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Financial Inflows and Poverty Rate in Nigeria

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Abstract: Povertylevel has gained massive attention as an important societal concern particularly since its emergence nearly forty years ago. Universally, the role of these financial inflows is recognized as relevant resources to finance development and reduce poverty level. However, Nigeria remains and offers a compelling case study within the context of developing economies, particularly regarding sustainable development action points. Despite being the most populous and one of Africa's largest economies, Nigeria seems to be lagging behind in the actualization of the targets set for achieving the United Nations' Sustainable Development Goals (SDGs) of poverty reduction as a result of financial constraints. Therefore, this study examined the effect of financial inflows on poverty rate in Nigeria between 1990 to 2024. The study employed Fully Modified Ordinary Least Square, with inference at 5% significance level. The findings of the study reveal that in the long run, foreign portfolio investment significantly reduces poverty, 2.37% decline in poverty, external debt significantly increases poverty. Other inflows, including foreign aid, foreign direct investment, and diaspora remittances, show negative and positive but statistically insignificant long-run effects respectively. The study concludes that financial inflows exert differential and context-specific impacts on Nigeria's poverty rate. Based on the findings of this study, policies should focus on attracting productive investments that create employment and improve poverty reduction. Simultaneously, debt management strategies must ensure that borrowing is aligned with poverty-reducing projects, avoiding excessive or poorly utilized external debt that could intensify socio-economic vulnerabilities.

Keywords: Foreign Direct Investment, Foreign portfolio investment, Poverty Rate

INTRODUCTION

Poverty gained massive attention as an important societal concern particularly since its emergence nearly forty years ago. As a matter of fact, the growing need to address global challenges and aim for a more sustainable future resulted to the United Nations (UN) resolve to assemble and urge countries all over the world to tackle critical sustainability issues. To ensure coordinated global efforts towards sustainability, the United Nations (UN) introduced seventeen (17) Sustainable Development Goals (SDGs) in 2015 as a key part of the 2030 Agenda for Sustainable Development with aim at fostering sustainable economic growth, ensuring clean and sustainable environment, and eradicating poverty among others. It is pertinent to note that since the introduction and establishment of the post-2015 sustainable development agenda, countries have truly faced challenges of achieving poverty reduction.

Financial inflows including foreign direct investment, foreign portfolio investment, foreign aids, diaspora remittances, and external debt have been identified and

acknowledged as significant contributors to promoting sustainable development (Slimani et al., 2024). Universally, the role of these financial inflows is recognized as relevant resources to finance development. This obviously emphasizes their importance as complementary resources to national development efforts. Remarkably, several scholars have highlighted the significance of financial inflows in attaining economic goals and objectives (Makiela & Ouattara, 2018) as well as social goals (Dhahri & Omri, 2020a). However, it is pertinent to note that these financial inflows have the potential to also pose major risk to the poverty level because of their propensity to generate financial dis-inclusion and deprive majority of people without actual technical know-how (Ahmad et al, 2019).

Nigeria remains and offers a compelling case study within the context of developing economies, particularly regarding sustainable development action points. Despite being the most populous and one of Africa's largest economies, Nigeria seems to be lagging behind in the actualization of the targets set for achieving the United Nations' Sustainable Development Goals (SDGs) of poverty reduction as a result of financial constraints (Dhahri & Omri, 2020a). Financial inflows such as foreign direct investments, foreign portfolio investments, remittances, foreign aid and external debt are considered to be key drivers of poverty reduction. For instance, financial inflows are usually connected with various benefits like employment opportunities (SDG 8), poverty reduction (SDG 1), human capital development (SDG 4), improved health & well-being (SDG 3), and sustainable climate actions (SDGs 11 & 13). However, Nigeria faces several challenges including foreign portfolio inflows which are volatile and reversible as well as foreign direct investments that are sometimes linked to projects that can potentially worsen the level of poverty (Ahmad et al, 2019).

While much research focuses on the impact of foreign portfolio investment, foreign direct investment, foreign aids, diaspora remittances, and external debt on economic growth in Nigeria (Oketah et al, 2025; Huthaifa et al, 2021; Anetor, 2019; Loto & Alao, 2016; Ugwuegbe et al, 2016; Chigbu et al, 2015; Okpoto, 2015), little indeed explores their link to sustainable development in Nigeria. This study aims to fill that gap by examining how these financial inflows influence sustainable development in Nigeria, offering insights into the three key dimensions of sustainable development such as economic (real gross domestic product), social (life expectancy ratio, poverty rate, & literacy rate) and environmental (carbon-dioxide emissions–Co2) indicators. Understanding this relationship is important for policymakers, governments, think-tank, and donors, as it can lead to better decisions that can potentially strengthen Nigeria's efforts to attaining the United Nations Sustainable Development Goals (SDGs).

Although financial inflows play a vital role in shaping macroeconomic outcomes, there is a notable gap in academic and empirical research that directly investigates its impact on sustainable development in Nigeria. While much existing literature addresses how variables such as of foreign portfolio investment, foreign direct investment, foreign aids, diaspora remittances, and external debt influence overall economic indicators, relatively little focus has been given to how these financial inflows specifically affect poverty rate or poverty reduction. This study will address the need to examine how financial inflow variables impact poverty reduction in Nigeria. The rest of the study was formatted in this manner: In section 2, the study provided the literature review and theoretical framework. In section 3, the methodology was provided. In section 4, the data analysis, results and discussions were considered. In section 5, the conclusion and recommendation were presented.

LITERATURE REVIEW

Conceptual Review

Financial Inflows

According to Djalab and Said (2023), many scholarly research studies have employed different terms to explain financial or capital inflows, stating that external capital refers to capital flows from abroad into the local economy for productive purposes. Hence, capital or financial inflows are the influx of external resources into the local economy for the purposes of trade, investment and business activities. Ozekhome (2017) explained that the influx of capital from abroad increases local capital which is often not sufficient in developing economies. As a matter of fact, the bond between capital and growth can be explored when nations engage in attracting and sourcing capital abroad. Sources of these types of capital can be from financial inflows which in this study include foreign direct investments, foreign portfolio investments, foreign aids, diaspora remittances and external debt. The relationship between these variables and economic growth is re-examined because foreign financial inflows are necessary for economic growth in emerging and frontier economies. (Guenouni & Ameur, 2020). According to Tyson & Beck (2018), international capital volatility may further worsen the economic situations of receiving countries which can undermine the fight against inequality and rising poverty. However, the extent or degree of this volatility differs from one financial inflow to another even while different inflows may be volatile. For example, relative to foreign portfolio investment, foreign direct investment is known to be less volatile and with better growth prospect (Tsaurai, 2017), even as foreign portfolio investments appear to be pro-cyclical and is subjected to fluctuations based on the business cycle (Courage, 2022).

Poverty Rate

Poverty rate, according to Organization for Economic Cooperation and Development (OECD), is classified into three broad categories, namely child poverty which covers 0-17 years, working-age poverty that involves persons of 17-66 years of age, and the elderly poverty which comprises people of 66 years and above. On a relative basis, the difference between two countries with the same poverty rate is the income level of the poor. To measure poverty rate is to ascertain the ratio of the number of people whose income level are below the World Bank's poverty line of $1.90 taken as half the median income of the total population.

Theoretica Review: Neo Classical Theory of Capital Flow

The neoclassical theory of capital flow was developed by Robert Solow and Trevor Swan (1956). The theory posits that capital flows from developed to developing countries where it is most needed. These countries are expected to have wide investible projects but to face liquidity constraints. Hence, an injection of foreign capital into an investible project is expected to positively impact growth with an equally higher return for holders of capital. In support, Combes et al., (2017) opined that the injection of capital into the economy frees the economy from liquidity constraints and hence could result in growth. These inflows could affect growth via their spillover effects through technological innovation in the mode

of production and operation (Bosworth & Collins, 1999; Almfraji & Almsafir, 2014). Umut et al. (2014) supported this theory as it emphasized that the APT is a good approximation for highly liquid stocks, although even there it does not apply well for large traders or for modelling transaction costs. They extend the classical approach by formulating a new model that takes into account illiquidities. However, Munshi (2014) flow the vagueness of the theory, through methodological issues, Munshi (2014) stated that the theory as stated encouraged data dredging and also lead to multicollinearity issues in the regression procedure because the multiple explanatory variables chosen, more often than not, turned out to be correlated with each other

The neo structuralists, on the other hand, argued that foreign capital could hurt economic growth and hence developing countries should be cautious in seeking financial integration (Agosin, 2006). Phimmavong (2017) asserted that foreign capital may serve as a substitute to domestic savings and investment and hence it increases the levels of vulnerability of a country to external shocks. However, the sceptics/critics school of thought holds that free capital flows lead to crisis where there is no proper economic framework and policy response. Thus, the latter school of thought is sceptical over the role of capital inflows. However, the corollary theory of capital flow argues that even if capital flows do not have direct benefit, they have indirect merits. Based on the argument of the corollary school, foreign investors request for release of more information, appointment of independent directors and better corporate governance (Eichengreen, 2007). Presence of foreign investors offers more corollary benefits emanating from their advanced technological and organizational know-how. The foreign investors also strengthen competition, enhance efficiency, and encourage development of new products (Prasad, Rajan & Subramanian, 2007). Thus, it is expected that their presence will lead to deepening of financial markets and improved market performance. This study hinges on the theory of capital flows as corollary benefits of foreign investment is expected to enhance the performance of the stock market

Empirical Review

Agu and Ugwuoke (2024) investigated the role of external debt on poverty alleviation in Nigeria from 1981 to 2021. The study employed Autoregressive Distributed Lag (ARDL) as the econometric technique for the estimation of the variables in the model, while Augmented Dickey-Fuller (ADF) Unit Root test, Bound Co-integration test, and Error Correction Model (ECM) were used in the empirical analysis. The result of the co-integration showed that a long-run equilibrium relationship existed among the variables. Also, the long-run findings revealed that external debt had a significant and positive impact on the poverty rate in Nigeria.

Olowookere et al (2021) examined the nexus between foreign capital inflows and poverty reduction in Nigeria with implications for sustainable development. The study utilized annual data spanning from 1990 to 2019 and employed the Fully Modified Ordinary Least Squares (FMOLS) and Granger causality estimation techniques. The findings revealed a long-run equilibrium relationship between foreign capital inflows and poverty reduction in Nigeria. The study further established a unidirectional causality from poverty reduction to foreign direct investment and foreign portfolio investment, while a feedback relationship existed between poverty reduction and remittances. These results imply that poverty

reduction significantly drives the inflow of foreign capital components such as FDI, FPI, and remittances.

Expanding on the social dimension, Oyamendan et al (2024) examined foreign financial inflows, Islamic banking, and poverty alleviation in Sub-Saharan Africa over 1991–2021 using the panel ARDL technique. The study used ODA, external debt, remittances, and Islamic finance instruments as explanatory variables, with household consumption as a proxy for poverty alleviation. The results showed that ODA and remittances significantly reduce poverty, whereas external debt worsens it. The study highlighted that Islamic banking, with its interest-free and risk-sharing features, presents a sustainable financial alternative that promotes inclusion and reduces poverty dependency.

Ngong et al (2025) examine remittance inflows and GDP growth across eleven emerging African economies (1990–2022) with panel ARDL and robust mean-group estimators. Contrary to conventional expectations, remittances are found to have a statistically significant negative effect on GDP growth, and private-credit also depresses growth in their sample prompting authors to highlight structural inefficiencies, high remittance costs and weak financial intermediation as explanatory channels.

Umar et al (2024) use ARDL (with FMOLS/DOLS robustness checks) on 1990–2019 South Asia data to study financial development, FDI inflows and employment. Their long-run estimates indicate that both financial sector development and FDI significantly raise employment rates, with gross capital formation, growth and exports further supporting job creation while population growth reduces it. The study's policy message is that deepening financial markets and attracting stable FDI can be tools for employment generation, but complementary policies (skills, industrial policy, trade promotion) are required to convert inflows into broad-based job opportunities.

Madueke et al (2022) investigated the impact of foreign direct investment on poverty reduction with implication on sustainable development in Nigeria from 1985 to 2020. The study employed Autoregressive Distributed Lag (ARDL) technique for the estimation of the variables in the model. The results of the study revealed that foreign direct investment impacted negatively on poverty reduction in Nigeria. The findings also showed that there was a long run relationship among all the variables, namely poverty head count ratio, gross fixed capital formation, and real exchange rate. Furthermore, lag value result suggested that gross fixed capital formation had a significant effect on poverty head count ratio in Nigeria. As a result of this, the study recommended that foreign direct investment policies should be properly framed in a bid to make it growth robust in Nigeria so as to attain and achieve sustainable development goals (SDGs).

Adesiyan (2014) examined the impact of foreign direct investment on poverty reduction in Nigeria from 1980 to 2009 using the Error Correction Model (ECM). The results of the study revealed that while poverty reduction was negatively related to inflation, national debts, and human capital, it was positively linked to foreign direct investment, government expenditure, and infrastructure. According to the study, one important observation in the research work was relationship between foreign direct investment and poverty reduction which indicated that foreign direct investment maintained a positive link with poverty reduction. More importantly, and from the recommendation point of view, the government of Nigeria should create an enabling environment that would encourage long

term foreign capital inflows into the country, particularly the funds that would prompt employment opportunities across the key segments of the economy.

Reiter and Steensma (2017) investigated the effect of foreign direct investment on poverty alleviation and economic development in East Asian countries from 1995 to 2015. The study used a mixed-methods approach, combining qualitative analysis of 10 East Asian nations with quantitative method to assess the effect of foreign direct investment on poverty and development indicators. The results of the study revealed that foreign direct investment significantly contributed to poverty reduction and economic development in East Asia. Accordingly, the qualitative case studies underscored the successful cases of foreign direct investment projects that impacted positively on local communities through employment creation opportunities and key infrastructure development. It was therefore recommended that East Asian nations should prioritize policies and regulations that can sustainably attract high quality foreign direct investments, while ensuring that foreign direct investment projects align with their respective national development goals.

Garcia-Fuentes et al (2025) examined the effects of remittances on poverty for 130 developing nations from 1990 to 2019. The study employed panel generalized methods of moments instrumental variable (PGMM-IV) for the estimation of the variables in the model. The findings of the study revealed that remittances reduced poverty through their direct impact and human capital that enhanced the total impacts of remittances on poverty. It was found out that a 10% rise in per capita remittances decreased the poverty level by 1.3%, poverty severity by over 3%. And poverty depth by around 2%. Furthermore, human capital decreased poverty level, severity, and depth. As a result, low and middle-income nations were advised to adopt policies, rules and regulations that would optimally reduce costs associated with remittances and incentivize education in a bid to enhance the impacts of remittances on poverty.

Kayani (2022) examined the impact of foreign remittances on poverty reduction in Uzbekistan from 2008 to 2019. As a matter of fact, remittances are known to have persistently played an important role in supporting the economies of low and middle-income developing nations. Uzbekistan, the third biggest leading recipient of nation of foreign remittances in Central Asia region, has benefited from the inflows of remittances into the country and this has provided an incredible pillar to the economy of the country. The study used the Ordinary Least Square Regression for the estimation of the variables in the model. The results of the study revealed that the relationship between foreign remittances and poverty reduction was insignificant. One of the key reasons attributed to this finding was the possibility that remittances in Uzbekistan could not be pro-poor because several migrant workers preferred to settle down in Russia with their family members.

Abduvaliev and Bustilo (2020) investigated the impact of remittances on economic growth and poverty reduction amongst the post-Soviet states (10 selected former post-Soviet republics – Commonwealth of Independent States –CIS) relative to other external sources of capital like foreign direct investments and foreign aid. The study used the ordinary least square method, fixed effect model and random effect model for the estimation of the variables in the model. The results of the study showed that on the average, a 1% rise in remittance inflows resulted in 0.25% increase in GDP per capita and a 2% drop in poverty severity. From this result, remittances seemed to have led to a significant reduction in poverty due to rising income and growing consumption levels.

Falana (2024) examined the effects of foreign aid on Nigeria's economic development and poverty reduction. The study used the Autoregressive Distributed Lag (ARDL) model for the estimation of variables such as inflation, population growth, foreign direct investment, savings, and government expenditure. The results of the study suggested that while foreign aid bolstered economic growth, it also led to dependency and inefficiencies over time. Furthermore, factors such as inflation impacted negatively on poverty by reducing real income, and corruption affected adversely the effectiveness of aid. Some of the recommendations of the study are the need for policy interventions regarding economic diversification, corruption measures, and sustained investment in human capital in order to ensure persistent growth and development as well as poverty reduction in Nigeria.

Iwegbu and Dauda (2022) investigated foreign aid effectiveness in poverty reduction in Africa with focus on the role of regional fiscal policy on education and health from 1980 to 2017. The study used panel dynamic ordinary least square technique for the estimation of the variables in the model. The results of the study revealed that foreign aid combined with robust fiscal policy on education significantly enhanced the income level in all the regions apart from Central Africa, consumption in the Central and Western regions. Also, foreign aid complemented with fiscal policy in education and health reduced poverty head-count in the West and Central regions in the continent of Africa. The study therefore recommended that to sustain the robustness of foreign aid in Africa, there was the need to increase governments' budget allocations to the education and health sectors to deepen households' income.

METHODOLOGY

This study premised on the effect of financial inflows on poverty reduction in Nigeria. The study adopted an *ex-post factor* research design, hence, leveraging secondary data. The data for the study were measures of the financial inflows and poverty rate. The variables for poverty level are poverty rate (POV) and on the other hand, financial inflows are proxied by foreign portfolio investments (FPI), diaspora remittances (DSRE), foreign aids (FNAD), foreign direct investments (FDI) and external debt (EXDEBT). The data were extracted from the Statistical Bulletin of the Central Bank of Nigeria, and World Bank Development Indicators (WDI), covering the period of 31 years from 1994 to 2024.

Model Specification

The study is anchored on the impact of financial inflows on poverty rate in Nigeria, and consistent with the work of Falana (2024). The econometric model, we considered linear relationship between financial inflow and real gross domestic product as a follow:

$$POV_t = \gamma_o + \gamma_1 DSRE_t + \gamma_2 FPI_t + \gamma_3 FNAD_t + \gamma_4 FDI_t + \gamma_5 EXDEBT_t + \mu_t$$

Where:

- POV = Poverty Rate (POV)
- DSRE = Diaspora Remittances (DSRE)

- FPI = Foreign Portfolio Investment (FPI)
- FNAD = Foreign Aids (FNAD)
- FDI = Foreign Direct Investments (FDI)
- EXDEBT = External Debt (EXDEBT)

Since the variables are in different measurements, regressing this nature of the variables leads to the problem of heteroskedasticity, therefore, in order to avoid the issue of heteroskedasticity, the variables will be rescaled into ratio through logging, thus the model is re-specified in a log linear form:

$$POV_t = \gamma_o + \gamma_1 lnDSRE_t + \gamma_2 lnFPI_t + \gamma_3 lnFNAD_t + \gamma_4 lnFNDI_t + \gamma_5 lnEXDEBT_t + \mu_t$$

Where:

- Ln = Natural log
- γ_0, = Intercept, which depicts the value of poverty rate when Diaspora Remittances (DSRE), Foreign Portfolio Investment (FPI), Foreign Aids (FNAD), Foreign Direct Investments (FDI), External Debt (EXDEBT) are held constant.
- γ_1, γ_2,…, γ_5 = Regression Coefficients measures the percent at which the poverty rate change, giving that Diaspora Remittances (DSRE), Foreign Portfolio Investment (FPI), Foreign Aids (FNAD), Foreign Direct Investments (FDI), External Debt (EXDEBT) change by a unit.
- μ = Error Term or Residual captures all the influences on the poverty that are unexplained by the Diaspora Remittances (DSRE), Foreign Portfolio Investment (FPI), Foreign Aids (FNAD), Foreign Direct Investments (FDI), External Debt (EXDEBT) included in the model.
- t = The subscript *t* represents the time series.

From the pre-estimation test, it was affirmed that unit root test for all variables are integrated of order one, that all the variables used in this estimated result are stationary at level one (1). Therefore, the Error Correction model techniques was suited for estimate the short run convergency while fully modified ordinary least square (FMOLS) was used to estimate the long run effect. The ECM used in this study is expressed as follows

$$\Delta POV_t = \gamma_0 + \sum_{i=1}^{N} \gamma_1 \Delta lnRGDP_{t-1} + \sum_{i=1}^{N} \gamma_2 \Delta lnDSRE_{t-1} + \sum_{i=1}^{N} \gamma_3 ln\Delta FPI_{t-1} + \sum_{i=1}^{N} \gamma_4 \Delta lnFNAD_{t-1} + \sum_{i=1}^{N} \gamma_5 \Delta lnFDI_{t-1} + \sum_{i=1}^{N} \gamma_6 \Delta lnEXDEBT_{t-1} + \lambda ECT_{t-1} + \mu_t$$

- λ is the speed of adjustment coefficient.

For the long run estimate, the FMOLS framework

$$\hat{\beta}_{FMOLS=} (\sum_{t=1}^{T}(X_t - \bar{X})(X_t - \bar{X})')^{-1} (\sum_{t=1}^{T}(X_t - \bar{X})Y_t^*$$

Therefore, the generic estimation model is expressed as thus:

$$POV_t = \gamma_o + \gamma_1 lnDSRE_t + \gamma_2 lnFPI_t + \gamma_3 lnFNAD_t + \gamma_4 lnFNDI_t + \gamma_5 lnEXDEBT_t + \mu_t$$

Measurements of Variables

In this sub-section, the variables used in the study are described, along with their respective measurements and sources. Tables 3.1 and 3.2 present overview of the variables, including sustainable development variables like Real Gross Domestic Product, Life Expectancy Ratio, Literacy Ratio, Poverty Rate, and Carbon-Dioxide Emission, as well as financial inflows variables such as Diaspora Remittances, Foreign Portfolio Investment, Foreign Aids, Foreign Direct Investment, and External Debt. Each variable is accompanied by its measurement and the specific sources from which the data is obtained.

Table 1: Measurement and Source of the Dependent Variables: Y - Sustainable Development

Variables	Definition of Variables	Measurement
Poverty Rate	This is the ratio of the number of people whose income falls below the poverty line of $1.90 per day. Nevertheless, the relative income levels of the poor may vary between two countries with the same rates of poverty.	Head count ratio
Diaspora Remittances	These are capital inflows sent home from by individual living abroad. This recognition of remittances as a significant factor in the growth and development of the nation.	Billion Naira
Foreign Portfolio Investment	Acquiring and overseeing a variety of financial assets, including stocks, bonds, and other securities, with the goal of minimizing risk and optimizing returns over an extended period of time.	Billion Naira
Foreign Aids	Financial, technical, or material assistance provided by one country or international organization to another, usually for economic development, humanitarian relief, or to support specific programs or projects	Billion Naira
Foreign Direct Investments	A type of cross-border investment when a stake in and substantial degree of control over an enterprise located in another economy are established over time by an investor from one country.	Billion Naira
External Debt	This refers to the total amount of money a country owes to lenders outside its own borders. In other words, it is the total debt a country owes to foreign creditors.	Billion Naira

Sources: Researcher's Compilations (2025)

Estimation Techniques

This section explains the pre-estimation diagnostic that informed the choice of the appropriate analytical models and the estimation procedures. The pre-estimation diagnostic

were unit root, and cointegration tests, while post estimation diagnostic comprises heteroscedasticity, Normality, autocorrelation, linearity and stability test. These tests are discussed below:

DATA ANALYSIS, RESULT AND DISCUSSION

Table 1: Descriptive Statistics of Financial Inflows and Sustainable Development Indicators

	Mean	Maximum	Minimum	Skewness	Jarque-Bera	Probability
POV	36.38857	45.20000	25.10000	-0.45368	3.266881	0.195257
LOGFPI	25.19480	30.14806	19.78691	-0.34787	3.151703	0.206831
LOGFNAD	25.52908	29.41689	21.81460	-0.24935	2.867515	0.238411
LOGFDI	26.04330	28.09961	22.27647	-0.80077	4.745061	0.093244
LOGEXDEBT	28.28872	31.84622	26.30720	0.663125	2.658605	0.264662
LOGDSRE	26.72200	31.06355	18.20338	-0.8838	4.656225	0.097480

Source: Author's Computation (2025); Where: POV = Poverty Rate; DSRE = Diaspora Remittances (DSRE); FPI = Foreign Portfolio Investment; FNAD = Foreign Aids; FDI = Foreign Direct Investments; EXDEBT = External Debt

Table 2 presents the descriptive statistics of the variables employed to examine the effect of financial inflows on poverty rate in Nigeria. The poverty (POV) recorded a mean value of 36.39% with considerable fluctuation between 25.10% and 45.20%, as shown by its standard deviation of 7.23. This suggests that welfare conditions in Nigeria have experienced substantial changes over the study period. The normality probability of 0.195 indicates that the data is normally distributed. The financial inflow indicators equally displayed varying degrees of dispersion. Foreign portfolio investment (LOGFPI) had a mean value of 25.19 with a relatively high standard deviation of 3.22, implying instability in short-term capital flows. Foreign aid (LOGFNAD) and foreign direct investment (LOGFDI) also exhibited moderate variability with standard deviations of 2.27 and 1.89 respectively. Both variables have normality probabilities above 0.05, suggesting that data is approximately normally distributed. External debt (LOGEXDEBT) had a mean value of 28.29 but with limited dispersion (standard deviation of 1.37), indicating a gradual buildup of debt over time. The probability value of 0.265 suggests a normal distribution. Diaspora remittances (LOGDSRE) averaged 26.72 with noticeable variability as indicated by its standard deviation of 3.29, reflecting fluctuations due to changing global and domestic economic conditions. The normality probability of 0.097 shows approximate normal distribution.

Correlation Matrix

Table 3 presents the correlation coefficients among the variables used to analyse the effect of financial inflows and poverty rate indicators in Nigeria. The matrix shows the direction and strength of relationships between variables, with correlation values ranging from -1 to

+1. The result shows that Poverty (POV) shows a negative relationship with most financial inflow. For example, POV is moderately negatively correlated with FPI (-0.6920).

Table 3: Correlation Matrix of Financial Inflows and Sustainable development Indicators

	POV	LOGFPI	LOGFNAD	LOGFDI	LOGEXDEBT	LOGDSRE	VIF
POV	1						
LOGFPI	-0.6920	1					3.389425
LOGFNAD	-0.5384	0.6961	1				7.639864
LOGFDI	-0.5127	0.6173	0.6954	1			2.446449
LOGEXDEBT	-0.0684	0.4762	0.6998	0.5026	1		6.271762
LOGDSRE	-0.5046	0.7446	0.7501	0.7357	0.6268	1	3.164862

Source: Author's Computation (2025); POV = Poverty Rate; DSRE = Diaspora Remittances (DSRE); FPI = Foreign Portfolio Investment; FNAD = Foreign Aids; FDI = Foreign Direct Investments; EXDEBT = External Debt

To properly validate the results, the VIF values were assessed since VIF is widely considered a stronger diagnostic tool for multicollinearity. The analysis shows VIF values ranging from 2.446 (FDI) to 7.639 (foreign aid), all well below the acceptable benchmark of 10 suggested in the literature (Gujarati & Porter, 2009; O'Brien, 2007). Although foreign aid (7.639) and external debt (6.272) show moderately VIF levels, they are still within permissible limits, indicating that multicollinearity is not severe enough to compromise the reliability of the regression estimates. This implies that the explanatory variables do not provide redundant information, and the econometric model remains robust and stable for estimation. Therefore, combining evidence from both the correlation matrix and VIF statistics confirms that multicollinearity poses no serious threat to the inferential validity of findings in this study.

Pre-Estimation Test

Stationarity Test

Table 4 presents the results of the Augmented Dickey–Fuller (ADF) and Phillips–Perron (PP) unit root tests used to determine the stationarity of the series employed in the analysis. Stationarity is a critical prerequisite for time series econometric modeling, particularly in avoiding spurious regression outcomes (Gujarati & Porter, 2009). The unit root results were assessed at a 5% significance level using the critical value of −2.9511. The results reveal that All other variables poverty rate (POV), foreign portfolio investment (LOGFPI), foreign aid (LOGFNAD), foreign direct investment (LOGFDI), and external debt (LOGEXDEBT) become stationary only after first differencing under both tests, indicating they are integrated of order one, I(1). The large negative values of the differenced statistics confirm their suitability for estimation after differencing.

Table 4: Unit root Test

	Augmented Dickey-Fuller test			Phillips-Perron Test			ADF	PPT
	Level	First Diff.	Critical	level	First Diff.	Critical		
POV	-1.7262	-7.5950	-2.9511	-2.1968	-12.1415	-2.9511	I(1)	I(1)
LOGFPI	-0.7128	-11.3865	-2.9511	-0.7874	-13.252	-2.9511	I(1)	I(1)
LOGFNAD	-0.4328	-6.0519	-2.9511	-0.2667	-6.2984	-2.9511	I(1)	I(1)
LOGFDI	-1.9017	-7.4741	-2.9511	-1.8469	-7.7396	-2.9511	I(1)	I(1)
LOGEXDEBT	0.2823	-3.7378	-2.9511	-0.1506	-3.7564	-2.9511	I(1)	I(1)
LOGDSRE	-2.8139	-6.2650	-2.9511	-3.2729	-	-2.9511	I(1)	I(0)

Source: Author's Computation (2025); Where: POV = Poverty Rate; DSRE = Diaspora Remittances (DSRE); FPI = Foreign Portfolio Investment; FNAD = Foreign Aids; FDI = Foreign Direct Investments; EXDEBT = External Debt

The same order of I(1)) according to ADF indicated that the variables are in uniformly stationary at the same level. This pattern justifies the application of a either cointegration-based estimation technique which accommodates either Johanssen Cointegration to Vector error correction model for variables of the same other.

Cointegration Test

Table 5*: Johansen Cointegration* on financial inflows and poverty rate ratio in Nigeria

Hypothesized	Trace	0.05	Max-Eigen	0.05
No. of CE(s)	Statistic	Critical Value	Statistic	Critical Value
None *	205.4344	95.75366	112.9140	40.07757
At most 1	92.52040	69.81889	38.63645	33.87687
At most 2	53.88394	47.85613	24.83605	27.58434
At most 3	29.04790	29.79707	13.92029	21.13162
At most 4	15.12761	15.49471	13.70325	14.26460
At most 5	1.424360	3.841465	1.424360	3.841465

Source: Author's Computation (2025); Where: POV = Poverty Rate, DSRE = Diaspora Remittances (DSRE); FPI = Foreign Portfolio Investment; FNAD = Foreign Aids; FDI = Foreign Direct Investments; EXDEBT = External Debt

The Johansen cointegration results in Table 5 indicate the existence of a long-run equilibrium relationship between financial inflows and poverty rate (POV) in Nigeria. Both the trace statistic for "None" (205.4344) and the max-eigenvalue statistic (112.9140) exceed their respective 5% critical values (95.7537 and 40.0776), leading to the rejection of the null hypothesis of no cointegration. For higher ranks (at most 1, 2, etc.), some statistics also exceed critical values, suggesting multiple cointegrating relationships among the variables.

Overall, the results confirm that financial inflows including foreign portfolio investment, foreign aid, foreign direct investment, external debt, and diaspora remittances are significantly associated with poverty dynamics in the long term, implying that these inflows play a crucial role in poverty reduction strategies in Nigeria. This aligns with prior research indicating that targeted financial inflows can enhance social welfare and reduce poverty in developing economies (Gupta et al., 2009; Barro, 2001).

Table 6: *FMOLS For* financial inflows and poverty rate ratio in Nigeria

Panel A: Long Run Estimates				
Dependent Variable: Poverty Rate				
Variable	Coefficient	Std. Error	t-Statistic	Prob
LOGFPI	-2.372779	0.674389	-3.518414	0.0015
LOGFNAD	-0.862621	1.782376	-0.483973	0.6322
LOGFDI	-0.323888	1.302861	-0.248597	0.8055
LOGEXDEBT	2.100339	1.007148	2.085431	0.0463
LOGDSRE	1.192413	1.236410	0.964416	0.3431
C	34.99747	26.51495	1.319915	0.1976
Panel B: Error Correction Model and Short Run Estimates				
Variable	Coefficient	Std. Error	t-Statistic	Prob
D(POV(-1))	-0.409044	0.175993	-2.324210	0.0346
D(LOGFPI(-1))	-0.555917	0.720564	-0.771502	0.4524
D(LOGFNAD(-1))	6.537143	2.694163	2.426409	0.0283
D(LOGFDI(-1))	-0.344048	1.424756	-0.241479	0.8125
D(LOGEXDEBT(-1))	-4.676373	2.752672	-1.698849	0.1100
D(LOGDSRE(-1))	-0.856083	2.624180	-0.326229	0.7488
ECT(-1)*	-0.140925	0.064839	-2.173461	0.0462
C	-58.24226	48.36339	-1.204263	0.2471
Panel C: Model Evaluation Tests		**Statistics**	**Prob.**	
R-squared		0.608407	-	
Adjusted R-squared		0.542921	-	
F-statistic		4.66465	0.0093	
Panel D: Diagnostic Test		Statistics	Prob.	
Serial Correlation LM Test		0.46248	0.6379	
Heteroskedasticity Test:		0.73682	0.7285	
Normality Test		0.8698	0.6473	

Source: Author's Computation (2025); Where: POV = Poverty Rate; DSRE = Diaspora Remittances (DSRE); FPI = Foreign Portfolio Investment; FNAD = Foreign Aids; FDI = Foreign Direct Investments; EXDEBT = External Debt

Long-Run Dynamics:

The FMOLS long-run estimates in Table 4.12 examine the impact of financial inflows on poverty rate (POV) in Nigeria. The results show that foreign portfolio investment (LOGFPI) has a significant and negative effect on poverty, with a coefficient of –2.3728 (t = –3.5184, p = 0.0015), indicating that a 1% increase in portfolio inflows is associated with a 2.37% reduction in poverty rate, suggesting that portfolio investments contribute meaningfully to poverty alleviation. Foreign aid (LOGFNAD, –0.8626, p = 0.6322) and foreign direct investment (LOGFDI, –0.3239, p = 0.8055) have negative but statistically insignificant effects, implying their long-term impact on poverty is weak or not reliably detectable in this model.

Conversely, external debt (LOGEXDEBT) has a positive and significant effect on poverty, with a coefficient of 2.1003 (t = 2.0854, p = 0.0463), suggesting that higher external borrowing is associated with a 2.1% increase in poverty, possibly reflecting inefficiencies in debt utilization or the burden of debt servicing on the economy. Diaspora remittances (LOGDSRE, 1.1924, p = 0.3431) are positive but not significant, indicating limited long-run impact on poverty. The constant term (C = 34.9975, p = 0.1976) represents the baseline poverty rate in the absence of financial inflows. Overall, the results highlight that portfolio investment significantly reduces poverty, whereas external debt exacerbates it, depicting the differential effects of financial inflows on poverty reduction in Nigeria (Gupta et al., 2009; Barro, 2001).

Short-Run Dynamics:

The short-run FMOLS estimates and error correction results in Panel B provide insights into the immediate effects of financial inflows on poverty rate (POV) in Nigeria and the speed at which deviations from long-run equilibrium are corrected. The lagged change in poverty, D(POV(-1)), has a negative and significant coefficient of –0.4090 (t = –2.3242, p = 0.0346), indicating that past increases in poverty contribute to short-run reductions in current poverty, reflecting a mean-reverting dynamic in the short term.

Among the financial inflows, the lagged change in foreign aid (D(LOGFNAD(-1))) is positive and significant (coefficient = 6.5371, t = 2.4264, p = 0.0283), suggesting that a 1% increase in foreign aid in the previous period is associated with a 6.54% increase in poverty in the short run, which may reflect delays or inefficiencies in translating aid into immediate poverty alleviation. Other inflows, including foreign portfolio investment (D(LOGFPI(-1)), –0.5559, p = 0.4524), FDI (D(LOGFDI(-1)), –0.3440, p = 0.8125), external debt (D(LOGEXDEBT(-1)), –4.6764, p = 0.1100), and diaspora remittances (D(LOGDSRE(-1)), –0.8561, p = 0.7488), are statistically insignificant, suggesting limited or delayed short-term effects on poverty.

The error correction term (ECT(-1)) is negative and significant (coefficient = –0.1409, t = –2.1735, p = 0.0462), indicating that approximately 14.1% of short-run deviations from the long-run poverty equilibrium are corrected in the subsequent period, demonstrating a gradual adjustment toward long-term stability. The constant term (C = –58.2423, p = 0.2471)

reflects the baseline effect in the absence of financial inflows. Overall, the short-run dynamics indicate that while most financial inflows do not immediately reduce poverty, the system adjusts toward long-run equilibrium over time, consistent with cointegration theory and prior studies on financial inflows and poverty dynamics (Engle & Granger, 1987; Pesaran et al., 2001).

Model Evaluation

The model evaluation statistics in Panel C assess the overall explanatory power and significance of the FMOLS model linking financial inflows to poverty rate (POV) in Nigeria. The R-squared value of 0.6084 indicates that approximately 60.8% of the variation in poverty rate is explained by the financial inflow variables, suggesting a moderate level of explanatory strength. The adjusted R-squared of 0.5429 confirms that around 54.3% of the variation is reliably explained after accounting for the number of predictors, indicating that the model is reasonably robust.

The F-statistic of 4.6647 with a p-value of 0.0093 is statistically significant at the 1% level, implying that the financial inflows collectively have a significant effect on poverty rate in Nigeria. This suggests that the combined influence of portfolio investment, foreign aid, FDI, external debt, and diaspora remittances meaningfully explains changes in poverty levels.

Given the statistical significance of the F-test ($p < 0.05$), the null hypothesis (H04) is rejected, indicating that financial inflows have a significant effect on poverty rate in Nigeria. This finding is consistent with previous studies emphasizing that targeted financial inflows can reduce poverty by enhancing social welfare, investment in human capital, and economic development in developing countries (Gupta et al., 2009; Barro, 2001).

The diagnostic tests in panel D indicate that the FMOLS model examining the effect of financial inflows on poverty rate (POV) in Nigeria satisfies key econometric assumptions, confirming its reliability for inference. The Serial Correlation LM test shows a probability of 0.6379, indicating no evidence of autocorrelation in the residuals. The Heteroskedasticity test reports a probability of 0.7285, suggesting that the residuals have constant variance and the model is homoscedastic. Additionally, the Normality test yields a probability of 0.6473, confirming that the residuals are normally distributed. Collectively, these diagnostic results demonstrate that the model is statistically well-specified, stable, and appropriate for interpreting the effects of financial inflows on poverty in Nigeria, supporting confidence in both the coefficient estimates and significance tests (Gujarati & Porter, 2009; Wooldridge, 2015).

Discussion of Findings for Objective Four

The study examined the effect of financial inflows on poverty rate in Nigeria between 1994 to 2023. The FMOLS results reveal that financial inflows have differential impacts on poverty in Nigeria. In the long run, foreign portfolio investment significantly reduces poverty, with a 1% increase in portfolio inflows associated with a 2.37% decline in poverty, highlighting its role in economic empowerment, whereas external debt significantly increases poverty by 2.1%, suggesting inefficiencies or debt servicing burdens. Other inflows, including foreign

aid, foreign direct investment, and diaspora remittances, show negative or positive but statistically insignificant long-run effects, indicating limited impact on poverty reduction. In the short run, most financial inflows do not immediately influence poverty, except for a lagged increase in foreign aid, which is associated with a short-term rise in poverty, possibly due to delays or inefficiencies in aid utilization. The negative and significant error correction term indicates a gradual adjustment toward long-run poverty equilibrium, with about 14.1% of short-run deviations corrected each period. Overall, the findings underscore that portfolio investments are key for poverty alleviation in Nigeria, external debt may worsening poverty, and the effects of other inflows are largely realized over the long term, consistent with prior studies on financial inflows and poverty dynamics.

The findings from the FMOLS analysis of financial inflows on poverty in Nigeria reveal a nuanced impact that aligns with, and in some cases contrasts, previous empirical studies. In the long run, foreign portfolio investment significantly reduces poverty, suggesting that well-targeted portfolio inflows can enhance economic opportunities and household income, consistent with Olowookere et al. (2021), who emphasized the role of foreign capital in poverty reduction through economic empowerment. Conversely, external debt significantly increases poverty, reflecting inefficiencies in debt utilization or the burden of debt servicing, corroborating Agu and Ugwuoke (2024) and Oyamendan et al. (2024), who also reported that external borrowing worsens poverty in Nigeria and sub-Saharan Africa. Other inflows, such as foreign aid, FDI, and diaspora remittances, show statistically insignificant effects in the long run, indicating limited or delayed poverty-reducing impacts; this partially aligns with studies like Kayani (2022) and Ngong et al. (2025), which found that remittances and private credit could have weak or negative impacts due to structural inefficiencies or non-pro-poor allocation. In the short run, the results show that most financial inflows do not immediately reduce poverty, with lagged foreign aid even associated with a temporary increase in poverty, possibly reflecting delays in translating aid into tangible benefits, echoing Falana (2024) and Iwegbu and Dauda (2022) on inefficiencies and the critical role of fiscal policy in converting aid into poverty reduction. The negative and significant error correction term indicates a gradual adjustment toward long-run equilibrium, demonstrating that despite short-term fluctuations, the poverty-reducing benefits of portfolio inflows and the adverse effects of external debt persist over time. Overall, these findings highlight that while portfolio investments serve as an effective tool for poverty alleviation, external debt can undermine development goals, and other financial inflows require strategic management and institutional support to achieve sustainable poverty reduction in Nigeria.

SUMMARY AND RECOMMENDATIONS

This study examined the effect of financial inflows on poverty rate in Nigeria between 1990 to 2024. The findings of the study reveal that financial inflows have differential impacts on poverty in Nigeria. In the long run, foreign portfolio investment significantly reduces poverty, with a 1% increase in portfolio inflows associated with a 2.37% decline in poverty, highlighting its role in economic empowerment, whereas external debt significantly increases poverty by 2.1%, suggesting inefficiencies or debt servicing burdens. Other inflows, including foreign aid, foreign direct investment, and diaspora remittances, show negative or positive but statistically insignificant long-run effects, indicating limited impact on poverty reduction. In the short run, most financial inflows do not immediately influence

poverty, except for a lagged increase in foreign aid, which is associated with a short-term rise in poverty, possibly due to delays or inefficiencies in aid utilization. The negative and significant error correction term indicates a gradual adjustment toward long-run poverty equilibrium, with about 14.1% of short-run deviations corrected each period.

The study concludes that financial inflows exert differential and context-specific impacts on Nigeria's socio-economic and environmental outcomes. Foreign aid consistently demonstrates a positive role in promoting literacy and reducing carbon emissions, reflecting the effectiveness of externally sourced funds when channeled into education and environmentally sustainable initiatives. Foreign portfolio investment significantly reduces poverty in the long run, highlighting its potential as a tool for socio-economic development when appropriately directed toward productive sectors. Conversely, external debt is found to exacerbate poverty and increase carbon emissions, indicating that borrowing without effective oversight and strategic deployment can undermine development objectives. Foreign direct investment, while contributing to environmental sustainability, has limited influence on literacy and poverty, suggesting that the benefits of FDI are contingent upon the sectors in which investments are made and the complementary policies in place to maximize human and social gains. Diaspora remittances show minimal impact on literacy, poverty, and CO_2 emissions, which may reflect structural inefficiencies in the domestic economy or the informal use of remitted funds.

The study concluded that the effectiveness of financial inflows in advancing sustainable development in Nigeria is highly dependent on the nature of the inflow, institutional quality, and policy frameworks. Strategic allocation, transparency, and targeted investment in socially and environmentally beneficial sectors are essential to optimize the development impact of these inflows. The study affirms that while financial inflows can serve as catalysts for poverty alleviation, human capital development, and environmental sustainability, mismanaged inflows, particularly external debt, can exacerbate vulnerabilities, depicting the need for coordinated financial governance, prudent economic planning, and environmentally conscious fiscal strategies.

Based on the findings of this study, policies should focus on attracting productive investments that create employment and support small and medium enterprises (SMEs). Simultaneously, debt management strategies must ensure that borrowing is aligned with poverty-reducing projects, avoiding excessive or poorly utilized external debt that could intensify socio-economic vulnerabilities.

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