Research Question

What factors affect the relationship between GDP and poverty in Nigeria?**

Nigeria's GDP per capita grew by 69.7% from 1992-2009 (World Bank, 2015), yet poverty levels have not significantly decreased over this period. Such persistent poverty levels amid economic growth confound a common theory that poverty reduction and economic growth are positively related (Chen & Ravallion, 2008; de Janvry & Sadoulet, 2010; Balakrishnan, Steinberg, & Syed, 2013). Many aid allocation formulas incorporate measures of income per capita but not measures of poverty, likely based on the assumption that average incomes are associated with reduced poverty. This project analyzes economic growth and poverty data to assess trends over time, and reviews the literature to explore hypothesized factors that may explain the pattern of high ongoing poverty rates in the country even in the presence of economic growth.

Methodology

This project consisted of three parts:

• A literature review of seminal economic papers on the theorized relationship between economic growth & poverty.

• A systematic literature review of the hypothesized factors influencing this relationship in Nigeria.

• An analysis of time series data from the Nigerian Living Standards Survey (reported by the Nigeria Bureau of Statistics [NBS] and World Bank) and OECD.

Economic Growth & Poverty Relationship**

• Recent studies using cross-country time series data have found a positive relationship between economic growth and poverty reduction (Dollar & Kraay, 2002; Bourguignon, 2002; Chen & Ravallion, 2008; de Janvry & Sadoulet, 2010).

• Some studies emphasize that the relationship varies between countries, and argue that economic growth is not a sufficient condition for reductions in poverty (Wieser, 2011; Chen & Ravallion, 2008).

• Other studies find that the sectoral composition of economic growth affects how growth translates into poverty reduction (Dollar & Kraay, 2002; Loayza & Raddatz, 2010; de Janvry & Sadoulet, 2010).

Key Findings

• Many scholars find empirically in cross-country empirical studies economic growth is associated with poverty reduction, yet countries such as Nigeria provide exceptions.

• Most studies specific to Nigeria find that GDP and poverty are unrelated, or that poor quality data make it difficult to empirically test relationships.

• The growth elasticity of poverty varies across time periods depending on poverty measures chosen but is not very large in most periods, indicating that poverty measures have not changed along with economic growth.

• Findings suggest that movements in per capita income may not be a valid or consistent proxy for poverty reduction in aid allocation formulas that often exclude poverty measures.

• Poor quality of the underlying data may partly explain the counterintuitive results of studies of poverty and economic growth in Nigeria.

Hypothesized Factors Affecting Nigeria’s Economic Growth & Poverty

Economic Inequality

Paradox in which resource driven economies tend to be less diversified and vulnerable to instability, corruption and slow development outcomes

The “Oil Curse”

Jobless growth: formal job creation and skill development are insufficient to meet the demand for jobs in Nigeria’s cities

High Unemployment

Corruption in the government and the oil sector diverts public expenditure away from social spending as officials engage in rent-seeking

Low Education & Health Expenditure

Nigeria’s historically low expenditures on education & health is increasingly jeopardized by reduced oil revenues and low tax-to-GDP ratio

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