

# Poverty, Growth and Inequality in Nigeria : A Case Study

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## EXECUTIVE SUMMARY

### ***Context***

Poverty can be defined as the inability to achieve a certain minimal standard of living. With the severe economic shocks that rocked the Nigerian economy during the early 1980s came real and perceived increases in the level of poverty in the country. Among the factors contributing to the shocks were declining prices of oil, the country's main export, and rises in real international interest rates that compounded the external debt. The major underlying reason, however, was domestic policy mistakes. Economic reforms were introduced by the government of Nigeria in mid 1986 in a structural adjustment programme that included exchange rate devaluation, trade and financial reforms, and budgetary and monetary contraction. These reforms were expected to revitalize the economy's growth. In turn, growth was expected to contribute noticeably to improved equity in the country.

### ***What is the problem?***

Following the reforms the real growth rate became positive after 1988, leading to the widespread view that the reforms had produced positive results. The question is whether and to what extent structural adjustment reforms alleviated poverty in Nigeria. It is not enough to know whether inequality increased or declined during the reform period. It is more helpful to know if such a change resulted polarization, or the widening gap between the poor and the non-poor. If there is polarization, the resultant social tension may have implications for the sustainability of the reform measures. While some studies suggested that poverty did decline in the first seven years of the reforms, there has been little agreement about the actual impact of the reforms. To try to find a more definitive answer this study investigated inequality and poverty in Nigeria using data from national household income surveys. The main idea was to examine how far poverty has been reduced by the policies introduced during the period, and particularly the pattern of growth these policies engendered. The widening gulf between the poor and the rich, termed polarization and characterized by the disappearance of the middle class, was of particular interest. The study used the food energy intake method, a variant of the absolute poverty approach.

### ***Measuring poverty***

Linking aggregate macroeconomic variables to the micro-level distribution of income and poverty poses a problem. There are several methods for measuring the linkage. One approach analyses the effects of exchange rate devaluation and its impact on real wages.

Since wage income is generally more equally distributed than return to capital, a devaluation would improve income distribution and thus poverty. Other approaches seek to measure the standard of living by establishing a poverty line that delineates the poor from the non-poor. One method uses an absolute poverty definition based on some minimum nutritional standard that is converted into minimum food expenses to which is added certain expenditures for clothing and shelter. A household is defined as poor if its income or consumption level is below this minimum. Another set of methods takes a portion of mean income as the poverty line.

There are several methods for estimating the poverty line under the absolute poverty approach. The most popular are the food energy intake (FEI) approach and the cost of basic needs (CBN) approach. Both methods are anchored on estimating the cost or attaining a predetermined level of food energy or calorie intake. Once the basic measurement is determined it is necessary to express overall poverty in a single index; the most common of these is the head-count ratio, which is the proportion of the population that is poor. (This ratio has been criticized as being more concerned with the numbers of the poor than the severity of poverty; that is, it treats all the poor equally, whereas not all the poor are equally poor. ) Other indexes measure the incidence, depth and severity of poverty.

## **Study findings**

Using the head-count index, the study found that an increasing number of Nigerians were living in absolute poverty over the study periods: 38% in 1985, 43% in 1992 and 47% in 1996. Poverty is higher in rural areas than in urban areas. The corresponding numbers are 38%, 35% and 37% in urban areas, and 41 %, 49% and 51% in rural areas.

The gender distribution of poverty is consistent with the evidence from earlier studies that suggests that poverty is more pronounced among male-headed households. It is also observed that male-headed households slipped deeper into poverty between 1985 and 1996, while female-headed households fared slightly better. It should be mentioned, however, that female-headed households were only about 13.5% of the sample studied.

The regional distribution of poverty is profiled at two levels: at the level of the individual states of the federation and at the level of geo-political zones. Poverty tends to be lower in the southern zones than in the northern zones. Poverty incidence actually improved in the southern zones during the 1990s, but deteriorated in the north, particularly in rural areas. Even so, the incidence of poverty is not uniform within the zones. In the south, poverty is higher in Akwa Ibom, Delta and Edo states and in the north in Bauchi, Jigawa and Yobe. This variation underscores the need to pay attention to regional differences when designing policy interventions to alleviate poverty.

The depth and severity of poverty generally increased over the study period, but the trend was not uniform over geo-political zones. During the 1990s the depth of poverty increased in the Middle Belt, northeast and northwest while it declined in other areas. The increase was more pronounced in rural areas.

### ***The resulting poverty profile***

In decomposing the various contributions to poverty in Nigeria, the study found that male-headed households contribute over 80% to the three measures of poverty and female-headed households contribute 51.6% (keeping in mind the small size of the female sample noted above). The contribution to poverty tends to be higher in the north than in the south; while the contribution to poverty tends to decline with intensity of poverty in the south it tends to rise in the north. Both aspects suggest that the north constitutes the bulk of the poverty problem in the country.

The study also showed that the effect of growth on poverty was more pronounced in urban areas. An inference that could be drawn is that contrary to the impression that growth may have contributed to an improved poverty situation in 1985-1992, the growth over the period actually seemed to have worsened poverty. Over 1992-1996, however, the relatively lower growth may have contributed marginally to poverty reduction.

There are some other conditions to consider, however. The former period coincided with the introduction and immediate aftermath of structural adjustment, when nominal expenditure grew from a much lower base following the devaluation of the naira. Only a very small portion of the population (cocoa and rubber farmers) benefited from increased income brought about by the devaluation. In the latter period, on the other hand, a nationwide upward review of salaries in 1992 raised the income level of a large section of the labour force, which could explain the somewhat lower incidence of poverty in that period.

### ***Implications for policy makers***

Even though there was positive real growth throughout the period studied, poverty and inequality worsened. This suggests that the so-called trickle down phenomenon, underlying the view that growth improves poverty and inequality, is not supported by the data used in the study. This may be because of the nature of growth pursued and the macroeconomic policies that underlie it. For example, there was a general deterioration in the macroeconomic policy stance, which nonetheless produced growth. If the relatively more impressive growth during 1986 -1992 could not yield an improvement in poverty, it is not surprising that the lower growth recorded in 1993 -1996 could not yield a better poverty profile. This may be because much of the growth is driven by the oil and mining sectors.

The issue of polarization, which is associated with the concept of the disappearing middle class, is of particular importance to policy makers. For a government concerned about continuity and the sustainability of its policies, what is happening to the middle income group may be of great relevance. The political feasibility of policy reforms may be significantly influenced by what happens to this group, which is largely urban and frequently quite vocal. Increasing inequality may engender social tensions, which may also prompt policy makers to adopt populist measures that actually contradict long-term poverty alleviation efforts.

The findings suggest some policy areas where attention needs to be focused. One is to ensure consistency, rather than reversal, in policies. Policies should also be conscious of the need to ensure use of the main assets owned by the poor and of the importance of equitable distribution of income. Polarization in distribution appears to contribute to increased poverty. A third area is socioeconomic infrastructural facilities. With the widely acknowledged

relationship between education and poverty, the low level of literacy reported in this study suggests that policy steps need to be taken to improve educational levels in Nigeria.

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