to economic growth. However, expenditures on health, national security, transportation and communication were positively related to economic growth, though the impacts were not statistically significant. Other studies in Nigeria showed mixed results (Carlin, 2023).

In the view of Chambers, (2021), targeting government expenditure simply to reduce poverty was not sufficient. Government expenditure also needs to stimulate growth to help generate the resources required for future government expenditure such as growth was the only way of providing a permanent solution to the problem and to increase the overall welfare to the people.

Adebayo, (2021) on his part, however, did not see expansion in government expenditure as an inimical development that needs to be curtailed so long as it was adequately matched. Expansion in government revenue, efficiently managed would not fuel inflation and the composition was productive, enhancing development of the economy. In a less developed country like Nigeria, less attention had been given to examine productivity of the various components of government spending. This was born out of the observation that the primary objective of fiscal policy was aggregate demand management (Gorelik, 2022). By and large, this view placed prominence on aggregate government spending and appeared unenthusiastic to differentiate between or among the various components of government expenditure.

## METHODOLOGY

The research design used in this research work is ex-post facto. In this research, most of the data used were obtained from already published data. These documents included annual reports and accounts of the state budget; recurrent expenditure and capital expenditure of the government, facts books, newspaper reports, internet reports as well as other relevant financial and publications. The data gathered from these reports reflect the historical economic performances under study. Accordingly, the cause-and-effect relationship between dependent variables (RGDP) Real Gross Domestic Product) and independent variables, (RGEX) Recurrent Government Expenditure and (CGEX) Capital Government Expenditure, were examined. Multiple regression technique is adopted to test relationship of variables and the level of influence the independent variables wield on dependent variables. The e-view 8 windows is the statistical computer software used to run the analysis of the cross-sectional data of this study.

The functional form on which our econometric model is given thus:

$$RGDP = F(RGEX, CGEX, GBUD) \dots\dots\dots 1$$

The OLS linear regression equation based on the above functional relation is:

Transforming equation (1) to the natural logarithm, we have:

$$RGDP = \beta_0 + \beta_1 \log(RGEX) + \beta_2 \log(CGEX) + \beta_3 \log(GBUD) + \text{-----}2$$

Where;

RGDP = Real gross domestic product as a proxy for economic growth

$f$  = functional notation

RGEX = Recurrent Government Expenditure

CGEX = Capital Government Expenditure

GBUD = Government Budget

### Data Presentation and Analysis

**Table .1: Data on the impact of budgetary provisions on economic growth in Bayelsa State from 2015 - 2023**

| Year | RGDP (₦ Billion) | RCGEX (₦ Billion) | CGEX (₦ Billion) |
|------|------------------|-------------------|------------------|
| 2015 | 44,285.56        | 2,127.97          | 1,152.80         |
| 2016 | 54,612.26        | 3,109.44          | 883.87           |
| 2017 | 62,980.40        | 3,314.51          | 918.55           |
| 2018 | 71,713.94        | 3,325.16          | 874.70           |
| 2019 | 80,092.56        | 3,214.95          | 1,108.39         |
| 2020 | 89,043.62        | 3,426.94          | 783.12           |
| 2021 | 94,144.96        | 3,831.98          | 818.35           |
| 2022 | 101,489.49       | 4,160.11          | 634.79           |
| 2023 | 113,711.63       | 4,779.99          | 1,242.30         |

Source: state government budget office and CBN Statistical Bulletin, 2025.

The researcher employed the Unit Root Test to ascertain the stationary status of each variable in order to avoid spurious regression result. It became increasingly useful to test the time series of the variables for meaningful economic results. It is clear that OLS regression estimation with non-stationary time series data often produced unacceptable results, even though the overall results may suggest a high degree of measure by the coefficient of multiple correlation,  $R^2$  or adjusted coefficient of  $R^2$ , high auto-correlated residuals and statistical significance as measured by the usual t-statistics (Glautier, & Underdown, 2022).

**Table 2: Unit Root Test (Augmented Dickey-Fuller Test)**

The table shows the summary of the computed unit root test (Augmented Dickey-Fuller Test) for each of the variables

| Variables | Level     | 1 <sup>st</sup> Diff | 2 <sup>nd</sup> Diff | Lag | Decision |
|-----------|-----------|----------------------|----------------------|-----|----------|
| RGDP      | -2.921843 | -5.725083            |                      | 2   | 1(1)     |
| RGEX      | -2.400429 | -7.359557            |                      | 2   | 1(1)     |
| CGEX      | -0.522980 | -6.448194            |                      | 2   | 1(1)     |
| GBUD      | -2.320864 | -6.810349            |                      | 2   | 1(1)     |
| Critical  | -3.544284 | -3.548490            |                      |     |          |
| Value 5%  |           |                      |                      |     |          |

Source: Author's computation with the use of E-view 8.

Table 2 shows the summary of the unit root test of the variables used for the empirical study. The test shows that both the explained and explanatory variables used in the model are stationary. Both the dependent and independent variables are all stationary at first difference, i.e 1(1) respectively all at 5% significance level. A variable is stationary (has no unit root problem) if the test is greater than the critical value in absolute terms.

**Table 3: Short-run Estimated Linear Model**

Dependent Variable: RGDP

Method: Least Square

Sample: 2015-2023

Included Observations: 9

| Variable | Coefficient | Std Error | t-statistics | Prob.  |
|----------|-------------|-----------|--------------|--------|
| C        | 0.251792    | 0.140698  | 2.507443     | 0.0038 |
| CGEX     | 0.453935    | 0.208887  | 6.251989     | 0.0056 |
| RGEX     | 0.655235    | 0.388422  | 3.216286     | 0.0000 |
| GBUD     | 0.457328    | 0.117462  | 2.394749     | 0.0348 |

|                         |          |                          |          |
|-------------------------|----------|--------------------------|----------|
| R-squared               | 0.788168 | Mean dependent var.      | 35.51379 |
| Adjusted R <sup>2</sup> | 0.722643 | S.D dependent var.       | 39.90746 |
| S.E of regression       | 11.09954 | Akaike info criterion    | 7.749381 |
| Sum squared res.        | 3203.193 | Schwarz criterion        | 7.890826 |
| Log likelihood-         | 109.3660 | Hannan-Quinn criterion   | 7.793680 |
| f-statistics            | 167.9783 | Durbin-Watson statistics | 1.793452 |
| Prob (f-stat)           | 0.000000 |                          |          |

Source: Author's computation using E-view 8

### Analysis of the Regression Result

The equation of the model specification is presented as follows:

$$\text{RGDP} = 0.251792 + 0.453935 \text{ CGEX} + 0.655235 \text{ RGEX} + 0.457328 \text{ GBUD} + U_i$$

T-value (6.251989) (3.216386) (2.394749)  $R^2 = 0.788168$  Adj  $R^2 = 0.722643$   
DW = 1.793452 F-stat = 167.97(0.00000)

**Evaluation Criterion.** This section presents the economic interpretation of the regression results and validate whether parameter estimates in each model confirm to apriori expectation. In the model, the dependent variable is real GDP while the independent variables are capital government expenditure (CGEX) and recurrent government expenditure (RGEX). **Capital Government Expenditure (CGEX):** The sign of its coefficient is positive and statistically significant. This conforms to apriori expectation as increase in capital government expenditure would contribute positively to real GDP. The coefficient of 0.453935 implies that over the study period, on average, if capital government expenditure increases by one unit, real GDP would rise by 0.453935 units. This implies that any increase in government expenditure in form of construction of roads, building of schools, building of hospitals etc would contribute or lead to increase in real GDP. Thus, the null hypothesis which says there is no significant relationship between capital government expenditure and real GDP is rejected and the alternative hypothesis is accepted. **Recurrent Government Expenditure (RGEX):** The sign of its coefficient is positive and statistically significant. This conforms to apriori expectation as increased recurrent government expectation (RGEX) would contribute positively to real GDP. The coefficient of 0.655235 implies that over the study period on average, if recurrent government expenditure increases by one unit, real GDP would rise by 0.655235 units. Thus, the null hypothesis which says there is no significant relationship between recurrent government expenditure and real GDP is rejected and the alternative hypothesis is accepted. **Government Budget (GBUD):** The sign of its coefficient is also positive and statistically significant. This conforms to apriori expectation as increased government budget would contribute positively to real GDP. The coefficient of 0.457328 implies that over the study period, on average, if government budget increases by one unit, real GDP would rise by 0.457328 units. Thus, the null hypothesis which says there is no significant relationship between government budget and real GDP is rejected and the alternative hypothesis is accepted.

### Conclusion

Specifically, this study examines government expenditure on Bayelsa state economy from 2015-2023. Multiple regression analysis was used to establish a long run relationship between government expenditure and real gross domestic product in Bayelsa state. In the short run, the study reveals that government capital expenditure on Bayelsa state economy is positive and significant and this may be as a result of proper management of funds meant for capital projects in the state. For the re-curent expenditure, the impact has been consistent being positive and significant on real gross domestic product in Bayelsa state. Also, the estimated result

shows that the joint effect of the explanatory variables is statistically significant. That is, government expenditure has a significant impact on Bayelsa state economy. The following recommendations are made based on the researcher's findings: There is a need for the establishment of an appropriate institution that will be responsible for monitoring the disbursement and the usage of government allocation for the development of manpower in the country. To sustain positive and significant relationship between fiscal policy and manpower development in the country, there is a need for more proactive measures within the public sectors to ensure disbursement and usage of government allocation to the manpower development.

Government should ensure proper monitoring, evaluation and implementation of expenditure disbursed for manpower development. Government recurrent expenditure should focus more on training of its manpower for increased productivity.

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