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# THE CONTRIBUTION OF RURAL ENTREPRENEURSHIP TO POVERTY REDUCTION IN DEVELOPING COUNTRIES. THE CASE OF AMATHOLE DISTRICT MUNICIPALITY (ADM) IN THE EASTERN CAPE PROVINCE OF SOUTH AFRICA

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#### **ABSTRACT**

Nowadays, the socio-economic ills, such as poverty, unemployment and inequality remain the greatest challenges in development in developing countries including South Africa. Many people in developing countries, particularly rural dwellers live in extreme poverty without access to basic needs, such as education, health, pure water and sanitation and electricity. Therefore, Entrepreneurship has been identified as an important intervention strategy in addressing poverty, unemployment and inequality.

The prime objective this paper was to investigate the contribution of rural entrepreneurship to poverty reduction in Amathole District Municipality (ADM). The study employed mixed approach and the survey method for data collection. The data were collected from 42 entrepreneurs through in-depth interview. The entrepreneurs were selected through purposive sampling technique. Descriptive statistics and thematic analysis was used to analyze quantitative data and qualitative data respectively.

The findings in this paper showed that rural entrepreneurship contributes to poverty reduction in ADM through employment creation and income generation, skills transfers, and engagement in social responsibility and availability of goods and services.

**Key Words**: Rural, Poverty, Entrepreneurship, Rural entrepreneurship, Eastern Cape Province, South Africa.

#### INTRODUCTION

Poverty is one of the major problems for the world today and is widely spread in rural areas. According to the International Fund for Agriculture Development (IFAD, 2011) more than 1.4 billion of rural dwellers in developing countries live in extreme poverty without access to basic needs such as education, health, electricity and pure water and sanitation. Poverty in South Africa also continues to remain the top challenges of development. Many rural areas in South Africa characterize by high rate of poverty, unemployment and inequality as well as poor infrastructure and service delivery (Aguero and May, 2007).

Thus, rural area has received the greatest attention by policy makers, scholars and academicians. Many policies, strategies and programmes were implemented to address the challenges of poverty, job creation and inequality in rural areas and one of them is entrepreneurship

Vol. 1, No. 01; 2018

ISSN: 2581-4664

development. According to Petrin (1994) the the socio-economic challenges of rural areas such as poverty, job creation, inequality and economic growth can be solved through entrepreneurship. In the same manner, Ahmed, Khan and Ali (2012) and Singer (2006) argue that entrepreneurship is the best mechanism to curb the problems of poverty, unemployment, inequality, migration, poor utilisation of resources and improving the living conditions of poor people. Rural entrepreneurship allows poor communities to enhance their income, accumulate assets as well as enter into mainstream society. Furthermore, rural entrepreneurship provides goods and services at affordable costs to rural communities and it also improves the rural economy by bringing growth and innovation to the community.

Rural entrepreneurship improves rural economic development because entrepreneurship creates new businesses; new businesses create jobs, provide people with a variety of products and services, intensify competition and increase productivity through technological change. In addition, rural entrepreneurship diversifies economic activities, avoids reliance on monoproduction as well as improving the quality of living (Bryden and Hart, 2005).

Entrepreneurship helps poor people to meet their basic needs, especially marginalized groups like female heads of households, disabled people and rural families through employment creation and access to goods and services. Entrepreneurship is a major sphere for employment-creation and fostering sustainable livelihoods in rural areas and it is the only terrain in which the rural poor are able to create their livelihoods and support their families (Ndabeni, 2005).

Petrin (1994) argues that rural development nowadays, more than ever before is linked to rural entrepreneurship. Different institutions and individuals promoting rural development agree that rural entrepreneurship is a strategic development intervention to accelerate rural development progress.; and women see it as an enormous employment possibility near to their homes, thus giving them to autonomy and a reduced need for social support (Petrin, 1994). To all these different actors, however entrepreneurship stands as a vehicle to enhance the quality of life for individuals, families and communities and to sustain a healthy economy and environment.

#### 1. Literature review

### 1.1. The concept of rurality

Rural areas, throughout the world, compared to urban areas, are economically disadvantaged and they are characterized by high unemployment rate, poverty, and income inequality, lack of economic activity and inadequate social services and poor infrastructure. The definition of rural has been in dispute for many years. Individuals, organizations and scholars have given different definition of rural.

are mainly characterized by primary economic activities. Similarly, Atchoarena and Gasperini (2003) define rural areas as areas where human settlement and infrastructure occupy only a small share of the landscape, where the environment is dominated by pastures, forests, mountains, deserts as well as low population density with most people engaged in farm activities.

For the purpose of this paper, rural defines as an area which is highly exploited and marginalized as well as where the oppressed live, whether they are in towns such as Soweto or in villages such as the Valley of a Thousand Hills (Porteus and Nabudere, 2006).

Vol. 1, No. 01; 2018

ISSN: 2581-4664

## 1.2. The concept of entrepreneurship

Anderson (2002:2) claims that the term *entrepreneurship* originated from the French word 'entreprendre' and the German verb 'unternehmen', both of which mean 'to undertake'. Entrepreneurship is a complex and controversial concept, and its definition has been debated among scholars, policy makers and researchers since the concept emerged in the early 1700s. Similarly, Petrin (1994) defines an entrepreneur as a person who either creates new combinations

Similarly, Petrin (1994) defines an entrepreneur as a person who either creates new combinations of production factors such as new method of production, new products, new markets, finds new sources aggregate demand, or as one who owns and operates a business.

Therefore, the concept of rural entrepreneurship arises as a result of the linkages between the concept of entrepreneurship and rurality. Rural entrepreneurship implies entrepreneurship emerging in rural areas. Rural entrepreneurship can be defined as creation of a new business in rural areas by an individual or group of people that introduce a new product, services or market.

## 1.3. The concept of poverty

There are a number of debates concerning the definition of poverty. Unfortunately, no consensus has been reached. Poverty is a multi-dimensional phenomenon that has different meanings for different people. As stated by Meier (1989), poverty is a multi-dimensional concept, and there is no general accepted definition of what constitutes poverty. Its definition is varies among development practitioners, researchers, governments, multi-national corporations and non-governmental organisations due to the nature, magnitude and causes of poverty which differ across regions and nations of the world.

To some groups, poverty means lack of income; to others, it means lack of basic needs; to others, it means lack of human development (United Nation Development Programme (UNDP, 2006). social life and permission to take part in community activities.

Todaro and Smith (2003) define poverty as having insufficient income to secure basic necessities of life such as food, clean water, education, health, clothing and shelter. The ILO (2006) also defines poverty as lack of material derivation (food, water, health and education) and non-material derivation such as lack of rights, insecurity, powerlessness, indignity and lack of participation.

For the purpose of this paper, poverty defines as lack of income to secure basic necessities of life such as education, health, electricity and pure water and sanitation.

#### 1.4. The role of rural entrepreneurship in poverty reduction

Rural entrepreneurship plays a crucial role in addressing the socio-economic problems of rural poverty, unemployment, inequality and low economic growth. Petrin (1994) argues that rural entrepreneurship is, more than ever before, linked to rural development. It is a vehicle to improve the quality of life for individuals, families and communities in order to sustain a healthy economy and environment. Van Paraag and Versloot (2007), in their analysis of fifty seven studies, revealed that entrepreneurship had a positive impact on poverty reduction. Entrepreneurship is a key to economic growth and its success helps to reduce poverty and improve living standards as well as educational levels.

Similarly, Vyakarnam (1990), in his study, concludes that entrepreneurship development in rural areas is an important factor for poverty reduction, job creation, wealth creation, market creation

Vol. 1, No. 01; 2018

ISSN: 2581-4664

as well as local economy diversification. Vyakarnam further argues that one of the possible ways to improve living standards of the poor people in rural areas is by encouraging them to become entrepreneurs. In the same vein, a survey conducted by the World Bank (2006) with 600 000 small business owners in over 50 developing countries to examine the role of entrepreneurship in poverty reduction and from the survey, most of participants indicated that they had improved their living standard due to engagement in entrepreneurship activities. Furthermore, the entrepreneurs were also created jobs opportunities for the local communities as well as improved the availability of goods and services in the local areas.

Rural entrepreneurship plays an eminent role in creating employment for rural communities as well as enhances the economic status of the rural sector. It ensures the utilisation of local resources, market competition and expansion of economic activity. Adenutsi (2009) concludes that entrepreneurship plays a critical role in the growth and development of local industries through the processing of local raw material into finished and semi-finished goods for the domestic and foreign markets. It also improves rural economic productivity through the utilisation of improved and cost-effective technology. Various studies around the globe have indicated that countries with a large share of entrepreneurs have bigger declines in poverty rate. Sliviski (2012) carried out a survey in the United State of America indicated that a number of people had escaped poverty by starting small business and they were able to meet their basic needs such as food, health, education and shelter. Similarly, a survey under taken by Rwelamira and Mthethwa (1999) among small business owners who engaged in various entrepreneurship activities such as small-scale agriculture, manufacturing, construction and transport in rural areas in the former homeland of the North West Province of South Africa indicated that most of the entrepreneurs were able to meet their basic needs, such as health, pure water and sanitation, electricity, education and shelter.

Smith (2005) argues that China, India, Lativa and Uganda are the most successful countries in the world today in reducing poverty due to the engagement of many people in entrepreneurship activities. Entrepreneurship activity does not only create jobs but also reduces the prices of goods in community, including goods consumed by poor people.

#### 1.5. Research methodology

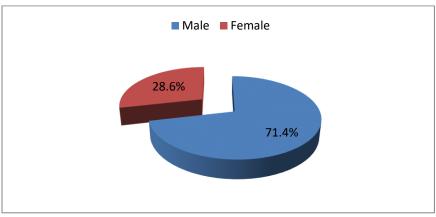
The study used the mixed approach and the survey method of data collection. Target of the population for this study was small business owners in retail and service sector. A questionnaire by making face-to-face interview was used to collect the data among 42 entrepreneurs (owners of small business). The interview questions comprised open-ended and closed-ended questions. This allows the attainment of qualitative and quantitative data. Because of the difficulty of obtaining the population of small businesses in retail and service sector in the study area, purposive sampling technique was used to select sample of the entrepreneurs. Descriptive statistics and thematic analysis was used to analysis quantitative and qualitative data respectively.

Vol. 1, No. 01; 2018

ISSN: 2581-4664

#### 1.6. Results

Figure 1: Gender of respondents



Source: Survey data (2015)

Figure 1 shows that 71.4% of the entrepreneurs were male while 28.6% of the entrepreneurs were females. This indicates that there is high gender imbalance in entrepreneurship activities in ADM. Men are more involved in entrepreneurship activities than women. This is in line with the finding of Herrington (*et al.*, 2009) which revealed that men are more engaged in entrepreneurship activities than women in South Africa. Perhaps this is patriarchal stereotype and expectation that women should be domestic workers. According to International Women's Forum South Africa (IWFSA, 2011) there is still expectation that the role of women should be restricted to child care, caring for the sick and fetching water and fuel rather than being economically productive and employed in the broader economy. This further exacerbates poverty in South Africa. Women are the most engulfed by poverty in South Africa. There are many factors that prevent women from perceiving as well as engaging on entrepreneurial activities. Factors, such as high level of domestic responsibility, lower level of education, poor communication and inadequate access to capital are among the barriers which prevent women to engage on entrepreneurship activities.

**Table 1: Age of respondents** 

		Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid	18-25	4	9.5	9.5	9.5
	26-33	22	52.4	52.4	61.9
	34-41	8	19.0	19.0	81.0
	42-49	4	9.5	9.5	90.5
	above 50	4	9.5	9.5	100.0
	Total	42	100.0	100.0	

Source: Survey data (2015)

Vol. 1, No. 01; 2018

ISSN: 2581-4664

The findings indicate that 52.4% of the respondents' age between 26-33 years; 19% ranged between 34-41 years; 9.5% were between 18-25 years; 9.5% were between 42-49 years and 9.5% were above 50 years. This shows that most of the entrepreneurs who are involved in entrepreneurial activities in ADM are youths. This is echoed by Sarpong (2012) found that most of the youth between the ages of 20-35 years are involved in entrepreneurship activities. Furthermore, Herrington *et al.*, (2009) indicate there is more involvement in the entrepreneurship activity between the ages of 25-34 years in South Africa. The reason of more youth engage in entrepreneurship activities in ADM might be the high rate of unemployment among the youth. Due to lack of employment in the formal sector, many youths are forced to establish small businesses to sustainable their livelihood.

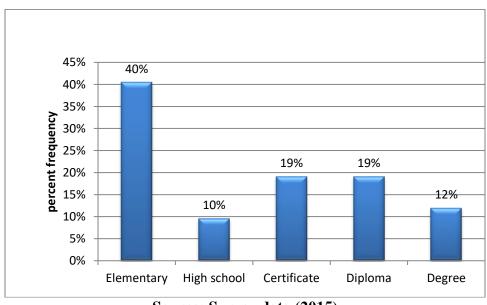


Figure 2: education level of respondents

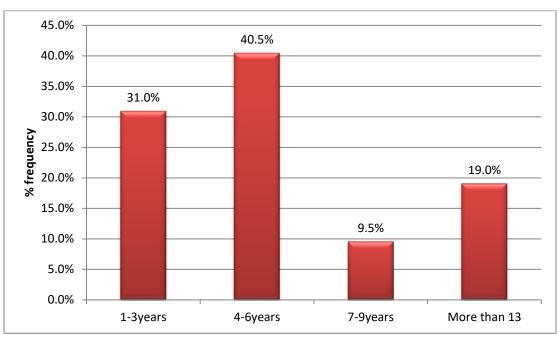
Source: Survey data (2015)

The results show that 40% of the respondents had elementary education; 19% had certificate and diploma; 12% had degree qualification and 10% of respondents had high school certificates. This shows the low level of education among the entrepreneurs who engage in entrepreneurship activities in ADM. Similarly, Sarpong (2012) found that most of small business owners do not have good academic qualifications. The low level of education might be the greatest limiting factors for entrepreneurship growth in South Africa because there is positive correlation between level of education and business success. Businesses are more sustainable and profitable when they are owned by educated people (Herrington *et al.*, 2009).

Figure 3: Period of business operation

Vol. 1, No. 01; 2018

ISSN: 2581-4664



Source: Survey data (2015)

The analysis indicates that majority (40.5%) of the entrepreneurs had been running business in the area between 4-6 years; 31% of entrepreneurs had been running business in the area between 1-3 years; 19% of entrepreneurs had been running business in the area for more than 13 years and the rest 9.5% of entrepreneurs had been running business in the area between 7-9 years. This shows the entrepreneurs had good experience in the business. This can be linked to the findings of Sinxoto (2007) which revealed that the majority of entrepreneurs had been running their businesses for approximately 5 years.

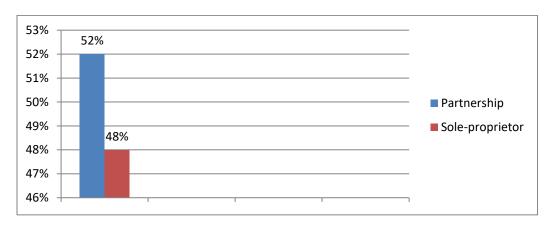


Figure 4: Forms of business

Vol. 1, No. 01; 2018

ISSN: 2581-4664

## Source: Survey data (2015)

The result indicates that 52% of the entrepreneurs were in the partnership form of business while 48% of were sole-proprietors. This indicates that most of the businesses in ADM are dominated by partnership form of business and lack of capital is the major contributor factor for entrepreneurs to establish their business in partnership form. Personal saving or borrow funds from friends or family are the main source of capital for small businesses during the starting of business. Small businesses in rural areas do not meet the criteria required by the financial institutions to borrow funds. Financial institutions require security and formal business records to borrow funds for small businesses.

In some other studies, researchers also found that small businesses are dominated by sole-proprietors and close cooperatives. Sinxoto (2007) and Sarpong (2012) in their study found that small businesses are dominated by sole-proprietor.

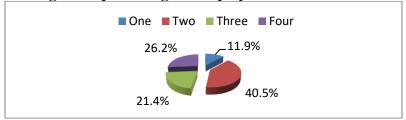
**Table 5: Source of Capital** 

		Frequenc y	Percent	Valid Percent	Cumulative Percent
Valid	Family Friends	9	21.4 21.4	21.4 21.4	21.4 42.9
	Personal	24	57.1	57.1	100.0
	saving Total	42	100.0	100.0	100.0

Source: Survey data (2015)

The analysis indicates that majority (57.1%) of the entrepreneurs used personal saving as source of capital to start their businesses, while 21.4% of entrepreneurs used loans from family and friends as source of capital to start their businesses. This indicates that most of the entrepreneurs in ADM used personal savings as a source of capital to start their business. This is in line with findings of Sinxoto (2007) and Fal (2012) that showed that personal saving is the main source of finance for rural entrepreneurs during the starting as well as expansion of business. Most of entrepreneurs in rural areas do not have assets as security to borrow money from financial institutions and they rely on personal saving or borrow funds from friends or families during the starting and operation of the business. Therefore, lack of capital remains the biggest obstacles for entrepreneurship growth in rural areas.

Figure 5: percentage of employees in the business



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Vol. 1, No. 01; 2018

ISSN: 2581-4664

The analysis shows that 40.5% of entrepreneurs had two workers; 26.2% of entrepreneurs had four workers; 21.4% of entrepreneurs had three workers and 11.9% of entrepreneurs had one worker. This indicates that the importance of small businesses in job creation in ADM. Small businesses are important employment providers, especially for people who cannot find jobs in the formal sectors such as women, youth and handicap. In many countries around the world, small businesses are the main source of jobs for local people. In a similar study, Luiz and Mariotti (2011) found that small businesses in Asia employed 80% of labour force. Killawi (2013) further found that small businesses account the majority of businesses in the United States America; they employ half of the United State private sector. Two out of three new jobs are generated from small businesses and there are around sixty millions Americans employed by the small businesses.

Table 6: Monthly salary paid to employees in rand by the entrepreneurs

Amount of salary paid	Frequency	Percentage of employees
500-1000	5	11.9%
1001-1500	16	38.1%
1501-2000	4	9.5%
2001-2500	8	19%
2501-3000	4	9.5%
3001-3500	1	2.4%
3501-Above	4	9.5%
Total	42	100%

Source: Survey data (2015)

The analysis (table 6) shows that 38.1% of employees were paid salaries between 1001 and 1500 rand per month; 19% of the respondents were paid salaries of between 2001 and 2500 rand per month and 2.4% of the respondents were paid salaries of between 3001 and 3500 rand per month. This shows that the highest proportions of the respondents (employees) were paid salaries of between 1001-1500 rand per month. This concurs with the findings of Sinxoto (2007) in South Africa which revealed that most small businesses paid salaries of between 1000 and 4000 rand per month to their employees. Therefore, this income generates from employment might help the employees to meet their basic needs such as food, electricity, health, education and pure water and sanitation.

#### 1.7. Skills transfers

Rural entrepreneurs contribute to poverty reduction in ADM through transfer of skills to their employees. Majority (57%) of the entrepreneurs provide entrepreneurial skills to their employees. Entrepreneurial skills such as sewing clothes, shoes repairs, fashion designing, and cooking various food stuffs are transferred to the employees. In addition, the entrepreneurs provide training like product knowledge training, hospitability training as well as how to plate hair to their employees. This is in line with the findings of Sinxoto (2007) which revealed that small businesses are provide skills to their employees like computer literacy, customer care, product knowledge and project management. The United Nations Industrial Development

Vol. 1, No. 01; 2018

ISSN: 2581-4664

Organization (UNIDO, 2006) report indicates that small businesses provide trainings, skills and experience for young people. Many workers in Africa in the urban informal sector have been trained through traditional apprenticeships (UNIDO, 2006).

Some entrepreneurs also reported they provide skills to their employees like customer care, entrepreneurship skills, experience and packing stock. This would help employees to establish their own business in the future. SKILLS transmission is done through training, teaching and imitation.

## 1.8. Entrepreneurship and social responsibility

Apart the employment creation, rural entrepreneurs contribute to poverty reduction in ADM through the engagement of social responsibility. Majority (69%) of the entrepreneurs were involved in social responsibility. The entrepreneurs indicated that they provided donations such as food and clothes to poor people, sponsored public events (public meetings and soccer game) and offer free scholarship to poor children. In addition to this, the entrepreneurs also help poor communities during funerals as well as student graduations. This is related to the findings of Sinxoto (2007) which showed that small businesses are involved in social responsibility such as supporting schools, children homeless, electrifying community centres and providing food to homeless people.

The entrepreneurs reported that they help their employees to pay bills such as water bills, rent bills, electricity bills and medical bills. Furthermore, the entrepreneurs indicated that they assist orphans and old people by donating some money every month to NGOs concerned. For instance, some entrepreneurs reported that they pay 1000 to 1200 rand to support orphans and old people every month.

The entrepreneurs also improve the availability of goods and services in ADM. The communities in ADM do not travel too far places to buy goods and source services because their needs are catered from the nearest point possible. The United Nations Development Programme (UNDP, 2006) point out those rural small businesses play an important role in providing basic goods and services to the poor people, especially in marginalized rural regions.

#### CONCLUSION AND RECOMMENDATIONS

The prime objective of this paper was to investigate the contribution of rural of entrepreneurship to poverty reduction in ADM. The finding in this paper indicated that rural entrepreneurship contributes to poverty reduction in ADM through employment creation and income generation, skills transfers, social engagement and availability of goods and services. It is however, recommended that government at all levels should improve on the level of awareness of the advantage of entrepreneurship to poverty alleviation. More so, the government should create a conducive environment such as business infrastructure, entrepreneurship skills and tax incentives for rural entrepreneurs in order to increase their contribution to poverty reduction in ADM. Finally, the involvement of stakeholders is crucial in promoting entrepreneurship in ADM. Stakeholders such as government, community leaders, religious people, business people and non-governmental organizations should work hand to hand for promoting entrepreneurship in rural areas like ADM.

Vol. 1, No. 01; 2018

ISSN: 2581-4664

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Vol. 1, No. 01; 2018

ISSN: 2581-4664

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