

FOREIGN PRIVATE INVESTMENT, CAPITAL FORMATION AND POVERTY REDUCTION IN NIGERIA.

Simon-Oke, O.Olayemi

Department of Project Management Technology,
School of Management Technology,
Federal University of Technology,
Akure, Ondo State, Nigeria.
E-mail: yempej@yahoo.com

ABSTRACT

This study investigates the relationship between Foreign Private Investment, Capital Formation and Poverty reduction in Nigeria, using co-integration and Error correction Mechanism (ECM) and Granger Causality tests with annual time series data covering the period between 1978 and 2008. The various tests demonstrated that the inflow of foreign Private Investment in Nigeria has not significantly contributed to poverty alleviation in Nigeria. The study also shows that government investment on health and education has not helped to reduce poverty in Nigeria. The study further task the government at all levels to encourage the inflow of foreign private investment and intensify efforts at curbing capital flight. This would expand government spending on education and health sectors, and with the expectation that proper accountability and transparency on the part of the government are ensured in order to reduce poverty to the barest minimum in Nigeria.

KEYWORDS: Foreign Private Investment, capital, formation, poverty, reduction, Nigeria.

1.0 INTRODUCTION

Africa and Nigeria in particular, has witnessed monumental increase in the level of Poverty. Available records from the federal Office of Statistics (1996) show that about 71 percent of Nigerian households are considered poor. However, the poverty level increased to 74.2 percent in the year 2000. The high level of poverty has a lot of destabilizing effects on the citizens as well as the country. Poverty has the tendency to exacerbate crime, prostitution and high level of HIV/AIDS, loss of confidence in the economy and increase the level of frustration. Evbromuran (1997) observed that poverty can cause fear, depression, despondency and suicide as well as revolution, envy, bitterness, self-depreciation of ego among others. The effect of poverty can therefore be said to be multi dimensional in nature.

In absolute terms, poverty suggests insufficient or the total lack of basic necessities like food, clothing, housing and medical care. It embraces the inadequacy of education and environmental services, consumer goods, recreational opportunities, neighborhood amenities and transport facilities. In relative terms, people are poverty-stricken when their incomes fall radically below the community average (World Bank 2000). This implies that such people cannot have what the larger society regard as the minimum necessity for a decent living.

Poverty situation in Nigeria is quite disturbing. Both the quantitative and qualitative measurements attest to the growing incidence and depth of poverty in the country. This situation however, presents a paradox considering the vast human and physical resources that the country is endowed with. It is even more disturbing that despite the huge human and material resources that have been committed to poverty reduction by successive governments in Nigeria, no noticeable success has been achieved in this direction. The Human Development Report (1999) reveals that Nigeria is one of the poorest among the poor countries of the world. Nigeria ranks 54th with respect to the human poverty index (HPI) - making it the 20th poorest country in the world. It is also ranked 30th in gender related development index (GDI) while occupying 40th position from below in its human development index (HDI).

The inflow of foreign resources such as foreign private investment has the tendency of stimulating employment, income, consumption and economic growth, hence the possibility of reducing poverty. Borenstein and Lee (1998) have shown that foreign private investment has significant effect on the host country e.g. a one percent point rise in the ratio of foreign direct investment and gross domestic product increase the rate of per capita income growth of the Less Develop Countries (LDCs) by 0.3 percent to 0.8 percent.

Human capital refers to the abilities and skills of human resources of a country (Adamu 2002). This suggests that human capital is a form of resources that can be acquired, built up and developed. In essence, the development of human capital is to ensure that they acquire meaningful and productive skills that enhance their capabilities to engage in productive activities that lead to earning of livelihood. Human capital is thus defined by Meir (1995) as the development of human resources concerned with the two-fold objective of building skills and providing productive employment for non-utilized or under-utilized manpower. This view is corroborated by the United Nation Economic commission for Africa (1988) and Awopegba (2002) when they argued that human capital is the knowledge, skills, attitudes, physical and managerial efforts required to manipulate capital, technology, land and material to produce goods and services for human consumption. Therefore, human capital impacts on productivity, employment, income generation and standard of living. By implication human capital development leads to improved capability and ultimately reduction in poverty.

Human capital indicators of poverty also showed a very deplorable situation for Nigeria. There is low capital formation, infant and under – 5 mortality were 217 and 147 per 1000 live births respectively while maternal mortality was 9 per 1000 live births in 1996 (CBN, 1998) By 2008, infant mortality was put at 94 deaths per 1000 live births, life expectancy, 54 years in 1990, 52 years in 1995 and 50 years in 1998, has dropped to less than 47.8 years in 2008. (Microsoft Encarta Premium, 2009). Literacy rate also stood at 70.7 percent in 2005. This lack of capabilities such as education, health and nutrition, capital formation threatens to make poverty more endemic, with descendants also becoming poor (World Bank, 2000).

The inflow of Foreign Private Investment in Nigeria has assumed tremendous dimension since 1970s. Available data shows that Foreign Private Investment increased from its low level of N2287.5 million to N6804.0 million in 1985. However, from 1986 upward, there was a tremendous increase. For example, it increases from N9313.6 million in 1986 to N178478.0 million in 2003. It also increased from N30, 2843.3 million in 2006 to about N3, 99841.9 million in 2008. Also, available data shows that there is a positive relationship between foreign, private investment and poverty rate between 1978 and 1985. The poverty rate declined from 46.3% in 1985 to 42.7% in 1992. It started increasing form 1993 where it rose from 49.0% to 86.0% in 2002. This shows that Foreign Private Investment has not brought about a reduction in poverty rate. However, the poverty rate has been kept at a constant value of 54.4% since 2003 to 2006 and later rose to about 65% in 2008. But according to the United Nations Social Survey Report (2010), the poverty rate in Nigeria was put at 70% in 2010.

The concept of human capital refers to the abilities and skill of human resources of a country (Adamu, 2002), while human capital formation refers to the process of acquiring and increasing the number of person who have skills, education and experience that are crucial for the economic growth and political development of a country (Okojie, 1995). Human capital formation is thus associated with investing in man and his development as a creative and productive process.

Effective investment in human capital is a key component of long term economic growth and development and increased productivity. A well educated population is an objective in itself as well as the conduct to accelerate social and economic development. According to African Development Bank Report (1998), human capital formation is an essential means of sustained economic growth and poverty reduction and also an end in itself.

The Problem

The economic crisis of 1980's as a result of external debt, instability and misallocation of scarce Foreign exchange, slow rate of Capital Formation, Fiscal indiscipline, corruption and the negative effect of the Structural Adjustment Programme (SAP) of 1986 have retarded the country's economic growth and development, thus causing an increase in the rate of poverty. (Adegoke, 2009).

Haunted by these specters, Nigerian government since early 1970's has employed a proliferation of efforts to combat poverty, some of these were fiscal, financial and non-financial. By 1999 when the civilian government came into power under the administration of Chief Olusegun Obasanjo, estimates show that more than 70% of Nigerians lived in poverty. That was why the then government declared in November 1999 that the N470 billion budgets for year 2000 was to relieve poverty. Before the National Assembly even passed the year 2001 budget, the Nigeria government increased the allocation to poverty alleviation programme by 150%. All these programme targeted at reducing the level of poverty have not yielded any positive result.

In the same vein, in an attempt to ameliorate the debt crisis that had gripped Nigeria coupled with the increasing wave of poverty, Nigerian government introduced SAP in 1986, to promote growth, reduce poverty, and redress negative trends in a number of economic indicators. Studies have shown that despite the SAP policy, Nigeria still ranked among the poorest countries in the world.

The reasons why no study has adequately justified some poverty reduction strategies in Nigeria are not farfetched. For instance, most of the studies adopted uni-directional analysis into the effects and relationship between some economic variables and the level of poverty. That is why this study calls for a bi-directional analysis among some economic variables and the rate of poverty.

Similarly, most studies in Nigeria neglected the social, economic and environmental aspect of poverty. There is a need to move beyond the income or consumption measure of poverty in order to gain greater insight into the unfortunate situation. In the light of these observations, this study will empirically investigate the income and non-income aspects of poverty.

This study is justified because at this time, it is worthwhile to note the increasing rate of poverty and to adopt viable poverty reduction strategies as panacea to a purposeful development. Various international conferences and policy documents have expressed serious concern over dead line for the international community to “reduce poverty by half by the year 2015”. This is also one of the cardinal points of the Millennium Development Goals (MDGs) (World Bank, 2000). It is also justified because it exposes and proffers recommendations to the Nigerian government about its policies on both Foreign Private investment and expenditures on education and Health.

Against this background, this paper broadly examine the relationship between Foreign Private Investment, Capital Formation and Poverty reduction while specifically examine;

- (i) The effect of inflows of Foreign Private Investment on Poverty reduction in Nigeria.
- (ii) The effect of government human capital investment on poverty reduction in Nigeria.

2.0 SOME THEORETICAL AND EMPIRICAL CLARIFICATIONS.

The Progressive Social Theory

The progressive social theory propounded by Max Weber and adopted by Babatunde (2009), has its sources from political and socio-economic system. Max Weber showed how economic system of capitalism created the reserve of the unemployment as continuous strategy to keep wage low. The economic system is structured in such a way that the poor fall behind regardless of how competent they may be. Available studies have shown that the availability of jobs to low income group is about the same as it has been. Benefits and promotions have also become scarce for low skill workers. Thus, the system created problems for those who used to work. This is reflected in some individuals or households incapable of purchasing basic needs to sustain the families such as shelter, water, healthcare, education, working skills and tools, political, civil right among others, to participate in the decision making process of the society. This view is related to the Marxian School of thought.

Endogenous Growth Theory

The endogenous growth-theory implies that financial development should increase growth by decreasing the cost of capital which may trigger investment hence economic growth. It is clear that, given the tools of endogenous growth theory, almost any policy choice can be shown to have growth effects through its effect on the accumulation or allocation of physical or human capital. The human capital adopted in this case is investment in education and health. Human capital formation has to do with education, health nutrition and housing needs of labour. This is obvious from the fact that investment in these sources of human capital formation implores the quality of labour and thus its productivity. Hence, to ensure growth that takes care of poverty, the share of human capital as a source of growth in output has to be accorded with rightful place.

The Harrod-Domar Model

The model is a fraction of the Harrod-Damar growth model. Professor R.F Harrod tries to show in his model how steady growth may occur in an economy. A fundamental assumption of implicit in the Harrod-Domar model is that national income is proportional to the quantity of capital such that:

$$Y = \sigma K \dots\dots\dots (i)$$

Where Y = National income

K = Amount of capital employed in the production of Y.

σ = a constant of proportionality called the capital – output ratio.

$$\sigma = \frac{K}{Y} \dots\dots\dots (ii)$$

It follows from equation (i), that the growth in income must be proportional to growth in the physical capital stock employed. Such that

$$\triangle Y = \sigma \triangle K \dots\dots\dots (iii)$$

The physical capitals in this case are education and health.

Empirical Studies

The role of Foreign Private Investment in stimulating economic growth and reduce poverty rate has been given prominent attention in economic literature.

Agada and Okpe (2002) investigated the determinants of risks on foreign investment in Nigeria from 1980 to 2000, used data from the Federal Office of statistics, Lagos. The study showed that inflation rate, exchange rate, and political and administrative risk inhibit Foreign Investment in Nigeria.

Ayashagba and Abachi (2002) carried out an empirical investigation into the effect of foreign private investment on economic growth in Nigeria from 1980 to 1997. The results showed that foreign private investment had significant impact on economic growth and with the tendency of reducing poverty in Nigeria. They therefore concluded that though foreign Private Investment had a significant impact on Less Development Countries (LDCs) but its presence does not reflect on the growth of these economies. However, the study of Okpe and Abu (2005) on the relationship between Foreign Private Investment and Poverty Reduction in Nigeria revealed that Foreign Private Investment and Inflation rate have no significant effect on poverty reduction in Nigeria.

Aremu (1997) conducted a research on Foreign Private Investment in Nigeria, its determinants, performance and promotion; he found out that Foreign Private Investment has a positive effect on economic development in the LDCs. He further submitted that FPI accelerate the pace of economic growth of the LDCs up to a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. He further observed that the main responsibility of Foreign Private Investment in LDCs is to raise the standard of living of its people so as to enable them move from economic stagnation to self-sustaining economic growth. He therefore concluded his study by recommending that Foreign Private Investment should continue to rise till a certain level of income is reached in the underdeveloped countries. The LDCs should also mobilize a level of capital formation sufficient to ensure adequate level of economic growth and development.

Olaniyan and Bankole (2005) in their research on Human Capital, Capabilities and Poverty reduction in rural Nigeria found out that health and education have significant effect on poverty reduction in Nigeria. Their findings therefore suggested a conscious effort at the policy level to reduce poverty by increasing the human capital of individuals through the provision of adequate education and health facilities to individuals. Awe and Ajayi (2010) also carried out a co integration analysis into the nexus between human capital investment and economic growth in Nigeria between 1985 and 2005 using the data from the Central Bank of Nigeria (CBN) statistical Bulletin. They found out that education and health had significant effect on economic growth and hence the tendency of reducing poverty level in the economy.

Adegoke (2009) carried out an econometric study on the role of education in alleviating Poverty in Nigeria. She found out that there is a bi-directional relationship between expenditure on education and poverty reduction in Nigeria. She concluded that expenditure on education which has been very low in Nigeria contributed to worsening situation of poverty, whether measured in income term or non-income term.

3.0 RESEARCH METHODS

This study adopts Co-integration and Error Correction Mechanism (ECM), and Granger Causality test as estimation techniques.

The model employed in this study takes a clue from Harrod-Domar model with the assumption that:

$$Y = \delta K$$

$$\Delta Y = \delta \Delta K$$

Following from the equation, growth in Income must be proportionate to the growth in physical capital stock employed. The physical capital stock in this case represents Investment in Education and Health, while Income represents measure of poverty. Therefore, the actual model for the study is specified to accommodate Foreign Private Investment, with exchange rates and inflation rates as control variables, government investment on Education and Health. The model is specified thus;

$$\Delta \text{POR}_t = \alpha_0 + \alpha_1 \Delta \text{FPI}_{t-1} + \alpha_2 \Delta \text{EXR}_{t-1} + \alpha_3 \Delta \text{INF}_{t-1} + \alpha_4 \Delta \text{GED}_{t-1} + \alpha_5 \Delta \text{GHT}_{t-1} + \text{ECM}_{t-1} + \varepsilon_t$$

Where:

POR = Poverty rate

FPI = Foreign Private Investment

EXR = Exchange rate (control variable)

INF = Inflation rate (control variable)

GED = Government investment on education

GHT = Government investment on Health

$\alpha_0 - \alpha_5$ = Regression parameters

U = Error term

L = general lag operator

ECM_{t-1} = Error correction term lagged by one period.

The following are the expected signs of the regression parameters:

$$\alpha_1 < 0; \alpha_2 > 0; \alpha_3 > 0; \alpha_4 < 0; \text{ and } \alpha_5 < 0.$$

This implies that FPI, GED and GHT are expected to have negative relationship with POR while INF and EXR as control variables, are expected to have positive relationship with POR. Meanwhile, the study made use of annual Time Series data between 1978 and 2008. The data are sourced from Central Bank of Nigeria (CBN) Statistical Bulletin, 2007 and 2009 editions and National Bureau of Statistics Publications.

4.0 RESULTS AND DISCUSSION

Time Series Properties of Variables

This is otherwise referred to as the unit root test and this test was carried out at 5 percent level of significance using the Augmented Dickey-Fuller (ADF) unit root test.

The result is presented in the table 1 below:

Table 1. Unit Root Test Result

| VARIABLE | ADF STATISTIC | 5% CRITICAL VALUE | ORDER OF INTEGRATION | REMARKS |
|----------|---------------|-------------------|----------------------|------------|
| POR | -3.851992 | -2.9705 | I (1) | Stationary |
| FPI | -6.880025 | -2.9750 | I (2) | Stationary |
| EXR | -3.0568283 | -2.9705 | I (1) | Stationary |
| INF | -3.347419 | -2.9665 | I (0) | Stationary |
| GED | -4.116918 | -2.9705 | I (1) | Stationary |
| GHT | -7.432510 | -2.9750 | I (2) | Stationary |

Source: Authors' computation, 2011.

The Augmented Dickey – Fuller (ADF) unit root test in table 1 shows that inflation rate (INF) is stationary at level; that is it is integrated of order zero, while poverty rate (POR), exchange rate (EXR) and government investment on education (GED) are stationary at first difference. Also, Foreign Private Investment (FPI) and government investment on health (GHT) are stationary at second difference. The hypothesis of non- stationary is therefore rejected.

Table 2. Result of Johansen Co-integration Test

| Eigenvalue | Likelihood Ratio | 5 percent Critical Value | 1 percent Critical | Hypothesized No of CE (S) |
|------------|------------------|--------------------------|--------------------|---------------------------|
| 0.986484 | 243.9690 | 94.15 | 103.18 | None ^{**} |
| 0.844679 | 119.1557 | 68.52 | 76.07 | At most 1 ^{**} |
| 0.678973 | 65.15008 | 47.21 | 54.46 | At most 2 ^{**} |
| 0.526798 | 32.19938 | 29.68 | 35.65 | At most 3 [*] |
| 0.299368 | 10.50065 | 15.41 | 20.04 | At most 4 |
| 0.006299 | 0.183239 | 3.76 | 6.65 | At most 5 |

Source: Authors' computation, 2011.

NOTE: ^(**) denotes rejection of the hypothesis at 5 % (1%) significance level

L.R test indicate 4 co-integrating equation(s) at 5(%) significance level

The result in the table 2 reveals four (4) co-integrating equation(s) at 5% level of significance. This confirms the existence of a long-run relationship among the series. The hypothesis of no co-integration is therefore rejected. It is therefore necessary to proceed on an error-correction model (ECM).

Table 3. Result of the Parsimonious Error Correction Model

| VARIABLE | CO-EFFICIENT | STD. ERROR | T-STATISTIC | PROBABILITY |
|------------|--------------|------------|-------------|-------------|
| C | 0.709600 | 0.852554 | 0.832323 | 0.4151 |
| D(POR(-1)) | 0.801783 | 0.137675 | 5.823741 | 0.0000 |
| D(FPI) | 1.31E-06 | 4.38E-05 | 0.029933 | 0.9764 |
| D (EXR) | -0.099658 | 0.052343 | -1.903927 | 0.0714 |
| D(GED) | 0.000164 | 2.4E-05 | 6.699455 | 0.0000 |
| D(INF(-1)) | 0.038768 | 0.032083 | 1.208381 | 0.2410 |
| D(GHT) | 0.000218 | 0.000101 | 2.166518 | 0.0425 |
| D(GHT(-1)) | -0.000564 | 0.000100 | -5.625589 | 0.0000 |
| ECM(-1) | -0.209392 | 0.082709 | -2.531687 | 0.0198 |

Source: Authors' Computation, 2011

R – Squared: 0.846712

Adjusted R- squared: 0.785396

Durbin-Watson Stat: 2.20632

Schwarz Criterion: 5.819682

F-Statistics: 13.80914

Prob. (F-statistics): 0.000001

The table 3 presents the result of the parsimonious Error Correction Model. The equation of the ECM is therefore specified in line with parsimonious model as follows:

$$\text{POR}_t = 0.709600 + 0.801783\text{POR}_{t-1} + 0.0000131\text{FPI} - 0.099658\text{EXR}_t + 0.038768 \text{INF}_{t-1} + 0.000164\text{GED}_t + 0.000218\text{GHT}_t - 0.000564\text{GHT}_{t-1} - 0.209392 \text{ECM}_{t-1}.$$

The equation above shows an ECM value of -0.209392 which is otherwise referred to as the speed of adjustment. The speed of adjustment is significant at 5% considering its probability value ($1.9\% < 5\%$) and standard error. Also, the ECM is correctly signed which implies that about 21% of the short-run disequilibrium and inconsistencies are being corrected and incorporated into the long-run equilibrium relationship. The implication of this is that the present value of POR will adjust slowly to changes in FPI, EXR, INF, GED and GHT.

The R^2 of about 0.846712 implies that about 85% of the dynamic variation in POR is being explained by FPI, EXR, INF, GED and GHT. This shows a very good fit of the model as only about 15% variation unaccounted for by the model is attributed to the error term.

From the ECM equation, the present value of POR has a positive relationship with the previous value of POR. This implies that poverty rate obey the time series property that the past value of the variable exert positively on the present value of the variable.

From the ECM result, Foreign Private Investment (FPI) has a positive and insignificant effect on poverty rate in Nigeria. This result does not conform to the earlier stated a priori expectation and sharply disagree with findings of Ayashagba and Abachi(2002),but in agreement with findings of (Aremu,1997). The reason for this result can be attributed to the fact that the inflow of FPI in Nigeria has not been made to favour the low-income and middle class in Nigeria. This has accounted for the widening gap between the rich and the poor in the country.

However, exchange rate (EXR),as one of the control variables in the model was found to have a negative insignificant relationship with poverty rate (POR) in Nigeria. This relationship also negates the earlier stated a priori expectation. It implies that an increase in EXR led to a reduction in poverty rate. But this result cannot be taken to be real as the effect of EXR on POR is negative and statistically insignificant. That is, increase in EXR will further unleash poverty on the people. This result was supported by the empirical findings of Agada and okpe(2002),placing exchange rate, inflation rate, among other variables as prominent factors affecting foreign private investment, which also play a major role in poverty reduction.

Also from the result, inflation rate (INF) has a positive and insignificant relationship with poverty rate (POR). This result conforms to the earlier stated a priori expectation. This implies that an increase in inflation rate led to an increase in poverty rate in Nigeria. This result was supported by the earlier findings of Okpe and Abu (2005). This result is not surprising in Nigeria as high rate of inflation has led to high cost of factor inputs in the Nigeria manufacturing industries. This in turn, has contributed to high cost of goods and services which consequently denying most Nigerians access to basic needs of life.

Government investment on education (GED) on its own part has a positive and significant relationship with poverty rate (POR). This result negates the a priori expectation. The positive relationship between GED and POR implies that GED has not in any reasonable measure helped out to reduce poverty in Nigeria. The reason is that majority of Nigerians have not felt the impact of government investment on education , as the most celebrated free education programme of Nigeria government terminate at the Ninth (9th) year of the compulsory education level (UBE). This effect is also reflected in the poor infrastructural facilities in Nigeria's schools and colleges. The empirical result also shows that government investment on health (GHT) has a positive relationship with poverty rate (POR). This implies that an increased GHT led to an increase in poverty rate. This result negates the a priori expectation. This can be attributed to the fact that most of the funds allocated to this sector are being diverted and are not used for the purpose meant for. This has accounted for the deplorable state of public health institutions which make people to seek medical services abroad This result also contradict the positions of Olaniyan and Bankole(2005);Awe andAjayi(2010) that government investment on both education and health had negative relationship and with significant impact on poverty in Nigeria.

Table 4.Result of the Pair-wise Granger Causality Test

| Null Hypothesis: | Obs. | F-statistic | Probability |
|--------------------------------|------|-------------|-------------|
| FPI does not Granger Cause POR | 29 | 0.60915 | 0.55201 |
| POR does not Granger Cause FPI | | 7.59688 | 0.00278 |
| EXR does not Granger cause POR | 29 | 0.09363 | 0.91095 |
| POR does not Granger cause EXR | | 3.77288 | 0.03760 |
| INF does not Granger cause POR | 29 | 0.29042 | 0.75054 |
| POR does not Granger cause INF | | 0.35828 | 0.70255 |
| GED does not Granger cause POR | 29 | 1.53047 | 0.23682 |
| POR does not Granger Cause GED | | 0.20467 | 0.81632 |
| GHT does not Granger cause POR | 29 | 0.09147 | 0.91291 |
| POR does not Granger cause GHT | | 0.30982 | 0.73647 |
| EXR does not Granger cause FPI | 29 | 1.07192 | 0.35818 |
| FPI does not Granger cause EXR | | 0.88847 | 0.42438 |
| INF does not Granger cause FPI | 29 | 0.70604 | 0.50365 |
| FPI does not Granger cause INF | | 1.09398 | 0.35101 |
| GED does not Granger cause FPI | 29 | 4.49611 | 0.02196 |
| FPI does not Granger cause GED | | 6.94311 | 0.00418 |
| GHT does not Granger cause FPI | 29 | 6.35914 | 0.00608 |
| FPI does not Granger cause GHT | | 1.50658 | 0.24190 |
| INF does not Granger cause EXR | 29 | 0.58073 | 0.56716 |
| EXR does not Granger cause INF | | 0.74401 | 0.48585 |
| GED does not Granger cause EXR | 29 | 0.43787 | 0.65046 |
| EXR does not Granger cause GED | | 1.12744 | 0.34042 |
| GHT does not Granger cause EXR | 29 | 0.41240 | 0.66666 |
| EXR does not Granger cause GHT | | 0.54435 | 0.58721 |
| GED does not Granger cause INF | 29 | 0.80750 | 0.45772 |
| INF does not Granger cause GED | | 0.28823 | 0.75215 |
| GHT does not Granger cause INF | 29 | 0.88001 | 0.42774 |
| INF does not Granger cause GHT | | 0.18370 | 0.83334 |
| GHT does not Granger cause GED | 29 | 15.4895 | 4.8E-05 |
| GED does not Granger cause GHT | | 1.52056 | 0.23891 |

Source: Authors' computation, 2011.

From the result of the Granger causality test in table 4, it was revealed that causality runs in one direction from POR to FPI, POR to EXR. This implies that a unidirectional relationship exists between the two pairs of the variables in each case. A bi-directional causality exists between GED and FPI. This implies that GED and FPI Granger cause one another. That is, the changes in the past value of GED can be used to explain changes in the present value of FPI and vice versa. This result is not surprising in Nigeria as both government investment on education (GED) and health (GHT) are being used simultaneously to improve human capabilities and as an investment in human capital formation.

5. CONCLUSION AND RECOMMENDATIONS

Based on the analysis of the relationship between Foreign Private Investment, Capital Formation and Poverty Reduction in Nigeria, it is evidently clear that Foreign Private Investment and Government investment on both Health and Education (which are the major components of Human Capital Formation) have not contributed positively to poverty reduction in Nigeria. The Analysis was also based on the fact that Nigeria as a host country has not sacrificed some level of its profit through foreign investment for the development and aspirations of the citizens to enhance growth and poverty reduction. In the same vein, most government investment on health and education has not reached the majority of Nigerians. This effect is vividly shown in the poor infrastructural facilities in the education and health sectors in the country.

For Nigeria to achieve a desired result in alleviating poverty through inflows of investment and capital formation, the following recommendations are made based on the findings of the study.

Government should intensify effort to encourage the inflow of foreign resources such as foreign private investment and monitor their operations so that the practice of capital flight can be reduced. This will lead to plough back of capital and consequently improve the standard of living of Nigerians.

Effective budget monitoring system should be put in place to monitor public fund meant for people's oriented investment. Through this unnecessary diversion of fund can be checked for the benefit of the citizenry.

Government should also direct her efforts in providing education and health infrastructural facilities to the majority of Nigerians most especially in the rural areas. It should be noted also that curriculum in schools and colleges should be made functional and reflect the abilities of the students, to enable them face challenges of unemployment and poverty.

Also, Improvement in health and education infrastructural facilities coupled with proper accountability and transparency on the part of the government will go a long way in alleviating poverty in Nigeria.

Similarly, it is strongly recommended that government should make it a matter of high national priority by putting in place policies through practical strategies that will ensure consistent, moderate and acceptable levels of inflation and exchange rate for the economy.

Finally, government at all level should endeavour to establish social security scheme through which both the unemployed youth and elderly citizens should be taken care off with a monthly stipend, like the practice in many developed nations.

REFERENCES

1. Adamu A. (2002): Human capital and capabilities, as cited by Awe A.A and Ajayi S.O in “The Nexus Between Human Capital Investment and Economic Growth in Nigeria”, *Pakistan Journal of Social Science*, Volume 7, Pp 1-7.
2. Adegoke Y. (2009): Role of Education in Alleviating Poverty in Africa: The Nigerian Experience *Journal of Economics and Social Studies* Volume 6, Pp 19-31.
3. African Development Bank (1998): *Human Capital and Economic Growth*. New York: Oxford University press.
4. Agada G.O, and Okpe I.J (2002): Determinants of Risk on Foreign Investment in Nigeria (1980-2001). *Journal of Economics and Social Research*; vol.1, Pp 123-134.
5. Aremu J.A (1997): Foreign Private Investment Determinants, Performance and Promotion. *CBN Bullion*, vol. 21, Pp 108-112.
6. Awe A.A, and Ajayi S.O. (2010): The Nexus between Human Capital Investment and Economics Growth in Nigeria. *Pakistan Journal of Social Sciences*, Volume 7, Pp 1-7.
7. Awopogba, P.O.(2002). Human Resources, High Level Manpower and the Development of the Nigerian Economy. *Nigerian Journal of Economic Research*, vol. 1, Pp 87-96.
8. Ayashagba G.I, and Abachi P.I. (2002): The Impact of Foreign Direct Investment (FDI) on Economic Growth of the Less Developed Countries (LDCs): A Case of Nigeria (1980-1997). *Journal of Economics and Social Research*, vol. 1, Pp 108-125.
9. Borenstein J and Lee J. (1998). How does Foreign Investment affect Economic Growth? *Journal of International Economics*, vol. 45, Pp 115-135.
10. Central Bank of Nigeria (1998): A Profile of regional/Zonal Poverty in Nigeria: The Case of Enugu, Bauchi and Kano Zones: In *Measuring Poverty in Nigeria*, Proceedings of the Seventh Annual Conference of the Zonal Research Units.
11. Evbromuran, G.O (1997): Poverty Alleviation through Agricultural Projects. *CBN Bullion*, vol. 21, Pp 25-39.
12. Engle and Granger (1978): Co-integration and Error Correction Representation, estimation and testing, *Economical*, vol. 2, Pp 55-56.
13. Human Development Reports (1999): *Human Factor in National Development*, Spectrum Books Limited, Ibadan, Nigeria.
14. Meir D. (1995): *The Power of Their Ideas*. Boston Beacon Press Ltd. New York.
15. Microsoft Encarta Premium (2009): *Social and Economic Characteristics of Nigeria*. Microsoft Corporation.
16. Okojie, C.E. (1995): Human Capital Formation for productivity growth in Nigeria. *The Nigerian Economic and Financial Review*, Vol. 1, Pp 44-62.
17. Okpe I.J and Abu, G.A (2009): Foreign Private Investment and Poverty Reduction in Nigeria. *Journal of Social Sciences*, vol. 19, Pp. 205-211.
18. Olaniyan O, and Bankole (2004): The Development of Child Schooling Among Poor and Non-Poor Families in Nigeria. Paper Presented at the African Econometric Society’s Annual Conference held in University of Cape Town, June 30 – July 3, 2004. South Africa.
19. United Nations Economic Commission for Africa (1988): *Human Development Report*, Oxford University Press. New York.
20. United Nations Social Survey Report (2010): *Human Development Report*. Oxford University Press. New York.
21. World Bank (2001): *World Development Report, 2000/2011: Attacking Poverty* Oxford University Press, New York.