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THE IMPACT OF GLOBAL ECONOMIC CRISIS ON POVERTY ALLEVIATION IN NIGERIA BY: SALEH LAWAL DEPARTMENT OF PUBLIC ADMINISTRATION A. B. U. ZARIA NIGERIA Abstract This paper is set out to examine the challenges posed by the Global Economic crisis on government’s efforts of poverty reduction in Nigeria. Data used for the study came from both primary and secondary sources. The primary data were gathered through the instrument of questionnaire administered to 55 units of the respondents that constitute our sample size. Secondary data used were from published materials. Data were analyzed using Pearson chi square test. The study found that the crisis in focus has contributed to unemployment rate in the country, drop in government revenue and poor commodity prices, and hence negatively affected government’s effort of poverty reduction in the country. It was recommended among others that the government should reduce reliance on the petroleum sector as the source of revenue by diversifying other sectors like agriculture. This would reduce tension in the event of fluctuation in the oil prices at the global market. 1. 0 Introduction Poverty is one of the greatest challenge to the global development and one of the top issues in the developmental agenda of most countries of the world, especially the developing ones. Available records have shown that in 1990, about 1. 25 billion people in the developing countries lived below the poverty line. In the Sub-Saharan Africa, those people that lived below US$1 per day constituted about 46. 5% of the entire population in 1990 although it dropped to about 45. 9% in 2000 and 41. 1% in 2004 (UN, 2008). Although the poverty level has been declining in Sub-Saharan Africa on the average rate, progress made in Nigeria has not been very significant. The incidence of poverty in the country using US$1 per day increased from 28. 1% in 1980 to 46. 3% in 1985 and declined to 42. 7% in 1992. The number however increased to 46. 3% in 1996 and to about 70% in 2000. The report of the National Planning Commission indicates that the poverty level has reduced to about 54. 4% in 2004 (Igbuzor, 2006a). This percentage is still above the average of 41. 1% of the poverty rate in Sub — Saharan Africa in that year. However, the issue of poverty and how to get out of it at the global level is the first and foremost goal among the eight goals aimed to be achieved by the world leadres at the United nations Millennium Summit of Sptember, 2000 which gave birth to the Millennium Development Goals (MDGs) adopted by 189 countries of the world. The goals are target to be achieved by 2015 (UNDP and UNICEF, 2002). Nigeria happened to be one of the countries that made such pledge in the summit and it has the highest population in Africa and rated as the third country in the world with highest number of people in poverty after China and India (Igbuzor, 2006b). Since the inception of the of the Civilian Administration in 1999 a lot of efforts were made to ensure that poverty is reduced among the Nigerian populace especially with the pledge made by the government to halve it by 2015 from its level in 1990 as contained in the MDGs document. In fact, array of institutions were put in place to ensure realization of such target. Some of the machineries adopted a part of the MDGs are the National Poverty Eradication Programme (NAPEP) as the highest poverty alleviation body in the country and National Economic Empowerment and Development Strategy (NEEDS) among others. However, it is during the struggle by the Nigeria among other countries to ensure that poverty is reduced among the populace that the world economy fall under attack as a result of what is generally perceived as Global Economic Meltdown or crisis. This phenomenon Started as financial Crisis in the United states of America (due to Certain laxities in the US financial system) in August 2007 with Sub-prime mortgage crisis as households faced difficulties in making higher payments on adjustable mortgages (Soludo, 2009). However, The Crisis undermined the West African states, capacity to reduce Poverty and Sustain economic growth. In fact reduction in foreign direct investment, remittances from migrant workers and a drop in Commodity prices as a result of the economic crisis constituted threat to the fight against poverty in the region (Gilbert 2008). It was also stated by the UN that, about 50 million more people lived in poverty and I billion in hunger in 2009 as a result of Global Economic Crisis. Indeed, under this situation, poverty is expected to fall to 15% in 2015 and not the targeted 50% (Aljazeera International, 2010). Therefore, this paper is Set out to address or examine the challenges posed by the Global Economic crisis on government’s efforts of poverty reduction in Nigeria. 1. 1 Statement of the problem The first global economic set back of the 21st century is what we generally perceived as Global Economic Meltdown that started in the United States of America in August, 2007. This situation resulted in high rate of unemployment, drop in government revenue, failure of the market forces to regulate the economy and indeed inability of some countries like Nigeria to move forward towards achieving their developmental targets especially poverty reduction among the citizens which is at the top when it comes to human development. The central issue now is that has the Global Economic Crisis significantly impacted on poverty reduction in Nigeria? This is what this paper intends to address. In achieving this however, answers to the following questions need to be answered: 1. To what extent has the crisis contributed to unemployment in the country? 2. What has been the effect of the crisis on prices of export commodities and the revenue profile of the country? 3. Have the above factors affect government’s efforts towards poverty reduction in the country? 1. 2 Objectives of the Paper The central objective of this paper is to assess whether the Global Economic Crisis has an impact on poverty reduction in Nigeria. Other objectives set out to be achieved include: 1. To examine the extent to which the crisis contributed to unemployment in Nigeria. 2. To assess the effect which the crisis has on the prices of export commodities and revenue profile of the country. 3. To see whether the above issues affect poverty reduction efforts in the country. 1. 3 Hypothesis of the Study Ho There is no significant relationship between Global Economic Meltdown and poverty reduction in Nigeria. H1 There is significant relationship between Global Economic Meltdown and poverty reduction in Nigeria. 1. 4 Scope and Limitation of the Paper This paper focuses on the issue of Global Economic Meltdown and how it affects the poverty reduction efforts in Nigeria. Although we are aware that so many factors regarding poverty can be affected by the crisis, the variables focuses by the paper are the issues of unemployment, revenue generation and commodity prices as regard to poverty in connection with such crisis. The study also covers period between 2007 to date (2010) which is the period of the crisis. However, due to the nature of the data generated from both primary and secondary sources it became very difficult for the researcher to look deep into the level of poverty in a particular segment of the society especially as the sample used were drawn from postgraduate students who were mostly not part of the population affected by the poverty. In addition, the secondary data used generalized the situation in the whole country. These issues and inaccessibility of some vital documents due to dearth of information in the country as well as time constraint constitute limitations to the conduct of the research. 1. 5 Significance of the Study Despite the fact that the Global Economic crisis is a of this millennium occurred not more than three years back, a lot of write ups and researches have been made on the issue. But most of what have been done on the area relate to economic consequences of the researchers on the global economy. However, based on the knowledge of the researcher, there has been no research undertaken on such issue in relation to development administration in Nigeria. This research will therefore bridge the gap of knowledge that exists in this respect. The research will also be significant to policy makers in making policies for the development of the country. Researchers and students of Public Administration and similar areas will also benefit from the outcome of this research. 2. Review of Related Literature and Theoretical Framework 2. 1 Review of Related Literature The global economic meltdown has its roots in a banking practice called sub-prime lending or sub-prime mortgage lending in the USA. It started in August 2007 when the growing payment mortgage deficit, put million of debt obligation in danger of which was guaranteed and sold to investment banks (Agaba and Tenuche, 2010) It is traceable to a set of complex banking problems that developed over time, caused specifically by housing and credit markets mis-match, poor judgement by borrowers and/or the lenders, inability of home owners to make mortgage payments, speculation and overbuilding during the boom period, risky mortgage products (financial innovations with concealed default risks), high personal and corporate debt profiles and inactive/weak central bank policies. The crisis is presently putting to test the ingenuity of the management of various central banks world over. According to Agaba and Tenuche, (2010) The crisis has it root in a banking practice called sub-prime lending or sub-prime mortgage lending in the United States. Sub-prime mortgage is granted to borrowers whose credit history is not sufficient to get conventional mortgages lending or who do not qualify for market interest rate, owing to various risk factors such as income level, size of the down payment made, credit history and employment status. This Subprime mortgage lending is designed to make these categories of individuals own a house at an affordable rate. These mortgages are packed by banks into Mortgage Backed Securities (MBS) and sold to two financial institutions created by US government namely; Federal National Mortgage Association and Federal Home Loan Mortgage Corporations; so as to free banks fund for lending to more prospective homeowners. These two government institutions in turn repackage the loans and sell them to individual investors, financial institutions like banks, pension funds, hedge funds, around the world. However, Adamu (2009) has the view that the crisis can be attributed to a number of factors in both the housing and credit markets, which developed over an extended period of time. He further states that crisis is caused by the factors explained below: In the first place, Liberalization of Global Financial Regulations is one reason for the crisis. The regulatory model adopted by banks in the US emerged as a result of liberalisation of banking business in the early 1990s and international consensus reached within the Basle Committee of Banking Supervision as regards the acceptable model of prudential supervision of banking institution. This liberalization facilitates the global abolition of restrictions on capital flow in the 1990s and caused the operation of international investment funds to be largely unregulated. Another cause is the Boom and Bust in the housing market. A combination of low interest rates and large inflows of foreign funds help create easy credit conditions for many years leading up to the crisis. Due to low interest rates and large inflow of foreign fund, subprime lending/borrowing for investment became very attractive in both US and the UK. Since the demand for housing was rapidly rising in the US, most investors and homeowners took mortgaged loans and invested in housings. The overall US home ownership rate increased from 64% in 1994 (about where it was since 1980) to peak in 2004 with an all-time high of 69. 2%. However, Speculations is another cause of the crisis. Traditionally, homes were not treated as investment like stocks, but this behaviour changed during the housing boom as it attracted speculative buyers. This makes speculation in real estate a contributing factor. During 2006, 22% of homes purchased (1. 65 million units) were for investment purposes — it means that nearly 40% of home purchases were not primary residences. This speculative buying makes housing prices to fall drastically. Another factor is that of Poor credit rating due to securitization practices. credit rating agencies have the tendency to assign investment-grade rating to Mortgage-Backed Securities (MBS), and this makes loans with high default rate to originate, packaged and transferred to others. Another issue is high-risk loans - There appears to be widespread agreement that periods of rapid credit growth tend to be accompanied by loosening lending standards. Government policies are also believed to be some of the factors responsible for the crisis - some critics believed that the crisis was fuelled by US government mortgage policies which encouraged trends towards issuing risky loans. For instance, Fannie Mae Corporation eases credit requirements on loans and this encourages banks to extend home mortgages to people that do not have good enough credit rating. 2. 2 Theoretical Framework The framework adopted for this work is the system approach. The system approach to the analysis of organization or any other given policy or programme of the government was originally developed by David Easton (1979). The approach sees an organization or a given policy in focus as a system of interrelated parts each of which makes a contribution to the survival of the whole and each of which depends on other parts of the system for its own needs. There is hierarchical arrangement in the system as the parts or subsystems are made up of other smaller parts. In a system analysis, the parts in the system cannot be altered without affecting other parts. However, a system has input transformation mechanisms i. e. it possesses the quality of transforming inputs into outputs. The central guiding principle of the approach is the assumption of equilibrium. That is, the whole will need the cooperation of the parts to keep it mobile. Easton’s model of analysis was typically demonstrated in the works of Hague and Harrop (1982). As shown in the diagram below: Diagram I: The working of a system In put out put | Gate | | Ke | | e | | p | | e | | r | | s | | | | Demand and supports | | | | | | Authoritative | | Decisions | | Political | | System | | Feedback/ evaluation | Source: Hague and Harrop (1982: 12) Adopting system model as theoretical basis of the study will provide a framework for analysis of the government policy on poverty reduction especially during the era of Global Economic meltdown. 3. 0 Methodology Data for this work were gathered from both primary and secondary sources. The primary data were gathered from the instruments of questionnaire while the secondary data were from newspapers, magazines, scholarly articles, publications if the United Nations (UN) and other published materials. However, the population of the study consisted of the Master in Public Administration (MPA) students of 2009/2010 Academic session; they were 165 in number. Out of this number, 55 (1/3) were selected to serve as sample size drawn using systematic random sampling. The choice of this is due to the fact that the students were informed Nigerians who came from diverse geopolitical zones of the country. Data were analyzed qualitatively and quantitatively. Chi square test was used in the analysis of the primary data. 4. Results and Discussions It has already been stated that that this paper utilises both primary and secondary sources. However, out of the 55 units of questionnaires administered 50 were correctly filled and returned. Our analysis would be based on that. The issues we intend to focus in this section in relation to the impact of GEC on poverty reduction in Nigeria are the issues of unemployment, government revenue and commodity prices as they influenced government efforts to alleviating poverty in the country. 4. 1 GEC and Contribution to Loss of Jobs in Nigeria Respondents were required to state based on their experiences and observations on the recent economic meltdown whether they perceived that the crisis has contributed to the lost of jobs in Nigeria. The responses generated from this are shown in the table below: Table 4. 1: GEC and Contribution to Loss of Jobs in Nigeria | Options | Frequency | Percentage | | Strongly Agree | 25 | 50. 0 | | Agree | 19 | 38. 0 | | Disagree | 6 | 12. 0 | | Strongly Disagree | 0 | 0 | | Total | 37 | 100 | Source: Researcher’s survey, 2010 From the table above we can see that 50% of the respondents strongly agreed that the crisis has caused loss of jobs in the country. Also, another set of 38. 0% of the respondents agreed with the assertion. Those that disagreed with such assertion constituted for about 12. 0% of the entire responses. However, non of the respondents showed his strong disagreement with the view. Thus with about 88. 0% of the respondents accepting that the crisis has contributed to the loss of jobs in the country we can say that really the crisis is a factor to unemployment and hence increase in poverty rate in the country. 4. 2: Relationship between the Crisis and Unemployment Situation in the Country Respondents were also asked to indicate the extent to which the crisis affected unemployment situation in the country. In other words, the rate at which the crisis influenced the level of employment among the Nigerians. The responses gathered are tabulated below: Table 4. 2: Relationship between the Crisis and Unemployment Situation in the Country | Options | Frequency | Percentage | | Very High | 20 | 40. 0 | | High | 18 | 36. 0 | | Low | 10 | 20. 0 | | Very Low | 2 | 4. 0 | | Total | 37 | 100 | Source: Researcher’s survey, 2010 The table above shows that 40. 0% of the respondents rated the rate at which employment situation was caused by the GEC to be very high. Those that argued the rate to be high were 36. 0% of the respondents. However, 20. 0% of the respondents rated the level to be low while the remaining 4. 0% opined that the level at which the crisis affected employment situation in the country was very low. In furtherance of the data generated through the questionnaire, the researcher dig deeper into various documents to assess the rate at which the crisis affects employment rate at global level in general and Nigeria in particular as well as effect of that on poverty reduction effort of the government. The International Labour Organisation (ILO) in February 2009 revealed that as many as 51 million workers have been fired in the year globally, while 30 million more jobs are at risk. The United Nations, meanwhile, predicts that 200 million workers mostly in developing economies could be pushed into extreme poverty. The global unemployment rate is estimated at 6. 5 percent in 2009, up from 6 percent in 2008 and 5. 7 percent in 2007 (Nwachukwu 2009). It is however evident that high level of unemployment cripples Nigeria’s effort to achieve its target of halving poverty level by the year 2015 as pledged at the 2000 united Nations Millennium Summit. According to NBS (2010), as at 2000, the unemployment rate was 13. 1% of the total labour force; it moved to 13. 4% in 2004 and down to 12. 7% in 2006. But in 2008, it reached 14. 9% and jumped to 19. 7% in 2009. This increase in the percentage of unemployment in 2008 and 2009 was of course as a result of the economic meltdown. The report clearly states that out of 50, 607, 355 labour force in the country, 9, 969, 649 were unemployed as at March 2009. It should be however noted that, Nigerians in the Diaspora have helped the Nigerian economy greatly as Nigerians were remitting money home in millions yearly. Nigerians abroad contributed to the growth of infrastructure in their home towns and brought businesses back home. Philanthropic organizations and School Alumni Associations sprung up everywhere outside the country and money was remitted home for growth and development of towns, villages, schools, and universities. Even those who did not plan to return home built homes for their parents and families. In short Nigeria benefitted greatly from the hard labour and “ home from home" efforts of many Nigerians living in the Diaspora. But since 2008, the credit crunch started to take its toll on everyone, and Nigerians were not excluded. Many Nigerians have lost their jobs and coupled with the clamp down on illegal immigrants, Nigerian fugitives were being deported at random. Those not caught had to resort to very menial and highly underpaid jobs, so much so that many in frustration decided to return home. Many are now forced to reconsider their positions and plan to return home to contribute to the development and growth of Nigeria (Omotaylor, 2009). Furthermore, in relation to the issue of unemployment, several business organisations retrenched staff or attempted to close up their productions in the country as a result of the economic crisis. For instance, in February 2009, Paterson Zochonis (PZ) and Unilever, major toiletries manufacturers of Joy toilet soap and close-up tooth paste, announced their intention to pack up business operations in Nigeria. The company's staff strength is over 5, 000. Dunlop Nigeria plc, Manufacturers of tyres also closed shop this year due to losses in billions of naira in operations. Organizations are abundantly shedding staff, especially in the financial sector, to effectively utilize shareholders' funds. In February, 2010 alone, as much as 7, 500 banking staff lost their jobs. Mostly affected by unemployment are those between the ages of 22 and 44 ( People’s Daily online, 2009; Oyinenye, 2010) Therefore, with the continuous increase in the unemployment rate among people in the country since 2008 and of course Nigerians in Diaspora and closure of some business undertakings mainly due to the global economic crisis, poverty level would definitely increase in the country as many families affected by the crisis lost their means of survival. The implication here is that there can be increase in the rates of crimes in the country and indeed inability of the country to meet its target of poverty reduction in the country. 4. 3 GEC and Export Commodities Prices Nigeria rely heavily on the sales of export commodities especially the the oil for her both recurrent and capital expenditures including those activities dealing with human development such as fight against poverty. In respect of this, respondents were required to indicate whether they agreed that the crisis has negatively affected the country’s export commodities prices. The responses generated from this are shown in the table below: Table 4. 3 GEC and Export Commodities Prices | Options | Frequency | Percentage | | Strongly Agree | 27 | 54. 0 | | Agree | 14 | 28. 0 | | Disagree | 5 | 10. 0 | | Strongly Disagree | 4 | 8. 0 | | Total | 37 | 100 | Source: Researcher’s survey, 2010 The table above represents the opinions of the respondents regarding their agreement as to whether the crisis has negatively affected prices of the export commodities in the country. The responses show that a total of 54. 0% of the respondents strongly disagreed with the view while 28. 0% of these respondents expressed that they agreed with the assertion. Those that disagreed with the view comprised of 10. 0% of the respondents while 8. 0% of the respondents expressed their strong disagreement. This indicates that most of the respondents were of the view that the crisis has affected prices of such items. 4. 4 GEC and Drop in Government Revenue All government policies and programmes including those that target poverty reduction are only realizable if backed up with adequate financial resources. In respect of this however, respondents were asked to indicate whether they agreed that the crisis has resulted in the drop of government revenue. The responses generated are shown below: Table 4. 4 GEC and Drop in Government Revenue | Options | Frequency | Percentage | | Strongly Agree | 25 | 50. 0 | | Agree | 19 | 36. 0 | | Disagree | 6 | 14. 0 | | Strongly Disagree | 0 | 0 | | Total | 37 | 100 | Source: Researcher’s survey, 2010 From the table above, it should be seen that 50. 0% of the respondents strongly agreed that the crisis has resulted in the drop in government revenue while those that agreed constituted for about 36. 0% of the respondents. The remaining 14. 0% of the respondents disagreed with that. This shows that most of the respondents accept the fact that the crisis has contributed to the drop in government revenue in the country. It was however gathered from secondary sources that in Africa in general there has been a significant decline in the prices of key commodities exported by the region since the second half of the year 2008. The most affected commodity is crude oil that witnessed over 50% decline in price between February 2008 and February 2009. Prices of other commodities like copper, coffee, cotton and sugar also decline by more than 20% over the same period. In Nigeria however, revenue generated from the sales of crude oil fall drastically in 2008 as the price of a barrel dropped to $45 from $147 in 2007. In the first quarter of 2009 also, the price also fall short of #102. 56 billion or 22. 63%. in the second quarter of 2009, the revenue generated from crude oil by the Federal Government was #148. 98billion or 29. 82% short of the budgeted estimate (This day 2009). In general, the value of crude oil export in 2008 was #8, 751. 6billion but dropped to #6288. 4billion in 2009 indicating 28. 2% drop in the revenue generated by the government from crude oil during the period (NBS, 2009). This poor export revenues from crude oil and other commodities by the government indeed affected the government’s ability to administer its development programmes and projects including those dealing with poverty reduction in the country. In fact, the crisis becomes a threat of food insecurity because with reduced foreign exchange earnings from oil, the prospects of the government to invest N950. 00billion in agricultural programmes within the next four years are bleak. Other issues are that Nigeria’s Oil and Gas Projects may be at risk as the projects may now take longer time to be completed. This is because all the recent successes of the sector have been driven by increased foreign direct investment. However, this poor revenue generation also could result to poor implementation of some major national priority development initiatives such as the 7-point Agenda of the current administration, The Financial Sector Strategy (FSS), Vision 2020, the National Economic Empowerment Development Strategy (NEEDS) and indeed the National poverty eradication programme (NAPEP) which is central to the attainment of MDGs on poverty reduction in the country. 4. 5: GEC and Poverty Reduction among Nigerians Respondents were finally asked to indicate whether they agreed that the crisis in view has negatively affected government’s efforts towards poverty alleviation in the country. The responses generated from this are tabulated below: Table 4. 5: GEC and Poverty Reduction among Nigerians | Options | Frequency | Percentage | | Strongly Agree | 17 | 34. 0 | | Agree | 21 | 42. 0 | | Disagree | 10 | 20. 0 | | Strongly Disagree | 2 | 4. 0 | | Total | 37 | 100 | Source: Researcher’s survey, 2010 From the table above, we shall see that 34. 0% of the respondents strongly agreed that crisis in focus has negatively affected government’s efforts towards poverty reduction among the Nigerians. However, those that agreed with the assertion were 42. 0% of the entire responses. Also, 20. 0% of the respondents disagreed with the assertion while the remaining 4. 0% of the respondents expressed their strong disagreement. 4. 6 Test of Hypothesis As stated earlier, our hypothesis states that: Ho There is no significant relationship between Global Economic Meltdown and poverty reduction in Nigeria. H1 There is significant relationship between Global Economic Meltdown and poverty reduction in Nigeria. In accepting or rejecting this, we employed chi square test to guide us in testing the hypothesis. The output of the test using SPSS gave us the following result: [pic] From the chi square output above, we shall see that our calculated value is 74. 661. The critical value at 0. 05% level of significance and 9 degree of freedom is 16. 919. In comparing the two, we shall see that the calculated value is greater than the critical value. Thus we reject our null hypothesis and accept the alternate one. The decision is guided by the decision rule which state that if the calculated value is greater than the critical value we reject and if less than we accept. The result of the secondary data also confirmed this. It was found that unemployment has really increased in the country during the period in focus especially, between 2008 and 2009 with about ten million (10, 000, 000) out of about fifty one million (51, 000, 000) labour force in the country living unemployed. It was also revealed that the crisis has caused many Nigerians in Diaspora to lost their jobs and means of survivals. This of course negatively affects Nigeria’s Gross national Product and hence national development. It was also found that some factories such as Dunlop Nig. Plc have closed their businesses due to the crisis and many companies retrenched their staff. In fact, in February 2010 alone, seven thousand five hundred (7, 500) banking staff lost their jobs, a situation that may cause those affected to be victims of poverty. The study however revealed that the crisis has caused a huge drop in the prices of the Nigerian export commodities especially the oil. This situation led to high drop in government revenue by over 28% from 2008 to 2009. The study further revealed that the crisis has really affected government efforts towards developmental programmes and projects including those dealing with poverty reduction in the country. 5. 0 Conclusion and Recommendations Global economic Crisis stands to be the worst economic disaster of the 21st century whose impact shakes the global economy including that of Nigeria. The crisis has caused many of the government’s development agendas to be unrealizable especially those dealing with human development. However, government’s efforts of reducing poverty in the country among other issues would of course end up as mere intentions or declaration as long as the employment rates and drop in government revenue as well as commodity prices caused by the crisis continue to increase in the country. Thus, the government has to indeed face a challenge on how to curtail such situation. However, this study offers the following recommendations: Firstly, Nigerian Government should make all efforts to reduce dependence on crude oil as the main source of revenue for carrying out developmental programmes and projects in the country. This is because a shock in the price of such commodity in the global market could result in the stoppage of many government activities. Thus effort should be geared towards boosting other areas especially the agricultural sector. Also, government should strengthen its poverty alleviation efforts by supporting local entrepreneurship and providing an avenue for people to be self employed in the country. This will decrease the unemployment rate in the country and hence assist in the efforts of achieving the poverty reduction efforts of the government. Government should also do all it can in providing an avenue or enabling environment for both local and foreign investors to explore the business opportunities in the country. 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