Review Pub Admin Mang

An Open Access Journal
• ISSN: 2315-7844

Review of Public Administration and Management

Research Article | Homepage: www.arabianjbmr.com | AGJ

STRATEGIES FOR ALLEVIATING POVERTY IN NIGERIA: ISSUES, CHALLENGES AND THE WAY FORWARD

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ABSTRACT

This paper examined the causes of poverty in Nigeria. An autoregressive distributed lag model was built and estimated with the use of E-views version 10. The results show that poverty in the previous period, unemployment rate, exchange rate and lending rate have positive impact on poverty in Nigeria. While, population growth rate, inflation rate, GDP growth rate and GDP growth rate at lag 1 have negative impact on poverty. It is therefore evident that population growth rate and inflation rate are not serious causes of poverty in Nigeria. It was therefore recommended that the government should pursue, more vigorously, increase in the GDP growth rate in order to reduce the rate of poverty in Nigeria. Also, economic policies should be put in place to reduce the rate of unemployment in the country. The monetary authority (Central Bank of Nigeria) should reduce the lending rate and ensure exchange rate appreciation.

KEY WORDS: Poverty, Growth, Population, Unemployment.

1. INTRODUCTION

Many Nigerians are today living a most difficult life with basic amenities such as food, water, electricity and security almost totally absent. By many counts, Nigeria ranks among the most resource-endowed countries in the world (source). Despite its resources, however, it today ranks among the 20 poorest nations (UNDP, 2006). The proportion of the core poor is shown from United Nations (UN) estimates to have risen sevenfold from 4 million in 1980 to 30 million in 1996, while the poverty rate rose from 42.7 per cent to 65.6 per cent from 1992 – 1996. In 2007, it is estimated that about 70.2 per cent of Nigerians live on less than USD$1 a day, while up to 91 per cent live on less than USD$2 a day. With 55.5 million poor people in 1998, Nigeria had the largest number of the world's extreme poor in comparison with war torn countries such as Democratic Republic of Congo's and Ethiopia's 48.2 million and 37.4 million respectively. It is disturbing to observe that there is a wide gap between the rich and the poor, town and country as well as regional disparities in the distribution of income. As further shown, whereas the percentage of total income earned by the richest 20 per cent of the population in 2006 was 55.7 per cent; the corresponding figure for the poorest 20 per cent was 4.4per cent.

Nigeria's poverty situation in the face of its rich petroleum resources was aptly summed up in Feyide (1990) "All the characteristics of poverty appear to be present in this country, yet it is true that Nigeria cannot properly be described as a poor country. Our rich endowment of human and natural resources is one aspect of our national wealth. The fact that the resources include vast resources of hydrocarbon makes all the difference to our classification in the international scale of prosperity". "We have the ingredients of wealth but they have not been fully converted into real prosperity". In the oil boom of earlier years, when the naira was stronger with higher purchasing power than the US dollar, we were all proud to be Nigerians. The ostentatious display of wealth, at home and abroad and the ensuing 'oil wealth illusion' effect led to the extravagant squandering of the petrol money like the biblical prodigal son, instead of its productive investment and utilization to transform and develop the economy to guarantee lasting real, as against spurious/illusionary transient prosperity (Feyide, 1990).The 1998 UNDP human development index described Nigeria as a rich country with a poor population and the poorest and most deprived OPEC country. Nigeria was by 2003 rated the 188th of the 192 member nations of the World Health Organization (WHO) because of the poor state of the country's health infrastructure. The country was placed 146th out of 162 nations on the UNDP index of social indicators. The incidence of poverty in Nigeria in recent times is rather pathetic. With an average of 35.5 per cent between 1980 -1984 the poverty rate increased to 44.5 per cent in 1989. Between 1990 and 1994 the average poverty rate was 46.78 per cent. During the same period, the poverty level was higher in the northern agro-climatic zone at 40 per cent compared with the middle and southern zones at 38per cent and 24 per cent respectively (FOS 1999).

By the year 2000, statistics indicates that poverty is deep and pervasive with an estimated 70 per cent of the population living in poverty. According to the Brookings Institution (2018), Nigeria with about 87 million people in extreme poverty, has the largest share of extremely poor people in the world, surpassing India. Nigeria is ranked 6th on the Misery Index. On the average, 3 out of every 4 Nigerians live below US$2 per day. Indeed, the Nigeria economy faces enormous challenges and a bleak future if fundamental steps are not taken to redress the legacies of the past. Among the many requirements for rejuvenating the economy is rapid and broad based growth. It would require Nigeria doing things in fundamentally different ways than in the past to break-away from the low growth-poverty traps.The main objective of this paper is to investigate the causes of poverty in Nigeria with a view to proffering strategies for alleviating it. To this end, an autoregressive linear model of poverty was built to ascertain the strength of the causes of poverty such as unemployment, inflation, low income, exchange rate and interest rate. On the basis of the regression results, strategies for alleviating poverty in Nigeria are proffered. Following the introduction; section two is the conceptual issues on poverty; section three is the methodology; discussion of results is presented in section four while section five contains the conclusion and recommendations.

2. CONCEPTUAL ISSUES ON POVERTY

Poverty in its most general sense is the lack of necessities. Basic food, shelter, medical care, and safety are generally thought necessary based on shared values of human dignity. However, what is a necessity to one person is not uniformly a necessity to others. Needs may be relative to what is possible and are based on social definition and past experience (Sen, 1999). Valentine (1968) says that "the essence of poverty is inequality. In slightly different words, the basic meaning of poverty is relative deprivation." Poverty can also be seen as a condition of having insufficient resources or income. In its most extreme form, poverty is a lack of basic human needs, such as adequate and nutritious food, clothing, housing, clean water, and health services. Extreme poverty can cause terrible suffering and death, and even modest levels of poverty can prevent people from realizing many of their desires. The world's poorest people -- many of whom live in developing areas of Africa, Asia, Latin America, and Eastern Europe -- struggle daily for food, shelter, and other necessities. They often suffer from severe malnutrition, epidemic disease outbreaks, famine, and war. In wealthier countries -- such as the United States, Canada, Japan, and those in Western Europe—the effects of poverty may include poor nutrition, mental illness, drug dependence, crime, and high rates of disease (Corbett, 2008).

Extreme poverty, which threatens people's health or lives, is also known as destitution or absolute poverty. In the United States, extreme poverty is traditionally defined as having an annual income that is less than half of the official poverty line (an income level determined by the Bureau of the Census). Extreme poverty in developing nations, as defined by international organizations, means having a household income of less than U.S.$1 per day. Relative poverty is the condition of having fewer resources or less income than others within a society or country, or compared to worldwide averages. In developed countries, relative poverty often is measured as having a family income less than one-half of the median income for that country (Corbett, 2008).The reasons for poverty are not clear. Some people believe that poverty results from a lack of adequate resources such as land, food, and building materials -- that are necessary for the well-being or survival of the world's people. Others see poverty as an effect of the uneven distribution of resources around the world on an international or even regional scale. This second line of reasoning helps explain why many people have much more than they need to live in comfort, while many others do not have enough resources to live. UNDP (2006) states that poverty is hunger, lack of shelter, being sick and not being able to see a doctor, not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time. Losing a child to illness brought about by water borne disease. Poverty is powerlessness, lack or representation and freedom (World Bank, 1994). Vision 2010 defines poverty as a condition in which a person is unable to meet minimum requirements of basic needs of food, health, housing, education and clothing.

In developing nations, general levels of living tend to be very low for vast majority of people. These low levels of living are manifested quantitatively and qualitatively in the form of low incomes (poverty), inadequate housing, poor health, limited education, high infant mortality, low life and work expectancies, and in many cases a general sense of malaise and hopelessness (Todaro & Smith, 2007). The magnitude and extent of poverty in any country depend on two factors: the average level of national income and the degree of inequality in its distribution. Clearly, for any given level of national per capita income, the more unequal the distribution, the greater the incidence of poverty. Similarly, for any given distribution, the lower the average income level, the greater the incidence of poverty.World Bank (1999) defined poverty as hunger; lack of shelter; being sick and not being able to go to school; not knowing how to read; not being able to speak properly; not having a job; fear for the future; losing a child to illness brought about by unclean water; powerlessness; lack of representation and freedom. Schubert (1994) defined poverty as either absolute or relative or both. Absolute poverty is that which could be applied at all time in all societies such as the level of income necessary for bare subsistence, while relative poverty relates to the living standards of the poor to the standards that prevail elsewhere in the society in which they live. Sen (1999) defined poverty as deprivation of basic capabilities such as being healthy, having a good job, being safe, being happy and having self-respect rather than low income.

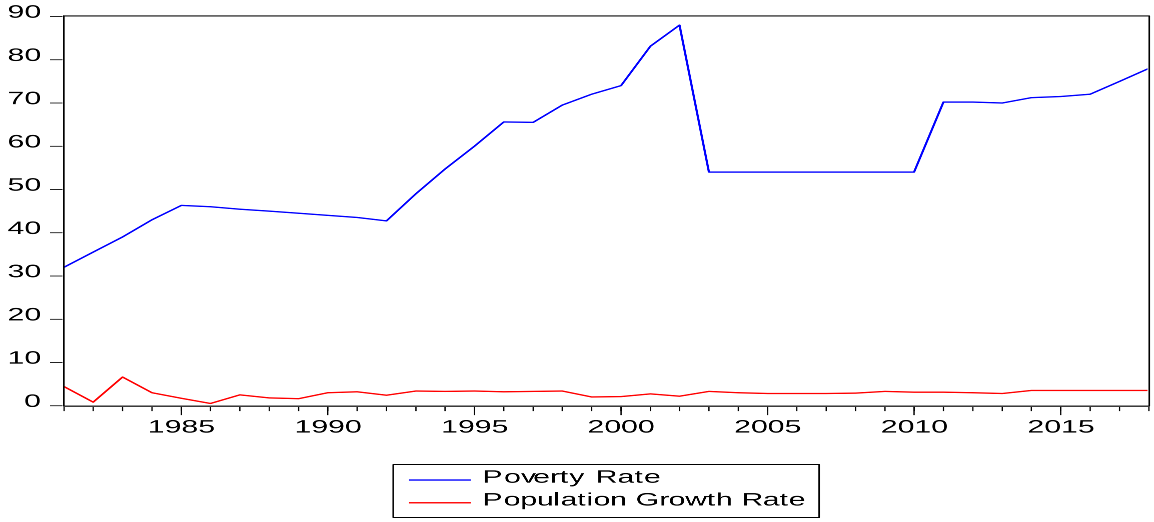

Fig 1: Poverty Rate and Population Growth Rate (1981 – 2018)

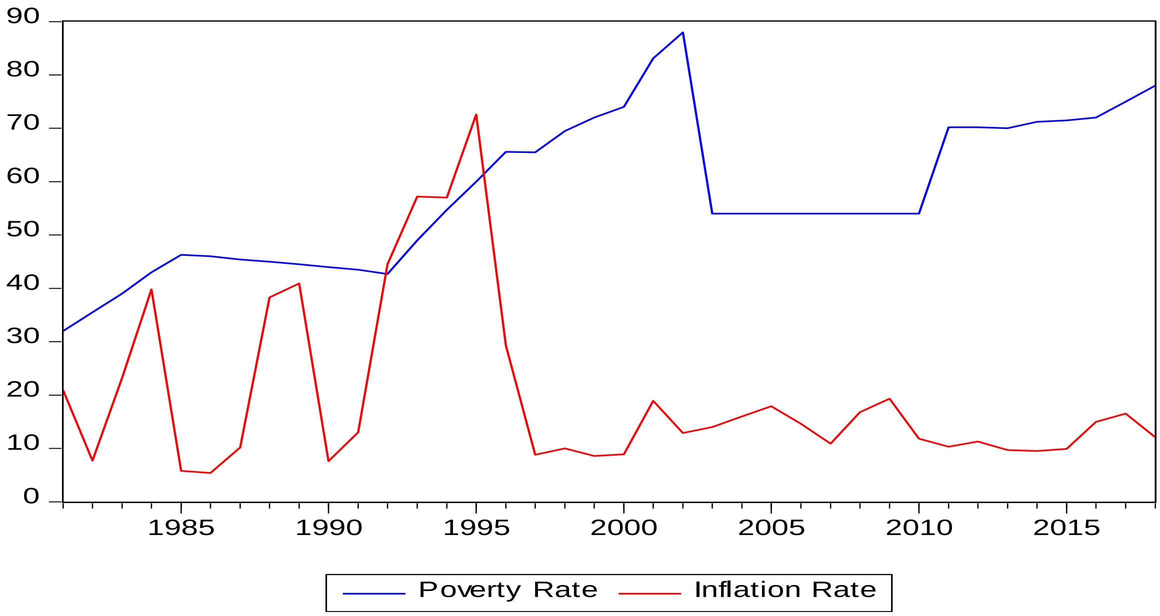

Fig 2: Poverty and Inflation Rates (1981 – 2018)

Fig3: Poverty and Unemployment Rates (1981 – 2018)

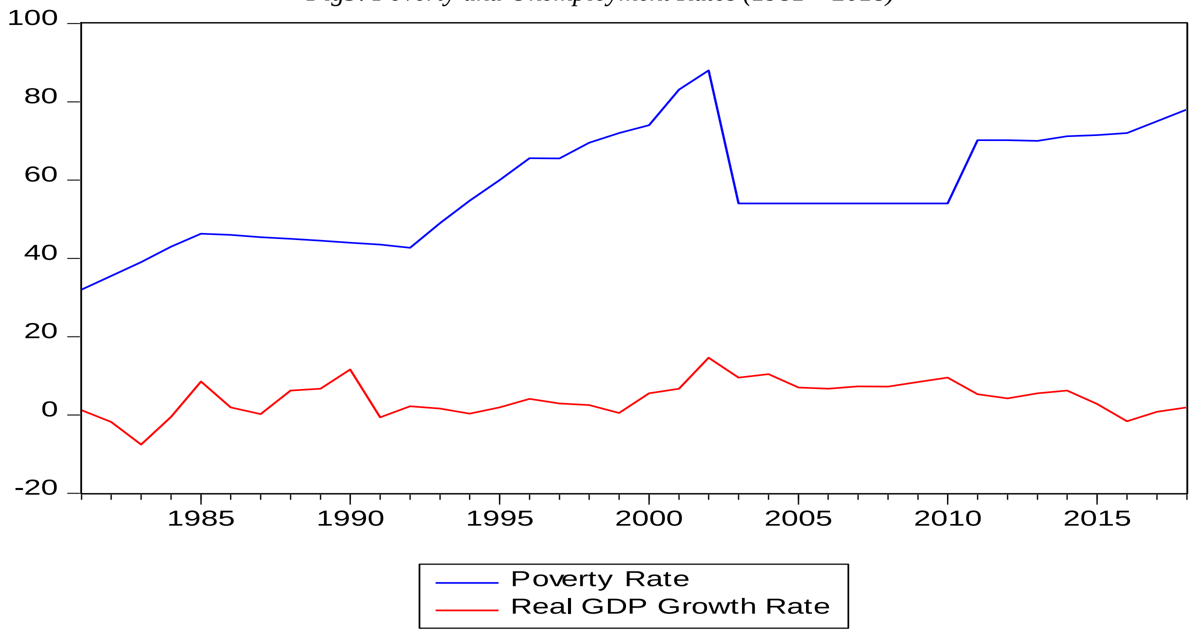

Fig 4: Poverty and Real GDP Growth Rates (1981 – 2018)

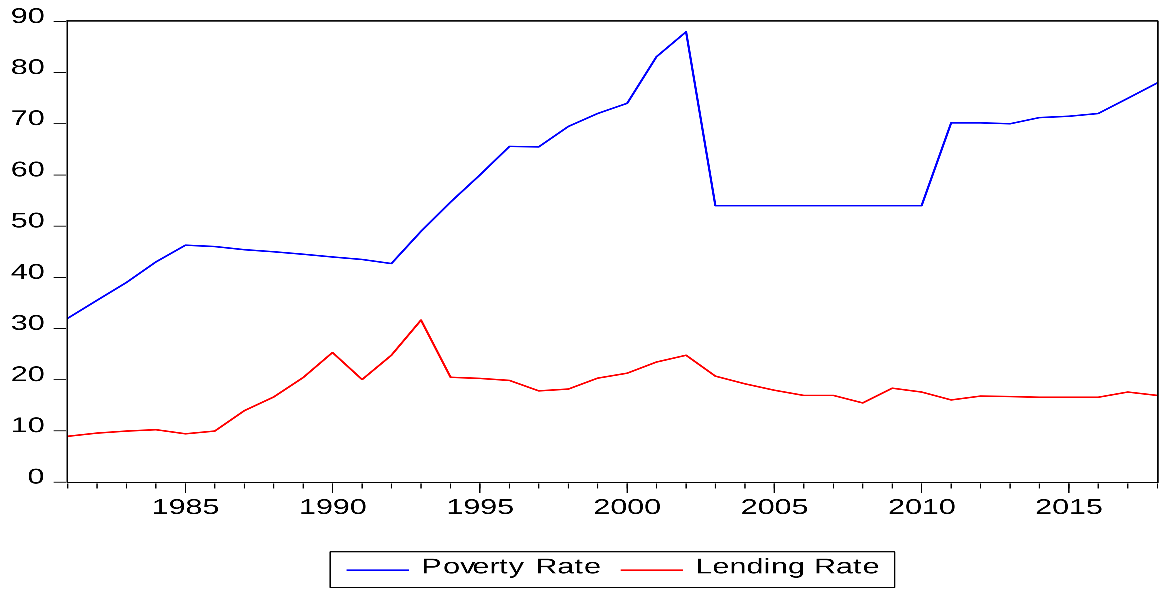

Fig 5: Poverty and Lending Rates (1981 – 2018)

3. METHODOLOGY

The paper builds an autoregressive model of poverty based on theoretical causes of poverty that have been identified in the literature. These include; poverty rate in the previous period, population, low income, high cost of living, unemployment, exchange rate and lending rate.

3.1 Estimation Technique

The study examined the time series characteristics of the model's variables using the Phillips-Peron stationarity test. The rationale for this test was to ascertain whether the variables are stationary or non-stationary; and therefore, to determine the number of times each variable has to be differenced to arrive at stationarity. The variables of the model were examined whether they are co-integrated or not using the Johansen co-integration test.

3.2 Model Specification

The autoregressive distributed lag (ARDL) model for this study is specified thus:

POVt = a0 + a1POVt - 1 + a2POPt + a3INFt + a4UNEMt + a5RPCGt + a6EXCHt + a7INTt + et

A-priori expectation: a1, a2, a3, a4, a6, a7 > 0; a5 < 0.

Where:

POV = Poverty Rate
POVt – 1 = Poverty Rate in the previous period
POP = Population Growth
INF = Inflation Rate
UNEM = Unemployment Rate
RPCG = Real Per Capita GDP
EXCH = Exchange Rate
INT = Lending Rate

3.3 Estimation Procedure

The autoregressive model built is estimated using Ordinary Least Square (OLS) estimation technique using E-views version 10 computer software. The estimated model was thereafter evaluated to ascertain whether the results obtained satisfy theoretical, statistical as well as econometrics requirements.

4. RESULTS

4.1 Descriptive Statistics of Variables

Table 1: Descriptive Statistics of Variables

Descriptive Statistics	POV	POP	INF	UNEM	INT	EXCH	RPCG
Mean	57.8526	2.9184	19.9226	10.6421	17.7347	70.3033	4.2026
Median	54.0000	3.0000	13.5000	5.3500	17.5850	21.8861	4.1500
Maximum	88.0000	6.6000	72.6000	35.0000	31.6500	306.0802	14.6000
Minimum	32.0000	0.5000	5.4000	1.8000	8.9200	0.5464	-7.6000
Std. Dev.	14.0789	0.9913	16.1167	9.4138	4.8378	88.9416	4.3623
Skewness	0.2083	0.6658	1.7307	0.9945	0.2252	1.2221	-0.0732
Kurtosis	2.0656	7.2454	5.1927	2.5921	3.7077	3.6036	3.2716
Jarque-Bera	1.6572	31.3446	26.5823	6.5270	1.1141	10.0352	0.1499
Probability	0.4367	0.0000	0.0000	0.0383	0.5728	0.0066	0.9278
Sum	2198.40	110.90	757.06	404.40	673.92	2671.52	159.70
Sum Sq. Dev.	7334.00	36.36	9610.68	3278.95	865.98	292692.30	704.11
Observations	38	38	38	38	38	38	38

Table 2: Phillips-Peron Stationarity Test Results

Variables	t' Values at Levels	Probability	t' Values at First Difference	Probability	Order of Integration
Pov	-1.7733	0.3874	-5.8298	0.0000	I(1)
POP	-6.5615	0.0000	-	-	I(0)
INF	-2.8925	0.0558	-9.9026	0.0000	I(1)
UNEM	-0.5103	0.8779	-6.7485	0.0000	I(1)
RPCG	-3.1489	0.0315	-	-	I(0)
EXCH	3.9066	1.0000	-4.01539	0.0036	I(1)
INT	-2.4488	0.1360	-6.7347	0.0000	I(1)

Source: Author's Computation (2019)

Table 2 above shows that while population growth rate (POP) and GDP growth rate (RPCG) are stationary at levels, poverty rate (POV), inflation rate (INF), exchange rate (EXCH) and lending rate (INT) are stationary at first difference.

Table3:JohansenCo-integrationTestResult

Date: 11/06/19 Time: 12:59
Sample (adjusted): 1983 2018
Included observations: 36 after adjustments
Trend assumption: Linear deterministic trend
Series: POV POP INF UNEM RPCG EXCH INT
Lags interval (in first differences): 1 to 1

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.901115	166.1233	125.6154	0.0000
At most 1	0.557543	82.82639	95.75366	0.2764
At most 2	0.431122	53.47154	69.81889	0.4845
At most 3	0.357475	33.16435	47.85613	0.5478
At most 4	0.274433	17.23974	29.79707	0.6223
At most 5	0.107206	5.690874	15.49471	0.7317
At most 6	0.043697	1.608500	3.841466	0.2047

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Table 3 overleaf shows that the variables are not co-integrated. This implies that error correction modelling (ECM) is inappropriate.

Table 4: Correlation Matrix of the Causes of Poverty in Nigeria

	POV	POP	RPCG	INF	INT	UNEM	EXCH
POV	1.00000						
POP	0.03440	1.00000					
RPCG	0.24070	-0.32460	1.00000				
INF	-0.24650	0.14280	-0.22230	1.00000			
INT	0.34550	-0.01150	0.36520	0.34490	1.00000		
UNEM	0.41180	0.19410	0.02170	-0.35690	-0.20100	1.00000	
EXCH	0.51090	0.22690	0.03710	-0.31000	-0.07440	0.89600	1.00000

Source: Author's Computation (2019)

Table 5: Autoregressive Distributed Lag Model of Causes of Poverty in Nigeria

Autoregressive Distributed Lag Model of Causes of Poverty in Nigeria		
Dependent Variable: Poverty Rate		
Independent Variable	Coefficient	Probability
POV (-1)	0.7882***	0.0000
POP	-0.4342	0.7375
INF	-0.0714	0.4563
UNEM	0.1897	0.4985
RPCG	-0.0095	0.9775
RPCG (-1)	-0.7439***	0.0300
EXCH	0.0044	0.8841
INT	0.4938	0.1535
C	8.0244	0.2522
R-squared	0.8207	-
Adjusted R-squared	0.7695	-
F-statistic	16.0242***	0.0000
(***) Significant at 1%, (**) Significant at 5% and (*) Significant at 10%.		

Table 5 above shows the estimated autoregressive distributed lag model of causes of poverty in Nigeria. It can be observed that population growth rate and inflation rate do not satisfy the a-priori expectations while poverty rate at lag 1, unemployment rate, GDP growth rate, GDP growth rate at lag 1, exchange rate and lending rate satisfied the a-priori expectations. The results indicate that while poverty in the previous period, unemployment, exchange rate and the lending rate have positive impact on poverty; population growth rate, GDP growth rate, GDP growth rate at lag 1 and inflation rate have negative impact on poverty. It can also be observed that among all the explanatory variables, poverty in the previous period and GDP growth rate have impacts that are statistically significant. The impacts of other explanatory variables are not statistically significant. The model explains about 82 per cent of the variation in the level of poverty in Nigeria. The model taken together is statistically significant at 1 per cent significance level.

5. CONCLUSION

The paper examined the causes of poverty in Nigeria. It was observed that poverty in the previous period, unemployment rate, exchange rate and the lending rate have positive impact on the poverty level. While, population growth rate, inflation rate, GDP growth rate, GDP growth rate at lag 1 have negative impact on poverty. It is therefore evident that population growth rate and inflation rate are not serious causes of poverty in Nigeria. On the strength of these results, Nigeria cannot be said to be overpopulated.

6. RECOMMENDATIONS

It is therefore recommended that the government should pursue more vigorously increase in the growth in GDP in order to bring down the level of poverty in Nigeria. Also, economic policies should focus more on reducing the rate of unemployment in the country instead of maintaining price stability at all cost. The monetary authority (Central bank of

Nigeria) should keep the exchange rate stable and reduce the lending rate. The government should pursue economic policies that will result in appreciation of the nation's currency..

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