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# Comparative Analysis of Poverty Statusamong Salary Earners and Self Employed Households in Ado-Odo/Ota Localgovernment Area of Ogun State, Nigeria

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Abstract: The study examined the socio-economic factors associated with poverty status among salary earners and self-employed households in Ado-OdoOtta Local Government Area of Ogun State. Data were collected by the selection of Forty-four salary earners and Seventy-four self-employedhouseholds in the study area. The data were analysedusing Foster, Greer and Thorbecke (FGT) 1984 poverty index and Tobit regression model. The result of the analysis revealed that the total per capita expenditure for the salary earners □6,351,763 while that of the self-employed was □11,955,185. The mean per capita expenditure of the salary earners was □144,358 per annum while that of the self-employed was □161,557. The poverty line for the salary earners and self-employed were □96,239 and □107,705, the poverty headcount were 30% and 55.36%, the poverty gap index was 7% and 29.28%, poverty severity index was 3% and 19.79% respectively. All the poverty indices showed that self-employed were poorer than salary earners households in the study area. Based on the findings, sex, household size, income, years of experience and access to infrastructure were significant factors in determining poverty level among salary earners at 1%, 10%, 1%, 5% and 5%respectively in the study area while among self-employed, income, primary occupation and access to infrastructure were significant factors in determining poverty level at 1%, 10% and 10% respectively.

**Key words:** Poverty • Salary earners • Self-employed • Tobit regression model • Nigeria

## INTRODUCTION

High level of income inequality exists in many nation of the Sub-Saharan Africa (SSA). This can be better buttressed by the widening dimension of poverty and general economic problems in many of these nations [1]. In Nigeria, every government have been trying all they could to reduce poverty. Report says that 66-70 percent of Nigerian live below poverty line that is the number of \$1 per day. Therefore because majority of Nigerians live below poverty line, poverty is therefore perverse in Nigeria. In the developing countries great differences and gap exist between people in different areas. The Nigerian problem in the 20<sup>th</sup> century has been the inability to get the best from her human resources. The problem goes beyond low income, savings and growth. It includes high inequality, which includes among others, unequal access

to basic infrastructure and unequal capabilities (education and health status). Incidentally, the importance of unequal access to opportunities, assets, income and expenditure cannot be overemphasized as it plays important role in reducing poverty and spurring the economy to long-term development.

In Nigeria the poor are not just the rich with less money, but are the poorest of the poor. Households are not only poor; they also suffer from vast inequality in incomes, in assets (including education and health status), in control over public resources and in access to essential services as well as pervasive insecurity [2]. Nigeria has experienced a high incidence of poverty over the last two decades. The impact of the incidence becomes more important because of the high inequality associated with even this low level of household income and expenditure. The variations are not just among

households but also among different regions of the country [3]. [4], [5] and [6] have shown that income inequality exists in some rural and urban areas in several parts of Nigeria. Also most rural communities are agrarian as compared to urban communities (Which engage mostly in paid employment), thus they earn less than urban communities. Inequality in income has many social and economic implications. A high level of income inequality result into discontent among the people, which may result in political unrest, instability, increase in violence, corruption and attitude of helpless resignation to the caprice of nature and poverty [1]. [7] have proved in their study that income inequality is closely related to poverty. The study sets out to determine and comparepoverty level as well as analyze the determinants of poverty among the respondents in the study area.

**Hypothesis:** There is no significant relationship between the poverty level of salary earners and self-employed in the study area.

Theoretical Framework: There is no concise way to defining the concept of poverty, as it is a multidimensional issues that affects many aspects of human condition ranging from physical to moral and psychological [8]. Poverty means different things to different people. There is yet no universal accepted definition of poverty, there is always the difficulty in deciding where to draw the line between the poor and the non-poor on a wide dimension. There is poverty when an individual is unable to meet what is considered as a minimum requirement to sustain livelihood in a given society [9]. Poverty has also been conceptualized in both the "relative and absolute" senses. This is generally based on whether relative or absolute standard are adopted in the determination of the minimum income required to meet basic life's necessities. The relative conceptualization of poverty is largely income-based. Accordingly, poverty is an unacceptable deprivation in well-being [10], it exists when there is lack of the means to satisfy critical needs. Poverty can be regarded as the status, objective or subjective of an individual or a population. It will have an objective definition once observable and measurable indicators exist that are used to approach the material or other aspects of the lives of individual. On the other hand, the subjective definition of poverty is when judgment (including value judgment) of individual is taken into consideration in order to investigate their welfare [11]. What is most important to

deduce from these different definition is that, poverty must be conceived, defined and measure in absolute quantitative ways that are relevant for analysis in given time.

Poverty is a multifaceted concept which manifests itself in different forms depending on the nature and extent of human deprivation in absolute terms poverty suggests insufficient or the total lack of basic necessities like food, housing and medical cares. It embraces the inadequacy of education and environmental services, consumer goods, recreational opportunities, neighborhood amenities and transport facilities. In relative term people are poverty stricken when their incomes fall radically below the community average [2]. Individual human capital and capabilities can also be enhanced through migration process. The issue of poverty and migration involves an understanding of the prevalence of poverty in rural and urban centres and the interactions of the various dimensions of deprivation [12]. Migration especially from rural to urban centres is one of the consequences of dearth of skill acquisition, which is one of the characteristics of rural areas of developing countries.

Thus, in practice, obtaining an education and learning the technique that are useful for employment in the modern sector of the economy would often require moving away from the rural areas. This is usually due to policy bias against the rural poor in which case the urban centres tend to be disproportionately favoured in terms of infrastructural facilities. Therefore, rural poverty tends to persist due to absence of human capital that would facilitate obtaining high paying jobs. In this regard, [13] noted that inadequate access of the rural population to health facilities; sanitation, safe drinking water and high level of illiteracy have perpetually put rural poverty above that of urban centres. Poverty status is therefore dependent on the (in) adequate physical functioning such as hunger, lack of warmth and (in) adequate social functioning such as alienation, shame and lack of respect [14]. Based on this, a poor person can be defined as one whom, given the ownership he actually has, the exchange entitlement set, does not contain any feasible bundle satisfying the required minimal standard of living [9]. An important thing to note here is that the commodity bundle is with reference to minimal standard of living. Therefore, as argued by [8], concept of poverty reduction programmers must therefore not only focus on income, expenditure and welfare programmers respectively, they must ensure the interaction between entitlement and

capabilities.

There are two broad definition of poverty in literature. These are the money metric measures and the non-money matrix measures of poverty. The money metric measures define the poor in terms of inadequate income or expenditure to provide for the minimum standard of living [15]. The non-money metric measure assumes that poverty goes beyond the issue of income as it also includes capability of turning income into welfare enhancing activities. Hence rather than using money or income as the basis of defining welfare, welfare is defined in terms of the assets of the individuals or household [16]. [17] The poor is 'person, families and groups whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life of the member state to which they belong. A range of nonmonetary indicators of deprivation were proposed and adopted for use alongside income in a number of national surveys [18].

[19] The study presented recent global evidence on the transformation of economic growth to poverty reduction in developing countries with emphasis on the role of income inequality. The study finds that on average income growth has been the major driving force behind both the declines and increase in poverty. The last two decades have witnessed the economic emergence of developing countries which have as a group exhibited relatively high GDP growth rates in excess of those prevailing in the developed countries. The gap has been particularly apparent since the middle 1990s. Much of this 'shifting wealth' has furthermore, been translated to increasing human development, such as poverty reduction. Global poverty has fallen substantially, with a major portion of the decline attributable to China. Even when China is omitted from the sample, poverty reduction is still considerable [20]. Even in china, which has experienced tremendous poverty declines, further reduction could have arguably still occurred in the of the increasing income accompanying growth [21]. Based on the World Bank data, [22] shed light on the global and regional trends in the head count-ratio measure of poverty for the \$1-perday (\$32-per month) standard. Furthermore among African countries where the lack of growth appears to have been the main culprit generally, there are considerable disparities in terms of the ability of countries to translate growth to poverty reduction [23].

### MATERIALS AND METHODS

Study Area: The study was carried out in Ado-Odo/Ota Local Government Area of Ogun State. The capital of the Local Government is Ota at 6 41'00"North 3 41'00" East to the north of the area. It has an area of 878km<sup>2</sup> and a population of 527,242, at the 2010 census. The total population of male and female is 261,523 and 265, 719 respectively. It also has a total household population of 125,942 which includes: (Regular: 123,829, Institutional: 1,735, Homeless 135, Transient 122, Fishing/hunting: 121). The postal code of the area is 112. Other neighboring towns to Ado-Odo/Ota include Ado-Odo, Igbesa, Agbara, Sango-Ota and Itele. Ado-Odo/Ota is situated about 50km from Abeokuta, the Ogun state capital and 100km from Ikeja the capital city of Lagos state. In the ancient days the major occupation is mostly farming but now there are several timber industry spread all over outskirt of the town for production of planks and ply wood for both local consumption and for exportation. The daily temperature in Ado-Odo/Ota ranges between an average minimum of 23°C to a maximum of 34.2°C, relative humidity is 75% and annual rainfall is 1000-1500(mm). Yoruba is their local dialect. The land is endowed with a large expanse of land; the major cash crops grown in this area are cocoa, kola nut, palm oil, timber, maize, vegetable and cassava. The Local Government area consists of different villages notably among which are Idimu, Fowowewo, Iyesi, Oresa, Adelanwa, Ajerogun, Eleru, Osuke, Idain-gbegbo, Aiyede, Ayetoro, Itire, Idi-ofe and Idain-isaga which are rural in nature.

Primary data were used.A structured questionnaire which solicits for information that is based on the research question for the study was used. Each correspondent filled up a copy, for respondents who cannot read nor write an interview schedule was carried out. The total household population of the study area is one hundred and twenty five thousand, nine hundred and forty-two. A multi stage sampling technique was used for the selection of the respondents. Multistage sampling means the use of more than one stage in sampling an area. The first stage involved the movement from state to Local Government Area. The second stage constituted the movement from the local government to towns and villages. This involved the division of the Local Government area into three zones: Zone A (Ota district), Zone B (Igbesa administrative area) and Zone C (Ado-odo administrative area). The third stage involved the selection of villages from each zone. 8 villages was selected from zone A. 6 villages was selected from zone B while 7 villages was selected from zone C. The fourth stage involved the random selection of household heads through ballot. From zone an eight villages was used which includes Ayetoro, Adelanwa, Iyesi, Fowowewo, Idimu, Osuke, Igbala and Ajegunle with household population forty, twenty-two, eighteen, thirty-three, twenty-five, twenty-one, thirteen and respectively. In Zone B six villages was selected which includes Egudu bale, Idaingbegbo, Idoye, Owoye, Idainisaga and Eleru with household population sixteen, twenty-three, twenty, twenty-six, eighteen and thirty respectively. Seven villages were selected from Zone C which includes Agboku, Aiyede, Ajerogun, Berepa, Oresa, Idi-Ofe and Itire with household population twenty-four, thirty-one, nineteen, twenty-nine, thirty, twenty-three and twenty nine respectively.

From zone A, 30 self-employed and 20 salary earners were used with a total of 50 respondents. In zone B, 18 self-employed and 12 salary earners were used with a total of 30 respondents and in zone C, 26 salary earners and 12 self-employed were used with a total of 38 respondents which gives a total of 44 salary earners and 74 self-employed.

**Data Analysis:** For the purpose of this study, two analytical methods were employed which include: FGT poverty index and Tobit regression model. Poverty analysis was measured using [24] to determine the poverty level of the respondents [24]. Ascertain the poverty status of households which was used to segregate them into poor and non-poor categories. The measurement of head count ratio  $(P_0)$ , depth of poverty  $(P_1)$  and severity of poverty  $(P_2)$  gives the poverty level of households which is related to the various dimensions of poverty incidence. The mathematical formula of poverty measurement as given by [24] is given below:

$$P_{\alpha} = \frac{1}{N} \sum_{i=1}^{q} \left( \frac{Z - y_i}{Z} \right)^{\alpha}$$

where;

N = Total number of household

q = the total number of household below the poverty line

Z = Poverty line

Y<sub>1</sub> = the per capita expenditure of household in the individual group

 $\alpha$  = the degree of concern for the depth of poverty, it takes on the value of 0, 1 and 2 for poverty incidence, poverty gap and poverty severity respectively

 $z - y_i$  = gap between poverty line and the income for

each poor individual.

Therefore;

When  $\alpha = 0$ ,

$$P_0 = \frac{1}{N} \sum_{i=1}^{q} \left( \frac{Z - y_i}{Z} \right)^0$$

where  $\alpha = 1$ ,

$$P_1 = \frac{1}{N} \sum_{i=1}^{q} \left( \frac{Z - y_i}{Z} \right)^1$$

When  $\alpha = 2$ ,

$$P_2 = \frac{1}{N} \sum_{i=1}^{q} \left( \frac{Z - y_i}{Z} \right)^2$$

**Determinants of Poverty:** Factors that determine poverty level were identified using a Tobit regression model. Tobit Regression Model was employed to ascertain the determinants of poverty status among salary earners and self-employed in the study area. The Tobit model is of the form:

$$Y^*$$
  $_I = X_i \beta + U_i$ 

where  $U_i$  is normally distributed with zero mean and constant variance. The dependent variable  $Y^*$  is the variable whose variation is determined by the independent variables (explanatory variables). Mathematically the model is stated thus;

 $q_{i=}p_{i=}\beta Xi + Ui$  $q_{i=}p_{0=}\beta Xi + Ui$ 

where, i=1, 2, 3, 4,.....118 [25]

 $q_1$  = Dependent variable

 $p_1$  = Depth of the intensity of poverty defined as:

(Z-Y)/Z

where  $p_1^*$  is the poverty depth when the poverty line (z) equals the per capita household expenditure.

Y = Level of poverty

 $X_i = Vector of explanatory variable$ 

b = Vector of unknown co-efficient

 $U_i$  = Independently distributed error term

 $Y = X_1, X_2, X_3, X_4, \dots, X_{10}$ 

Thus, the independent variables are defined as;

 $X_1 = Age (in years)$ 

 $X_2$  = Marital status (Married=1, 0 if otherwise)

 $X_3$  = Year of formal education (Years)

 $X_4$  = Household size

 $X_5$  = Income of respondents (Naira)

 $X_6$  = Primary occupation (Farming=1, 0 if otherwise)

 $X_7$  = Secondary occupation (Farming=1, 0 if otherwise)

 $X_8$  = Years of experience (years)

X<sub>9</sub> = Household access to infrastructures (Yes=1, 0 if otherwise)

 $X_{10}$  = Dependency ratio

## RESULTS AND DISCUSSION

Poverty Incidence, Depth and Severity: There are two broad ways in measuring poverty: there are establishment of poverty line and choice of an index to measure poverty. In addition to the measurement of poverty line, an appropriate measurement of poverty must reflect three basic element namely the incidence or the gap or and poverty intensity / depth is reflected in the extent to which the per-capita expenditure of the poor falls below the poverty line. The total annual expenditure for 44 salary earners in the study area was □33,697,200 while that of the 74 self-employed was □71,560,780; the mean expenditure for the salary earners in the study area was □765845.45 per annum while that of the self-employed was □967037.57. The total per-capita expenditure of the salary earners was □6,351,763 per annum while that of the selfemployed was □11,955.185. The mean per-capita expenditure of the salary earners was □144,358 per annum while that of the self-employed was □161,557. It was necessary to get the core and the moderate poverty line to determine the number of poor i.e. those below the moderate poverty line. The poverty line is computed by finding the 2/3 of the per-capita expenditure which for the salary earners was □96,239 while for the self-employed was □107,705.

Therefore any household spending less than the amount obtained above annually on consumption is described as being poor relative to other household, while any other spending exactly the stipulated amount or higher than it on annual consumption connotes that the respondent is non-poor. With a poverty line of  $\Box 96,239$  for the salary earners, the incidence of poverty ( $P_0$ ) or poverty headcount was 0.30 and poverty line of  $\Box 107,705$  for the self-employed; the incidence of poverty ( $P_0$ ) was 0.5536. These were the proportions of both the salary earners and self-employed that could not satisfy their

Table 1: Summary of Poverty Indices for the Respondents in the Study Area

Poverty line	Salary Earners	Self Employed
P <sub>0</sub> (%)	0.3000	0.5536
P <sub>1</sub> (%)	0.0700	0.2928
P <sub>2</sub> (%)	0.0300	0.1979

Source: Field Survey, 2012

food and non-food expenditure, the value indicated that 30% of the salary earners and 55.36% of selfemployedhouseholds in the study area were below the poverty line and were relatively consumption poor. The poverty depth (P<sub>1</sub>) was 0.07 for the salary earners and was 0.2928 for self-employedhouseholds in the study area. This indicated that poverty was not only persuasive among salary earners but also deeper among selfemployed households in the study area. However, most of them who were poor were just below the poverty line and therefore only requires more access to capital for expanding their respective businesses which will lead to more income which will translate to consumption spending and bring the poor salary earners and selfemployed to the poverty line. The poverty severity index  $(P_2)$  was 0.03 for the salary earners and 0.1979 for the self-employed. This value indicated that poverty is not so severe among salary earners and self-employed house holds in the study area. This contradicted the work of [25] which indicated that poverty incidence P<sub>0</sub>was 0.20, depth P<sub>1</sub>was 0.03 and severity P<sub>2</sub> was 0.004 in their work titled Adoption of improved cassava varieties and its Welfare effect on producing households in Osogbo ADP Zone of Osun State.

**Determinants of Poverty in the Study Area:** Table 2 showed the result of the determinants of poverty in the study area using Tobit Regression model.

For Salary Earners:  $X_2$  represented the marital status and it was significant at 1% level. It had a positive co-efficient which implied that it has a direct effect. That is, as one move from single, the more the probability of being poor. It is also an important factor that determined the level of being poor in the study area.  $X_4$  represented the household size and it was significant at 10%. It had a positive co-efficient which implied that it had a direct effect. That is, the larger the household size, the higher the probability of being poor. It is an important factor that determined the level of being poor in the study area.  $X_5$  represented the income of respondents and it was significant at 1%. It had a negative co-efficient which implied that it had an inverse effect. That is the lower the

Table 2: Perimeter Estimate for Tobit Regression Model for Salary Earners

Variables	Coefficient	Standard Error	T-ratio
(X <sub>1</sub> ) Age	0.4386390441E-01	0.29485424E-01	1.488
(X <sub>2</sub> ) Marital Status	1.438121910	0.60641217	2.372***
(X <sub>3</sub> ) Years of Formal Education	-0.5209661716E.01	0.52197140E-01	-0.998*
(X <sub>4</sub> ) Household Size	0.3425297627	0.20419588	1.677
(X <sub>5</sub> ) Income	-0.2263150153E-05	0.78813635E-06	-2.872***
(X <sub>6</sub> ) Primary Occupation	0.3411600078E-01	0.23565692E-01	1.448
(X <sub>7</sub> ) Secondary Occupation	-0.7710938476E-01	0.17851112	-0.430
(X <sub>8</sub> ) Years of Experience	-0.7512216349E-01	0.3759165E-01	-1.998**
(X <sub>9</sub> ) Access to Infrastructure	-0.1898363648	0.94383260E-01	-2.011**
(X <sub>10</sub> ) Dependency Ratio	-0.1597141873	0.15669156	-1.019

Source: Field Survey, 2012

Table 3: Parameter Estimate of Tobit Regression for Self Employed

Variables	Coefficient	Standard Error	T-ratio
$\overline{(X_1)}$ Age	0.4037159155E-02	0.18864667E-01	0.214
(X2) Marital Status	0.1580945808	0.25091442	0.630
(X <sub>3</sub> ) Years of Formal Education	-0.4102045637E-01	0.25125124E-01	-1.633
(X <sub>4</sub> ) Household Size	0.3834450263E-01	0.79243420E-01	0.484
(X <sub>5</sub> ) Income	-0.1603286063E-05	0.45693750E-06	-3.509***
(X <sub>6</sub> ) Primary Occupation	0.3991104380E-01	0.22809213E-01	-1.750*
(X <sub>7</sub> ) Secondary Occupation	-0.1195156802E-01	0.32399333E-01	-0.369
(X <sub>8</sub> ) Years of Experience	0.1694875473E-03	0.16190626E-01	0.010
(X <sub>9</sub> ) Access to Infrastructure	-0.1478281242	0.79748063E-01	-1.854*
(X <sub>10</sub> ) Dependency Ratio	0.1223372048	0.86377030E-01	1.416

Source: Field Survey, 2012

income, the higher the probability of being poor. It is an important factor that determined the level of being poor in the study area. X<sub>8</sub> represented the years of experience and it was significant at 5%. It had a negative co-efficient which implied that it had an inverse effect. That is, the lower the number of years of experience, the higher the probability of being poor. It is an important factor that determined the level of being poor in the study area.  $X_{9}$ represented the household access to infrastructure and it was significant at 5%. It had a negative co-efficient which implied that it had an inverse effect. That is, the lower the household access to infrastructure, the higher the probability of being poor. It is an important factor that determined the level of being poor in the study area. This contradicted the work of [25] which stated that the coefficient of sex, age and primary occupation were not significant factors in household poverty reduction. The coefficient of the years of formal education of the farmer was significant at 1% and was positive.

For the Self-Employed:  $X_5$  represented the income and it was significant at 1%. It had a negative co-efficient which implied that it had an inverse effect. That is, the lower the income, the higher the probability of being poor.

It is an important factor that determined the level of being poor in the study area. X<sub>6</sub> represented the primary occupation and it was significant at 10%. It had a negative co-efficient which implied that it had an inverse effect. That is, the lower the primary education, the higher the probability of being poor. It is an important factor that determined the level of being poor in the study area. X<sub>9</sub> represented the household access to infrastructure and it was significant at 10%. It had a negative co-efficient which implied that it had an inverse effect. That is, the lower the household access to infrastructure, the higher the probability of being poor. It is an important factor that determined the level of being poor in the study area. X2, X4, X5, X8, X9 represented the marital status, household size, income, years of experience and household access to infrastructure respectively were all significant among the salary earners while X<sub>5</sub>, X<sub>6</sub>, X<sub>9</sub> represented income, primary occupation, household access to infrastructure respectively were also significant among the selfemployed and this indicates that they all determine the level of being poor in the study area. This corroborated the work of [1] titled The Role of Social Capital in access to micro credit in Ekiti State, Nigeria.

<sup>\*</sup>significant at 10%, \*\*significant at 5%, \*\*\*significant at 1%

<sup>\*</sup>significant at 10%, \*\*significant at 5%, \*\*\*significant at 1%

#### **CONCLUSION**

The study compared poverty status among salary earners and self-employedhouseholds in Ado-OdoOtta Local Government Area of Ogun State, Nigeria. The result of the analysis on poverty status of the respondents revealed that total per capita expenditure for the salary earners was □6,351,763 while that of the selfemployedhouseholds was □11,955,185. The mean per capita expenditure of the salary earners was □144,358 per annum while that of the self-employed was  $\Box 161,557$ . The poverty line for the salary earners and self-employed were  $\square 96,239$  and  $\square 107,705$ , the poverty headcount were 30% 55.36%, the poverty gap index was 7% and 29.28%, poverty severity index was 3% and 19.79% respectively. All the poverty indices showed that poverty was evident in the study area but self-employed households were poorer than salary earners households. The results of the logit regression model revealed that, sex, household size, income, years of experience and access to infrastructure were the significant factors that determine poverty status among salary earners in the study area while among the self-employed households; income, primary occupation and access to infrastructure were the significant factors that determine poverty status.

Based on the findings of this study, it was observed that household size can be linked to the occurrence of poverty. It had a positive co-efficient which implied that it had a direct effect on the poverty level of respondents in the study area. Therefore, the society should be encouraged to adopt family planning so as to reduce the household size and make per capita income sufficient because the larger the number of the household size, the higher the poverty which results from insufficiency of the per capita income.

Income of respondents was also an important indicator of poverty in the findings of this study. It had a negative co-efficient which implied that it had an inverse effect on the poverty level of respondents in the study area. Therefore, there is need to upgrade technologies in order to improve the income levels of households and also, more cooperative societies and processing facilities should be introduced to the study area. Both the salary earners and the self-employed should join more of the cooperatives so as to obtain loans and this will make the expansion of their business possible which will improve their economy enterprise as well as the income level of households in the study area.

Also based on the findings of this study, household access to infrastructure such as health facilities, roads, electricity and good schools indicated the occurrence of

poverty in the study area. It had a negative co-efficient which also implied that it had an inverse effect on the poverty level of the respondents in the study area. In view of this, there is need to incorporate poverty alleviation strategies and this should take into consideration of specific situational factors confronting individuals rather than top-down.

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