

## Official Development Assistance and Poverty Alleviation in Nigeria (1981-2017)

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**Abstract:** The aim of this study is to examine the long run equilibrium relationship between official development assistance and poverty alleviation in Nigeria over the period of 1981 to 2017 which past studies have failed to explore. Consequently, the study utilized data from UNCTAD, World Bank database, CBN Statistical Bulletin and Cointegration, DOLS and Granger Causality approach was used to address the objective of this study. However, the major findings in this study are summarized as follows. Firstly, there is a significant negative relationship between official development assistance and poverty level in Nigeria. However, FDI which also constitutes a strategic part of foreign capital in Nigeria does not contribute to poverty alleviation in Nigeria. Furthermore, official development assistance and poverty level in Nigeria have a bidirectional feedback. Due to the findings that emerged from this study, the following recommendations are made for the policy makers that whenever alleviation of poverty is the target of the policy makers in the country, the Nigerian government should be committed to the provision of a sound environment and good governance that can facilitate further inflows of official development assistance from the developed countries, especially G 7 countries. Also, the policy makers in Nigeria should ensure that ODA should be tailored towards projects and programs that have trickle down effects on the masses in the country.

**Keywords:** ODA; Poverty Alleviation; FDI; Nigeria

**JEL Classification:** I32

### 1. Introduction

In the past three decades, the Sub-Saharan African region has been the most popular recipient of ODA in the world with estimated 40%, followed by South and Central

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Asian countries which accounted for 20.7%. In the same vein, the West African sub region received 26% from 1980 to 1990, 25% from 1991 to 2000 and 28% from 2001 to 2015 of the total African`s official development assistance respectively (OECD, 2016). The dominance of Nigeria in ECOWAS sub region regarding the inflows of development assistance cannot be undermined as the value of net official development assistance received, in current US dollars, in the country fluctuated between US\$118.1million in 1988 and US\$2.1billion in 2010. However, the figure rose sporadically to US\$6.4billion and US\$11.4billion in 2005 and 2006 concurrently probably due to forgiveness of the country`s debt by the Paris Club of creditors. It has been observed that wide fluctuations have remained a regular feature in the trend of ODA to Nigeria especially during the period 2010-2017.

It is important to stress that one of the principal concerns in a bid to reinforce the three core values of development namely: human sustenance; self-esteem and freedom is poverty alleviation (Todaro and Smith, 2009:pp. 20-22). Little wonder, the first goal of the United Nation`s Millennium Development Goals is geared towards eradicating extreme poverty and hunger. The term of reference of this policy document is to reduce the proportion of people whose income is less than \$1 per day and the proportion of people who suffer from hunger is reduced to half between 1990 and 2015, (Sachs, 2005:72). Poverty is not alone faced by developing economies, but also it has been seen as a universal issue that has constituted a major concern for development in countries of the world. Unfortunately, Nigeria was among 50 richest countries in the early 1970s, but is the headquarters of poor countries in the twenty first century. Despite the fact that Nigeria is the sixth largest exporter of oil, one of the socio economic problems bewildered this country currently is high level of poverty. In a recent report by World Poverty Clock compiled by the Brookings institute, USA, as at May 2018 shows that about 86.9 million Nigerians are in extreme poverty which is the highest in the globe (Adebayo, 2018). This report was further reinforced by the popular assertion of the British Prime Minister, Theresa May who coined Nigeria as ``the headquarters of poverty``. It is worth of note that this extreme level of poverty in the country has manifested in the various forms such as the inability of over 70% of the citizens to have access to basic necessities of life, over 60% live below a dollar per day, over 80 million youths unemployed, mass migration of young people to Europe through Sub Saharan desert, compromise of moral values or abandon moral values of the people and increasing rate of crimes among the populace on daily basis in the country.

However, it is not gainsay that aid can be a vital source of financing developmental project in the developing countries. But in the case of Nigeria, there are divided opinions because the country derives huge revenues from the export of crude petroleum and substantial amount of remittances from its human resources in diaspora, therefore the country does not need to rely on ODA for its development. It is worth of note that there is nothing absolutely wrong in getting official development

assistance from developed world if such aid is tailored toward projects that will ensure maximum welfare of the masses in the country. Meanwhile, aid has the capacity to propel development in a capital deficit country to its ultimate steady-state potential growth rate faster and can equally improve a country's steady state growth rate owing to the spillovers such as technical know-how and better governance that usually accompany the inflows of foreign capital.

Consequently, it is important to stress that one of the most critical challenges confronting development in the world today, especially countries in the developing world is the quest to eradicate poverty. Little wonder, poverty eradication occupied the number one position in Millennium Development Goal (MDG) document. It has been argued that women and children are the most vulnerable to poverty in poor countries and poor communities. As a result of this, there have been several advocacies for countries and communities to place more emphasis in utilizing a holistic approach to tackle poverty. The need to achieve the millennium development goals (MDGs) in developing countries by 2015 has sparked advocacy in some quarters for the usage of ODA to fast-track the process in low income countries in which Nigeria was categorized at the end of the oil boom and the economic crisis of the early to mid-1980s which led to a drastic decline in per capita income in the country. This qualified Nigeria for ODA, which comes mainly from Organization for Economic Cooperation and Development (OECD) countries and consists of net disbursements of grants and loans on concessional terms (loans must have at least a 25% grant element). It is important to state that in 2005 and 2006, Nigeria enjoyed debt forgiveness from the Paris Club of Creditors which has caused a significant inflows of ODA in the country.

However, in the recent time, there has been a paradigm shift in research focus from economic growth to poverty reduction which represents one of the principal goals of the sustainable development. In Nigeria, an attempt to empirically verify the nexus between official development assistance and poverty alleviation in the recent time has generated more heat than light in terms of arguments and policy recommendation in the literature. See N'dri Kan (2017), Jidelbietan, Felix and Ese (2014), Okon, (2012), Akpan and Udoma (2011). Consequently, the inconclusive nature of the literature regarding this subject matter makes this study imperative. Also, the uniqueness of this study lies in the use of new methodology to address the objectives of this study which the bulk of other studies had failed to utilize in the time past. In meeting the research objective, this study examined the relationship between ODA and poverty alleviation between 1990 and 2017.

In addition to introduction, the rest of this work is arranged thus; section two examines the review of relevant literature and section three presents methodology, discussion of results, conclusion and policy recommendation.

## 2. Literature Review

This section presents a critical review of the past empirical studies regarding official development and poverty in developing countries in general and Nigeria in particular.

N'dri Kan (2017) examined the nexus between official development assistance and poverty alleviation ECOWAS countries with the application of panel data between 1980 and 2014. The results from the study indicated that ODA contributed to poverty alleviation in the region. But, its impact on economic growth was inimical. As a result of this, the author submitted that ODA is pro-poor, which is not growth enhancing in ECOWAS sub region. In another perspective, Askarov (2015) employed the technique of instrumental variables to establish that aid has a direct impact on economic growth in emerging economies.

Consequently, Eskander Alvi (2008) evaluated the relationship between aid and the importance of policy in generating economic growth with nonlinear relationship between the variables in developing countries. It was discovered from the study that policy constituted a pertinent factor that determines growth, and that the same time growth emanated from aid in a good policy environment, despite the fact there was an evidence to support diminishing returns to aid.

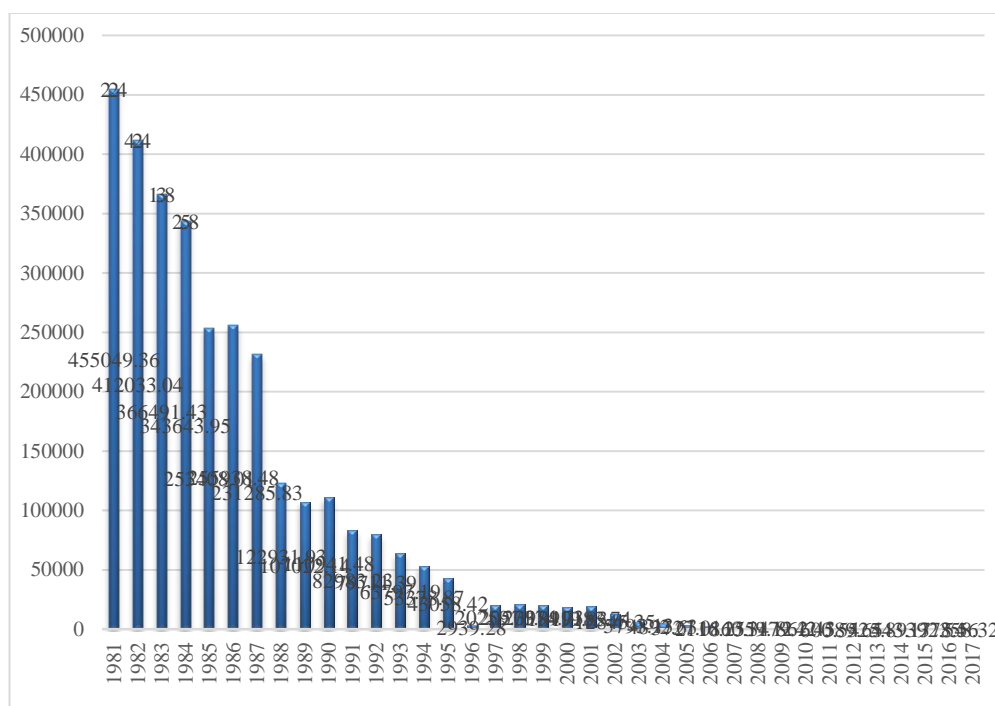
Arnt et al. (2011) utilized the LIML point estimates to submit that a sustained inflow of 25 USD aid per capita is supposed to improve growth rate by around 50 percentage point on average, at the same time alleviate poverty by around 6.5 percentage points, gear up investment by around 1.5 percentage points in GDP, increase average schooling by 0.4 years, increase life expectancy by 1.3 years and bring about reduction in infant mortality by 7 in every 1000 births. While examining the effectiveness of aid on poverty reduction, Collier (2002) used regression analysis to prove that the impact of aid on poverty is a function of its impact on per capita income growth. It was confirmed that aid leads to economic growth, which eventually reduces poverty.

In the same vein, Akpan and Udoma (2010) investigated the impact of ODA on the performance of economy in Nigeria between 1970 and 2010 with the aid of least squares (3SLS) estimation technique. The authors found out that the relationship ODA and economic development was positive but insignificant in the country. However, there was a significant relationship between capital expenditure and economic development.

However, JideIbietan, Felix and Ese (2014) submitted that despite the high flows of ODA in Nigeria on annual basis yet there is little or no impact on poverty alleviation in Nigeria.

In summary, a critical look at the above reviewed literature shows that past studies on nexus between official development assistant and poverty alleviation in Nigeria are very limited in the recent times. Therefore, this study is very crucial to fill the gap in that regards.

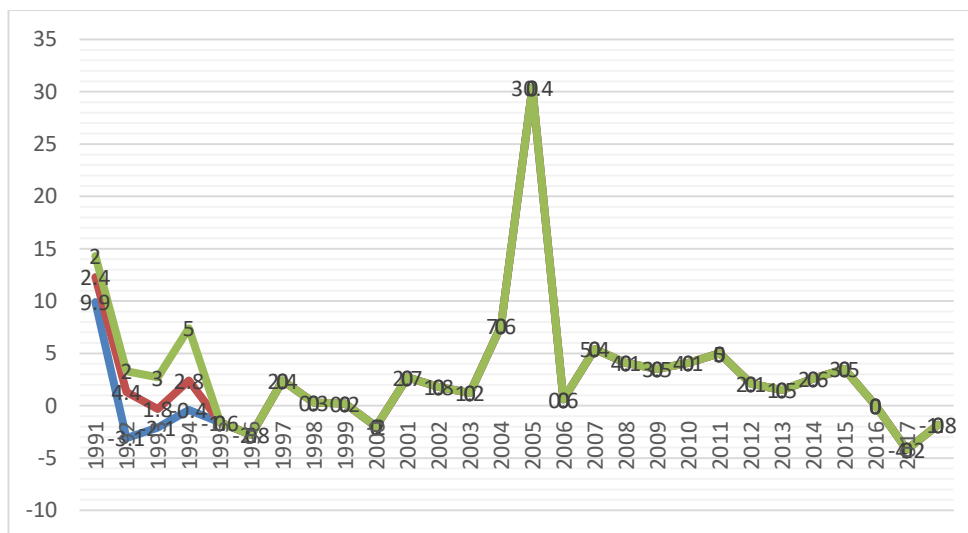
**2.1. An Overview of Poverty Level and Official Development Assistance in Nigeria**



**Figure 1. Household Consumption Per Capita in Nigeria**

*Source: Authors' Computation (2019) from (CBN, 2017)*

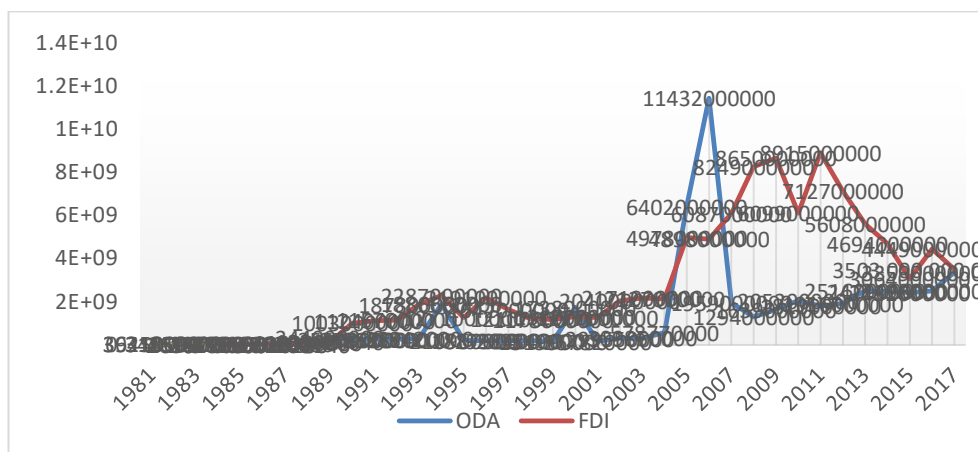
Figure1 shows the household consumption per capita which measures the standard of living of individuals in Nigeria from 1981 to 2017. From the figure above, it could be deduced that individual`s standard of living continues to decline on annual basis except 1986 in the country. This implies that poverty level in Nigeria has been rising on annual basis from 1980s to 2017.



**Figure 2. GDP Per Capita Growth in Nigeria**

*Source: Authors' Computation (2019) from (WDI, 2018)*

As shown in Figure 1, the GDP per capita growth which measures the standard of living in an economy has been not been impressive in the country. It could be pinpointed from the figure above that in the last twenty seven years (1990-2017), this variable has been fluctuating. It is instructive to state that the impressive performance of this variable in 2004 and 2005 especially could be attributed to forgiveness of the country's debt by the Paris Club of creditors in year 2005. Consequently, between 2006 and 2014 this variable has been fluctuating as well until it came to a standstill in 2015 and thereafter recorded negative growth in 2016 and 2017 concurrently, which serves as evidence of spillovers of recession in Nigerian economy. The implication of this is that on the aggregate, poverty has been growing consistently in Nigeria which is reflected in the continuous dwindling of standard of living of the people in the country.



**Figure 3. Relationship between Official Development Assistance and Foreign Direct Investment in Nigeria**

*Source: Authors' Computation (2019) from (WDI, 2018) and (UNCTAD, 2018)*

Figure 3 shows the panoramic view of interaction of official development assistance and foreign direct investment in Nigeria between 1981 and 2017. It could be observed from the figure that in pre sap era there was no significant difference between the inflows of FDI and ODA in the country. However, from 1989, FDI began to rise above ODA in the country until 2005 and 2006 when ODA overtook FDI inflows in the country due debt forgiveness by the Paris Club in year 2005. Since then there has been a wide gap between the variables in the country especially during the periods of 2008 and 2014.

### 3. Methodology

This study utilized secondary data from 1981 to 2017. Data on official development assistance would be extracted from World Development Indicator, meanwhile data on foreign direct investment would be sourced from UNCTAD investment report, data on household consumption per capita (poverty level), and exchange rate would be sourced from the Central Bank of Nigeria Statistical. E-Views software was employed for the running of the data.

#### 3.1. Model Specification

The model for this study can be specified in the general form as follows:

$$PVT = F(ODA, FDI, ExhR) \dots \dots \dots (I)$$

The model (I) could be linearized as follows to generate model (II)

$$\text{LnPVT}_t = \beta_1 + \beta_2 \text{LnODAt} + \beta_3 \text{Lnfdit} + \beta_4 \text{ExchR}_t + \mu_t$$

..... (II)

Where;

PVT= Poverty level, ODA= Official Development Assistance, FDI = Foreign Direct Investment,

EXchR = Exchange Rate,  $\beta_1$  = Intercept,  $\beta_2 - \beta_4$  = coefficients of independent variables,  $\mu_t$  = Stochastic or error term and  $t = 1981-2017$ .

The a priori expectations are as follows  $\beta_4 > 0$ ,  $\beta_2$  and  $\beta_3 < 0$

### 3.2. The Direction of Causality ODA, FDI, Exchange Rate and Poverty in Nigeria.

The model for Granger causality between poverty and official development assistance could be examined within a pairwise granger causality analysis with the estimation of the VAR model in equation (III-VI) which states thus:

$$\text{ODA}_t = \alpha_0 + \sum_{i=0}^p \alpha_1 \text{ODA}_{t-1} + \sum_{i=0}^p \alpha_2 \text{FDI}_{t-1} + \sum_{i=0}^p \alpha_3 \text{ExchR}_{t-1} + \sum_{i=0}^p \alpha_3 \text{PVT}_{t-1} + \varepsilon_{1t}$$

..... (III)

$$\text{FDI}_t = \beta_0 + \sum_{i=0}^p \beta_1 \text{FDI}_{t-1} + \sum_{i=0}^p \beta_2 \text{ODA}_{t-1} + \sum_{i=0}^p \beta_3 \text{PVT}_{t-1} + \sum_{i=0}^p \alpha_3 \text{ExchR}_{t-1} + \varepsilon_{2t}$$

..... (IV)

$$\text{PVT}_t = \gamma_0 + \sum_{i=0}^p \gamma_1 \text{PVT}_{t-1} + \sum_{i=0}^p \gamma_2 \text{ODA}_{t-1} + \sum_{i=0}^p \gamma_3 \text{ExchR}_{t-1} + \sum_{i=0}^p \alpha_3 \text{FDI}_{t-1} + \varepsilon_{4t}$$

..... (V)

$$\text{ExchR}_t = \gamma_0 + \sum_{i=0}^p \gamma_1 \text{ExchR}_{t-1} + \sum_{i=0}^p \gamma_2 \text{FDI}_{t-1} + \sum_{i=0}^p \gamma_3 \text{ODA}_{t-1} + \sum_{i=0}^p \alpha_3 \text{ExchR}_{t-1} + \varepsilon_{4t}$$

..... (V)

### 3.3. Measurement of Variables

For the purpose of achieving the stated objectives in this study, the operational definitions of the variables employed can be captured as follows

**FDI:** This measures the total foreign direct investment in all sectors of the Nigerian economy.

**Poverty Level:** This is measured by household consumption per capita in Nigeria.



**ODA:** Official development assistance is measured by foreign development aid in terms of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies to Nigeria.

**Exchange Rate:** It is measured by the annual Naira/Dollars official exchange rate

### 3.4. Techniques of Analysis

This section illustrates the approaches that would be employed to achieve the various objectives of this work. Descriptive analysis is used to compliment econometric analysis in examining the impact official development assistance on poverty alleviation in Nigeria.

### 3.5. Results and Discussion

**Table 1. Descriptive Statistics of Annual Data Series (1981-2017)**

Descriptive Statistics	LExchR	LFDI	LODA	LPVT
Mean	3.784564	20.54587	19.91519	9.469036
Median	4.543831	21.35347	19.51779	9.861818
Maximum	5.886104	22.91100	23.15968	13.02816
Minimum	-0.298855	14.61673	17.27214	5.881426
Std. Deviation	1.390775	2.317120	1.631826	2.410375
Skewness	-1.257628	-1.172525	0.012565	-0.079967
Kurtosis	3.703400	3.150750	1.929289	1.611370
Jarque-Bera	10.51614	8.513054	1.768376	3.012218
Probability	0.005205	0.014171	0.413050	0.221771
Sum	140.0289	760.1973	736.8622	350.3543
Sum. Sq. Deviation	69.63318	193.2856	95.86287	209.1567
Observation	37	37	37	37

*Source: Authors` Computation (2019)*

Before carrying out econometric analyses, it is important to ensure that the assumptions of normality and asymptotic properties of data series are satisfied. In view of the above, this paper has examined various descriptive statistics of the data utilized for this work. And this provides vital information about the sample series such as the mean, median, minimum and maximum values; and the distribution of the sample measured by the skewness, kurtosis and Jarque-Bera statistics. From the reported result, the mean and median values of the variables of interest are very close, which just justified the fact that the distribution of the data series is symmetrical. This is further reflected in the values of Jarque-Bera statistics and Kurtosis.

**Table 2. Unit Root Test**

Variables	ADF Test			PP Test		
	Level	1 <sup>st</sup> Diff.	Remarks	Level	1 <sup>st</sup> Diff.	Remarks
LODA	-2.945842**	-2.948404**	I (1)	-2.945842**	-2.948404**	I (1)
LFDI	-2.945842**	-2.948404**	I (1)	-2.945842**	-2.948404**	I (1)
LExchR	-2.945842**	-2.948404**	I (1)	-2.945842**	-2.948404**	I (1)
LPVT	-2.948404**	-2.948404**	I(1)	-2.945842**	-2.948404**	I(1)

Source; Authors` computation (2019)\*\* %5 level

It has been argued in the literature that time series data are usually linked with a stationarity problem which could reduce the validity of the policy recommendation based on such data. As a result of this, an attempt was made to verify the stationarity or otherwise of the data in this study with the aid of the standard Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests. However, it could be established based on the results of the estimated Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests that data for all the variables were stationary after first differencing. This implies that the data employed for the econometric analysis in this work are I(1).

**Table 3. Johansen Cointegration Test (Trace Statistics) and (Maximum Eigenvalue)**

Null Hypothesis	Eigenvalue	Trace Statistics	P-value	Maximum Eigenvalue	P-value
$r=0$	0.440490	43.93056	0.1114	20.32431	0.3191
$r\leq 1$	0.389037	23.60625	0.2176	17.24518	0.1607
$r\leq 2$	0.157276	6.361064	0.6528	5.989067	0.6528
$r\leq 3$	0.010572	0.371996	0.5419	0.371996	0.5419

Source; Authors` computation (2019)

The results of the pre-estimation unit root tests established that the variables of interest in this study possess a unit root. The implication of this is that these variables might show deviation in the short run, yet there is high possibility they have a long run equilibrium relationship. In order to examine the existence or otherwise of the long run convergence of the variables, the study utilized Johansen and Juselius (1990) multivariate cointegration test. Consequently, the results of this test indicate the existence of at most three cointegrating vectors in the systems from the eigenvalue and the maximal eigenvalue statistics. Hence, the variables of interest in this paper have a long run equilibrium relationship with one another.

**Table 4. The Impact of Official Development Assistance on Poverty Alleviation in Nigeria****Dependent Variable: LPVT**

Variable	Coefficient	t-statistics	P-value
LFDI	0.026184	0.111343	0.9124
LExchR	-0.324634**	2.033188	0.0549
LODA	-1.369384*	4.050973	0.0006
C	37.26400**	2.698829	0.0000
R-Squared	0.946211		
Adjusted R-Squared	0.915474		

Source: CBN, 2017: Authors` computation (2019) \*\*Significant at 5%, \*Significant at 1%

Table 4 indicates the estimated results of the regression analysis of the nexus between official development assistant and poverty alleviation in Nigeria. It could be shown that it is only the coefficient of ODA that has the expected sign. Similarly, the independent variables of the model which comprises of FDI, ODA and exchange rate jointly explained about 95% of the systematic variations in the dependent variable, poverty level leaving 5% unexplained as result of random chance. This implies that the model adopted for this work is relatively good. Meanwhile, the explanatory power reduces to about 92% when the loss in the degree of freedom was adjusted.

However, there is a negative relationship between ODA and poverty level in Nigeria which is significant 1% level of significant. A unit change in ODA brings about 1.4% reduction in poverty level in the country. This implies that ODA contributes to poverty alleviation in Nigeria. This submission is validated by N`dri Kan (2017) who carried out similar study in ECOWAS countries. Meanwhile, it contradicts JideIbietan, Felix and Ese (2014) who opined that despite the high flows of ODA in Nigeria, there is little or no impact on poverty alleviation in the country.

Conversely, FDI and poverty level have an insignificant positive relation in the country. A unit change in FDI leads to 0.03 increment in poverty level. This shows that FDI inflows do not contribute to poverty alleviation in Nigeria. This finding is in line with the findings of Ogunniyi and Igberi (2014), Akinmulegun (2012) and Ali and Nishat (2010) in related studies in Nigeria and Pakistan respectively. Furthermore, there is an existence of a significant negative relationship between exchange rate and poverty level in Nigeria.

**Table 5. Pairwise Granger Causality Test**

Sample: 1981 2017

Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
LPVT does not Granger Cause LExchR	35	2.28286	0.1194
LEXCHR does not Granger Cause LPVT		19.2941	4.E-06
LFDI does not Granger Cause LExchR	35	1.93006	0.1627
LExchR does not Granger Cause LFDI		0.37022	0.6937
LODA does not Granger Cause LExchR	35	5.06665	0.0127
LExchR does not Granger Cause LODA		0.43233	0.6530
LFDI does not Granger Cause LPVT	35	1.03270	0.3684
LPVT does not Granger Cause LFDI		1.29223	0.2895
LODA does not Granger Cause LPVT	35	5.23154	0.0112
LPVT does not Granger Cause LODA		3.03391	0.0531
LODA does not Granger Cause LFDI	35	3.37495	0.0476
LFDI does not Granger Cause LODA		0.37669	0.6893

*Source: Authors` Computation (2019)*

This section examined the interaction of the variables of interest in Nigeria within the context of Pairwise Granger Causality Test. The estimated results shows that the existence of a bidirectional causality which runs between ODA and poverty level in Nigeria. Meanwhile, a unidirectional feedback flows from ODA to FDI and exchange rate simultaneously in the country. However, there is no causal relationship between poverty level, FDI inflows and exchange rate in Nigeria.

#### 4. Conclusion and Recommendations

This study examined the relationship between official development assistant and poverty alleviation in Nigeria over the period of 1981 to 2017. The following are the summary of the major findings in this study. Firstly, there is a significant negative relationship between official development assistance and poverty level in Nigeria. This suggests that official development assistance is capable of alleviating the devastating current level of poverty in the country if it is well channeled to the productive use. However, FDI which also constitutes a strategic part of foreign capital in Nigeria does not contribute to poverty alleviation in Nigeria. This might be as a result of the larger percentage of FDI inflows in Nigeria goes to oil and gas

which its spillovers might not diffuse to the welfare of the average Nigerian over the time.

Furthermore, official development assistance and poverty level in Nigeria have a bidirectional feedback. This implies that official development assistance flows to this country as a result of increment in the level of poverty in the country. Finally, due to the findings that emerged from this study, the following recommendations are made for the policy makers that official development assistance is capable of alleviating poverty in Nigeria. This implies that whenever alleviation of poverty is the target of the policy makers in the country, the Nigerian government should be committed to the provision of a sound environment and good governance that can facilitate further inflows of official development assistance from the developed countries, especially G 7 countries. Also, the policy makers in Nigeria should ensure that ODA should be tailored towards projects and programs that have trickle down effects on the masses in the country.

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