

OWNERSHIP OF SMALL NON-FARM ENTERPRISES AND HOUSEHOLD POVERTY IN NIGERIA

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Abstract

Economic diversification lies at the centre of household decision making in order to meet its consumption and other needs. Ownership of small enterprises is common among households in Nigeria and this is believed to be contributing to poverty reduction. This study explores the poverty reduction impact of household ownership of small enterprises in Nigeria using data from General Household Survey 2015. The study employs both descriptive and regression approaches in the analysis. The findings, among other things, show that households that own small enterprises have significantly lower poverty because of diversification of activities. One policy implication of this study is that households should be supported when they have the potential to manage small businesses in addition to agricultural activities. This would significantly help to reduce poverty in Nigeria.

Keywords: consumption, non-farm enterprise, poverty, diversification, household

1. Introduction

Economic diversification lies at the center of household decision making in order to meet its consumption and other needs. Ownership of small enterprises is common among households in Nigeria and this has been seen as contributing to poverty reduction (Green, Kirkpatrick & Murinde, 2006). Thus, many people set up small businesses to meet up their daily needs and this multiply every day in urban and rural areas. Small enterprises are found in the informal sectors in developing countries when they are newly established and gradually some of them may develop and become formal businesses (Cook & Nixon, 2005). The definition of small enterprises changes from one country to another depending at the stage of the development. Small enterprises play a crucial role in employment creation which may have a positive effect on poverty reduction. Small enterprises are a growth-supporting sector that improves the standard of living for the society and they are privately owned corporations, partnerships or sole proprietorships which have fewer employees.

Small enterprises in Nigeria include service or retail operations like stores, hairdressers, mechanics workshops, carpenters, electricians, restaurants, guest houses, photographers, web design, computer programming, lawyers, accountants, dentists and medical doctors and the like. Thus nonfarm small enterprise is usually owned and managed by household members. Small enterprises because of their nature play a tremendous role in local employment creation, balanced resource utilization, income generation, utilization of local technology and raw materials and helping to promote change in a gradual and peaceful manner (National MSME collaborative survey, 2010).

1.1. The nature of Small enterprises non-farm in Nigeria

In Nigeria, small non-farm enterprises play a significant role in economic development. These enterprises undergo different stages from traditional to modern technology. They improve households' wellbeing and standard of living because of their positive effect on household income. Nigeria is endowed with enough natural resources which are a major keystone of economic development. Obadan (2003) argues correctly that Nigeria is blessed with enormous human, petroleum, agricultural, gas and untapped solid mineral resources; despite enormous human and natural resources the country is yet to achieve the desired level of development. Abdullahi, et al. (2015) asserted that corruption, inadequate infrastructural facilities, policy instability, and lack of accountability of public funds and inconsistency of the government policies have been the major challenges to the development of small and medium enterprises in Nigeria. Thus, for Nigeria to reach its full potential in terms of economic and social development, SMEs should not be neglected or ignored because it contributes simultaneously to the economy of the country.

A study conducted by Nigeria Corporate Affairs Commission posits that almost ninety percent of companies in Nigeria in 2001 absorb less than fifty people. Another study conducted by the National Bureau of Statistics (NBS) showed that ninety-seven percent of Nigeria businesses also absorb less than or below one hundred employees or staffs. These suggest clearly that almost ninety-seven percent of the entire business in the country are all small businesses. Similarly, a study by the International Finance Corporation (IFC) in the same period estimates that ninety-six percent of all companies in Nigeria are SMEs, compared to fifty-three percent in the USA and sixty-five percent in the EU (World Bank, 2002). Carpenter (2001) and Kalanje (2002) argue that SMEs are significantly contributing to the Nigerian economy, with about ten percent of total manufacturing output and seventy percent of industrial employment. In Nigeria almost two-thirds of the citizens is living below the poverty line; about half are unemployed, and overall GNP per capital falls below the average for Sub-Saharan Africa (World Bank, 2002).

Previous studies such as the one by the World Bank Africa (2012), Haggbladede et al. (2010), Bila (2004), Green, Kirkpatrick and Murinde (2006), Abbott, Murenzi and Musana (2012) and Madaki and Adefila (2014) found that non-farm enterprises are a key factor in poverty alleviation. Stiglitz (1998) argued that market failure is a fundamental cause of poverty and financial market failures and it limits the access of the poor to formal finance, thus pushing the poor to the informal financial sector. Poverty is a very big problem in developing countries including Nigeria. Therefore, there is growing realization on the part of the Government that

instead of the promotion of large-scale enterprises, it should promote small non-farm enterprise with incentive. Past years, small enterprise non-farms are neglected in the Nigeria Economic Development Strategy. Presently, Government is striving toward the creation of an enabling and friendly environment in which small enterprise non-farms would flourish and entrepreneurial instincts aroused so that the entrepreneurs may get maximum output and rewards from their efforts. Small enterprises serve as a catalyst for the growth, productivity, and competitiveness of the economies of developing countries (NBS survey, 2010). There are agencies established by the Government to facilitate the promotion and development of small enterprise non-farm in Nigeria. One of them is Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) which was established in 2003 with the overall objective of reducing poverty through wealth and job creation and facilitate national economic development.

In Nigeria, poverty is very high. A national poverty survey carried out indicates that urban areas have moderate poverty while rural arrears have poverty levels that are as high as 60% (Okunmadewa, Yusuf & Omonona, 2005; NBS, 2009). Despite the rate of increase of small enterprise non-farm in Nigeria, the sector is facing lots of challenges like inadequate electricity, lack of finance, poor education, poor infrastructure, lack of access to roads and transport yet it is one of the in sources of employment generation. However, with the rapid growth of small businesses in Nigeria, it is high time studies were conducted to ascertain their impact on poverty. This study contributes to existing literature in this area in Nigeria by investigating the effect of household ownership of non-farm enterprise on household poverty.

2. Literature Review

A number of theoretical and empirical literature has tried to establish linkages between small non-farm enterprise and household poverty. Diversification of household activities is a necessary condition in economic development. The growth of the household enterprises sector has poverty reducing consequences, as the earnings from owners of small enterprises tend to be significantly higher than those from agricultural waged labor and subsistence agriculture (World Bank, 2009; African Development Bank; 2009). This means owners of small enterprises are less likely to be poor than those who are dependent on sole agriculture. Abbott, Murenzi, and Musana (2012) revealed that small enterprises are a significant source of employment for the poor. Abbott, Murenzi, and Musana further explicated that small enterprises play a crucial role in poverty reduction because most of the ownership of these small enterprises are from households and they are better off than those that depend solely on agriculture. Fox and Shnesen (2016) commented that household enterprises are associated with upward wealth mobility and poverty reduction. Therefore, small enterprises that are well financed can alleviate household poverty thereby increase economic growth in a society. Shehu, Bin, and Siddique (2014) supported this argument and urged that the ownership of small enterprises could be a pathway for improving the well-being of households and thereby reduce poverty in Nigeria. Most of these small enterprises are not progressing at an encouraging rate due to lack of finance. This means that some of these small enterprises are experiencing stunted growth which may hinder economic diversification thereby result in a negative effect

on poverty reduction. Therefore, this study seeks to investigate the contribution of ownership of small non-farm enterprises to household poverty in Nigeria.

3. Methodology and Data

The theoretical framework that underlies this paper is the framework developed by Foster, Greer and Thorbeck (FGT) (2004) used to decompose poverty into contributing factors. The method decomposes aggregate poverty as the sum of subgroup poverty and measures the severity of poverty among the subgroups. The objective of this decomposition is to evaluate the contribution to poverty of household ownership and non-ownership of small enterprises. Araar, Bibi and Duclos (2010) argue that an important feature of the FGT poverty measures is that they are additive and can thus be decomposed into a sum of subgroup poverty indices. They further explained that this method allows us to identify which subgroup shows higher poverty and can be useful to design cost-effective anti-poverty interventions and also, evaluate each subgroup's contribution to total poverty to see which make a particularly large contribution to poverty and whose members are especially at risk of being poor.

In this paper, The FGT index is used to compute the contribution of females participating in various sectors to poverty, then the head count index, poverty gap index and severity index is also computed to see the incidence, depth and severity of poverty among the subgroups. According to Anyanwu (2010) The P^α class measure can be written as:

$$P^\alpha = \frac{1}{n} \sum_{i=1}^q \frac{(Z - Y_i)^\alpha}{Z}$$

where:

Z = poverty line

q = number of persons/households below the poverty line

Y = household expenditure per capita

α = the FGT parameter which takes the value 0, 1, 2 depending on the degree of concern about poverty

Z - Y = is the proportionate shortfall below the poverty line or poverty gap

H is the headcount ratio, which measures the incidence of poverty. When $\alpha = 0$, P^α measures the incidence of poverty, When $\alpha = 1$, P^α measures the depth of poverty; when $\alpha = 2$, P^α measures the severity of poverty.

The paper also uses consumption regression to calculate the contribution of ownership of household enterprise to poverty reduction in addition to other control variables.

The dataset used for the analysis was extracted from the General Household Survey for Nigeria wave 2 data. The dataset comes from the cross sectional component of the Survey. According the NBS report in 2013, the GHS survey is a cross-sectional survey of 22,000 households which is being carried out annually throughout the country. The survey contains information on household ownership of non-farm enterprises as well as other household characteristics that were used in the

consumption regression such as the age and gender of the household head, household size, location of the household, and the geopolitical location of the households. Weights from the survey were applied to control for sample variability.

4. Discussion on Findings

Our findings are reported in Tables 1, 2, 3 and 4. In Table 1 we report some descriptive statistics on the pattern of ownership of nonfarm enterprises by households in Rural and Urban areas and by geopolitical zones. We found that on average, about 77.7 percent of households in rural areas own one form of nonfarm enterprise or the other, while in the urban areas, and about 79 percent of households own nonfarm enterprises. The national average shows that about 78 percent of all households in Nigeria own one form of nonfarm business or another while 22% do not own income generating activity other than their primary employment. These figures, which vary across the six geopolitical zones (though not substantially), suggest the extent of economic diversification going on at the household level in Nigeria. The figures show that ownership of nonfarm enterprises as a form of economic diversification is prevalent in Nigeria and they may have substantial effect on poverty reduction.

Table 2 reports the population share of households that own enterprises and those that do not own any enterprise. The table reports the mean consumption expenditure at the rural, urban and national levels as well as the mean expenditure of the poor. As can be seen from the Table, the mean per capita consumption expenditure of households that own enterprises in rural areas is N90,340.28 while the mean per capita consumption of expenditure of households that do not own any enterprise in the rural areas is N80,008.27. The mean per capita consumption for urban households that own some enterprise is N142,161.6, while for households that do not own the mean is N133,468.6. The national average for households that own enterprise and those that do not own are respectively N107,587.6 and N97,134.92. Columns four and five of the table respectively show the mean per capita consumption of the poor and the mean per capita consumption gap of the poor.

Table 3 reports the decomposition of FGT index by ownership of enterprises in order to ascertain poverty head count, poverty severity and inequality among the poverty. In the table “yes” means that the household own non-farm enterprise while “no” the household does not. The results of poverty decompositions show that for all FGT measures of poverty such as the headcount index (P0), poverty gap index (P1) and poverty severity index (P2), households that own nonfarm income generating enterprises have lower poverty. They have lower risk of falling into poverty. That is, they are less vulnerable compared to households that do not own income generating activity as a form of economic diversification. Specifically, while the head count index for rural households that have small enterprise is 47 percent, it is 58.9 percent for those that do not have any enterprise. In the urban areas, we found that the poverty head count for households that have enterprises is 22.3%, corresponding head count index for those that do not have any enterprise is 25.3 percent. The national poverty for households that own nonfarm enterprise is 38.8 percent, while it is 48.1 percent for households that do not have. The poverty gap and poverty severity are also lower among households that own small enterprises.

Table 4 shows the marginal change in the probability of being poor with respect to household ownership of enterprise and the effect of enterprise ownership on per capita consumption expenditure. The results indicate that households that own nonfarm enterprise have N9,258 higher per capita consumption compared to households that do not own any enterprise as a form of income diversification. This difference is statistically significant even at the 1% level of significance. Also, the marginal effects computed after probit estimation show that household's probability of being poor significantly decreases by about 8.8% with respect to enterprise ownership other things being equal. We reported the abridged version of the model.

5. Recommendations and Conclusion

Based on findings, we recommend that households should be empowered whenever they are able to run small enterprises. This should be in form soft loans or micro credit. Despite many years of campaign to make micro credit available to households banks still have not found such lending attractive because households are not able to provide any collateral. Therefore, government should establish micro credit development bank that will cater for credit needs of households instead of only focusing on medium and large firms. Any policy that aids income diversification of households is also capable of reducing households' vulnerability to poverty.

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RESULTS APPENDIX

Table 1: Households' Ownership of Nonfarm Enterprise/Income Generating Activity by Zone and Sector

Zone	Owned Nonfarm Enterprise		
	no	yes	Total
Rural			
North Central	19.05	80.95	100
North East	20.21	79.79	100
North West	24.55	75.45	100
South East	22.5	77.5	100
South South	22.46	77.54	100
South West	29.36	70.64	100
Total	22.34	77.66	100
Urban			
North Central	28.98	71.02	100
North East	18.8	81.2	100
North West	21.28	78.72	100
South East	20.79	79.21	100
South South	22.75	77.25	100
South West	18.13	81.87	100
Total	21.37	78.63	100
National			
North Central	22.11	77.89	100
North East	19.93	80.07	100
North West	23.94	76.06	100
South East	21.96	78.04	100
South South	22.56	77.44	100
South West	21.18	78.82	100
Total	22.02	77.98	100

Table 2: Population Share and Mean Poverty Gap by Ownership of Enterprises

Own Small Enterprise	Pop. share	Mean	Mean poor	Mean gap poor
National				
no	0.22021	97134.92	46742.0656	27659.09
yes	0.77979	107587.6	49388.1015	25013.05
Rural				
no	0.2234	80008.27	45645.7272	28755.43
yes	0.7766	90340.28	48166.9349	26234.22
Urban				
no	0.21373	133468.6	52146.3215	22254.83
yes	0.78627	142161.6	54541.6486	19859.51

Table 3: Poverty Decomposition by Ownership of Small Enterprises, Urban and Rural

National			
Subgroup FGT index estimates, FGT(a)			
Own Small Enterprise	P0	P1	P2
no	0.48115	0.17887	0.08874
yes	0.38777	0.13036	0.05877
Subgroup Poverty 'share' , $S_k = v_k.FGT_k(a)/FG$			
Own Small Enterprise	P0	P1	P2
no	0.25948	0.27926	0.29893
yes	0.74052	0.72074	0.70107
Subgroup poverty 'risk'			
no	1.17833	1.26817	1.35749
yes	0.94964	0.92427	0.89905
Rural			
Subgroup FGT index estimates, FGT(a)			
Own Small Enterprise	P0	P1	P2
no	0.58855	0.22747	0.11331
yes	0.46987	0.16568	0.07673
Subgroup Poverty 'share' , $S_k = v_k.FGT_k(a)/FGT(a)$			
Own Small Enterprise	P0	P1	P2
no	0.26488	0.28313	0.29815
yes	0.73512	0.71687	0.70185
Subgroup poverty 'risk'			
Own Small Enterprise	P0	P1	P2
no	1.18568	1.26737	1.33461
yes	0.94659	0.92309	0.90375
Urban			
Subgroup FGT index estimates, FGT(a)			
Own Small Enterprise	P0	P1	P2
no	0.2533	0.07577	0.03661
yes	0.22319	0.05957	0.02277
Subgroup Poverty 'share' , $S_k = v_k.FGT_k(a)/FG$			
CLOSED?)	P0	P1	P2
no	0.23576	0.25689	0.30413
yes	0.76424	0.74311	0.69587
Subgroup poverty 'risk'			
Own Small Enterprise	P0	P1	P2
no	1.10309	1.20196	1.42299
yes	0.97198	0.9451	0.88502

Table 4: Effect of Enterprise Ownership on the Probability of Being Poor and Per Capita Expenditure

	Pcexp	Poor	Margeff
ownenterprise	9258.0*** (0.000)	-0.225*** (0.000)	-0.0881*** (0.000)
urban	51079.3*** (0.000)	-0.728*** (0.000)	-0.266*** (0.000)
s1q6	414.2*** (0.000)	-0.00417*** (0.000)	-0.00161*** (0.000)
adj. R^2	0.113		
N	13969	13969	13969

Marginal effects; p -values in parentheses

(d) for discrete change of dummy variable from 0 to 1

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$