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Government Expenditure and Poverty Reduction in Nigeria.

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Abstract

Nigeria's poverty profile is daunting. Normally, poverty level is expected to decrease in the presence of well-articulated government expenditure. Ironically, the Nigerian situation defies this simple logic. This study therefore evaluates the relationship between poverty reduction and government expenditure with the aid of a formulated model, which was also employed to determine and predict the annual average amount of fund needed to be spent by government to cause poverty to reduce drastically. Results obtained showed that if government increases the annual average expenditure by 100%, the population of people in poverty will reduce drastically. This means that a range of 61.64 to 71.84 million Nigerians will come out of poverty.

The paper recommends measures that are likely to make this possible. Prominent among them are that government should endeavour to properly monitor how her funds are spent. In addition, government should continuously update the country's population by embarking on periodic censuses in order to put in place proper planning procedures to guide future expenditure for general development programmes.

Keywords: expenditure; government; development; poverty

1.0 Introduction

Life itself becomes pleasurable when the necessary things that are required to support it abound. On the other hand, misery creeps in when the much needed support are lacking or are grossly inadequate. It is this latter condition that is akin to poverty which can only be reversed by wealth created either by the people themselves, through their ingenuity, or by their government, if the much desired economic development through government expenditure must be a reality.

Paradoxically, in Nigeria, people wallow in abject poverty in the midst of abundance. The annual budgeted amounts as government expenditure are never enough to arrest the indices of poverty. Hence, the World Bank and the International Monetary Fund (IMF) in their year 2002 joint report rated Nigeria as one of the poorest countries in the world in spite of her huge human and natural resources. The findings of many research works have put the poverty rate in Nigeria between 61% and 63% as at 2003 (see Ijaiya and Abdulraheem 2000; Ijaiya and Bello (2001; FOS, 2003; and NISER (2003).

Furthermore, since a poor country cannot be said to be economically developed at the same time it may be safe to assert that poverty and government expenditure are diametrically opposed to each other even if they seem to have a causal relationship. This relationship inadvertently is what the profit and loss account represents. While profit remains an index for measuring success or economic gain or growth, loss represents failure which ultimately leads to poverty. Differently put, economic development therefore, is advancement in technology and material wealth for the upliftment of life and general well being in order to reduce poverty.

In this regard, successive Nigerian governments have been making frantic efforts to alleviate poverty through deliberate increase in the budgetary allocations to the social service sectors. This is in order to achieve the much desired economic empowerment of the people especially through some gender targeting programmes like the Better Life Programme, the present poverty alleviation programme and the National Economic Empowerment and Development Strategy (NEEDS) 2004.

However, the major issues in academic discourse are; to determine the impact of various government expenditures on the level of poverty in the country; and to provide an appropriate framework that will assist government in reducing the high level of poverty, by formulating a relationship between poverty reduction and government expenditure.

Government Expenditure and Poverty Reduction

We shall therefore provide models to show the relationship between poverty reduction and government expenditure using secondary data obtained from the Federal Office of Statistics (FOS) for the past 24 years (1980-2003). With these models we shall attempt to predict the annual average amount of funds required by the government to make and appreciable impact on the level of poverty in Nigeria. Furthermore, we shall forecast using these models, the number of people that would escape poverty based on the computed amount of money to be made available through government expenditure. The formulated models could also serve as frameworks for future policy formulation and implementation.

The rest of this paper is divided into four sections. Section two is the literature review. Section three presents the methodology. Section four presents and discusses the results. The conclusion and recommendations are contained in the last section.

2.0 Literature Review

2.1 Definition of Poverty:

Poverty in a very simple form could be termed lack. This can manifest in any aspect of a man's life. There are poverty of ideas, poverty in the act of governance, financial poverty etc. However, in a more comprehensive sense poverty was defined as "moneylessness" and "powerlessness" in Encyclopedia Americana (1989:495). Moneylessness was explained as inadequacy of cash or money and also as a prolonged inadequacy of basic resources to support life. Powerlessness was explained as inability of a person to get the opportunity to interact with people who are in power or in government. Therefore, limited opportunity could be termed powerlessness.

Poverty has been classified as either absolute or relative or both. Absolutism in poverty relates to the entire members of the society with respect to income that cut across everybody, while relative poverty obtains when the level of poverty is generally compared among societies (Le Grand 1992 ; Schubert 1994).

2.2 Measurement of Poverty

The United Nation Development Programme (UNDP) highlighted the use of Human Development Index (HDI) which is made up of life expectancy at birth (congetivity) educational attainment and standard of living (Courier 1994, UNDP 1997) as necessary barometers to measure or scale poverty. However, Chan (1993),

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Ferreira (1996), Revallion and Badani (1994) advocated the use of the following indices to measure poverty:

1. The head count index is always given by the percentage of the population that is in a household with consumption per capita less than the poverty line.
2. Poverty gap index measures the depth of poverty by determining how far an average poor person's income is from the poverty line.
3. The square poverty gap reflects the intensity or severity of the degree of poverty.

The formulas employed to measure poverty by the above methods are well stated in the expository work of Foster, et al. (1984).

2.3 The Factors that Cause Poverty

The factors that cause poverty can be grouped into (a) structural factors which are exogenous in nature (b) conjectural factors which are transitory and reversible in nature (Yahie (1993). The structural factors are precipitated by limited resources, lack of skill location disadvantage, social and political setup. The conjectural factors are due to structural adjustments, reforms, unemployment, natural disasters like drought, and man-made disasters like wars, etc. Other causes of poverty in Africa are inadequate access to employment opportunities, inadequate physical assets like land and capital, minimal access to credit facilities, high bank interest rates on loans, inadequate access to viable markets, destruction of natural resources leading to environmental degradation, Government failure to draw the poor into the scheme of development programme (Obadan 1997).

3.0 Manifestations Effects and Poverty Trend in Nigeria

Poverty is manifested in various forms. Prominent among the forms, according to the World Bank (1990) and the United Nations (1995), are increased morbidity and mortality, hunger, disease, lack of access to education and social services illness malnutrition, homelessness, lack of income and productive resources of sustainable livelihood, degraded environment and lack of participation in the decision-making process.

However, the effects of poverty range from consequences on the victims of poverty themselves to consequences for the national economies and consequences on the political and social development of the country (see Von Hauff and Kruse (1994). Apart from the physical and psychological misery caused by poverty on the

Government Expenditure and Poverty Reduction

majority of Nigerians today the most frightening scenario is that mass poverty has persisted and indeed remain reinforced by the existing structures that favour the privilege few in the population. These tendencies have dwarfed the development of democratic structures that would have encouraged mass participation in the process of governance.

Finally, the trend in poverty has progressively increased in Nigeria in spite of the import of modern technology and the discovery of more oil wells, which was expected to rub-off positively on the people standard of living. Since 1980, the rate of poverty in Nigeria has been on a 2% increase annually (FOS 1999). Therefore using this rate one can infer that as at today, the level of poverty in the country must have gone up to 63%.

In the same vein, the economic development in Nigeria has equally suffered a lot of distortions and crisis. Successive Nigerian governments have mismanaged marginal economic growth made from the sales of crude oil especially during the military regimes. Lack of transparency and accountability by those in government remains major obstacles to economic development. Initially, the Nigerian economy was largely agrarian in nature until in the 1970's when oil was discovered. Despite the huge amount of money realized from oil in the oil boom era, the Nigerian economy remained import dependent and has suffered a lot of structural imbalance. Taiwo (1994) averred that "the real gross domestic product (GDP), and real income per capital (both at 1985 prices) attained a maximum of only N36.94 billion and N789.00m respectively which made Nigeria to be classified by the World Bank as one of the low income countries of the world. The growth rate of the real GDP averaged 4.8%, which was higher than the projected 4.0% made in the first National Development Plan, 1962-1968. Since then Nigerian economic development has been marred in crisis of civil war in 1970 and thereafter, debt, liquidity problems structural imbalance, inflation, poor leadership and deep rooted corruption (see Ojebile and Taiwo 1987).

Poverty reduction is the most difficult challenge facing Nigeria. It remains the greatest obstacle in the pursuit of sustainable socio-economic growth. The poverty rate in Nigeria increased from 27 percent in 1980 to 66 percent in 1996. By 1999 it was estimated that more than 70 percent of Nigerians lived in poverty. Life expectancy is a mere 54 years, and infant mortality (77 per 1,000) and maternal mortality (704 per 100,000 live births) are among the highest in the world (FOS 1996).

Problems in the productive sector, widening income inequality, weak governance, social conflict and gender, and environmental issues have been collectively implicated as the cause of poverty. To effect visible reduction in poverty, the above mentioned problems must be adequately addressed.

4.0 Government Expenditure in Nigeria

Since Nigeria earns more than 70% of her income from oil, swings in the international oil price and production create enormous volatility in government revenue and expenditure. The expenditure profile increases in periods of boom and drops sharply whenever there is a lull. On paper a lot of money was expended over the years by the Nigerian government in the pursuit of people-oriented programmes in order to reduce poverty. For instance in 1980, government spent N69.10 million on public-oriented programmes. As at then, the population in poverty stood at 18.10 million people. Twenty-three years later (2003), government spent over 380% of the same sum that he spent in 1980, and the number of people in poverty increased to 79.8 million in a country whose entire population was estimated to be about 129.4 million people (FOS 2003). One may argue that over time, population also grew. However, this growth is not at par with the amount of funds spent over the same period. Possible reasons for increase in poverty, despite the huge government expenditure to arrest it have been advanced. The range from inefficient use of resources, waste misplaced priorities in government expenditure, high fiscal deficits at all tiers of government, weak institutional structure to defective budgetary process to corruption (NEEDS 2004).

5.0 Methodology

Secondary data comprising Nigerian population (1980-2003), the actual population in poverty and government expenditure for economic development for the past twenty four (24) years were obtained from the National Population commission(NPC), Central Bank of Nigeria (CBN) (various issues) and Federal Office of Statistics (FOS) (various issues) respectively.

Since government expenditure would definitely have an appreciable direct effect on poverty reduction models are formulated with the aim of relating the two variables, namely: Poverty reduction (PR) and government expenditure (Govt. Exp.), linearly. However, no matter how linear the two variables may appear, there are bound to be some interacting variables that will affect them. Hence, the incorporation of other interacting variables like changes in government policy (GP)

and other disturbance or stochastic error term (e). The incorporation of dummy variables, 1 for positive changes in government policy and 0 for negative changes in government policy are used (Ijaiya and Bello (2001).

Therefore

Model 1 is presented as

$$PR = f(\text{Govt. Exp.}) \quad (1)$$

when transformed into a linear equation (1) becomes $PR = \beta_0 + \beta_1 \text{Govt. Exp.} + e \quad (2)$

Model 2 is presented as $PR = f(\text{Govt. Exp.}, \Delta GP) \quad (3)$

when transformed into a linear equation (3) become

$$PR = \beta_0 + \beta_1 \text{Govt. Exp.} + \beta_2 \Delta GP + e \quad (4)$$

In both models,

PR = Poverty reduction

Govt. Exp.= Government Expenditure (GE) (in Naira)

β_0 = Intercept

β_1 and β_2 slopes or parameter estimates

GP = Changes in government policy

e = Disturbance or Stochastic error term.

On a priori ground, one would expect poverty to reduce if there is an increase in government expenditure. Therefore relative changes in the independent variables against the dependent variable would have a relationship like this:

$$\partial PR / \partial GE < 0 ; \partial PR / \partial GP < 0$$

Since an inverse relationship is expected between poverty reduction and government expenditure, the prediction models would give a negative slope.

Again, the relevant statistics for testing the predictive power of these models is the Henry Theil (1971) inequality coefficient (U) at 5% level of significance.

The closer the value of U is to zero, the better the predictive power of the model. The dependent variable poverty reduction (PR) is then regressed against the independent variable, government expenditure (Govt. Exp.) for model 1 and for model 2, the dependent variable (PR) is regressed against the independent variables (Govt. Exp., and changes in government policy GP).

6.0 Discussion of Results

Results obtained from the regression analysis of poverty reduction on government expenditure are discussed below

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Table 2: Regression Results of Government expenditure and Poverty reduction
Model I

Intercept	69.02
Se	(7.24)
(t)	(9.53)
Govt. Exp.	-0.74
(Se)	(13.79)
(t)	(-0.054)
R ²	55%
Dw	1.43
F	2.70
U	0.043
DF	22

Table 3: Regression Results of Government expenditure and Poverty reduction

Model II

Intercept	69.69
Se	14.97
(t)	(4.66)
Govt. Exp.	-.0074
(Se)	(2.61)
(t)	(0.0028)
R ²	93%
Dw	2.07
F	3.71
U	0.029
DF	22
GP	-8.21
(Se)	(2.04)
(t)	(-4.12)

The intercept of 69.02 obtained in the regression equation with model 1 is very significant because it is statistically different from zero at 5% significant level. The calculated or observed value of t, which is 9.53, is greater than the tabulated

Government Expenditure and Poverty Reduction

value of t which is 2.074. Hence we conclude that the intercept is actually significant at $\alpha = 0.05$. Also the standard error obtained which is 7.24 is less than half the parameter estimate of 69.02. This is significant too. The negative slope of -0.74 obtained sanctifies the a priori expectation that the higher the level of Government Expenditure in the country the lower the poverty level will be. This shows that an inverse relationship actually exists between poverty and Government Expenditure. However, the standard error of 13.29 obtained for the slope is not statistically significant because it is higher than half of the value of the parameter estimate of 0.74. The t -value of -0.054 for the slope is equally not significant since it is less than the tabulated t -value of 2.074.

The model explains 55% (percent) of the variations in poverty rate to the changes in government expenditure in Nigeria. The F -statistic obtained is not useful in determining the influence of economic development on the degree of poverty because the computed F_c of 2.7 is less than the tabulated F_t (2, 22) value of 3.44. Again, a Durbin-Watson (Dw) value of 1.43 more or less lie in the inconclusive region which makes the model not too fit because it exhibits some degree of positive serial correlation with the stochastic error term (e). A Theil inequality coefficient value (U) of 0.043 is significant and acceptable.

The regression results obtained for model 2 show that at 5% level of significance, the slope obtained, which is -0.0074 conforms to the a priori expectation of an inverse relationship between poverty reduction and Government expenditure. The intercept of 69.69 is significantly different from zero. The t -values for the regression coefficients, β_0 and β_2 namely 4.66 and -4.12 respectively are significant because both of them are greater than the tabulated t -value of 2.074. Also their respective standard errors for coefficients β_0 and β_2 are significant since they are less than half of the parameter being estimated. The standard error for β_1 which is 2.61 and its corresponding t - value of 0.0028 are not significant. This is so because while the standard error is more than half of the value of the estimated parameter, the t -value is less than the tabulated t of 2.074.

The R^2 value of 0.93 shows that the model explains 93 percent of the variation in poverty rate is due to the changes in Government expenditure in Nigeria. The model also shows a good fit with a significant F -value of 3.71 which is greater than the F -table value F_t (3, 22) of 3.05. A Durbin Watson (DW) value of 2.07 shows that the model has no serial correlation with the stochastic error term (e). Also for calibration analysis, the Theil inequality coefficient value (U) of 0.029

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is very ideal because it is not only significant but also closer to zero than the value of 0.043 obtained with model 1.

Consequently since model 2 gave a better value of R^2 , (DW), F-statistics and U, it is adequate and therefore preferred over model 1, hence it is employed in the rest of our analysis. If changes in government policy GP are held constant and since our aim is to determine the influence of Government expenditure on poverty rate the measure of forecast will be determined by the equation below

$$PR = 69.69 - 0.0074 \text{ Govt. Exp.} \quad (5)$$

Equation - 5 therefore, becomes our major concern. The relationship in equation - 5 means that for every naira increase on Government expenditure, poverty will reduce by 0.74 percent.

Solving the least square prediction equation for Government expenditure in equation -5, we have;

(PR-69.6)

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In equation (6) let PR_p be an observed value of poverty reduction in the future with an unknown Govt. Exp. Then a point estimate of Govt. Exp. is given by $GE = PR_p - (69.69 / -0.0074)$ (7).

Then the approximate (1-) 100% prediction interval for PR when Govt. Exp. is $\text{Govt. Exp.} - t_{n-2} / 2 s / n < PR < \text{Govt. Exp.} + t_{n-2} / 2 s / n$ (where s = standard deviation and n= sample size). at 95% confidence interval was computed.

So, given the annual average of government public expenditure for economic development from (1980-2003) as computed as N4170.22 million, calibration results of Government expenditure and poverty reduction was obtained for every 10% increase in the amount of Government expenditure up till 100% increase as shown in Table 4.

Table 4: Calibration Results of Government Expenditure and Poverty Reduction

% increase in annual Government Expenditure (N/m)	Calibrated amount of Govt. Exp. (N/m)	Point of Estimation of poverty Reduction	Predicted ranges of the reduction in poverty
10% Increase	4587.22	35.70	33.87-34.02
20% Increase	5004.26	32.66	36.96-37.11
30% Increase	5421.13	29.57	40.04-40.19
40% Increase	5838.31	26.49	43.13-43.23
50% Increase	6255.33	23.40	46.21-46.37
60% Increase	6672.35	20.32	49.30-49.45
70% Increase	7089.37	17.29	52.39-52.54
80% Increase	7506.40	14.14	55.47-55.62
90% Increase	7923.42	11.06	58.56-58.71
100% Increase	8340.44	7.97	61.64-71.84

Source: Author's Computation

In Table 4 results obtained indicate that an increase of 10% on the annual average of government expenditure for economic development which is N4587.22 million will cause a reduction in the number of Nigerians that are poor from 79.80 million people to 35.70 million people. A 100% increase in government expenditure will have only 7.97 million Nigerians in poverty.

7.0 Conclusion and Recommendations

This paper gave an insight into the amount of money that should be spent by the government of Nigeria for economic development that would guarantee a reduction in poverty in the future. The results obtained indicate that a 100% increase in annual expenditure of the government would reduce the number of people that are poor from 79.80 million to 7.97 million, if certain measures that are highlighted above are put in place.

attack poverty on all fronts at the same time. To do this, the government must increase her expenditure by creating employment, improving health service, strengthening the skill base, improve or develop infrastructure, provide a healthy environment for private sector growth because the private sector is far becoming Nigeria's engine of growth. Groups, vulnerable to poverty like women, youths, etc. must be empowered. There may be need to adopt a medium expenditure framework to ensure predictable and sustainable public financing at all levels of government. The above could be achieved by ensuring that a framework that connects policy with income and expenditure informs government activities and budgeting.

Finally, more pro-active measures should be put in place to check corruption in order to ensure that money meant for public expenditure does not end up in private accounts.

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Table 1: The Profile of Estimated Total Population, Population in Poverty and Government Expenditure for Economic Development in Nigeria (1980-2003)

Year	Estimated Total Population (in million) A	Govt. Public Expenditure for Economic Dev. ₦(million) b	Population in Poverty (million) C	% of population in poverty d
1980	64.60	69.10	18.10	28.01
1981	66.70	70.60	21.30	31.93
1982	68.40	71.40	24.20	35.38
1983	70.60	71.50	27.50	38.95
1984	73.00	453.00	24.40	33.42
1985	75.40	1960.10	20.90	27.72
1986	77.00	2797.00	20.30	26.36
1987	80.40	1193.30	20.60	52.62
1988	83.40	1124.30	21.30	52.63
1989	83.10	2131.70	20.90	24.62
1990	84.90	2365.10	27.00	31.19
1991	86.60	2186.60	27.70	31.30
1992	88.50	1741.30	32.60	35.11
1993	91.30	938.00	38.00	40.64
1994	93.50	814.50	43.20	44.91
1995	96.20	1024.30	43.00	43.48
1996	98.90	723.30	45.00	43.99
1997	102.30	1486.20	49.60	45.01
1998	114.70	2017.30	51.20	44.64
1999	119.30	2318.40	67.10	56.25
2000	121.60	5491.00	69.00	56.74
2001	126.00	23036.00	71.30	56.59
2002	127.30	19840.70	75.40	59.23

2003	129.40	26232.60	79.80	61.67
Annual Average		4170.22		

Sources: (a) National Population Commission Reports

(b) Central Bank of Nigeria Annual Reports and Statements of Accounts

(c.) Federal Office of Statistics Poverty Profile for Nigeria (1980-2003).

(d) Author's computation.