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## A propensity score matching analysis of the impact of participation in non-farm enterprise activities on household wellbeing in rural Nigeria

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### Abstract

The recent data of nationally representative sample of 3380 households from rural Nigeria was used to examine the effects of participation in non-farm enterprise activities on household wellbeing. The propensity score matching result shows that participation in nonfarm enterprise activities has a significant positive impact on household wellbeing by all measures. This suggests that non-farm enterprises could be a pathway for improving the wellbeing of rural households in developing countries.

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*Keywords:* Non-farm enterprises; household wellbeing; rural Nigeria

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### 1. Introduction

Nonfarm enterprise diversification has been given much attention in the recent literature as a result of its significant role in improving the wellbeing of rural households. The non-farm enterprise activities reduces the rate of rural-urban migration by providing job opportunities to growing rural labor force that cannot be employed in the agricultural sector. Likewise, non-farm activities may enhance income growth and promote a more equitable distribution of income among the households (Reardon 1997, Ellis 2000 Lanjouw 2001 and Pham 2010). Evidences from developing countries suggest that, the sector accounts for 30–45 percent of rural households' income (Reardon et al., 1992; Haggblade et al., 2009).

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The literature on non-farm sector have not given much attention on the contribution of non-farm enterprises to households' wellbeing (Lanjouw & Lanjouw, 2001; Rijkers et al., 2010), which makes it difficult to assess the contribution of nonfarm enterprises to wellbeing. Most studies focus on the effect of wage employed activities on households' wellbeing (for e.g., Barret et al., 2001; Deininger & Olinto, 2001; Owusu et al., 2011).

This study uses a nationally representative sample data of 3380 rural households from Nigeria to examine the impact of participation in nonfarm enterprise activities on household wellbeing using propensity score matching technique. The method takes care of self-selection bias that exists in the sample by matching enterprise and nonenterprise households that share the same pre-treatment characteristics (Rosenbaum & Rubin, 1985).

The rest of the paper is organized as follows. The next section presents the literature review. Section three discusses the methodology used in collecting and analysing the data used for this study. Section four discusses the empirical findings and Section five presents the conclusion.

## **2. Literature Review**

In this paper, non-farm enterprises refer to all forms of non-farm businesses that are carried out in the non-farm sector of the economy. Such activities include trading, manufacturing, mining and all other forms of human services. The recent literature on the relevance of non-farm sector to household wellbeing in developing countries tends to suggest mixed effects. Lanjouw and Lanjouw (2001) argue that, some rural households may be pushed into non-farm activities in their struggle to survive, while others may be pulled into such activities by their desire to accumulate wealth. The push factors are usually associated with the poor, and the pull factors are more likely associated with the non-poor households. Ellis (1998) support this argument and urged that, households participation into non-farm activities may be associated with success at achieving livelihood security under improved economic conditions, as well as overcoming livelihood distress under deteriorating conditions. In a review of 18 field studies, Reardon (1997) revealed that the share of non-farm income in total income of the poorer households is higher than that of higher income households. The study carried out in Asia comprising of Japan, Taiwan and South Korea revealed that the poorer/landless households have made a higher percentage of their income from non-farm activities, which suggest that the non-farm sector has a positive impact on poverty reduction in the region (Lanjouw and Lanjouw, 2005).

In the case of Burkina Faso Reardon, et al. (1992) employ a recursive system to examine the interaction between nonfarm diversification, household income and consumption expenditure, the result shows that non-farm diversification has a positive impact on the income and food consumption expenditure of the households. Debalen et al. (2004) used propensity score matching approach to examine the welfare impact of non-farm diversification in rural Rwanda by comparing the earning of enterprise and non-enterprise households. Their result shows that the enterprise households are better off than non-enterprise households in terms of their wellbeing. In the same vein Owusu, et al. (2011) used propensity score matching approach to assess the impact of non-farm work on food security status and households' income in northern Ghana; they revealed that non-farm work has a positive impact on income and food security status of the households. Similarly, Ali and Peerlings (2012) also used propensity score matching approach to examine the impact of non-farm enterprise diversification on households' wellbeing in Ethiopia using income and food security status of the household as indicators of their wellbeing, the result shows that non-farm enterprise diversification has a positive significant impact on all the measures.

## **3. Methodology**

### *3.1 Source of Data*

The data for this study is obtained from the general household survey of 3380 rural households undertaken by the Nigerian Bureau of Statistics in collaboration with the World Bank in 2011. The survey is designed in accordance to World Bank Living Standards Measurement Surveys (LSMS), and it used a comprehensive list of all the

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