POVERTY&
ECONOMIC POLICY
RESEARCH NETWORK

Policy Research Brief
November 2011 – Number 87

Effects of the Global Financial Crisis on Poverty: Evidence from Rural Nigeria

A. I. Achike and H.E. Ichoku

Macro Impacts of the GFC in Nigeria

Nigeria has a mono-product economy. Its dependence on crude oil is very significant, with 99 percent of its exports and 85 percent of its local revenues directly sourced from the sale of this single commodity. However, because crude oil is, at the moment, a central element in the current financial crisis, the macro impact of the global financial crisis (GFC) on Nigeria's economy can be quite decisive. At the same time, it is also estimated that 58.4 percent of Nigeria's exports are US-bound and up to 25 percent are exported to different European countries. In addition, 67 percent of Nigeria's non-oil exports go to Western Europe, 20 percent to Asia and only 11 percent go to different ECOWAS nations. Most importantly, the stock of Nigeria's foreign exchange is kept in European and US capitals where the financial markets have tumbled and banks have become distressed. It is thus obvious that because the world economies are integrated, the international financial crisis which has affected trade and investment flows is bound to impact on the domestic economy of Nigeria.

The ultimate impact of the GFC is on the different dimensions of poverty. Poverty in the broadest sense is transferred through five key transmission channels that link macro-level shocks to micro economic recipient units (especially poor people in communities and households). These channels include employment, price, public and private transfers (remittances), assets, and access to goods and services. The macro level financial shocks which are transferred to households and individuals at micro levels through these channels may be country specific. Thus, the CBMS-Nigeria team studied and reported the conditions induced by the GFC impact on households in rural Nigeria, using Edem in the Nsukka local government area of Enugu state as a case study. Five autonomous communities and 4,720 households unevenly distributed in the studied communities were used as poverty observatories or sentinel sites for monitoring the impact of the GFC. The autonomous communities are basically rural and their identification is based on the existence of relevant transmission channels.

Impact of GFC Through Local Employments in Industries

The GFC impact manifested in terms of local employment is through loss of jobs. The study showed that household members in 0.31 percent, 0.28 percent and 1.44 percent, of the surveyed households lost their jobs, experienced pay cuts and had pay delays, respectively, in the last six months preceding the survey for various reasons such as low pay (60%), sickness (26%) and inability of firms to pay (7%). There was also one case of a reported loss of job because of the folding up of the firm. The apparent involvement of few households and few individuals in the loss of jobs can be attributed to the fact that Edem is a rural community and majority of the working class members are self employed mainly as farmers, artisans and/or petty traders. For such occupations, loss of job is not common; rather, one may experience instead a slowdown or slack in business turnover. Some workers in the community also reported pay-cuts in the 6 months preceding the interview. About 13 and 68 households reported having workers that experienced pay-cuts and pay delays, respectively, from firms/industries as a result of adjustment to the GFC effects. The major industry reason for these adjustments was the decline in business.

Impact of the GFC Through Remittances

There were also reported cases of households with members living abroad who relocated to their villages due to difficult economic circumstances abroad.

Table 1 shows that about 146 households reported having remittances from overseas while 1560 households reported receiving local remittances from household members in other cities in Nigeria.

Table 1. Transmission of GFC effects through International and Local Remittances

Indicator	Obs.	Mean	Std Dev	Min	Max
Overseas remittances	146	N31027.40	87672.90	1000	800000
Local remittances	1560	17520.26	25171.83	1000	500000
Percentage reporting decline in remittances	43%				

Source: CBMS-Nigeria field survey 2009-2010

Of the households that reported receiving remittances in the 6 months preceding the interview, 43 percent reported declines in the amount they used to receive prior to the GFC. Some of the reasons given for the decline include the sender's loss of job (11%), cuts in earnings (21%), decline in income of the sender (63%), and others (4.8%).

Analyzing the Effect of GFC on the Socioeconomic Characteristics of Surveyed Households

The households' socioeconomic response to the transmitted GFC effects is presented below:

Education: Table 2 shows that 1, 168 households representing about one quarter (25%) of the surveyed households did a downward review of their school expenditure. A total of 242 households (representing 5% of the surveyed households) withdrew an average of one child from school in the last six months preceding the survey. Furthermore, about 109 (or 45%) of the withdrawn children were girls while the remaining were boys. Within the time frame under consideration, about 143 households, representing 3 percent of the surveyed households, also transferred their children of school age from private to public schools in response to the mounting GFC-induced financial problems. This adjustment behavior is based on the fact that private schools usually charge more fees than public schools. Thus, part of a household cost-saving measure may be to transfer children from the high fee-paying private schools to low fee-paying public schools.

Table 2. Response to GFC Effect on Children's Education

Indicator	No.	*Percentage
Cut in school expenditure	1,168	25
Children withdrawn from school	242	5
Transfer from private to public school	143	3

Source: CBMS-Nigeria field survey 2009-2010
* Percent of the entire surveyed households

Furthermore, the dropout rate was compared across five quintiles of the wealth index based on 20 durable goods owned by the households. The result shows that 44 percent of all the children who dropped out of school were from the lowest wealth quintile. Similarly, about 43 percent of children who shifted to the low-fee public schools were also from the lowest wealth quintile. However, the distribution of households that had to cut down on school expenses was more or less even across the various wealth quintiles: 24 percent (quintile 1), 24 percent (quintile 2), 33 percent (quintile 3), 25 percent (quintile 4), and 29 percent (quintile 5).

Health: Generally, the survey noted that about 3,272 (76%) of the surveyed households had cases of untreated ill health. Of these households, 1,053 (24%) reported their ill health while the rest did not for various reasons ranging from apathy/ignorance to lack of previous attention. In specific terms, the survey noted that 71 percent of the men and 68 percent of the women in the surveyed households reported ill health in the 6 months preceding the interview. This shows a very high level of morbidity in the population for both sexes. The households' response to the GFC effect on specific health indicators as observed in women (especially mothers) and children is shown in Table 3.

Table 3. Mother and Child Welfare

Indicator	No	Percentage of total
Pregnant mothers who could not attend antenatal Clinic	99	2.31
Under 5 children who died	90*	3.8
Women who died in child birth	25*	0.56

Source: CBMS-Nigeria field survey 2009-2010
*proportion out of the 4,503 households that responded to the specific question.

COPING MECHANISMS ADOPTED BY HOUSEHOLDS

When challenged by difficult economic and financial situations, households and firms tend to adopt self-preservation and coping strategies to tide them over during the challenging times.

Child labor. The survey data show that only 4 percent of the surveyed households engaged in child labor in the 6 months preceding the first interview. Preliminary information from the second survey, however, show that some households still have children who engage in child labor as they claim that their welfare situation has yet to improve even after the GFC.

Rationing of meals . Reduction in the number of meals taken by household members per day is another coping mechanism adopted by households. In the local parlance, it is usually expressed as either 1-1-1, which stands for three square meals per day. The first 1 implies that breakfast is taken; otherwise, it would be 0 (zero). The second 1 implies that lunch is taken; otherwise, it is also 0. And the third 1 implies that supper is taken or else, it would again be 0. This generates a series of meal formulas as shown in the second column of Table 4. The survey noted that households had meal formulae for adults ranging from: 1-1-1 to 0-0-1. About 46 percent of households still maintain regular 3-square meals per day. Only 2 percent of households adopted the 0-1-0 coping behavior while about 47 percent of households reported the meal formula 1-0-1. The two dominant eating habits in the community therefore are the 1-1-1 and 1-0-1 formulae.

Table 4. Adult and Children Food Coping Mechanism

	Meal Formula	Children	Adult
1	1-1-1	48.43%	46.48%
2	0-1-0	6.37%	2.21%
3	1-0-1	41.21%	47.25%
4	0-1-1	1.24%	2.53%
5	1-1-0	0.13%	0.09%
6	0-0-1	1.50%	1.01%
7	1-0-0	1.12%	0.45%

Source: CBMS-Nigeria field survey 2009-2010

The adaptive feeding behavior in adults is also replicated for children in most households in the community as shown in 3rd column of Table 4. The study shows that in rare cases, both children and adults are unable to afford breakfast and lunch and make do with only supper at night. Another extreme coping mechanism is 1-0-0 which implies that the household takes only one formal meal -- breakfast -- and nothing else for the rest of the day.

Analysis of Food Coping Strategies Across Wealth Quintiles

In comparing the food adaptive behavior of adult members of households across wealth quintiles, it was found that only the lunch meal was taken by most of those households in the lowest wealth quintile (58%) who tend to eat only once a day. Similarly, 50 percent of all households who tend to eat only supper also belong to the lowest wealth quintile. Generally, Table 5 shows that those in the wealth quintile 1 skip meals the most. In fact, only 30 percent of households in this category take three meals a day whereas about 59 percent of households in the highest wealth quintile take three meals a day.

Table 5. Adult Meal Skipping Formula by Wealth Quintile (In Percentages)

	1-1-1	0-1-0	1-0-1
Quintile1	29.8%	5.5%	60.4%
Quintile 2	44.4%	3.4%	48.5%
Quintile 3	48.9%	1.0%	46.8%
Quintile4	48.7%	0.4%	46.6%
Quintile 5	58.6%	3.6%	34.5%

Source: CBMS-Nigeria field survey 2009 - 2010

Purchase of low quality foods. Other household coping mechanisms in the face of food shortages include the purchase of food of lower quality or the preparation of food without meat or fish. In addition, some households spent less money on drinks and snacks while others bought their food on credit. The survey results show that 56 percent of households eat more *garri* which, though a staple household diet, is usually considered as not having a high quality as other local foods in the same class. Similarly, about 46 percent of households reported cutting down on drinks while 67 percent of households reported taking credits to buy food.

Using cheap domestic energy sources. The survey noted that some households coped with GFC effects by using less desirable and cheap energy sources in cooking such as firewood instead of kerosene or gas. Specifically, about 97.8 percent of households reported using firewood for cooking while only about 2.1 percent reported using kerosene as source of household cooking energy. Only 0.07 percent reported using gas energy in the last 6 months preceding the interview.

Income-savings & wealth and household coping mechanisms. All the households reported a decline in income and savings as a result of the apparent economic downturn partly attributed to the GFC. Adaptive behavior among the households in the community included: dis-saving, selling or pawning of household durable assets, borrowing from banks and thrift societies, living on charity, availing of government assistance, and cutting down on other household expenditures.

Specifically, 30 percent of households in the community reported dis-saving in the last 6 months prior to the interview. Households are drawing down their savings account, and eating up their business capital and food reserves without replenishing them. How long this can last is a matter of guess as the financial crises deepens and resonates in the remotest communities. What is more worrisome is that households are not just dis-saving their cash income; some are also taking extreme survival measures by selling their durable assets. At least 7 percent of households interviewed reported selling their durable assets to finance household consumption. Similarly, 4.5 percent of households reported pawning their assets in order to obtain household consumption goods. Some are also borrowing. The survey results show that 57 percent of the households have had to borrow from thrift societies or groups and individuals while about 5 percent reported borrowing from banks in order to finance the hard economic times. Another 6 percent reported having received charity to cope with economic difficulties while a few others (2.5%) reported having received government assistance.

When households that pawned their assets were compared across wealth quintiles, it was found that there is an even distribution of this coping habit among all households .

Cutting down on basic household expenditures . Another coping mechanism reported in the study was cutting down expenditure on certain household needs in order to cope with the difficult times. More than 80 percent of households had to cut down on one household need or the other. Majority of households involved (65%) in this adjustment behavior had to cut down spending on clothing. About 15 percent reported cutting down on transportation while 3 percent, 2 percent and 4 percent reported cutting down on water, fuel and communication expenses, respectively.

In comparing the coping strategies of directly affected and non-affected households, it is worthy to note that the above mentioned coping strategies were mainly adopted by the GFC affected households. This presupposes that the unaffected households did not need to use them. The few unaffected households that adopted these strategies did so as a way of being prepared in case they might experience similar crisis-induced effects in the future.

MITIGATING THE IMPACT OF THE GLOBAL CRISIS

Distribution of assistance from Government. In Nigeria, the major fiscal policy undertaken during the GFC period was expansion of government spending. Thus, from about $63 billion as of end of 2007, the external reserves whittled down to $33 billion. This expansionary fiscal policy however had little or no direct and immediate impact on the poor as very few programs were actually undertaken that targeted the poor. The Enugu state government did undertake a few programs, though, such as expanding and providing infrastructure in Enugu city, but the rural areas benefitted little from this fiscal expansion. The Enugu state government has also recently started the 'visit every community (VEC) programme' which is operationalized by involving the community town unions in listing their infrastructure needs by order of priority. Currently, discussions are ongoing on how to use the CBMS methodology to add information about the welfare needs of the community and their adjustment challenges during the financial and environmental (climate change) crises. At the same time, the Local Governments seem unable to undertake significant programs that could impact on the lives of rural communities like Edem because they have severely limited funds.

Although there are promises that rural communities are to benefit from the impending removal of petrol subsidies and from the conditional cash transfer programs that a government agency is espousing, there is yet no concrete evidence of the implementation agenda. The implication is that the rural communities had little to benefit from government. It is therefore not surprising that out of the 4,720 households surveyed in Edem community, only 63 claimed to have benefited from government programs.

This Policy Brief is based on the research paper of the same title which was presented during the 8th PEP General Meeting in June 2010 in Dakar, Senegal. A fuller version of the paper may be downloaded from the Poverty and Economic Policy website: www.pep-net.org. For further details, please contact the PEP-CBMS Network Coordinating Team at (632) 5262067 or at reyesc@dls-csb.edu.ph or cbms.network@gmail.com.