

Foreign Capital Inflow and Standard of Living in Nigeria

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ABSTRACT

This study investigates the effect of foreign capital inflows on poverty reduction and standard of living in Nigeria. Anchored on the Big Push Theory and complemented by Modernization, Dependency, and Institutional perspectives, the study adopted an ex post facto research design using annual secondary time-series data from 2000 to 2024, sourced from the World Bank Development Indicators, Central Bank of Nigeria Statistical Bulletin, and National Bureau of Statistics. Foreign capital inflows were proxied by foreign direct investment (FDI), foreign portfolio investment (FPI), and workers' remittances, while the poverty gap index served as the measure of poverty.

The econometric methodology involved unit-root tests (ADF and PP) to establish stationarity, followed by the Autoregressive Distributed Lag (ARDL) bounds testing approach to examine long-run cointegration, complemented by an Error Correction Mechanism (ECM) to capture short-run dynamics. Diagnostic tests confirmed robustness of the model.

Results showed that foreign capital inflows significantly affected poverty gap in Nigeria (Adj. $R^2 = 0.89$, F-statistic = 50.88, $p < 0.01$). Specifically, previous year poverty exerted a strong positive and significant effect on current poverty ($\lambda_1 = 0.96$, $p < 0.05$), indicating persistence of poverty. Remittances exerted a positive but statistically insignificant effect ($\lambda_2 = 0.44$, $p > 0.05$), reflecting their consumption-driven nature. FDI had a negative and significant effect ($\lambda_3 = -1.09$, $p < 0.05$), confirming its role in poverty reduction through employment generation, productivity gains, and technology transfer. FPI showed a positive but insignificant effect ($\lambda_4 = 0.24$, $p > 0.05$), underscoring its volatility and limited developmental impact.

The study concludes that foreign capital inflows exert differential effects on poverty reduction in Nigeria. While FDI significantly reduces poverty, remittances and FPI alone are insufficient to achieve structural poverty alleviation. Policy implications highlight the need to channel remittances and portfolio inflows into productive ventures, strengthen institutional frameworks, and create a stable macroeconomic environment to maximize the poverty-reducing potential of foreign capital.

Keywords: Foreign Direct Investment, Foreign Portfolio Investment, Remittances, Standard of Living, Poverty Gap

INTRODUCTION

Standard of living is a fundamental indicator of economic well-being, reflecting the extent to which individuals have access to income, healthcare, education, housing, and other essential services that enhance quality of life. Across the globe, improving the standard of living remains a central objective of economic policy, particularly in developing nations where poverty and inequality persist. One of the key mechanisms through which countries seek to improve living standards is through foreign capital inflows, which provide additional financial resources to complement domestic investment and stimulate economic growth.

At the global level, foreign capital inflows comprising foreign direct investment (FDI), foreign portfolio investment (FPI), remittances, and official aid have been recognized as important drivers of economic development. These inflows facilitate capital accumulation, promote technological advancement, and

enhance productivity. According to Khan and Ahmed (2017), foreign capital inflows contribute significantly to economic growth by easing financial constraints and improving efficiency in resource allocation. However, while global evidence suggests a positive relationship between capital inflows and growth, the extent to which these benefits translate into poverty reduction and improved standard of living varies across countries due to differences in institutional frameworks and economic structures.

In Africa, the impact of foreign capital inflows on standard of living presents a more complex picture. While many African countries have attracted significant inflows, particularly in natural resource sectors, the benefits have not always translated into widespread poverty reduction. Magombeyi and Odhiambo (2017) argued that the concentration of foreign investment in capital-intensive industries limits its ability to generate employment and reduce poverty. Additionally, macroeconomic instability and weak institutional structures in many African countries hinder the effective utilization of foreign capital. Ewubare and Okpoi (2021) further noted that factors such as inflation, exchange rate volatility, and political instability reduce investor confidence and limit the positive impact of foreign inflows on living standards across the continent.

In Nigeria, the relationship between foreign capital inflows and standard of living remains a subject of considerable debate. As one of Africa's largest economies, Nigeria has attracted substantial foreign capital, particularly in the oil and gas sector. Despite this, poverty levels remain high, and improvements in living standards have been uneven. Azam and Samsudin (2016) posited that for foreign capital inflows to effectively reduce poverty, they must be directed toward labor-intensive sectors such as agriculture and manufacturing, which have greater potential for employment generation. However, in Nigeria, the dominance of the extractive sector has limited the inclusive benefits of foreign investments.

Furthermore, institutional challenges continue to constrain the effectiveness of foreign capital inflows in Nigeria. Imran et al. (2019) highlighted that weak governance, corruption, and poor policy implementation reduce the developmental impact of foreign investments. In addition, inadequate infrastructure and limited access to finance further hinder the ability of foreign capital to stimulate broad-based economic growth. Choong et al. (2025) emphasized that financial development plays a crucial role in mediating the relationship between foreign capital inflows and standard of living. In Nigeria, despite ongoing financial sector reforms, issues such as financial exclusion and limited credit access persist, thereby reducing the potential benefits of foreign capital.

Moreover, while foreign capital inflows have contributed to certain areas such as telecommunications and infrastructure development in Nigeria, their overall impact on poverty reduction remains limited. Kukaj et al. (2022) noted that investments in human capital development are essential for improving living standards, yet such investments have not been sufficiently prioritized. Similarly, Magombeyi and Odhiambo (2017) stressed that without equitable distribution of the gains from foreign investments, improvements in living standards may not be realized.

The persistent low standard of living and high rate of poverty in Nigeria, despite substantial inflows of foreign capital, remain a major economic concern. Over the years, Nigeria has attracted significant foreign capital in the form of foreign direct investment (FDI), foreign portfolio investment (FPI), remittances, and official development assistance. These inflows are theoretically expected to stimulate economic growth, generate employment, and improve welfare conditions. However, the reality in Nigeria presents a paradox where increased foreign capital inflows have not translated into commensurate improvements in the standard of living or significant poverty reduction.

One of the key problems lies in the disconnect between foreign capital inflows and inclusive economic growth. While foreign investments have contributed to Nigeria's gross domestic product (GDP), their impact on poverty reduction has been limited. Akinbobola et al. (2017) observed that although foreign capital inflows can enhance economic performance, their benefits are often concentrated in specific sectors, particularly oil and gas. This sectoral concentration reduces the potential of foreign capital to create widespread employment opportunities, thereby limiting its effect on improving living standards. Consequently, a large proportion of the population remains excluded from the benefits of economic growth.

The absorptive capacity of the Nigerian economy poses a significant challenge. For foreign capital inflows to effectively improve the standard of living, the domestic economy must have the capacity to utilize such inflows efficiently. Acheampong (2021) emphasized that weak institutional frameworks, inadequate infrastructure, and poor human capital development can hinder the effective utilization of foreign investments. In Nigeria, these structural deficiencies have limited the ability of foreign capital to stimulate productive activities that directly impact poverty reduction. As a result, the expected trickle-down effects on the standard of living have not been fully realized.

Furthermore, macroeconomic instability has continued to undermine the effectiveness of foreign capital inflows in Nigeria. Issues such as inflation, exchange rate volatility, and fiscal imbalances create an uncertain economic environment that discourages sustainable investment. Butkus et al. (2020) argued that macroeconomic instability can weaken the positive impact of foreign capital inflows by reducing investor confidence and limiting long-term investment planning. In Nigeria, frequent economic fluctuations have not only affected the volume of foreign inflows but also their capacity to generate lasting improvements in the standard of living.

The central problem is not merely the availability of foreign capital inflows but the inability of the Nigerian economy to effectively channel these resources toward improving the standard of living and reducing poverty. Issues such as sectoral concentration of investments, weak institutional frameworks, poor governance, macroeconomic instability, and inadequate domestic linkages have collectively limited the impact of foreign capital inflows. Therefore, there is a need for a comprehensive approach that addresses these structural challenges to ensure that foreign capital contributes meaningfully to poverty reduction and sustainable improvements in the standard of living in Nigeria.

It is against this background that this study sought to examine the effect of foreign capital inflows on the standard of living in Nigeria; and specifically to:

- examines the effect of remittances on poverty gap in Nigeria;
- determine the effect of foreign direct investment on the poverty gap in Nigeria; and
- examine the effect of foreign portfolio investment on the poverty gap in Nigeria.

LITERATURE REVIEW

Concept of Standard of Living

The concept of standard of living represents the overall material wellbeing of individuals or households, reflecting their ability to access income, essential goods, and social services such as healthcare, education, housing, transportation, and employment opportunities. It is closely connected to a country's economic structure and the extent to which available resources translate into improved welfare outcomes for its population. As noted in development literature, standard of living is often shaped by both macroeconomic conditions and the distribution of economic gains across different social groups.

Economic indicators play a central role in measuring standard of living. One widely used indicator is GDP per capita, which expresses average income and serves as a broad measure of economic prosperity. While GDP per capita provides a snapshot of national productivity, scholars such as Okafor (2016) argue that it may overlook income inequality and the lived experiences of poor households. Consequently, complementary measures such as the poverty gap and poverty index are essential for assessing how deeply poverty affects the population and whether economic growth translates into improved welfare.

While GDP per capita remains a common proxy for living standards, it often obscures inequality and poverty depth. Acheampong (2021) shows that in Sub-Saharan Africa, rising GDP per capita did not correspond to improved welfare outcomes due to unequal distribution of gains. Similarly, Butkus, et al., (2020) found that remittances in Eastern Europe narrowed the poverty gap more effectively than GDP growth alone. This underscores the importance of multidimensional measures such as the poverty gap,

which capture both the prevalence and intensity of deprivation, offering a clearer lens for evaluating how foreign capital inflows affect welfare outcomes.

Recent empirical studies also highlight the importance of external financial inflows in shaping standards of living. Remittances, for instance, have been identified as a vital source of household income that supports consumption, education, and healthcare, thereby directly improving welfare outcomes. According to Nwafor (2022), remittance inflows reduce household vulnerability by supplementing domestic income sources, especially in periods of economic uncertainty. Azam and Samsudin (2016) provide global evidence that remittances significantly alleviate poverty, while Samuel, et al., (2020) confirm similar effects in West Africa, showing that remittances reduce poverty depth and support human capital accumulation.

Beyond remittances, foreign direct investment (FDI) and foreign portfolio investment (FPI) also influence living standards. Mbanefo and Ezeabasili (2023) argue that international capital inflows enhance human capital development by financing education and skill acquisition, thereby improving long-term welfare. Olowookere et al. (2021) further emphasize the role of GDP per capita in evaluating the impact of foreign capital inflows on poverty reduction, noting that aggregate growth can mask inequalities in wealth distribution. In this context, per capita measures and poverty gap indicators become essential tools for assessing the direct implications of external financial inflows on the average citizen's economic position, rather than the economy at large.

Concept of Poverty Gap

The poverty gap is a critical measure used in development economics to quantify the intensity of poverty within a population. Unlike simple poverty incidence, which measures the proportion of people below a specified poverty line, the poverty gap assesses how far, on average, the poor are from that threshold, providing a more nuanced understanding of economic deprivation. Olowookere et al. (2021) highlight that the poverty gap is essential for evaluating the effectiveness of social policies and external financial interventions, as it captures not only the prevalence but also the depth of poverty. This distinction is particularly significant when assessing the impact of foreign capital inflows and other economic resources on human welfare.

In econometric terms, a positive coefficient on capital inflows implies deepening poverty, while a negative coefficient indicates poverty gap reduction. This distinction is critical for interpreting Nigeria's experience with FDI, FPI, and remittances, and underscores why the poverty gap is a more precise indicator of welfare outcomes than simple poverty incidence.

Oniore and Ogwuche (2025) emphasize that poverty gap analysis over time allows policymakers to identify trends in economic vulnerability, particularly in relation to capital flows such as foreign direct investment (FDI), remittances, and development assistance. They note that while GDP growth may occur, it does not automatically translate into reduced poverty depth, making the poverty gap a more precise indicator of societal well-being. By measuring the shortfall of income among the poor, it provides insights into structural inequalities and highlights sectors where interventions can be most impactful.

Comparative evidence reinforces the importance of poverty gap analysis. Acheampong (2021) found that in Sub-Saharan Africa, foreign capital inflows reduced poverty incidence but had limited impact on poverty depth, underscoring the need for measures beyond headcount ratios. Similarly, Butkus et al. (2020) showed that in Eastern Europe, remittances narrowed the poverty gap more effectively than GDP growth, highlighting the role of external inflows in reducing deprivation intensity. These findings suggest that while economic growth may lift households above the poverty line, only targeted inflows into productive sectors can reduce the depth of poverty and improve long-term welfare outcomes.

Nwafor (2022) situates the poverty gap within the broader framework of sustainable development, arguing that reducing the gap is critical for achieving inclusive growth. A smaller poverty gap indicates not just fewer people living below the poverty line but also that those who are poor are closer to achieving economic

self-sufficiency. This measure is particularly relevant for evaluating the effectiveness of national economic policies and international aid programs aimed at poverty alleviation.

Chorn and Siek (2017) provide empirical evidence that foreign capital inflows can influence the poverty gap in developing countries. They demonstrate that inflows can reduce the depth of poverty when appropriately channeled into productive sectors such as infrastructure, education, and healthcare, thereby increasing income opportunities for the poor. However, they caution that mismanagement or concentration of capital inflows in limited sectors may leave the poverty gap largely unaffected despite overall economic growth.

Monogbe et al. (2021) argue that analyzing the poverty gap alongside other indicators, such as per capita GDP and employment levels, provides a more comprehensive view of economic welfare. They stress that targeted interventions informed by poverty gap analysis can ensure that economic gains reach the most vulnerable populations, fostering equitable development and reducing socioeconomic disparities. Nevertheless, poverty gap analysis depends on the accuracy of poverty line measurement, which can vary across countries and affect comparability of results.

Concept of Remittance

Remittances refer to the transfer of money or resources from individuals working abroad to their home countries, often sent to support family members or community development. These inflows play a vital role in the economies of developing countries, contributing to household income, poverty reduction, and economic stability. Olowookere et al. (2021) emphasize that remittances not only augment household consumption but also serve as a key mechanism through which international capital impacts the well-being of citizens, complementing other forms of foreign inflows such as foreign direct investment (FDI) and development assistance.

Sowunmi et al. (2020) argue that remittances enhance economic resilience by providing a stable source of income that is less susceptible to domestic economic shocks. This inflow of funds can help households meet essential needs, invest in education and health, and reduce vulnerability to poverty. The authors highlight that remittances have both direct and indirect effects on economic growth, as increased household spending stimulates local markets and can catalyze small-scale entrepreneurial activities.

Comparative evidence underscores the multidimensional impact of remittances. Acheampong (2021) found that in Sub-Saharan Africa, remittances reduced poverty incidence but had mixed effects on poverty depth, depending on whether funds were invested in productive activities or consumed. Similarly, Samuel, et al., (2020) showed that in West Africa, remittances significantly narrowed the poverty gap by financing education and healthcare, thereby enhancing long-term welfare outcomes. However, they cautioned that without supportive financial inclusion policies, remittances risk reinforcing short-term consumption patterns rather than structural poverty reduction.

Azebi (2025) underscores the role of remittances in bridging the foreign exchange gap in developing economies, noting that these inflows are crucial for stabilizing national currencies and supporting macroeconomic management. The study emphasizes that remittances often surpass official development assistance in value, making them an indispensable component of national income, particularly in countries with large diasporas.

Urama et al. (2022) provide evidence that remittances can influence structural transformation by enabling households to invest in productive assets such as land, technology, and small businesses. These investments can enhance local economic development and promote human capital accumulation, which in turn supports long-term economic growth. Similarly, Oluwole (2022) highlights that remittances are a strategic tool for poverty alleviation, particularly when integrated into national development strategies and financial inclusion programs.

Theophilus (2025) notes that the effectiveness of remittances depends on the regulatory environment, accessibility of financial systems, and transaction costs. Policies that facilitate secure, low-cost, and efficient

remittance flows maximize their developmental impact. Mbanefo and Ezeabasili (2023) further stress that remittances contribute to social stability by reducing household financial stress and enhancing access to essential services, which can improve overall quality of life and reduce economic inequalities.

Concept of Foreign Direct Investment

Foreign Direct Investment (FDI) is a pivotal driver of economic growth and development, particularly in developing economies such as Nigeria and other West African countries. FDI generally refers to cross-border investments by multinational enterprises in productive assets, including factories, infrastructure, and service sectors, with the aim of obtaining a lasting interest and influence in the host country's economic activities (Udude et al., 2018). It not only provides capital inflows but also facilitates technology transfer, managerial expertise, and access to global markets, thereby contributing to economic modernization and poverty alleviation.

Several scholars have emphasized the multidimensional effects of FDI on poverty reduction and income distribution. Samuel et al. (2024) argue that remittance flows and FDI are interlinked mechanisms through which economic welfare can be enhanced in West African countries. Their study highlights that FDI inflows stimulate job creation, increase household incomes, and reduce poverty levels by directly impacting the labor market and indirectly influencing the broader economic environment. This is supported by Ewubare and Okpoi (2018), who demonstrate that international remittances combined with FDI can lead to significant improvements in living standards by enhancing both consumption and investment capacities of households.

Comparative evidence further illustrates the complexity of FDI's impact. Acheampong (2021) found that in Sub-Saharan Africa, FDI inflows contributed to GDP growth but had limited effects on poverty depth due to concentration in capital-intensive sectors such as oil and mining. Similarly, Butkus et al. (2020) showed that in Eastern Europe, FDI reduced poverty gap only when directed toward labor-intensive industries, underscoring the importance of sectoral allocation. These findings highlight that while FDI can enhance macroeconomic performance, its poverty-reducing potential depends on the absorptive capacity of the domestic economy and the inclusiveness of investment distribution.

Udude et al. (2018) underscore the role of FDI in bridging capital deficits in developing countries. They note that FDI provides financial resources that domestic markets often cannot supply and fosters industrialization by encouraging private sector participation in key economic sectors. Similarly, Okpara et al. (2025) emphasize that remittances, coupled with foreign investments, create synergies that enhance household incomes and reduce inequality, suggesting a complementary relationship between external capital inflows and domestic socio-economic outcomes.

Onwuteaka et al. (2023) provide additional insight into the structural effects of FDI, indicating that foreign investments often catalyze improvements in institutional quality and economic governance. Their analysis highlights that countries with sound regulatory frameworks can leverage FDI more effectively to stimulate sustainable economic growth, mitigate poverty, and promote social development. In line with this, Oniore and Ogwuche (2025) affirm that FDI not only contributes to immediate financial capital but also enhances human capital development, technology adoption, and infrastructure expansion, which are critical for long-term economic resilience and social welfare.

Overall, the conceptual literature illustrates that FDI is more than a mere financial inflow; it is a catalyst for structural transformation and socio-economic improvement. Across studies, the evidence suggests that when combined with effective policies, remittances, and institutional quality, FDI can significantly reduce poverty, improve household income, and contribute to equitable economic growth in developing economies. Nevertheless, the poverty-reducing effect of FDI is not automatic; it depends on sectoral allocation, governance quality, and the ability of domestic institutions to channel inflows into productive, labor-absorbing activities. This multidimensional impact underscores the strategic importance of FDI as a tool for sustainable development and economic empowerment.

Concept of Foreign Portfolio Investment

Foreign Portfolio Investment (FPI) refers to the cross-border investment in financial assets such as equities, bonds, treasury bills, and other money market instruments of a host country, without the investor exercising significant control over the management of the investee firms. Unlike Foreign Direct Investment (FDI), FPI is primarily motivated by short-term returns, portfolio diversification, and capital gains rather than long-term managerial interest. It is usually facilitated through organized financial markets and is highly sensitive to macroeconomic conditions, interest rate differentials, and political stability.

FPI plays a critical role in enhancing capital availability in emerging and developing economies. According to Ehiedu et al. (2023), foreign portfolio inflows contribute to financial market development by increasing liquidity, improving price discovery, and deepening the capital market. Through the inflow of foreign funds, governments and firms can finance budget deficits and investment projects at relatively lower costs. This inflow can also promote efficiency in the financial system by encouraging better corporate governance and transparency, as foreign investors often demand higher disclosure standards.

Comparative evidence highlights both the opportunities and risks of FPI. Acheampong (2021) found that in Sub-Saharan Africa, portfolio inflows supported financial deepening but had limited impact on poverty reduction due to volatility and concentration in speculative assets. Similarly, Butkus et al. (2020) showed that in Eastern Europe, FPI contributed to capital market growth but widened the poverty gap during periods of sudden capital reversals, underscoring the vulnerability of developing economies to external shocks. These findings suggest that while FPI can enhance financial development, its welfare impact depends on stability and effective regulation.

However, FPI is often characterized by volatility due to its speculative nature. Akinbobola et al. (2017) argue that while foreign portfolio investment can stimulate economic growth, it also exposes host economies to external shocks and sudden capital reversals. Rapid outflows of portfolio investment, especially during periods of economic uncertainty, can destabilize exchange rates, reduce foreign reserves, and disrupt financial markets.

Foreign Portfolio Investment is therefore an important component of international capital flows, offering both opportunities and challenges. While it supports capital market development and economic growth, its short-term orientation and high mobility require sound macroeconomic policies, stable financial systems, and effective regulatory frameworks to maximize its benefits and minimize associated risks. In econometric terms, positive coefficients on FPI inflows often indicate deepening poverty gaps due to volatility, while negative coefficients suggest stabilizing effects when inflows are directed toward productive, long-term investments. This distinction is critical for interpreting Nigeria's experience, where portfolio inflows have historically been volatile and less effective in reducing poverty depth compared to FDI and remittances.

THEORETICAL FRAMEWORK

This study is anchored on the Big Push Theory of Standard of Living. The Big Push Theory, propounded by Paul Rosenstein-Rodan (1943), provides a relevant framework for analyzing the impact of foreign capital inflow on the standard of living in developing countries. The theory posits that underdeveloped economies are often trapped in a low-level equilibrium due to market failures, indivisibilities in production, and lack of coordinated investment. Small, isolated interventions may fail to generate sustainable growth; however, large-scale, coordinated investment can trigger industrialization, employment, and income growth, ultimately improving standards of living.

In the context of foreign capital inflows such as foreign direct investment (FDI), loans, and aid, the Big Push Theory suggests that external resources can act as a catalyst for economic development. By providing the necessary capital for infrastructure, industrial projects, and human capital development, foreign investments can help overcome financial and technological constraints, stimulate domestic production, and increase income levels (Rosenstein-Rodan, 1943; Murphy, et al., 1989). The theory assumes that: (1) economies suffer from market failures that prevent incremental growth; (2) coordinated investments, including foreign

capital inflows, are required to achieve critical mass; (3) investments generate positive externalities across sectors; and (4) government or institutional support is necessary to facilitate efficient allocation of resources. Under these conditions, foreign capital can raise employment, improve social services, and enhance access to goods and technology, thereby elevating the standard of living.

Beyond the Big Push, other theoretical perspectives enrich the analysis. Modernization Theory (Rostow, 1960; Todaro & Smith, 2020) views foreign capital inflows as catalysts for structural transformation, arguing that external investments accelerate industrialization, urbanization, and human capital development. In Nigeria's context, FDI in manufacturing and infrastructure aligns with modernization theory by promoting long-term welfare improvements.

Conversely, Dependency Theory (Frank, 1967; Dos Santos, 1970) cautions that reliance on foreign capital can entrench inequality and perpetuate underdevelopment. This perspective is particularly relevant for Nigeria, where heavy dependence on oil-sector FDI and volatile portfolio inflows has often reinforced economic vulnerability rather than alleviating poverty depth.

Institutional Economics (North, 1990) emphasizes the role of governance and institutional quality in mediating the outcomes of foreign capital inflows. Strong institutions ensure that external resources are channeled into productive, labor-absorbing sectors, while weak institutions foster mismanagement, corruption, and rent-seeking. Nigerian evidence (Onwuteaka et al., 2023; Oluwole, 2022) shows that institutional weaknesses often distort the benefits of FDI and remittances, limiting their poverty-reducing potential.

Critics argue that foreign capital alone does not guarantee development. Challenges such as mismanagement, corruption, and poor policy frameworks may limit the positive impact of external investments. Nevertheless, anchored on the Big Push Theory and complemented by Modernization, Dependency, and Institutional perspectives, foreign capital inflows, when strategically coordinated and supported by sound domestic policies, hold significant potential to lift developing economies out of poverty traps and enhance the welfare of their populations.

METHODOLOGY

This study adopted an ex post facto research design to examine the effect of foreign capital inflows on the poverty gap in Nigeria. The study relied on secondary time-series data covering the period from 2000 to 2024, which were sourced from the World Bank Development Indicators, Central Bank of Nigeria Statistical Bulletin, and National Bureau of Statistics. Foreign capital inflows were proxied by foreign direct investment (FDI), foreign portfolio investment (FPI), and workers' remittances, while the poverty gap index served as the measure of poverty.

The population of this study comprised Nigeria's macroeconomic indicators related to foreign capital inflows and poverty outcomes for the period 2000-2024. Specifically, it covered all annual observations on foreign direct investment, foreign portfolio investment, and workers' remittances inflows into Nigeria, as well as the national poverty gap index. These data represented the entire population of relevant time-series information available for Nigeria within the study period. The population also included institutional records from the Central Bank of Nigeria, the National Bureau of Statistics, and the World Bank, which collectively captured the full scope of foreign capital inflows and poverty gap dynamics in Nigeria between 2000 and 2024.

The study relied on secondary data obtained from the World Development Indicators (WDI) database of the World Bank for the period 2000-2024. Annual time-series data were used for the study. The WDI was selected as the data source due to its credibility, consistency, and wide acceptance in empirical economic research, ensuring reliable and comparable data for meaningful econometric analysis.

The study employed descriptive and inferential methods of data analysis. Descriptive analysis summarized the data using tables and statistical measures, while inferential analysis applied econometric techniques to

examine relationships, test hypotheses, and draw valid conclusions on the effect of foreign capital inflows on the poverty gap. Specifically, the econometric strategy involved unit-root tests (Augmented Dickey-Fuller and Phillips-Perron) to determine the stationarity properties of the variables. Given the mixed order of integration expected in macroeconomic time-series, the Autoregressive Distributed Lag (ARDL) bounds testing approach was adopted to examine long-run cointegration relationships between foreign capital inflows and the poverty gap.

The ARDL model was complemented with an Error Correction Mechanism (ECM) to capture short-run dynamics and the speed of adjustment toward long-run equilibrium. Diagnostic tests, including serial correlation, heteroskedasticity, and stability tests (CUSUM and CUSUMSQ), were conducted to ensure the robustness of the model. The choice of ARDL was justified by its suitability for small sample sizes, its ability to handle variables integrated at different orders ($I(0)$ and $I(1)$), and its efficiency in estimating both short- and long-run effects simultaneously. Overall, this methodological framework ensured that the study not only identified the statistical relationships between foreign capital inflows and poverty gap but also provided robust evidence on both short-term fluctuations and long-term welfare implications in Nigeria.

RESULTS AND DISCUSSIONS

The descriptive statistics (Table 1) show that poverty gap (POV) has a mean of 14.72, with substantial variation (Std. Dev. = 6.36). The positive skewness (1.22) and Jarque-Bera probability (0.035) confirm non-normal distribution, reflecting occasional spikes in poverty levels. Remittances (REM) are normally distributed with moderate variability, while FDI is stable and normally distributed. FPI, however, is highly volatile, with strong negative skewness and high kurtosis, confirming its speculative nature.

Table 1: Descriptive Statistics

	POV	REM	FDI	FPI
Mean	14.72037	4.258519	1.363704	3.857037
Median	12.85000	4.500000	1.370000	3.790000
Maximum	27.43000	8.310000	2.930000	5.630000
Minimum	9.000000	0.820000	-0.040000	0.560000
Std. Dev.	6.362316	2.112510	0.776541	1.087834
Skewness	1.220196	-0.229271	0.287867	-1.530230
Kurtosis	2.964529	2.008897	2.195102	6.460577
Jarque-Bera	6.701363	1.341614	1.101748	24.00976
Probability	0.035060	0.511296	0.576446	0.000006
Observations	27	27	27	27

Source: Authors Computation, (2026)

REM has a mean of 4.26 and median of 4.50, indicating a fairly symmetrical distribution. Its moderate standard deviation (2.11) suggests reasonable variability. The slight negative skewness (-0.23) and Jarque-Bera probability (0.511) indicate normal distribution.

FDI shows a mean of 1.36 with relatively low dispersion (Std. Dev. = 0.78). The small positive skewness (0.29) and insignificant Jarque-Bera probability (0.576) confirm normality.

FPI has a mean of 3.86, but its strong negative skewness (-1.53) and high kurtosis (6.46) indicate extreme fluctuations. The very low probability (0.000006)

Correlation Analysis

The correlation matrix presents the degree of linear association among POV, REM, FDI, and FPI. The result shows a strong negative relationship between POV and REM (-0.671355), indicating that increases in remittances are associated with significant reductions in poverty levels. This suggests that remittance inflows may play an important role in poverty alleviation.

POV has a very weak positive correlation with FDI (0.016718), implying that foreign direct investment has little or no direct linear relationship with poverty within the study period. Similarly, the relationship between POV and FPI (-0.104371) is weak and negative, suggesting that foreign portfolio investment has minimal influence on poverty reduction.

Table 2: Correlation Matrix

	POV	REM	FDI	FPI
POV	1.000000	-0.671355	0.016718	-0.104371
REM	-0.671355	1.000000	0.212239	-0.052012
FDI	0.016718	0.212239	1.000000	-0.036934
FPI	-0.104371	-0.052012	-0.036934	1.000000

Source: Authors Computation, (2026)

REM shows a weak positive correlation with FDI (0.212239), indicating that higher remittances may slightly coincide with increased foreign direct investment. However, REM has a very weak negative relationship with FPI (-0.052012), suggesting little interaction between these variables. FDI and FPI also exhibit a very weak negative correlation (-0.036934), implying that the two forms of foreign capital flows move independently. Overall, only remittances demonstrate a meaningful association with poverty reduction

Inferential Analysis Results

The unit root results (Table 3) confirm that POV, REM, and FDI are integrated of order one, I(1), while FPI is stationary at level, I(0). This mix of I(0) and I(1) variables justifies the ARDL approach, which accommodates different integration orders.

Table 3: Unit Root Test

Variables	@level	@ 1 ST difference	Remark
POV	-2.242324	-4.011685	I(1)
REM	-2.131087	-4.844061	1(1)
FDI	-1.191407	-8.241287	1(1)
FPI	-3.481362	-	1(0)

Source: Authors Computation, (2026)

In contrast, FPI is stationary at level with a test statistic of -3.481362, which is sufficiently large in absolute value to reject the null hypothesis of a unit root. Therefore, FPI is integrated of order zero, $I(0)$.

Overall, the mixture of $I(1)$ and $I(0)$ variables suggests that an Autoregressive Distributed Lag (ARDL) model is appropriate for further estimation, since ARDL accommodates variables integrated at different orders, provided none is $I(2)$

Models' Estimation Outcomes for Research Objectives 1, 2, 3

The regression results reveal the dynamic relationship between POV and the explanatory variables. The coefficient of the lagged dependent variable, POV (-1) (0.960217), is positive and highly significant ($p = 0.0000$), indicating strong persistence in poverty levels. This implies that previous poverty conditions significantly influence current poverty, suggesting structural rigidity in poverty reduction.

REM has a positive coefficient (0.448715) and is marginally significant at the 10% level ($p = 0.0737$). This suggests that remittances may have a mild positive effect on poverty within the period, possibly reflecting consumption-driven rather than productive investment use of remittance inflows

Table 4: Multiple Regression Results

Dependent Variable: POV				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.517701	2.504635	-0.605957	0.5517
POV(-1)	0.960217	0.088810	10.81203	0.0000
REM	0.448715	0.237090	1.892593	0.0737
FDI	-1.095381	0.471260	-2.324366	0.0313
FPI	0.242217	0.292915	0.826922	0.4185
R-squared	0.914618	Mean dependent var		13.14417
Adjusted R-squared	0.896643	S.D. dependent var		4.735645
S.E. of regression	1.522469	Akaike info criterion		3.861595
Sum squared resid	44.04032	Schwarz criterion		4.107023
Log likelihood	-41.33915	Hannan-Quinn criter.		3.926708
F-statistic	50.88258	Durbin-Watson stat		2.188083
Prob(F-statistic)	0.000000			

Source: Authors Computation, (2026)

The ARDL regression (Table 4) shows strong persistence in poverty levels, with POV(-1) highly significant (0.960, $p = 0.000$). Remittances have a positive but marginally significant coefficient (0.449, $p = 0.074$), suggesting consumption-driven rather than investment-driven effects. FDI has a negative and significant

coefficient (-1.095, $p = 0.031$), confirming its poverty-reducing role through employment and productivity gains. FPI is positive but insignificant (0.242, $p = 0.419$), reflecting its volatility and limited developmental impact. The model explains 91% of poverty variation ($R^2 = 0.915$), with no autocorrelation ($DW = 2.19$).

Table 5: Variance Inflation Factors

	Coefficient	Centered
Variable	Variance	VIF
C	5.740978	NA
POV(-1)	0.005747	2.568915
REM	0.055687	2.503376
FDI	0.198206	1.302232
FPI	0.083328	1.092427

Source: Authors Computation, (2026)

The Variance Inflation Factor (VIF) results indicate that multicollinearity is not a serious concern in the model. The centered VIF values for POV (-1) (2.57), REM (2.50), FDI (1.30), and FPI (1.09) are all below the common threshold of 10, and even well below 5, suggesting low correlation among the independent variables. This implies that each explanatory variable contributes unique information to the model without significant overlap. Consequently, the estimated coefficients are reliable and not distorted by multicollinearity. The constant term (C) has no centered VIF, which is expected and does not affect the interpretation of the model.

Discussion of Findings for Objective One

The empirical result reveals that remittances exert a positive but statistically insignificant effect on poverty reduction. Although the positive coefficient suggests that increased remittance inflows are associated with improvements in welfare, the lack of statistical significance implies that the impact is not strong enough to produce meaningful poverty reduction within the study period. This finding indicates that remittances may primarily support household consumption rather than long-term productive investments capable of generating sustainable income.

This outcome aligns with the argument of Wagle and Devkota (2018), who contend that remittances often improve short-term household welfare but may not significantly reduce structural poverty when not channeled into productive ventures. Similarly, Samuel, Abe, and Joel (2024) emphasize that while remittances enhance household liquidity, weak institutional frameworks and limited financial inclusion can constrain their poverty-reducing capacity.

However, the result contrasts with Samuel, et al., (2020), who find a significant poverty-reducing effect of remittances in economies with supportive macroeconomic conditions. Omon (2020) also reports that remittance inflows can meaningfully reduce poverty when complemented by sound domestic policies. More recently, Okpara et al. (2025) argue that the effectiveness of remittances depends largely on their allocation between consumption and investment.

Overall, the positive but insignificant result suggests that remittance alone may be insufficient for substantial poverty reduction without complementary structural and policy support mechanisms. This finding resonates

with Dependency Theory, which cautions that external inflows may reinforce consumption dependency unless supported by institutional reforms and financial inclusion policies.

Discussion of Findings for Objective Two

The empirical findings reveal that foreign direct investment (FDI) has a negative and statistically significant effect on poverty, implying that increased FDI inflows contribute meaningfully to poverty reduction. This suggests that FDI promotes job creation, enhances productivity, facilitates technology transfer, and stimulates economic growth, which collectively improves household income and living standards.

This result is consistent with the findings of Oke, et al., (2023), who report that FDI significantly reduces poverty through employment generation and increased industrial output in developing economies. Similarly, Odhiambo and Magombeyi (2017) find that FDI plays a crucial role in poverty alleviation, particularly when supported by sound macroeconomic policies and financial sector development.

The finding also aligns with Ncube and Lufumpa (2017), who argue that foreign capital inflows can enhance inclusive growth by expanding productive capacity and creating economic opportunities. Furthermore, Magombeyi and Odhiambo (2017a) emphasize that FDI contributes to poverty reduction when host countries maintain stable institutions and favorable investment climates.

Overall, the significant negative relationship between FDI and poverty supports the view that foreign direct investment serves as an important channel for development and poverty alleviation. However, its effectiveness largely depends on the absorptive capacity of the domestic economy and the presence of supportive institutional frameworks. This finding is consistent with Modernization Theory, which sees FDI as a catalyst for structural transformation, but also with Institutional Economics, which stresses that governance quality determines whether FDI translates into sustainable poverty reduction.

Discussion of Findings for Objective Three

The empirical result indicates that foreign portfolio investment (FPI) has a positive but statistically insignificant effect on poverty reduction. While the positive coefficient suggests that increased FPI inflows may coincide with slight improvements in poverty alleviation, the lack of statistical significance implies that FPI does not meaningfully impact poverty levels within the study period. This finding reflects the short-term and volatile nature of FPI, which often prioritizes financial returns over long-term developmental objectives, limiting its capacity to support sustained poverty reduction.

This outcome is consistent with the arguments of Ehiedu, et al., (2023), who note that portfolio investments often fail to generate substantial employment or income benefits, making their effect on poverty marginal. Similarly, Akinbobola, et al., (2017) highlight that FPI inflows tend to be speculative and susceptible to sudden reversals, which reduces their developmental effectiveness. Ahmad, et al., (2015) also report that FPI contributes primarily to capital market liquidity rather than structural economic improvements that could alleviate poverty. Nwaokoro (2016) further emphasizes that without strong domestic financial institutions and regulatory frameworks, portfolio inflows are unlikely to translate into meaningful poverty reduction.

Overall, the finding suggests that while FPI can provide supplementary capital for economic growth, its short-term orientation and volatility limit its role in reducing poverty. Sustainable poverty alleviation may therefore depend more on long-term investments, such as FDI or domestic capital accumulation, rather than on portfolio inflows alone. This aligns with Dependency Theory, which warns that speculative inflows can exacerbate vulnerability, and underscores the importance of Institutional Economics, where strong regulatory frameworks are needed to stabilize FPI's impact.

CONCLUSION

This study provides important insights into the differential effects of foreign capital inflows on poverty reduction in Nigeria. The analysis shows that foreign direct investment (FDI) plays a significant role in

alleviating poverty by generating employment, enhancing productivity, and facilitating technology transfer, thereby improving household income and living standards. This finding emphasizes that long-term, stable investments with tangible economic spillovers are crucial for meaningful poverty reduction.

In contrast, remittances and foreign portfolio investment (FPI) exhibit positive but statistically insignificant effects on poverty. Remittances primarily support household consumption and short-term welfare, while FPI is short-term and volatile, contributing more to capital market liquidity than to structural economic improvements. These outcomes highlight that remittances and FPI, although beneficial for economic activity, are insufficient on their own to substantially reduce poverty.

Therefore, the study underscores the need for policy interventions and institutional mechanisms that channel remittances and portfolio inflows into productive investments, complement FDI, and strengthen the domestic economic environment. Anchored on the Big Push Theory and complemented by Modernization, Dependency, and Institutional perspectives, the findings confirm that foreign capital alone is not enough because its poverty-reducing potential depends on supportive governance, financial inclusion, and sound macroeconomic policies.

RECOMMENDATIONS

- **Productive Use of Remittances:** Governments and financial institutions should develop programs that encourage households to invest remittance inflows in small businesses, education, or productive ventures rather than solely on consumption, thereby enhancing their long-term poverty-reducing impact.
- **Strengthening FDI Attraction:** Policymakers should create a stable macroeconomic environment, strengthen legal frameworks, and provide investment incentives to attract long-term FDI, particularly in sectors that generate employment and technology transfer, ensuring sustained poverty reduction.
- **Stabilizing FPI Flows:** Financial authorities should implement policies that stabilize portfolio investment flows and channel them into productive sectors, such as infrastructure and industrial development, to reduce volatility and enhance their contribution to economic growth and poverty alleviation.
- **Institutional Reforms:** To maximize the benefits of foreign capital, countries should improve governance, financial inclusion, and institutional capacity, ensuring that all forms of external capital complement domestic development strategies and contribute effectively to sustainable poverty reduction.

Contributions to Knowledge

- The study demonstrates that remittances, while beneficial for household consumption, have limited impact on structural poverty unless channeled into productive investments. This insight contributes to knowledge on the importance of designing programs that encourage the productive use of remittances for small businesses, education, and entrepreneurship.
- By establishing a statistically significant negative relationship between FDI and poverty, the study confirms that long-term, stable foreign investment can generate employment, improve productivity, and transfer technology, providing empirical support for the developmental potential of FDI in poverty alleviation.
- The research highlights that FPI is volatile and largely ineffective in reducing poverty independently, emphasizing the need for policies that stabilize and direct portfolio inflows toward productive sectors. This adds to knowledge on the limitations of short-term capital flows in promoting sustainable development.
- The study underscores the importance of robust institutional frameworks, governance, and financial inclusion in maximizing the benefits of all forms of foreign capital. This contribution enriches the

understanding that foreign capital alone is insufficient for poverty reduction, and its effectiveness is strongly influenced by domestic policy and institutional support.

POLICY IMPLICATIONS

The findings of this study carry important policy implications for Nigeria's pursuit of poverty reduction and sustainable development. First, the significant poverty-reducing effect of FDI underscores the need for policies that prioritize long-term, stable investments in labor-absorbing sectors such as manufacturing, agriculture, and infrastructure. By creating employment opportunities and facilitating technology transfer, FDI can serve as a cornerstone of inclusive growth. Policymakers should therefore strengthen investment promotion strategies, reduce bureaucratic barriers, and ensure macroeconomic stability to attract and retain productive foreign investors.

Second, the positive but insignificant effect of remittances highlights the importance of channeling household inflows into productive ventures. Nigeria's large diaspora community provides a steady stream of remittances, but without financial inclusion programs and supportive institutional frameworks, these funds risk being confined to consumption. Policies that incentivize remittance-backed entrepreneurship, education financing, and housing development can transform remittances into engines of structural poverty reduction.

Third, the volatility and limited developmental impact of FPI call for stronger regulatory oversight and capital market reforms. While FPI enhances liquidity and deepens financial markets, its speculative nature exposes Nigeria to external shocks. Financial authorities should design mechanisms that stabilize portfolio flows, such as prudential regulations, transparent disclosure standards, and instruments that channel inflows into infrastructure bonds or industrial financing. This would reduce vulnerability to sudden reversals and align FPI with long-term development goals.

Finally, across all forms of foreign capital, institutional quality emerges as a decisive factor. Weak governance, corruption, and policy inconsistency undermine the poverty-reducing potential of external inflows. Strengthening institutions, enhancing transparency, and expanding financial inclusion are therefore critical to ensuring that foreign capital complements domestic development strategies. In line with Institutional Economics, Nigeria's ability to translate foreign inflows into poverty reduction depends less on the volume of capital and more on the effectiveness of its governance structures.

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