

GOVERNMENT EXPENDITURE AND POVERTY REDUCTION IN NIGERIA, 1986- 2022: A DISAGGREGATED APPROACH

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Abstract

Poverty in Nigeria is a complex issue that demands urgent government attention. With approximately 63% of the population living below the poverty line in 2022, understanding the relationship between government expenditure and poverty is crucial. Despite existing studies focusing on the impact of government expenditure on economic growth, few have explored the relationship between government expenditure from different sectors and poverty. This study aims to address this gap by investigating the effects of government expenditure in various economic sectors on poverty in Nigeria from 1986 to 2022. Using government expenditure on education, health, security, building and construction, and roads as proxies, and the head count index as a proxy for poverty, this study analyzed secondary data from the CBN Statistical Bulletin and National Bureau of Statistics. The Johansen cointegration and vector error correction mechanisms were employed as estimation methods. The findings indicate that all selected government expenditures had positive short-term effects on poverty, but negative long-term effects, except for government

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expenditures on roads. This suggests that government expenditure has a reducing effect on poverty in the long term, but is not effectively addressing poverty in the short term. The study concludes that government expenditure plays a significant role in reducing poverty in the long run. As a recommendation, the study suggests prioritizing infrastructure development, particularly in road construction and public transportation, to improve citizens' mobility, reduce transportation costs, and facilitate easy movement with the motive of reducing the poverty rate among Nigerians.

Keywords: Poverty, government expenditure, multidimensional, headcount index

Introduction

The reduction of poverty in Nigeria has been a primary concern for successive governments. Various poverty alleviation programmes have been implemented in different sectors, including construction, education, health, security and transportation to ensure that poverty is tackled headlong and reduced significantly. The reasons for ensuring increase in expenditure of these critical economic sectors is that they serve as the channels through which government policies impact the citizens. For example, increased expenditure to the educational sector enhanced the capacity of the tertiary institutions to accommodate more intending students for admission. Not only that, equipment and tools for teaching would be available for easy learning, which would impact and empower them with the knowledge and skills needed to secure paying jobs, enhance productivity and innovation, ensure self-reliance of graduates as well as improve their participation in the economy (Oke Oladeji, Olofin, 2020). Likewise, an increase in government expenditure in the health sector improved the access people had to good healthcare, thus preventing sickness, improving life expectancy, and reducing the financial burden of medical expenses on low-income families.

In Nigeria, several programmes have been implemented to tackle the menace of poverty, some of these programmes are: the introduction of National Health Insurance Scheme (NHIS) for both public and private workers, National Immunisation Coverage Scheme (NICS), National Health

Policy and Strategic Framework (Aregebsola, 2019; Riman, Bassey, Ibi & Edu, 2020), free education for the primary and secondary school pupils and payment of West African Examination Council (WAEC) fees for Senior Secondary School in Nigeria, among others. In the agricultural sector, some programmes implemented are enormous and they include National Accelerated Food Production Programme (NAFPP) and National FADAMA Development Programme (Olasehinde & Adekoya, 2014), yet poverty has continue to increase, defiling every programmes.

Although, poverty is a global issues affecting many economies, but the Nigeria situation is particularly concerning due to lack of correlation between the different policies of the government targeting poverty reduction and the yearly level of poverty recorded. It is worrisome to observe that rather than poverty decreasing, it has continued to rise unabated, despite an increase in government expenditure over the past three decades. Unfortunately, the number of Nigerians living in poverty has not decreased but has, in fact, increased. This perspective is supported by Oke *et. al.* (2020).

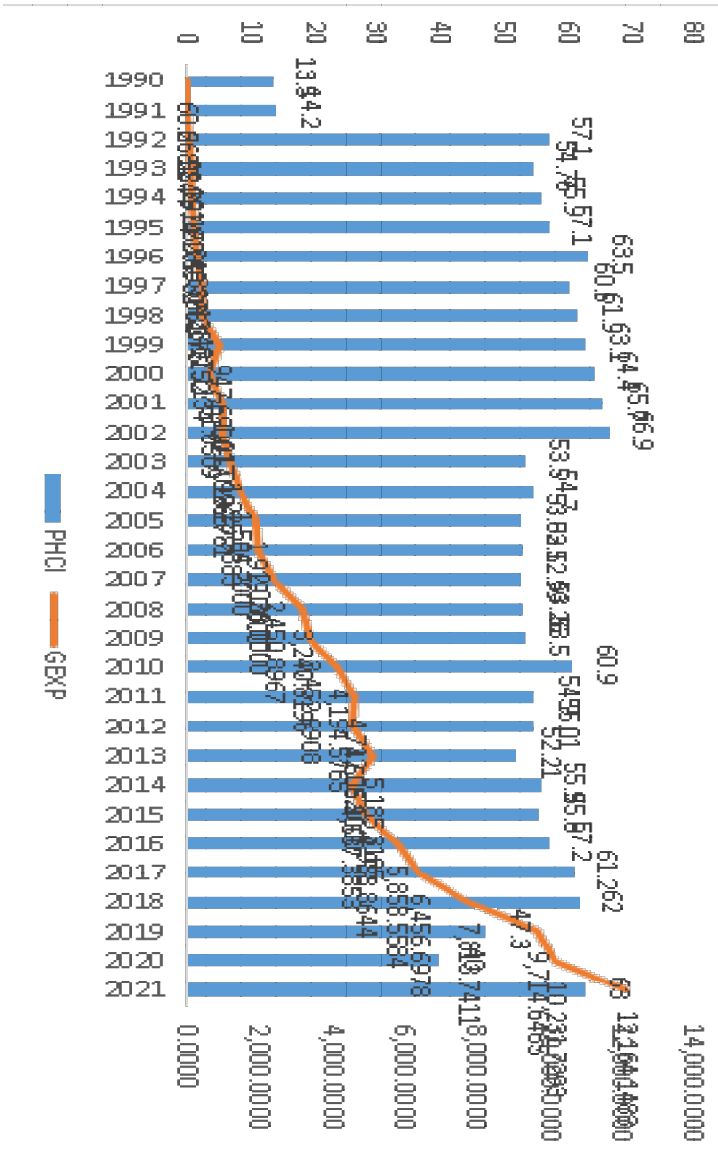
According to empirical data, Nigeria's government spending increased significantly during the study period. In 1986, recurrent expenditure was 7.7 billion, whereas in 2021, it reached 9,145.2 billion. Similarly, capital expenditure increased from 8.5 billion in 1986 to 2,522.5 billion in 2021 (CBN, 2021). The purpose of this increased expenditure is to ensure the functioning of every sector of the economy and to promote economic activities with the goal of reducing poverty. The government has made investments in areas like education, healthcare, infrastructural development, and social welfare schemes. These initiatives align with the social welfare hypothesis, which emphasizes the role of government intervention and spending on social programs in combating poverty, reducing inequality, and improving citizens' well-being.

The social welfare hypothesis emphasizes the duty of the state to provide a safety net for its citizens, as put forth by intellectuals like Sir William Beveridge. It underscores the importance of government actions and resource allocation to address the "giants" of poverty, sickness, illiteracy, squalor, hunger, and idleness (William, 2014). By investing in education,

healthcare, and social services, governments can enhance the living conditions of vulnerable communities and promote social fairness.

Unfortunately, despite increased government expenditure, poverty rates continue to rise, creating a paradox that warrants investigation into the effectiveness of government policies in combating poverty. Figure 1 illustrates that the percentage of Nigeria's population living in poverty was 13.5% in 1990 and increased to 63% in 2021. Similarly, total expenditure increased from \$60.26 billion in 1990 to \$12.164 trillion in 2021 (CBN, 2021). This suggests that as government expenditure increases, poverty rates do not decline, raising doubts about the effectiveness of government policies and initiatives aimed at poverty alleviation. Although poverty rates remained stable between 2003 and 2009, subsequent years showed an increase in the population living below the poverty line. This apparent paradox calls for a closer examination of the factors contributing to this disparity.

Figure 1: Combo Chart for Poverty Rate and Government Total expenditure



Source: CBN Statistical Bulletin, 2021

This study acknowledges the wealth of empirical research in Nigeria that explores the relationship between government expenditure and poverty alleviation. However, it identifies a significant empirical gap in the literature regarding the proxies used to measure government expenditure. Previous studies have largely overlooked a comprehensive analysis of government expenditure in five crucial areas: building and construction, education, health, security, and transportation. These areas are vital to understanding the influence of government spending on poverty reduction. While some studies have touched upon these aspects, the existing literature remains limited.

Notable studies in this field include Okulegu (2013), Osundina, Ebere, and Osundina (2014), Ebunoluwa and Yusuf (2018), Oriavwote and Ukawe (2018), Oserei and Uddin (2020), and Olaifa and Benjamin (2020). Most empirical studies have primarily relied on per capita income as a proxy for measuring poverty, neglecting alternative indicators like the poverty headcount index. This study aims to fill this gap by examining the effects of government sectoral expenditure on poverty in Nigeria from 1986 to 2021. By incorporating a more comprehensive understanding of government spending and utilizing diverse poverty indicators, this research seeks to provide a more nuanced analysis of the relationship between government expenditure and poverty reduction in Nigeria.

Literature Review

Government Expenditure

Government expenditure refers to the total amount of money spent by the government on its administration and the operation of the economy. As such, the scale of government involvement in the economy is reflected in the size of government expenditure, which encompasses various activities and programs aimed at promoting economic growth, providing public services, and addressing social needs. (Jibir & Aluthge, 2019). Government spending on health, education, construction and building are widely considered to reduce poverty, by increasing the productivity and earnings potential of poor households (Paternostro *et.al.* 2007). These types of government spending are, at least in theory, most likely to reduce income poverty. Government expenditure is determined by the priority and focus of the government in question. In Africa, especially Nigeria, the priority of the

government is majorly anchored on provision of basic amenities to ameliorate the suffering of the masses. Most African governments pay more attention to administrative expenditure, economic services, infrastructures, social amenities, national security and defence, interest on loans, among others. These public expenditures are also needed to stimulate economic growth to help generate the resources required for future government expenditure (Fan, Hazell, and Thorat, 2021).

In the majority of developing countries, government is seen as an instrument of change, and, therefore the size of government expenditure reveals the level of government activities in the economy (Jibir & Aluthge 2019). In some developed countries of the world like China, government expenditure can be more of investment, and public welfare spending such as human welfare, development needs, education, health, science and social security of the vulnerable age bracket like the youths and the aged.

The trend of public expenditure in Nigeria over the years has been characterised by steady and continuous rise in the share of expenditure of the budget. Government expenditure was ₦314.41 billion on average between 1960 and 1970 but increased to ₦5,972.90 billion between 1971 and 1980, representing 1799.7% growth in government expenditure during the 1970s (Central Bank of Nigeria [CBN], 2017). The expansion can be linked with the discovery of oil in the early 1970s that led to unprecedented rise in Nigeria's income.

In addition, the government budgeted large monies for reconstruction after the 1960s civil war that lasted for about 30 months. In order to raise the welfare standard of the populace and accelerate sustainable growth, there was the need for the increment in government spending on priority sectors to provide an enabling environment. Moreover, government expenditure was ₦11, 188. 42 billion on average between 1981 and 1985, thereby being a representative of the growth rate of 87.3% (CBN, 2017).

Furthermore, public expenditure exhibited an upwards trend despite countless efforts by the government to reduce its expenditure particularly through the structural adjustment programme (SAP) in 1986, which focused on short-term and medium-term policy reforms to structurally adjust the economy. Public expenditure continued to maintain a steady and upwards trend from 1986–1991. Total government expenditure was ₦11, 413.7 billion

in 1986 but by 1990, it slightly increased to N66, 584.4 billion representing 10% increase (CBN, 2017).

However, it can be argued that this development could be attributed to the volatile revenue base of the government and large fiscal deficits which led to reduction in government expenditure. Aregbeyen and Akpan (2013) posited that after the implementation of SAP, which marked the post-liberalisation era in 1986, strict measures were put in place to curb government spending. This includes reduction in wage bills, reduction in government subsidies, limiting or delaying investment projects and privatisation/commercialisation. That has indeed reflected as government expenditure growth rate was on average 31.1%, between 1986 and 1991 compared with the growth rate of 87% between 1981 and 1985.

Nevertheless, in the period 1991–1995, the government attempted reducing inflation rate by avoiding large budgetary deficits, which have turned government expenditure more cost-effective and consistent with the resources in possession of the country. To be candid, public expenditure reduced from N191, 228. 90 billion in 1993 to N160,893.20 billion in 1994, representing a decline growth rate of 15.9% in government expenditure (CBN, 2017).

From 2000 to 2017, government expenditure increased unabated. Throughout the period, government expenditure maintained a rising trend. Public expenditure was N701, 059.40 billion and rose immensely to N4,813,380.00 billion from 2000 to 2016, respectively. Average growth rate of government expenditure was 19.2% between 2001 and 2010 (CBN, 2017). Public expenditure continuously increased in this period because of the increased demand for the provision of socioeconomic services due to the population growth, increase in the flow of revenue from the production and sales of crude oil as a result of high prices of crude oil in the international market.

Poverty

Defining poverty proves challenging due to its multifaceted nature, leading to varied interpretations in existing studies. Thua, Olagunju (2019) argues that poverty is conceptually elusive, particularly when analysed statistically across nations and time frames. Nyasulu (2009) defines poverty as a

condition where a family's total earnings fall short of acquiring the basic necessities, highlighting the role of income inadequacy in determining poverty. However, this definition is subjective, as what is considered insufficient for one family may be deemed adequate for another. Ayogu, Abasi, and Ecoma (2012) offer a broader definition, encompassing poor access to energy, healthcare, education, financial security, and basic infrastructure. Halidu, Lawal, and Jamilu (2017) support this viewpoint that poverty is a deprivation of necessities necessary for a decent standard of living.

Akujuru and Enyioko (2019) portray poverty as a normative concept, where setting a poverty threshold necessitates judgements about societal norms. Aku, Ibrahim, and Bulus (1997), as cited in Ogunsakin (2017), present poverty from five angles: personal and physical deprivation, economic deprivation, social deprivation, cultural deprivation, and political deprivation, emphasising the multifaceted nature of poverty. The World Bank (2011) defines poverty as distinct deprivation in living conditions, including inadequate access to basic needs and insufficient income for sustenance. Adebayo and Moshood (2010) expand this definition to encompass poor health, education, clean water, safety, and limited opportunities for a better life.

David, Moses and Terhemen (2016) saw poverty in two different perspectives, first as moneylessness, and second as powerlessness. Moneylessness means an insufficiency of cash and chronic inadequacy of resources like natural resources, financial resources, capital resources and even human resources required to satisfy basic human needs. On the other hand, powerlessness refers to the inability of the people to enjoy their desires open to them.

Aliyu and Chukwudi (2015) view poverty as a complex of inadequate infrastructure, malnutrition, poor health, a lack of self-confidence, intellectual underdevelopment, and socio-political-economic challenges. This definition was also in line with Omotara (2016), as she said poverty is always associated with unemployment. According to him, there exist political, economic, sociological, health and psychological effects of poverty and unemployment. He further stated that poverty destroys aspirations, hope, happiness, self-esteem and sense of personal competence.

Olagunju (2019) identifies unemployment, insurgency, income inequality, biassed development, economic non-diversification, corruption, and misappropriation of funds as key determinants of poverty in a nation, all of which hinder national development, highlighting the urgency for poverty reduction efforts by the Nigerian government. While various indices, such as the headcount index, poverty gap index, squared poverty gap index, per capita income, and poverty incidence, have been utilised to measure poverty (Halidu *et. al.*, 2009; Olagunju, 2019).

Theoretical Framework

The Social Welfare Theory, which Sir William Beveridge developed in 1942, served as the study's theoretical framework. Sir William Beveridge, a renowned British economist, introduced the "Beveridge Report," titled "Social Insurance and Allied Services," which laid the groundwork for the welfare state in the United Kingdom post-World War II. This theory outlined key principles of the welfare state, stressing the significance of social insurance and services in tackling the "five giants" of want, disease, ignorance, squalor, and idleness. The report advocated for an extensive social security system covering national healthcare, family allowances, and comprehensive employment initiatives. Beveridge's concepts gained widespread acceptance and provided a blueprint for the subsequent development of social welfare policies globally.

Thus, the Social Welfare Theory, derived from Beveridge's and other philosophers' ideas, posits that the state holds the responsibility of establishing a safety net and ensuring citizens' well-being. It underscores the importance of governmental intervention and expenditure on social programmes and services to address poverty, inequality, and societal challenges. According to this theory, governmental investment in education, healthcare, housing, income support programmes, and other social services directly benefits individuals and households, enhancing their quality of life and fostering social equality. Its objective is to secure a basic standard of living for all members of society while fostering opportunities for advancement.

The Social Welfare Theory is frequently associated with principles of social justice and solidarity, advocating that the state plays a role in eliminating poverty and safeguarding vulnerable populations. It has shaped the

development of social policies and programmes worldwide, influencing the establishment of social security systems, universal healthcare, unemployment benefits, and various forms of social assistance.

Applying this theory to the Nigerian context contributes to understanding the government's role in reducing poverty to its lowest feasible level by increasing expenditure across different sectors of the economy. Optimal allocation of these funds among sectors and effective utilisation to enhance the educational sector, provide healthcare and free healthcare services, ensure accessible and affordable transportation systems, offer affordable housing for vulnerable and low-income groups, and protect citizens internally and externally can significantly mitigate poverty incidence in the country.

Empirical Review

Okulegu (2013) assessed the impact of government expenditure and poverty reduction on Nigeria's economic growth from 1980 to 2009. Poverty level was the proxy for poverty, while government expenditure on agriculture and the agricultural credit guarantee scheme were the explanatory variables. The study adopted ordinary least squares as the estimation method, and the study revealed that an increase in government expenditure via the Agricultural Credit Guarantee Scheme Fund by 1 percent on average reduced poverty levels by 0.06 percent.

From a similar viewpoint, Osundina, Eber, and Osundina (2014) examined disaggregated government expenditure on poverty reduction in Nigeria for a period of 43 years. Per capita income was the proxy for poverty, while government expenditures on health, education, building, and transportation were proxies for government expenditure. The data collected was estimated using the vector autoregressive estimation method, and the result indicated that government expenditure on building and construction have a positive and significant impact on poverty reduction in Nigeria, while government expenditure on health has an insignificant and negative impact on poverty reduction.

Dandume (2014) examined the causal relationship between financial sector development, economic growth, and poverty reduction in Nigeria, using time series data covering the period 1970–2011. The dependent variable was proxied by gross domestic product, financial development was

proxied by financial depth of the financial sector while the poverty was proxied by poverty index. Data collected was estimated auto-regressive distributed lag, and it was revealed that financial sector development does not cause poverty reduction, which implies that an increase in the supply of loanable funds due to financial sector development is not enough to ensure poverty reduction.

Zacheus and Omonigho (2014) evaluated the effects of Ekiti State Government intervention projects on poverty alleviation in Ekiti State, Nigeria, from 2007 to 2011. Primary data were collected from 630 participants, including civil servants, farmers, and community traders and artisans, via a questionnaire. The data collected were analysed using descriptive statistics and chi-square. The study found that development projects were carried out by the state, local government, and international and non-governmental organisations within the study region during the study period, but the impact on poverty alleviation in the state of Ekiti during the study period was negligible.

Nua and Onoja (2015) investigated the impact of poverty alleviation programmes on indigenous women's economic empowerment in Port Harcourt metropolis, Nigeria. The study employed a survey design of which questionnaires were used to elicit responses from 385 indigenous women who were randomly selected through a multi-stage sampling technique from the study area. Descriptive statistics and t-tests were used to analyse the data collected. Results showed that the majority (58.3%) of the women were members of a cooperative society, 63.5% were members of a community-based organisation (CBO), and 60.9% were members of 'Esusu' (rotatory credit schemes). The result further showed that 66.3% of the women had engaged in jobs aimed at poverty alleviation. Only 6% identified that they were not members of any poverty alleviation programmes (PAP) by the government. It was found that after joining the PAP, 75.5% of them experienced an increase in income of about 36.6%. The study showed that differences existed in the income of the women from various sources of economic undertakings after joining poverty alleviation programmes.

Kasali, Ahmad, and Ean (2015) examined the policies and programmes of poverty alleviation in Nigeria with respect to the effect of microfinance.

The exploratory method was used to review the relevant literature in order to discover the extent of the impact of these programmes on the targeted poor masses. The study concluded that in order to make microfinance achieve the poverty alleviation objective in Nigeria, the government would have to provide basic infrastructural and social facilities that could encourage the microfinance institutions to establish branches in rural areas and function effectively.

Taiwo and Agwu (2016) evaluated the problems and prospects of poverty alleviation programmes in Nigeria. The study focused on both government and non-governmental programmes that tend to reduce poverty. Contents analysis was used, and the study found that, instead of reducing the incidence of poverty, these programmes serve as a means for draining the national resources due to the pursuit of parochial interests, as a result fostering corruption and dishonesty. The study found a lack of targeting mechanisms for the poor, political and policy instability, severe budgetary, management, and governance problems, and a lack of accountability and transparency, among others, as factors affecting government and non-government programmes aimed at alleviating poverty.

Salah (2016) investigated whether the administration of NAPEP impacted on the alleviation of poverty in the Kaduna and Bauchi states of Nigeria between 2005 and 2010. The research concentrated on four schemes and programmes, such as the Farmers Empowerment Programme (FEP), Care Organisation Public Enlightenment (COPE), Youth Entrepreneurship Scheme (YES), and Village Education and Development Society (VEDS), out of the National Poverty Eradication Programme (NAPEP). Data were obtained by means of a survey conducted on a population of 3,051, of which 39 individuals were chosen from 43 local governments using cluster sampling techniques. Data were qualitatively analysed, and hypotheses were tested using the Pearson Chi square test. The study found that there was inadequate coordination of NAPEP activities between its different departments, partnering companies, and other government poverty alleviation institutions. Monitoring of programme activities was also found to be inadequate.

Ebunoluwa and Yusuf (2018) examined the effects of economic expenditure on poverty in Nigeria, using time series data from 1980 to 2016. The study proxied poverty using poverty incidence, while real gross domestic product, government expenditure and unemployment were proxies for government expenditure. Secondary data were sourced and analysed using Johansen cointegration and vector auto regression (VAR). The study found that the relationship between government expenditures, unemployment growth rate, and real GDP and poverty incidence was positive. This shows that government expenditure do not significantly reduce poverty incidence in Nigeria.

Oriavwote and Ukawe (2018) investigated the impact of government expenditure on poverty in Nigeria, between 1980 and 2016. Dependent variable was proxied by per capita income, while the independent variable was proxied by government expenditure in building and construction, education, and health. Secondary data were obtained and estimated using cointegration and error correction model (ECM) component of the Ordinary Least Squares (OLS). The study found that government spending on the education sector has the potential to reduce the level of poverty in Nigeria. In addition, the study showed that government spending on the health sector has been unable to significantly reduce the level of poverty in Nigeria.

Babayo and Umar (2019) investigated the role of the National Poverty Eradication Programme (NAPEP) in Nigeria. Primary source of data were collected through interviews, which were conducted through the selection of some informants on the subject matter based on accessibility and the possession of relevant information in the subject matter of the study. A total of 30 informants were selected based on the suggestion of Creswell (2014) on the maximum number for qualitative interviews, with four (4) from NAPEP in the Abuja office, two (2) from Gombe State, four (4) academics, four (4) senior officials from the Federal Ministry of Youth and Sports, four (4) senior officials from the NAPEP office in Gombe State, and twelve (12) beneficiaries from Gombe State identified in the NAPEP office from their databank. The study revealed that NAPEP failed to eradicate poverty in Nigeria as the incidence of poverty in the country keeps on rising, for instance, from 54.60% in 2004 to 70.06% in 2007 and 72.00% in 2018.

Onah and Olise (2019) discussed the problems and opportunities of social intervention initiatives by the government and sustainable poverty reduction in Nigeria. The research collected data from official publications, textbooks, online journals, periodicals, newspapers, and main informant interviews (KII). The data was analysed using content method. The study found that insufficient funding, a lack of transparency and accountability, weak information management, and poor infrastructure are problems facing the government's social intervention in Nigeria.

Oserei and Uddin (2020) examined the effects of government expenditures on primary health care and national economy in Nigeria between 1980 and 2015. Real gross domestic product was the proxy for economic growth, while fixed capital formation, government expenditure to the health care and labour force were the proxies for the independent variable. Data obtained were estimated using ordinary least squares method, and the study revealed that a relationship between government expenditure, economic growth and the functionality of the health sector in Nigeria.

Alalade, Longe, Oluwatosin, James-Ojibo, Asiyanbi and Awoyemi (2020) examined the effect of the N-Power Scheme on poverty reduction in Kwara State. The study sourced primary data through the use of a questionnaire from a sample size of two hundred and sixty-four (264) respondents across five (5) local government areas in Kwara State. The data sourced were analysed with the use of descriptive statistics such as frequency counts, percentages, and means. Pearson product moment correlation was used to examine the relationship between the test variables. The study found that the N-Power scheme has contributed to poverty reduction in the study area.

Olaifa and Benjamin (2020) examined government capital expenditure and private sector investment in Nigeria between 1981 and 2016. Gross fixed capital formation was the proxy for private investment, while government capital expenditure was measured by capital expenditure on economic services, capital expenditure on social and community services, capital expenditure on administration, and capital expenditure on transfers. Data was sourced and analysed using co-integration, regression, and Toda-Yamamoto. The study found that capital expenditure on physical assets and defence displaced private sector investment, while government capital

expenditure on human capital and public debt servicing promoted private sector investment in Nigeria. The results of T-Y causality revealed the bidirectional causality between private sector investment and government capital expenditure in Nigeria.

Ibrahim et al., (2022) examined the effect of government expenditure on infrastructural development in Nigeria between 1986 and 2022. They measured infrastructural development by government capital expenditure on health, government capital expenditure on education, and government capital expenditure on transport while government expenditure was measured by recurrent expenditure and capital expenditure. The study employed ordinary least square method as the estimation method. The study found that government expenditure has a positive impact on health, education, and transport infrastructure development in Nigeria.

Model Specification

Arising from the theoretical underpinning of this study which argued in favour of the need to reduce poverty through government spending, the study therefore adapted the model of Oriavwote and Ukawe (2018) which stated that:

$$LPCI = f(LGBC, LGED, LGEH)$$

The model explained that log of per capita income is a function of government expenditure to building and construction, government expenditure to education and government expenditure to health. This model actually focused on sectoral spending of the government, but does not look at the government expenditure to transportation and government expenditure to security. This therefore calls for modification of the model, and changing of the dependent variable to headcount index as proxy for poverty. Therefore, the functional model for this study is specified as:

$$HI = f(GBC, GED, GH, GS, GTR) \text{ ----- equ 1}$$

The modified model explained that, headcount index is a function of government expenditure to building and construction, government expenditure to education, government expenditure to health, government expenditure to security and government expenditure to transportation.

In a linearised form, the model was re-specified as;

$$HI_t = \delta_0 + \delta_1 GBC_{t-1} + \delta_2 GED_{t-1} + \delta_3 GH_{t-1} + \delta_4 GS_{t-1} + \delta_5 GTR_{t-1} + \varepsilon_{t-1} \text{ --- equ 2}$$

The study employed vector error correction mechanism as the main estimation model, therefore, the model is re-specified using the VECM model. This is stated thus;

$$\begin{aligned} \Delta HI_t = \lambda_1 + \sum_{l=1}^{K-1} \delta_{1l} \Delta HI_{t-l} + \sum_{l=1}^{K-1} \delta_{2l} \Delta GBC_{t-l} + \sum_{l=1}^{K-1} \delta_{3l} \Delta GED_{t-l} + \sum_{l=1}^{K-1} \delta_{4l} \Delta GH_{t-l} \\ + \sum_{l=1}^{K-1} \delta_{5l} \Delta GS_{t-l} + \sum_{l=1}^{K-1} \delta_{6l} \Delta GTR_{t-l} + \gamma_1 ECT_{t-1} + U_{1t} \end{aligned}$$

$$\begin{aligned} \Delta GBC_t = \lambda_2 + \sum_{l=1}^{K-1} \delta_{1l} \Delta HI_{t-l} + \sum_{l=1}^{K-1} \delta_{2l} \Delta GBC_{t-l} + \sum_{l=1}^{K-1} \delta_{3l} \Delta GED_{t-l} + \sum_{l=1}^{K-1} \delta_{4l} \Delta GH_{t-l} \\ + \sum_{l=1}^{K-1} \delta_{5l} \Delta GS_{t-l} + \sum_{l=1}^{K-1} \delta_{6l} \Delta GTR_{t-l} + \gamma_2 ECT_{t-1} + U_{2t} \end{aligned}$$

$$\begin{aligned} \Delta GED_t = \lambda_3 + \sum_{l=1}^{K-1} \delta_{1l} \Delta HI_{t-l} + \sum_{l=1}^{K-1} \delta_{2l} \Delta GBC_{t-l} + \sum_{l=1}^{K-1} \delta_{3l} \Delta GED_{t-l} + \sum_{l=1}^{K-1} \delta_{4l} \Delta GH_{t-l} \\ + \sum_{l=1}^{K-1} \delta_{5l} \Delta GS_{t-l} + \sum_{l=1}^{K-1} \delta_{6l} \Delta GTR_{t-l} + \gamma_3 ECT_{t-1} + U_{3t} \end{aligned}$$

equ 1

$$\begin{aligned} \Delta GH_t = & \lambda_4 + \sum_{l=1}^{K-1} \delta_{1i} \Delta HI_{t-1} + \sum_{l=1}^{K-1} \delta_{2i} \Delta GBC_{t-1} + \sum_{l=1}^{K-1} \delta_{3i} \Delta GED_{t-1} \\ & + \sum_{l=1}^{K-1} \delta_{4i} \Delta GH_{t-1} + \sum_{l=1}^{K-1} \delta_{5i} \Delta GS_{t-1} + \sum_{l=1}^{K-1} \delta_{6i} \Delta GTR_{t-1} + \gamma_4 ECT_{t-1} \\ & + U_{4t} \end{aligned}$$

$$\begin{aligned} \Delta GS_t = & \lambda_5 + \sum_{l=1}^{K-1} \delta_{1i} \Delta HI_{t-1} + \sum_{l=1}^{K-1} \delta_{2i} \Delta GBC_{t-1} + \sum_{l=1}^{K-1} \delta_{3i} \Delta GED_{t-1} + \sum_{l=1}^{K-1} \delta_{4i} \Delta GH_{t-1} \\ & + \sum_{l=1}^{K-1} \delta_{5i} \Delta GS_{t-1} + \sum_{l=1}^{K-1} \delta_{6i} \Delta GTR_{t-1} + \gamma_5 ECT_{t-1} + U_{5t} \end{aligned}$$

$$\begin{aligned} \Delta GTR_t = & \lambda_6 + \sum_{l=1}^{K-1} \delta_{1i} \Delta HI_{t-1} + \sum_{l=1}^{K-1} \delta_{2i} \Delta GBC_{t-1} + \sum_{l=1}^{K-1} \delta_{3i} \Delta GED_{t-1} + \sum_{l=1}^{K-1} \delta_{4i} \Delta GH_{t-1} \\ & + \sum_{l=1}^{K-1} \delta_{5i} \Delta GS_{t-1} + \sum_{l=1}^{K-1} \delta_{6i} \Delta GTR_{t-1} + \gamma_6 ECT_{t-1} \end{aligned}$$

Where:

HI=Headcount, δ_{ij} = Constant term, GBC= government expenditure to building and construction, GED= government expenditure to education, GH= government expenditure to health, GS= government expenditure to security, and GTR= government expenditure to transportation,

$K - 1 =$ lag length reduced by 1, $\lambda_1 - - - - - \lambda_6$

= Constant terms of each innovation,

$\delta_1 - - - - -$

- δ_6 short run coefficient of the model's adjustment long run equilibrium,

$\gamma_1 - - - - - \gamma_6$ speed of adjustment parameter with a negative sign, ECT_{t-1}

= lagged information of error term from co

- integrating regression of the dependent variable, U_{it} = residual

A priori expectation

Based on the theoretical underpinning of this study, this study expects that government expenditure to the named sectors should have a negative sign with a significant level that is below 5% or equal 5%. Mathematically, this can be expressed as $GBC < 0$; $GED < 0$; $GH < 0$; $GS < 0$; and $GTR < 0$.

Sources and Method of Data Collection

The data for this study are secondary data. Data were obtained from the Central Bank of Nigeria (CBN) and United Nations Educational, Scientific, and Cultural Organisation (UNESCO) databases.

Estimation Methods

The study estimated the specified model using both Johansen cointegration and Vector Auto Regression methods.

Analysis and Interpretations

Table 1: Summary of Stationary Test

Variables	KPSS 1 st	ADF Level Difference	ADF 1 st	KPSS Level Difference
RPCI	-1.593	-2.976**	0.604**	0.144
GBC	1.064	-6.872**	0.633**	0.253
GED	1.006	-5.769**	0.739**	0.436
GH	1.969	-6.164**	0.717**	0.412
GS	2.601	-4.236**	0.630**	0.547
GTR	-2.762	-4.724**	0.567**	0.429
ADF Critical Value at 5% = - 2.95		KPSS Critical Value at 5% = 0.463		

** indicates that variables are stationary and significant at 5%

Also Schwarz Information Criterion (SIC) is used to select the optimal lag length

Source: Author’s estimation using E views 9

Table 1 presents the unit root test of Stationarity, and the Augmented Dickey–Fuller (ADF), the Kwiatkowski- Phillips- Schmidt- Shin (KPSS)

tests are employed. Based on ADF test results, all the variables are stationary at first difference because their calculated values are greater than the 5% critical value of -2.95 and are integrated of the order I(1). For the KPSS test results, all variables- RPCI, GBC, GED, GH, GS, GTR are found to be stationary at level, and are integrated of order I(0). The stationarity of variables at first difference, hereby satisfies the necessary condition for the use of VAR or VECM. However, prior to the use of any of these estimations, there is need to establish whether the variables are cointegrated. Hence, the study employed Johansen Cointegration to determine this.

Table 2: Summary of Johansen Cointegration Result Test

Hypothesised No. of CE(s)	Eigen value	Trace Statistic	0.05 Critical Value	Prob**
None*	0.885	147.1	95.75	0.000
At most 1*	0.605	75.82	69.82	0.015
At most 2	0.510	45.17	47.86	0.088
At most 3	0.306	21.62	29.80	0.320
At most 4	0.236	9.567	15.49	0.316
At most 5	0.020	0.669	3.841	0.413
Hypothesised No. of CE(s)	Eigenvalue	Maximum- Eigen Statistic	0.05 Critical Value	Prob**
None*	0.885	21.76	40.08	0.000
At most 1	0.605	30.66	33.88	0.116
At most 2	0.510	23.55	27.58	0.151
At most 3	0.306	12.05	21.13	0.543
At most 4	0.236	8.898	14.26	0.295
At most 5	0.020	0.669	3.841	0.413

Note: * indicates cointegrating equations

Source: Author's estimation using Eviews 9

The result of the Johansen cointegration test indicates that there exists an equilibrium relationship among the variables, based on the asterisked rows in Table 2. The result indicates that the trace statistic reveals that there are 2 co-integrating equations, and the maximum-eigen statistic shows 1 cointegrating equation. This calls for the rejection of the null hypothesis of no cointegration in favour of the alternative hypothesis of co-integration. Therefore, the study submitted that a long-run relationship exists between dependent (HI) and independent variable (GEXP). This, therefore, suggests the use of vector error correction model (VECM) as the main estimation model.

Table 3: Summary of Normalised Johansen Co-Integration Test

Dependent Variable: HI			
Variables	Coefficients	Standard Error	t-Statistic
GBC	-0.0015	0.0002	-6.3958**
GED	-0.0002	0.0001	-1.4214
GH	-0.0021	0.0002	-8.85**
GS	0.0014	0.0002	8.7188**
GTR	0.0001	0.0004	0.2974

Note: ** denotes a significance level at 1%

Source: Author's estimation using E views 9

In the result shown in Table 3, headcount index (HI), capturing poverty incidence is positioned as the dependent variable, while GBC, GED, GH, GS, and GTR are the independent variables in the model. In the long-run government expenditure on building and construction (GBC) and government expenditure on health (GH) have positive impacts on poverty incidence, while government expenditure on security (GS) has a negative impact on poverty incidence on average *ceteris paribus*. The coefficients are statistically significant at 1% level hence, the null hypothesis of no cointegration is rejected against the alternative of a cointegrating relationship in the model.

Table 4: Summary of VECM Short-run Test

Dependent Variable: ΔHI			
Variable	Coefficient	Standard Error	t-Statistic
C	1815.407	2138.12	0.84907
ECT_{t-1}	-0.01600	0.00400	-4.1300**
ΔHI_{t-1}	-0.52700	0.18900	-2.7910**
ΔGBC_{t-1}	3.59E-05	6.6E-05	0.5410
ΔGED_{t-1}	-0.27700	0.12200	-2.2680**
ΔGH_{t-1}	0.79100	0.22500	3.5210**
ΔGS_{t-1}	7.30E-06	8.0E-05	0.0910
ΔGTR_{t-1}	0.00013	0.00014	0.8901
Diagnostic Test		Statistic	Prob.
R ²		0.7495	
Adjusted R ²		0.6793	
F-Statistic		10.687	0.0003**
Vec LM Serial Correlation		30.7927	0.7144**
Vec Heteroskedasticity		351.7145	0.1170**
J-B Normality		2.9349	0.9958**

* denotes statistical significance at 5% level

Source: Author's estimation using E views 9

Table 4 indicates the VECM result having deduced that a relationship exists between government spending and poverty incidence in Nigeria. The error correction term value (ECT) of about -0.016 indicates that the previous year's deviation from long-run equilibrium is corrected in the current period at an adjustment speed of 1.6% annually. For the government expenditure on education coefficient, a percent change in GED is associated with 27.7% decrease in headcount index on average *ceteris paribus* in the short-run. A decrease in the headcount index is an indication that improvement in government spending on education could reduce poverty incidence in Nigeria. By implication, the more a government pursues human capital enhancing

policies, which possibly will result in higher productivity, the more increase in the economic growth, which in turn contributes to the poverty reduction efforts in Nigeria.

On the contrary, a change in government spending on health (GH) results in about 79.1% increase in the poverty headcount index on average *ceteris paribus* in the short-run. This does not conform to *a priori expectation*. The inappropriate sign of GH is an indication that government expenditure on health does not have the desired impact relating to poverty reduction in Nigeria. By implication the productivity of the healthier labour force has not yielded the expected negative influence on poverty, and as such this hampers the pace at which the economy grows. Nevertheless, government spending on building and construction, security, and transportation have no statistically significant productivity impacts, and hence do not contribute to the solution to the poverty problem in Nigeria.

The R^2 which tells how appropriate the sample regression line fits the data, shows from the result in Table 4 that the R^2 statistic is about 0.75. This means that 75% variations in poverty incidence in Nigeria is attributable to government spending proxied by government expenditure on building and construction, on education, on health, security, and government expenditure on transportation. The Vec LM serial correlation statistics of 30.7927 at lag 2 shows absence of serial correlation as the probability is higher than 5% significance level. Likewise, the Vec heteroskedasticity statistic in the result shows that the model is fit. The F- statistic of 10.687 as shown in Table 4 validates the joint contributions of all independent variables in explaining poverty incidence in Nigeria for the period of study. This implies that the entire model is significant. The Jarque-Bera statistic of 2.9349 indicates that the residuals in the model are normally distributed since its probability of 0.9958 is higher than the 5% level.

Table 5: Summary of VECM Long-run Estimates

Dependent Variable: HI			
Variable	Coefficient	Standard Error	t-Statistic
GBC _{t-1}	-0.0015	0.0024	-6.5200**
GED _{t-1}	-0.0002	0.0001	-1.4400
GH _{t-1}	-0.0021	0.0002	8.7947**
GS _{t-1}	-0.0014	0.0002	-8.4617**
GTR _{t-1}	0.0001	0.0004	0.2996
C	-228873.7		

****denotes statistical significance at 5% level**

Source: Author's estimation using E views 9

Table 5 indicates the long-run error correction result on the significant influence of government expenditure on poverty incidence in Nigeria. The ECM coefficients of GBC, GH, and GS have the negative sign as required, and also significant at 5% level since the t-statistics are respectively higher than 2 critical value. This implies that there is quick adjustment to equilibrium in poverty incidence whenever changes occur in the respective variables.

Evidently, from the results in Tables 2, 3, 4 and 5, the study rejects the null hypothesis in favour of the alternate hypothesis that government expenditure does significantly affect poverty incidence in Nigeria. This is because, from the long run estimation, the study found that GBC of -0.0015, GED of -0.0002, GH of -0.0021 and GS of -0.0014 had negative effects on headcount_(poverty), while GTR of 0.0001 had positive effect on-headcount. Furthermore, the study revealed that GBC, GH, and GS impacted negatively and significantly on headcount, hence, contributing to poverty reduction both in the short term (GED) and long term (GED, GH, GS, GBC).

Summary of Findings

So far, this research study collectively investigates the effect of government expenditure on poverty reduction in Nigeria over the period of 1986–2022. The study arrived at some key findings: The Johansen cointegration result revealed that a long-run relationship exists between government expenditure

and poverty in Nigeria. This long-run relationship established between these variables formed the basis for the estimation of the vector error correction model (VECM). The VECM speed of adjustment coefficient indicates that there is quick adjustment to equilibrium regarding poverty incidence whenever changes occur in the respective variables. Additionally, government expenditure on education has a negative effect on poverty incidence which is being proxied by headcount index, both in the short and long run. This implies that, the more the government pursues human capital enhancing policies, the more it will result in higher productivity, increasing the economic growth, and hence contributing to the poverty reduction efforts in Nigeria. The government spending on health was found having a positive effect on the poverty headcount index in the short-run, but in the long-run, government spending on health brings about reduction in poverty incidence. Government spending, in the short run, does not have the desired impact relating to poverty reduction in Nigeria, but in the long run, it does. Nevertheless, government spending on building and construction, security, and transportation have no statistically significant productivity impacts on poverty incidence in the short-run, and hence do not contribute to the solution to the poverty problem in Nigeria in the short run, but in the long-run, it does contribute in bringing down poverty. Essentially, all the government expenditure proxies, except for government expenditure on roads, have negative signs in the long run, implying that they bring about poverty reduction in the long-run.

Discussion of Findings

The study on the relationship between government expenditure and poverty reduction in Nigeria was empirically analysed. The results revealed that all proxies for government expenditure, except for government expenditure on road transportation, displayed negative signs. This signifies their contribution to poverty reduction in the long run, suggesting a negative correlation between government expenditure and poverty reduction. In essence, higher government expenditure leads to a lower population in Nigeria living below the poverty line.

The reasons for this are not far-fetched, because investments in sectors such as education, health, security, and construction are pivotal for economic development. Enhanced economic development translates to improved living standards and reduced poverty among the populace. As the government increases its spending or expenditure on these sectors, it fosters better access to healthcare services, enhances human capital by equipping individuals with the necessary skills and knowledge for better job prospects and higher income, creates a stable and conducive environment for growth, and improves infrastructural development in Nigeria.

Conversely, the positive signs of the effect of government expenditure on road transportation in short and long run could stem from various factors, which may include inadequate allocation of funds to different road projects in the country or state, lack of formal road transportation infrastructure, corruption, and inefficiency, among others, which undermine the intended benefits of road transportation in reducing poverty in Nigeria. However, it is important to note that, despite the empirical analysis, the real-life situation in Nigeria contradicts these findings. In Nigeria, poverty has actually increased despite the rise in government expenditure.

Based on the theoretical foundation of this study, which argues that the government is responsible for providing a safety net and ensuring the well-being of its citizens, it is crucial to emphasise the importance of government intervention and expenditure on social programmes and services to address poverty, inequality, and social issues. Therefore, the findings of this study align with the *a priori expectation* that government expenditure in Nigeria has a negative impact on poverty.

Moreover, the empirical findings of this study support the findings reached by Okulegu (2013), who found that increased government expenditure through the ACGS (Assisted Conditional Grants Scheme) reduces poverty. Similarly, it aligns with the findings of Osundina, Eber, and Osundina (2014), who determined that government expenditure on health negatively affects poverty reduction in Nigeria. Additionally, it corroborates the findings of Oriavwote and Ukawe (2018), who discovered an inverse relationship between government spending on the education sector and poverty in Nigeria.

Conclusion

Arising from the findings of this study, it is concluded that while government expenditure to building and construction, education, health and security had an inverse effect on poverty, government expenditure on transportation has a positive effect on poverty in Nigeria.

Recommendations

After analysing the impact of government expenditure on poverty reduction in Nigeria, the study recommends a multifaceted approach to address the persistent challenge of poverty in the country. Firstly, it is imperative for the government to prioritise infrastructure development, particularly in road construction and public transportation. By investing in these critical areas, the government can alleviate the mobility constraints faced by citizens, thereby reducing the financial burden associated with private commercial vehicles. This strategic move not only fosters easier access to essential services but also holds the potential to significantly mitigate poverty across the nation.

Furthermore, while government expenditure on education is acknowledged to have a long-term impact on poverty reduction, the study finds that its current statistical significance is limited. Therefore, it is recommended that the government redouble its efforts to meet the agreed-upon allocation of 15% to the educational sector, as advocated by African nations. Additionally, there is an urgent need for educational reforms, particularly focusing on tertiary institutions. Consistent review and adaptation of the curriculum to address local demands and needs are essential. By tailoring education to align with the requirements of local industries, citizens would gain access to quality education and acquire the requisite skills vital for addressing socioeconomic challenges, thereby bolstering the human capital necessary for sustainable national development.

Lastly, prioritising primary healthcare in diverse localities is paramount. A collaborative effort between federal and state governments is crucial to enhancing primary healthcare services. This collaborative approach would ensure that vulnerable populations residing in both rural villages and urban areas have equitable access to affordable healthcare services. By ameliorating the adverse effects of poverty through improved healthcare

access, the government can make significant strides towards enhancing the overall well-being of its citizens and fostering a healthier, more prosperous society.

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