Measurement and Sources of Income Inequality among Rural and Urban Households in Nigeria

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Building an egalitarian society void of poverty and inequality has been Nigeria’s major goal in past development plans. Governments have therefore adopted policy measures to enhance households’ welfare and ensure equitable distribution of income. Despite these efforts, the oil-rich country has witnessed fluctuating growth, declining per capita income and comparatively unfavourable social indicators.

Using the 2004 National Living Standard Survey (NLSS) data collected by the National Bureau of Statistics (NBS), this study decomposed the sources of income inequality based on the different income sources and socio-economic characteristics of households. It also provided an empirical linkage between inequality and poverty in the process of economic growth.

Results showed that with a Gini inequality index of 0.58, Nigeria still faces significantly high income inequality. Surprisingly, too, income inequality was found to be higher in rural areas than urban areas. At the geopolitical zones (GPZ) level, income inequality was highest in the South East and lowest in the South West. Also, income sources with the highest contributions to total income in rural and urban areas were the paid employment, non-farm enterprise and agriculture.

Income sources contributions to total inequality were explored using some common decomposition approaches. An income source reduces overall inequality if attempt to boost income generating opportunities in it will make the poorer households to have more incomes. Our results showed that in urban and rural areas, employment income increased income inequality while agricultural income reduced it. However, non-farm income reduced inequality in urban areas, while it increased it in rural areas. In all the GPZ, paid employment income increased income inequality while agricultural income reduced it. Also, in the North East, North Central, South West and South East, non-farm income reduced income inequality.

With the regression-based decomposition, income inequality increased with household size, attainment of formal education, residence in urban centers, number of times household members fell ill, being married, remittances, engagement in salaried jobs, engagement in non-farm jobs, access to credit, and residence in the South West and South South GPZ, while engagement in farming reduced it.

Dynamic poverty decomposition showed that between 1998 and 2004, the poverty headcount increased by 1.93 percent in urban areas, and by 14.5 percent in rural areas. In rural areas, income growth and income distribution both increased poverty, whereas in urban areas income growth was found to reduce poverty and income distribution increased it. At the GPZ level, it was only in the North West that income distribution had negative effects on poverty, while income growth reduced poverty only in the North East and South West GPZ.

The study recommended that efforts to ensure a more equitable distribution of income should be made with a focus on the development of essential social infrastructure to facilitate access to education, health and financial services. This would lead to reduction in rural-urban migration, which otherwise further increases inequality. The poor would benefit in terms of employment from a welfare package for low income earners. To make non-farm activities beneficial to the poor, sustainable programs for promoting small scale enterprises should be put in place. Also, the National Directorate of Employment’s (NDE) activities should not be directed at rural youths. Also, intensive family planning campaigns should be promoted, especially in rural areas, in order to limit population growth. Promotion of education among the poor should be given priority in order to increase their income-earning opportunities. Finally, income transfer programs that target the poor for specific financial assistance should be considered.

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