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Institutional Quality and Poverty Reduction in Nigeria

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Abstract: ***The study examined the relationship between institutional quality and poverty reduction in Nigeria from 1990 to 2024. Poverty headcount is the predicted in the study, while the predictors included institutional quality, gross domestic product per capita and unemployment rate. However, institutional quality was estimated as a single composite index using the Worldwide Governance Indicators (WGI) components from its six dimensions – voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. Data for the study were culled from the publications and reports from Worldwide Governance Indicators (WGI), World Bank (WDI), International Monetary Fund (IMF), and National Bureau of Statistics. The error correction model (ECM) diagnostics was employed in the data analysis having established a long run relationship among the variables from the Johansen-Hendry-Juselius Cointegration Test. The short-run results reveal that institutional quality and GDP per capita significantly reduce poverty in Nigeria, while unemployment and past poverty changes exert no meaningful effect. The negative and significant error correction term confirms the existence of a stable long-run equilibrium relationship among the variables, with nearly half of deviations corrected annually. Hence, this study recommends that to effectively reduce poverty in Nigeria, policies should focus on strengthening institutional quality, ensuring transparency, and promoting inclusive, broad-based economic growth that creates productive and well-paying jobs. In addition, consistent and long-term policy reforms are essential to sustain poverty reduction and maintain macroeconomic stability.***

Keywords: ***Poverty Headcount, Institutional Quality, GDPPC, Unemployment***

I. INTRODUCTION

1.1 Background to the Study

Nigeria's poverty challenge remains profound and multidimensional. The National Bureau of Statistics' (2022) Nigeria Multidimensional Poverty Index (MPI) survey reported about 133 million Nigerians living in multidimensional poverty, with deprivations concentrated in health, education, living standards, and work/insecurity, and with marked rural–urban and state disparities. The 2022 MPI established a national baseline to enable biennial tracking and LGA-level follow-ups, underscoring the scale and geographic heterogeneity of poverty in the country.

Macroeconomic developments since 2023 have further shaped poverty dynamics. Major reforms - including fuel subsidy removal (May 2023) and exchange-rate unification (June 2023) - aimed to correct long-standing distortions but initially transmitted as higher prices and real-income squeezes for poor and near-poor households. The World Bank's Nigeria Development Update (2025) notes that while growth strengthened in 2024, elevated inflation and living-cost pressures persisted, necessitating targeted social protection to cushion vulnerable groups. Against this backdrop, the quality of institutions has re-emerged as a central explanatory factor for poverty reduction - or its absence. on effectiveness, rule of law, and corruption control, dimensions closely linked in the literature to service delivery and inclusive growth. Perceptions-based measures echo these institutional constraints. Nigeria's 2024 Corruption Perceptions Index (CPI) score was 26/100, ranking 140th of 180 countries - an incremental improvement from 2023 but still indicative of serious integrity challenges that can dilute antipoverty spending and deter private investment. Afrobarometer's most recent Nigeria releases likewise show eight in ten citizens saying corruption worsened over the past year, and widespread disapproval of policies perceived to exacerbate hardship, highlighting a trust deficit that can undermine policy effectiveness (Transparency International, 2025).

Regional governance assessments point to broader systemic headwinds. The Ibrahim Index of African Governance (2024 report, reflecting 2023 data) places Nigeria mid-pack but on a deteriorating trajectory in several sub-categories, notably security & safety and participation/rights - domains whose fragility amplifies vulnerability and disrupts livelihoods,

particularly for the rural poor. A growing body of Nigeria-focused empirical work links institutional quality to poverty outcomes through multiple channels. Recent studies find that better control of corruption, political stability, and accountability are associated with lower poverty (directly, and indirectly via financial inclusion, human capital, and growth).

According to Akande, Abdulkakareem & Olohunlana (2024), while Yakubu & Aladejare (2024) observed that institutions materially affect poverty and inequality; and new evidence (Saidi, Labidi & Ochi, 2024) shows institutions shape human capital accumulation - an essential pathway out of poverty. These build on wider Sub-Saharan Africa analyses that connect governance quality to poverty and inequality dynamics. International monitoring since 2024–2025 also emphasizes that growth alone has been insufficient to dent poverty meaningfully in the region without governance reforms that raise state capacity, improve public-finance integrity, and expand effective safety nets. In Nigeria, policy packages coupling macro-reforms with strengthened institutions - procurement transparency, cash-transfer targeting fidelity, subnational service-delivery accountability - are repeatedly highlighted as necessary for translating growth into broad-based poverty reduction (World Bank, 2025).

In sum, the persistence of poverty in Nigeria is not merely a function of income growth shortfalls; it reflects the quality of institutions that mediate how resources are mobilized, policies are implemented, and services reach households. This study is therefore motivated by the hypothesis that improvements in institutional quality - particularly government effectiveness, regulatory quality, rule of law, and corruption control - are pivotal levers for durable poverty reduction in Nigeria's current reform environment.

1.2 Statement of the Problem

Nigeria faces persistently high poverty despite periods of economic growth and abundant resources, with over 133 million citizens living in multidimensional poverty as of 2022 (NBS, 2022). Weak institutional quality manifested in poor governance, corruption, and ineffective service delivery has limited the ability of growth and social programs to translate into poverty reduction (World Bank, 2024; Transparency International, 2024). At the same time, stagnant GDP per capita and persistently high unemployment, especially among youth, have constrained household incomes and reinforced poverty traps (IMF, 2024; World Bank, 2025). The central problem is that poverty remains widespread in Nigeria because weak institutions undermine the poverty-reducing potential of growth and employment, raising the critical question of whether improving institutional quality can enhance the effectiveness of economic drivers in reducing poverty sustainably.

1.3 Objectives of the Study

The general objective of the study is to examine the relationship between institutional quality and poverty reduction in Nigeria, considering the roles of GDP per capita and unemployment. However, the specific objectives are:

1. To assess the effect of institutional quality on poverty reduction in Nigeria.
2. To evaluate the impact of GDP per capita on poverty reduction in Nigeria.
3. To analyze the influence of unemployment on poverty reduction in Nigeria.

1.4 Research Questions

1. What is the effect of institutional quality on poverty reduction in Nigeria?
2. How does GDP per capita influence poverty reduction in Nigeria?
3. To what extent does unemployment contribute to poverty reduction in Nigeria?

1.5 Research Hypotheses

The following hypotheses are in their null forms:

1. H_{01}: Institutional quality has no significant effect on poverty reduction in Nigeria.
2. H_{02}: GDP per capita has no significant impact on poverty reduction in Nigeria.
3. H_{03}: Unemployment has no significant effect on poverty headcount in Nigeria.

1.6 Significance of the Study

This study is significant because it highlights the role of institutional quality in shaping poverty outcomes in Nigeria, beyond the effects of GDP per capita and unemployment. By examining whether strong institutions enhance the poverty-reducing impact of

growth and employment, the research contributes to existing literature and provides practical insights for policymakers, development partners, and stakeholders seeking to design governance-sensitive poverty reduction strategies aligned with the Sustainable Development Goals (SDGs).

1.7 Scope of the Study

The study covers Nigeria from 1990 to 2024, focusing on the relationship between institutional quality, GDP per capita, unemployment, and poverty headcount using national-level time series data from sources such as NBS, World Bank, IMF, and WGI. It adopts an econometric approach to analyze how institutional quality directly affects poverty and moderates the impact of economic variables, while limiting its scope to national trends rather than regional or household-level analysis.

II. LITERATURE REVIEW

2.1 Conceptual Framework

2.1.1 Institutional Quality

Institutional quality embodies the strength and effectiveness of mechanisms such as governance structures, rule of law, regulatory systems, and anti-corruption measures that shape policy delivery and public trust. It is commonly measured using indicators such as government effectiveness, rule of law, regulatory quality, voice and accountability, political stability, and control of corruption (World Bank, 2024). Strong institutions foster accountability, efficient resource allocation, and credible policy implementation, which are essential for economic stability and poverty reduction. Conversely, weak institutions allow corruption, policy inconsistencies, and mismanagement, which hinder the delivery of public goods and limit the impact of economic growth on poverty alleviation. For example, Nigeria's Bureau of Public Service Reforms (BPSR) has been spearheading civil service capacity building and performance improvement initiatives since 2024, aiming to address long-standing inefficiencies in public service delivery. Despite these efforts, pervasive corruption continues to undermine development outcomes in Nigeria, draining billions in revenue and disempowering institutions crucial for poverty reduction (Belda-Mullor, 2018; Ijewereme, 2015).

2.1.2 GDP Per Capita

GDP per capita measures the average income per person in a country and is widely used as a proxy for economic well-being. In theory, increases in GDP per capita should translate into higher living standards and poverty reduction. However, in Nigeria, growth has often been non-inclusive, with gains concentrated among elites due to weak institutions and resource mismanagement. This suggests that institutional quality may condition whether GDP growth benefits the poor or simply widens inequality. GDP per capita, a widely used proxy for average income and standard of living, remains low in Nigeria. According to the World Bank's 2025 Nigeria Development Update, Nigeria's GDP per capita is US$6,207, ranking 146th out of 191 countries (Guardian Nigeria, 2024). However, IMF data from late 2024 reveals a dramatic decline in real-income per person—from US$3,223 in 2014 to just US$877 in 2024—reflecting persistent structural challenges and weak productivity in the economy (Tribune Online, 2025).

2.1.3 Unemployment Rate

Unemployment reflects the share of the labor force without jobs but actively seeking work. High unemployment reduces household income, exacerbates poverty, and undermines social stability. In Nigeria, persistent youth unemployment and underemployment have become structural challenges that intensify poverty levels despite economic reforms. Institutional weaknesses—such as poor policy coordination, limited labor-market reforms, and corruption in job-creation schemes—often exacerbate the unemployment-poverty nexus. According to the Nigerian Economic Summit Group (NESG), unemployment rose to 5.3% in Q1 2023 (with underemployment at 10.6%), contributing to a high misery index of 36.9%, signaling widespread economic hardship. While there was a slight easing to 4.3% in Q2 2023, the misery index remained elevated at 38.3%, indicating that many optimistic metrics mask ongoing hardship for the poorest (NESG, 2024).

2.1.4 Poverty Reduction (Poverty Headcount)

Poverty reduction refers to the sustained decline in the proportion of the population living below a defined poverty threshold. In this study, poverty is measured through the poverty headcount ratio, which captures the percentage of Nigerians living below the national

or international poverty line. Reducing poverty is not only an economic challenge but also an institutional one, as the effectiveness of government policies and social interventions depends on governance quality. The poverty headcount - a measure of the share of the population living below a poverty threshold - remains deeply concerning in Nigeria. The poverty rate was estimated at a staggering 46% in 2023, with about 19 million Nigerians experiencing food insecurity during the IMF's 2024 Article IV consultation (IMF, 2024). Additionally, as of 2023, approximately 87 million Nigerians (equivalent to 38.9% of the population) were living below the poverty line - making Nigeria second globally in poor population size (World Bank, 2024)

2.1.5 Linking the Concepts

The conceptual linkage in this study posits that institutional quality, GDP per capita, and unemployment collectively shape poverty outcomes in Nigeria. While higher GDP per capita and lower unemployment are expected to reduce poverty, weak institutions may diminish these effects by creating leakages, misallocating resources, or failing to deliver inclusive growth. Thus, institutional quality is not only a direct determinant of poverty but also a moderating factor that determines whether economic progress translates into sustainable poverty reduction.

2.2 Theoretical Review

2.2.1 New Institutional Economics Theory

New Institutional Economics (NIE), pioneered by Douglass North (1990), emphasizes institutions, formal rules (laws, constitutions) and informal norms (customs, traditions) as the "rules of the game" that shape economic behavior by reducing transaction costs and uncertainty. NIE argues that high-quality institutions, like secure property rights and effective governance, foster investment, innovation, and inclusive growth, which are critical for poverty reduction. Poor institutions, conversely, create poverty traps through inefficiencies, corruption, or elite capture, as seen in many developing nations where historical path dependence locks in dysfunctional systems. NIE highlights how transaction costs, property rights, and adaptive efficiency determine economic outcomes. North's work, notably *Institutions, Institutional Change and Economic Performance* (1990), shows that prosperous economies evolve adaptive institutions, while poor ones suffer from rigid, extractive systems. His later framework in Violence and Social Orders (2009) with Wallis and Weingast distinguishes between Limited Access Orders (elite-dominated, poverty-perpetuating) and Open Access Orders (inclusive, growth-promoting), underscoring that institutional reforms are key to breaking poverty cycles.

2.2.2 Theory of Inclusive vs. Extractive Institutions

The theory of inclusive versus extractive institutions, developed by Daron Acemoglu, Simon Johnson, and James Robinson (2001; 2012), posits that economic prosperity and poverty reduction depend on whether a society's institutions are inclusive - distributing power and opportunities widely - or extractive, concentrating them among elites. Inclusive institutions, like democratic governance and secure property rights, promote innovation, market participation, and broad-based growth, lifting populations out of poverty. Extractive institutions, such as authoritarian regimes or monopolistic systems, stifle progress by prioritizing elite rents, perpetuating inequality and poverty. Historical events, like colonial policies, shape these institutional types, with lasting impacts on development. For instance, Acemoglou, Johnson & Robinson's The Colonial Origins of Comparative Development (2001) shows how settler mortality influenced whether colonies developed inclusive or extractive systems. Their book Why Nations Fail (2012) illustrates that inclusive institutions drive prosperity, while extractive ones trap nations in poverty, making institutional reform critical for sustainable poverty alleviation.

2.2.3 Relevance to Poverty Reduction

New Institutional Economics (NIE) directly links institutional quality to poverty alleviation by arguing that growth alone is insufficient without inclusive institutions. In poor countries, dysfunctional institutions - such as corrupt governance or insecure land rights - create poverty traps: they discourage private investment, limit access to credit and markets, and exacerbate inequality. For instance, North attributed Third World poverty to institutional barriers that prevent efficient resource allocation and incentive alignment. Empirical applications of NIE, such as in development policy, suggest reforms like

strengthening judicial independence or anti-corruption measures can enhance institutional quality, leading to pro-poor growth. Similarly, inclusive institutions reduce poverty by creating environments where economic growth benefits the broader population, not just elites. They support policies like education access, labour market flexibility, and property rights, which empower the poor to participate in markets. Extractive institutions, conversely, exacerbate poverty by concentrating resources and suppressing innovation, often through corruption or elite capture.

2.3 Empirical Review

Terpase & Kpelai (2024) investigated the symmetric (linear) and asymmetric (non-linear) effect of political stability on sustainable development in Nigeria between 1999 and 2021. The study employed both Autoregressive Distributed Lag (ARDL) and Non-Autoregressive Distributed Lag (NARDL) techniques for estimation purpose. The study concluded that political stability triggers sustainable development in Nigeria during the study period. The study suggested that government policies related to economic, social, and environmental issues should be consistent and predictable since frequent policy changes can disrupt sustainable development.

Makar, Ngutsav, Ijirshar & Ayga (2023), examined the impact of corruption on economic growth in Nigeria from 1986 to 2019. The study used the Johansen cointegration test and vector error correction tests for the data analysis. The study shows that increases in the level of corrupt practices significantly inhibit economic growth in Nigeria in the long run. The study recommends that in fighting corruption, Nigeria requires good and virtuous leaders who are honest with integrity, discipline and trustworthiness, the creation of employment, and the upgrading of Nigeria police among others.

Akinlo, Arowolo & Zubair (2022) conducted an analysis spanning from 1984 to 2020 and examined the impact of political instability on economic growth in Nigeria. They employed the Autoregressive Distributed Lag (ARDL) technique to explore both short and long-term relationships. Their findings indicated a negative effect of political instability on economic growth in both the short and long run. Government expenditure was shown to contribute positively to economic growth in both time frames, while gross capital formation and financial development had detrimental effects. These findings underscore the need for addressing political instability to achieve sustained economic growth.

The influence of political stability on foreign direct investment in Nigeria was studied by Okeke and Kalu (2020) using annual time series data from 1970 to 2015. Employing the Auto Regressive Distributed Lag (ARDL) model, they reported a significant impact of political stability, alongside other variables, on foreign direct investment in Nigeria.

In a panel study, Mohammad, Arisman & Harahap (2020) looked at the impact of exports and political stability on economic growth, using data from 2004 to 2018 across D-8 Organization for Economic Cooperation countries. The panel regression results showed that the volume of exports did not significantly contribute to economic growth, while political stability exhibited a positive influence.

Hoinaru, et al. (2020) explored the manner in which corruption and the shadow economy affect economic and sustainable growth. The study discovered a negative relationship between corruption and the shadow economy on the one hand and economic and sustainable growth on the other, using pooled OLS, fixed-effects and random-effects (GLS).

2.4 Summary of Literature Review

Empirical findings across countries suggest that institutional quality - measured by governance effectiveness, rule of law, political stability and absence of violence, voice and accountability, regulatory quality, and control of corruption - plays a decisive role in shaping poverty outcomes. Strong institutions create an enabling environment for inclusive growth, efficient resource allocation, and effective poverty reduction policies, while weak institutions allow rent-seeking, mismanagement, and inequality to thrive (North, 1990; Acemoglu & Robinson, 2012; World Bank, 2024). Similarly, unemployment remains a critical driver of poverty in developing economies, as labour market rigidities and poor governance structures often limit the poverty-reducing impact of growth (ILO, 2023; NBS, 2023).

The theoretical framework for this study is anchored on the New Institutional Economics (NIE) theory, which extends beyond traditional neoclassical economics by emphasizing the role of institutions - both formal (laws, regulations) and informal (norms, practices) - in shaping economic performance and development outcomes (North, 1990). NIE posits that institutional arrangements determine transaction costs, policy effectiveness, and ultimately, poverty reduction. In the Nigerian context, where institutional inefficiencies and governance weaknesses have historically undermined economic reforms, the NIE framework provides a robust lens to assess how institutional quality interacts with growth and employment in influencing poverty outcomes.

In summary, the literature establishes that poverty reduction cannot be explained solely by economic growth or labour market outcomes. Instead, the institutional environment within which these variables operate critically determines their effectiveness. Thus, guided by the New Institutional Economics framework, this study fills an important gap by empirically investigating the extent to which institutional quality conditions the relationship between economic growth, unemployment, and poverty reduction in Nigeria from 1990 to 2023.

III. RESEARCH METHODOLOGY

3.1 Research Design

This study adopts a quantitative research design, relying on secondary time-series data to empirically examine the relationship between institutional quality and poverty reduction in Nigeria. The choice of a quantitative approach is motivated by the need to establish measurable associations between variables and to ensure replicability, while the time-series framework captures long-run and short-run dynamics over the study period (1990–2024).

3.2 Sources of Data

The study utilizes annual secondary data sourced from reputable international and national institutions. Poverty headcount data is obtained from the World Bank World Development Indicators (WDI) and the National Bureau of Statistics (NBS). Institutional quality indicators are derived from the Worldwide Governance Indicators (WGI) compiled by the World Bank. Data on GDP per capita and unemployment rate are obtained from the World Bank (WDI), International Monetary Fund (IMF), and NBS reports. The period 1990–2024 is selected to capture contemporary institutional reforms, economic shocks, and poverty dynamics in Nigeria.

3.3 Model Specification

The functional relationship of the study is expressed as:

POVt = f(INSTt, GDPpct, UNEMPt) (1)

Where:

POVt = Poverty Headcount Ratio

INSTt = Institutional Quality Index

GDPpct = GDP per capita (proxy for economic growth)

UNEMPt = Unemployment rate

The econometric form of the model is specified as:

$$POV_t = \beta_0 + \beta_1 INST_t + \beta_2 GDPpc_t + \beta_3 UNEMP_t + \mu_t \quad (2)$$

The model is standardized by transforming Gross domestic product per capita (GDPpc) into natural logarithm to curtail the effects of spurious regression. Thus:

$$POV_t = \beta_0 + \beta_1 INST_t + \beta_2 LNGDPpc_t + \beta_3 UNEMP_t + \mu_t \quad (3)$$

β_0 = constant term

$\beta_1, \beta_2, \beta_3$ = parameters to be estimated

μ_t = error term

LN = natural logarithm

3.4 Estimation Technique

Given the time-series nature of the data, the study adopts the error correction model (ECM). An Error Correction Model (ECM) is a statistical tool used to analyze time series data where variables are non-stationary but cointegrated, meaning they share a long-run equilibrium relationship despite short-term deviations. ECMs estimate how quickly a dependent

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variable returns to equilibrium after changes in other variables, capturing both short-term dynamics and long-term relationships. Therefore, the ECM estimation is stated thus:

$$\Delta y_t = \alpha + \gamma z_{t-1} + \beta \Delta x_t + v_t \quad (4)$$

Where:

Δy_t and Δx_t are the first differences of the variables.

γ = is the error correction coefficient, indicating the speed of adjustment to equilibrium (should be negative and significant for a valid ECM).

β = captures short-term dynamics.

3.5 Justification of Methodology

The Error Correction Model (ECM) is justified in this study because it captures both the short-run dynamics and the long-run equilibrium relationship between institutional quality, GDP per capita, unemployment, and poverty reduction. Since the variables are integrated of order one and cointegrated, the ECM provides a consistent framework to correct short-run disequilibria while ensuring convergence to the long-run poverty–institutional nexus. This makes it particularly suitable for analyzing Nigeria's context, where institutional and economic shocks often cause deviations from long-run poverty reduction paths.

3.6 A priori Expectation

β_1 (Institutional Quality → Poverty headcount): expected sign = − (negative).

Rationale: Better institutional quality (stronger rule of law, less corruption, higher government effectiveness) should improve public service delivery and reduce leakages, so the poverty headcount is expected to fall as institutional quality rises.

β_2 (GDP per capita → Poverty headcount): expected sign = − (negative).

Rationale: Higher GDP per capita signals greater average income and economic capacity; ceteris paribus this should reduce the proportion of people below the poverty line.

β_3 (Unemployment → Poverty headcount): expected sign = + (positive).

Rationale: Higher unemployment reduces household incomes and access to basic needs, thus increasing the poverty headcount.

Interaction / Moderation (INST × GDPpc): expected sign = − (negative) if included.

Rationale: Institutional quality is expected to strengthen the poverty-reducing effect of GDP per capita — i.e., when institutions are better, growth translates more effectively into poverty reduction, so the marginal effect of GDPpc on poverty becomes more negative.

Error-correction coefficient (λ in ECM): expected sign = − (negative) and statistically significant.

Rationale: After a short-run shock, the poverty headcount is expected to converge back toward the long-run equilibrium; a negative λ indicates this speed of adjustment.

Therefore, we a priori expect institutional quality and GDP per capita to reduce poverty, unemployment to increase poverty, and institutional quality to amplify the poverty-reducing impact of GDP per capita; deviations from long-run equilibrium are expected to dissipate ($\lambda < 0$).

3.7 Unit Root Test

To fully explore the data generating process, we first examined the time series properties of model variables using the Augmented Dickey- Fuller

The ADF test regression equation with constant is:

$$\Delta Y_T = \alpha_0 + \alpha_1 Y_{T-1} + \sum_{j=1}^{k} a_j \, \Delta Y_{T-1} + \varepsilon_T \quad (5)$$

where Δ is the first difference operator εT is random error term that is iid k = no of lagged differences Y = the variable. The unit root test is then carried out under the null hypothesis $\alpha = 0$ against the alternative hypothesis of $\alpha < 0$.

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3.8 Test of Significance

The significance was tested at 5% level of significance using the coefficients of the independent variables and following the Rule: Reject the Null hypothesis if the t-prob is less than 0.05, otherwise accept the Null hypothesis when t-prob is greater than 0.05, i.e. Reject if t-prob <0.05, Accept if t-prob > 0.05

3.9 Test of Hypotheses

The Hypotheses were tested using the probability of f-statistics: Reject the Null hypothesis if the probability of f-statistics is less than the critical value (0.05), otherwise accept the Null hypothesis when critical value (0.05) exceeds probability of f-statistics.

IV. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Data Presentation

Table 4.1: Data for Institutional Quality & Poverty Reduction in Nigeria (1996-2024)

YEAR	POVERTY RATE (%)	INSTITUTIONAL QUALITY INDEX (SCORE)	GDP PER CAPITA (LCU)	UNEMPLOYMENT RATE (%)
1996	64.9	-1.16333	12.20821	4.13
1997	64.9	-1.12667	12.21113	3.98
1998	64.7	-1.01	12.21048	3.95
1999	64.5	-1.03333	12.18995	4
2000	64.5	-1.045	12.21214	3.96
2001	64.3	-1.11667	12.24247	3.91
2002	64.3	-1.24333	12.35768	3.68
2003	64.2	-1.23	12.40101	3.65
2004	55	-1.26667	12.46178	3.6
2005	54.8	-1.12667	12.49649	3.73
2006	52.3	-1.13	12.5277	3.76
2007	51.9	-1.13667	12.56381	3.8
2008	48.7	-1.05833	12.60142	3.8
2009	45.2	-1.16667	12.65085	3.77
2010	43.5	-1.185	12.69991	3.75
2011	43.5	-1.14	12.72361	3.77
2012	42.5	-1.13	12.73729	3.76
2013	42.5	-1.135	12.77473	3.71
2014	42.5	-1.18167	12.80949	3.9
2015	40.7	-1.04333	12.81031	4.14
2016	40.7	-1.05667	12.76929	4.5
2017	40.3	-1.04833	12.75301	4.83
2018	40.1	-1.08667	12.74893	5.07
2019	40.1	-1.095	12.74883	5.21
2020	40.1	-1.09833	12.70942	5.74
2021	40.1	-1.06167	12.72428	5.45
2022	56	-1.10167	12.73535	3.82
2023	56	-0.98333	12.74257	3.07
2024	56	-0.97624	13.73278	4.3

Sources: World Bank (WDI & WGI) National Bureau of Statistics, International Monetary Fund

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Table 4.2: Descriptive Statistics for Poverty Headcount, Institutional Quality, Log of GDP Per Capita, And Unemployment in Nigeria (1990-2024)

	POV	INST	LNGDPpc	UNEMP
Mean	51.17143	-1.114286	12.56508	4.087143
Median	50.3	-1.121667	12.67538	3.86
Maximum	64.9	-0.983333	12.81031	5.74
Minimum	40.1	-1.266667	12.18995	3.07
Std. Dev.	10.03482	0.069357	0.222043	0.618456
Skewness	0.274639	-0.313508	-0.632499	1.310179
Kurtosis	1.441955	2.6685	1.829432	3.957701
Jarque-Bera	3.184077	0.58688	3.465527	9.080712
Probability	0.20351	0.745694	0.176795	0.01067
Sum	1432.8	-31.2	351.8222	114.44
Sum Sq. Dev.	2718.837	0.12988	1.331184	10.32717
Observations	28	28	28	28

Source: Eviews 13 output

The descriptive statistics show that Nigeria's poverty headcount averaged 51.17% between 1990 and 2024, reflecting persistently high poverty with wide fluctuations over time. Institutional quality remained weak (mean = –1.11) and relatively stable, indicating little progress in governance. Log of GDP per capita recorded a mean of 12.56, suggesting modest income growth with limited variability, while unemployment averaged 4.09%, though with occasional spikes as indicated by its positive skewness and significant Jarque-Bera statistic. Overall, the data highlight enduring poverty, fragile institutions, slow income growth, and volatile unemployment as key features of Nigeria's socio-economic landscape.

The trend analysis reveals that Nigeria's poverty headcount remained persistently high, with fluctuations reflecting episodes of economic instability, structural adjustment, and recent downturns in real income. Institutional quality consistently stayed below zero, suggesting entrenched governance weaknesses such as corruption, weak rule of law, and ineffective public service delivery, with minimal signs of improvement over the years. GDP per capita (log-transformed) shows a relatively modest upward trend, driven largely by oil-sector performance and periods of macroeconomic stability, though its slow pace highlights limited structural transformation in the economy. In contrast, unemployment exhibited intermittent spikes, particularly during recessionary episodes and policy shocks, underscoring the vulnerability of Nigeria's labor market and its role in sustaining high poverty levels.

4.2 Data Analysis

4.2.1 Unit Root Test Result

The Augmented Dickey Fuller (ADF) unit root test is summarized in the Table 4.1 below. This test was carried out on each of the variables at 5% critical value.

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Table 4.3: Summary of the Unit Root Test Result

		ADF Test statistics			
Variable		**At Level**	**1st Difference**	**Decision**	**Order of Integration**
POV		-1.408600	-4.644470	Stationary at 1st difference	I(1)
INST		-2.481699	-5.528697	Stationary at 1st difference	I(1)
LNGDPpc		-1.790086	-2.244330	Stationary at 1st difference	I(1)
UNEMP		-0.013854	-2.768292	Stationary at 1st difference	I(1)
Critical Values	**1%**	*-3.699871*	*-3.711457*		
	5%	*-2.976263*	*-2.981038*		
	10%	*-2.627420*	*-2.629906*		

Source: Authors' Computation from E-Views 13 output (2025)

The above table (4.4) summarizes the Trace and Max-eigen statistics for the Johansen cointegration test. Both statistics show one cointegrating equation at 5% level. The criteria for decision here is that there must be at least one cointegrating equation to reject the null hypothesis of no cointegration. Since the Trace and Max-eigen statistics show one cointegrating equation, we therefore reject the null hypothesis and conclude that there is a long run relationship between institutional quality and poverty reduction in Nigeria.

4.2.3 ECM Short run Dynamics Analysis

The ECM captures the short-run dynamics as well as the long-run equilibrium relationship between cointegrated variables.

Table 4.5: Summary of the Short run ECM Estimates

VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
D(POV(-1))	-0.038578	0.216416	-0.178257	0.8605
D(INST)	-15.36570	6.815850	-2.254406	0.0369
D(LNGDPPC)	-72.66741	16.19204	-4.487849	0.0003
D(UNEMP)	1.063897	2.118465	0.502202	0.6216
ECM(-1)	-0.478633	0.200610	-2.385892	0.0282

Source: Eviews 13 Output

The short-run estimation results are presented in Table 4.5. The coefficient of the lagged change in poverty, (POV(-1)), is negative but statistically insignificant, implying that past variations in poverty do not significantly influence current poverty outcomes in the short run. This suggests a weak poverty persistence effect in the Nigerian context.

Institutional quality (INST)) exerts a negative and statistically significant effect on poverty at the 5% level, indicating that improvements in institutional quality, such as stronger governance and reduced corruption, contribute to poverty reduction in the short run. This finding aligns with the theoretical expectation that institutional effectiveness enhances

policy implementation and economic inclusiveness, thereby reducing poverty levels.

Similarly, economic growth, measured by the log of GDP per capita (LNGDPpc), exhibits a strong negative and highly significant impact on poverty at the 5% level. This outcome confirms the growth-poverty nexus, suggesting that higher income per capita translates into improved living standards and reduced poverty incidence in Nigeria.

Conversely, unemployment (UNEMP) shows a positive but statistically insignificant effect, implying that fluctuations in unemployment do not exert a meaningful short-run influence on poverty. This may reflect structural issues in Nigeria's labour market, where growth has not been sufficiently employment-generating, hence muting the poverty effects of short-run employment changes.

The coefficient of the error correction term (ECM(-1)) is negative and statistically significant at the 5% level, with a magnitude of –0.479. This indicates that approximately 47.9% of the disequilibrium from the previous period is corrected in the current period, confirming the existence of a stable long-run equilibrium relationship among poverty, institutional quality, economic growth, and unemployment. The significance and expected sign of the error correction term validate the robustness of the estimated model.

4.3 Post Estimation Tests

The post-estimation shows other tests that confirmed the statistical robustness and predictive ability of the model. The test comprises the Breusch-Godfrey serial correlation test, the White Heteroskedasticity test, Durbin Watson test for autocorrelation, Normality test, the CUSUM and CUSUMQ tests, the Ramsey RESET test, and the Coefficient of determination (R-squared and Adjusted R-squared). The results are summarized below as follows:

Table 4.6: Diagnostic Tests

S/N	Test	Probability	Decision
		Model 1	
1.	White Heteroskedasticity Test	F-stat = 0.545311 *p-value = 0.8228*	No Heteroskedasticity
2.	Breusch-Godfrey Serial Correlation LM Test:	F-stat = 1.103066 *p-value = 0.3558*	No Serial Correlation
3.	Durbin-Watson Test	1.640146	No Autocorrelation
4.	CUSUM & CUSUM-Q Tests	Converge within the bounds of 5% significance level	All estimated parameters remained stable
5.	Normality Test	Skewness: -0.552934 Kurtosis: 3.320931 Jarque-Bera: 1.436434 (p-value =0.487621)	The residuals are normally distributed (skewness and kurtosis within the acceptable bounds)
6.	RAMSEY RESET TEST	T-Statistic = 0.160884 *p-value = 0.8736* F-Statistic = 0.025884 *p-value = 0.8736* Likelihood ratio = 0.031493 *p-value = 0.8591*	The results indicate that the model has no specification error
7..	R-squared and Adjusted R-squared	0.813842 (81.38%) 0.741447 (74.14%)	High explanatory coefficient indicating robustness of the model

Source: Extracted from Eviews 13 output

The post-estimation tests in Table 4.6 above show that the model is free from serial correlation and heteroscedasticity. The Durbin-Watson test indicates the absence of autocorrelation as the coefficient is

closer to 2 than it is to 0. The CUSUM and CUSUM-Q tests indicate that the model is stable and converges within the bounds of 5% significance level. The normality test shows that residuals are normally distributed, while the Ramsey Reset test indicates that the model is free from specification bias. The adjusted R-squared which is most suitable for gauging the overall fitness of the model has a value of 0.741447 indicating that 74.14% variations on poverty reduction in Nigeria are accounted for by institutional quality index variables for the research time scope.

4.4 Discussion of Findings

The study examined the relationship between institutional quality and poverty reduction in Nigeria, considering the roles of GDP per capita and unemployment from 1990 to 2024. The following summarizes the result of the analysis: Institutional quality (INST) exerts a negative and statistically significant effect on poverty. This aligns with the a-priori expectation that poverty headcount is expected to fall as institutional quality rises. GDP per capita (LNGDPpc), exhibits a strong negative and highly significant impact on poverty reduction in Nigeria. This finding also corroborates the a-priori expectation that higher GDP per capita should reduce the proportion of people below the poverty line. Unemployment (UNEMP) shows a positive but statistically insignificant effect. This finding shows a weak alignment between unemployment and poverty headcount in Nigeria in view of the a-priori expectation. The speed of Adjustment to Long-Run Equilibrium. The error correction term indicates that nearly 48% of deviations from long-run poverty equilibrium are corrected annually. Overall, the results suggest that poverty reduction in Nigeria depends less on short-term changes and more on structural economic growth and institutional reforms. Economic growth and improved institutional quality are the strongest tools for reducing poverty, while unemployment remains a challenge due to structural rigidities. Hence, policies should focus on promoting inclusive growth, strengthening governance, and enhancing employment quality to achieve sustainable poverty reduction.

V. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

In line with the specific objectives and scope, this study made some key findings which are summarized as follows:

- Institutional quality exerts a negative and statistically significant effect on poverty reduction in Nigeria.
- GDP per capita exhibits a strong negative and highly significant impact on poverty reduction in Nigeria.
- Unemployment shows a positive but statistically insignificant effect on poverty reduction in Nigeria.

5.2 Conclusion

The study examined the relationship between institutional quality and poverty reduction in Nigeria from 1990 to 2024. Poverty headcount is the predicted in the study, while the predictors included institutional quality, gross domestic product per capita and unemployment rate. However, institutional quality was estimated as a single composite index using the World Governance Indicators (WGI) components from its six dimensions – voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. Data for the study were culled from the publications and reports from Worldwide Governance Indicators (WGI), World Bank (WDI), International Monetary Fund (IMF), and National Bureau of Statistics. The error correction model (ECM) diagnostics was employed in the data analysis having established a long run relationship among the variables from the Johansen-Hendry-Juselius Cointegration Test. The short-run results reveal that institutional quality and GDP per capita significantly reduce poverty in Nigeria, while unemployment and past poverty changes exert no meaningful effect. The negative and significant error correction term confirms the existence of a stable long-run equilibrium relationship among the variables, with nearly half of deviations corrected annually. Overall, the findings highlight the critical role of strong institutions and inclusive growth in driving poverty reduction.

5.3 Recommendations

The findings of this study carry important policy implications for poverty reduction in Nigeria.

First, the significance of institutional quality in explaining poverty reduction underscores the urgent need to strengthen governance structures. Policies should therefore prioritize transparency, accountability, and anti-corruption measures, while also improving the efficiency of public institutions. By ensuring that government resources are effectively managed and targeted toward development priorities, stronger institutions can facilitate the translation of growth into improved welfare outcomes for the poor.

Second, the strong and significant poverty-reducing effect of economic growth highlights the importance of pursuing strategies that promote inclusive and broad-based growth. Government efforts should focus on diversifying the economy beyond oil dependence, investing in infrastructure, and supporting productive sectors such as agriculture, manufacturing, and information technology. These measures will help ensure that growth is employment-generating and widely shared across different segments of society.

Third, the insignificant effect of unemployment on poverty suggests the presence of a “jobless growth” phenomenon in Nigeria, where economic expansion fails to generate sufficient or quality employment. To address this, policies must target productive job creation, skills development, and labor market reforms that increase the quality and remuneration of jobs. Strengthening vocational training, entrepreneurship support, and access to credit for small and medium enterprises (SMEs) will further enhance the capacity of employment to serve as an effective poverty-reduction tool.

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