

Entrepreneurship, Public Policy and Poverty Reduction in Nigeria

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Abstract

The objective of this paper is to highlight the importance of entrepreneurship and public policy toward poverty reduction in Nigeria. Entrepreneurship has proven to be a mechanism for poverty reduction through creation of employment opportunities, income as well as wealth. In some occasion entrepreneurs exploit opportunities at the expense of the existing policy to engage in activities that are not economically and socially productive. They neither create wealth nor do they improve on the economic performance of a country. The author conducted survey and interview to solicit for data from small and micro enterprises across Kano state and also used secondary information in analysing the situation in the country. Infrastructural decay, lack of coherent policies and institutional framework were partly responsible for escalating poverty in the Nigeria. Therefore, it is recommended that the government while designing a policy toward entrepreneurship attempt should be made to identify and encourage high impact entrepreneurs that will genuinely contribute in creating real jobs and poverty reduction.

Keywords: Entrepreneurship, Public policy, Rule of the game, Coordination failure, Poverty,

1. Introduction

Many studies have revealed the importance of entrepreneurship in economic growth in both developed and developing countries. It is considered as a crucial means for achieving economic development (Stel et al, 2005; Wennekers and Thurik, 1999; Baumol, 2002; Samli, 2008 and Hansson, 2010). Due to activities of entrepreneurs and globalization pressure, the rate of competition and innovations necessitates many changes within countries, organisations or firms. In fact economies and societies were turned from managed to entrepreneurial in which knowledge and creativity become the main driving force (Von Bergen et al, 2003; Audretsch & Thurik, 2000 and Stam, 2006). Any firm or organisation that vacillates to respond to the challenges by introducing radical innovations will be lagging and sooner or later will have to quit from the business arena.

Entrepreneurship is considered as an alternative way to tackle some of the socio economic problems that bedevilled some countries presently, especially problem of high unemployment and poverty. Many researchers in the field of entrepreneurship have taken different dimension to examine the impact of entrepreneurship in curving these socio economic problems. Globally, it is evident that SMEs in general contributes greatly in terms job creations. Entrepreneurship does evolve in a particular context and environment, its impact and success is largely depends on the structure of the economy and institutions in place that support entrepreneurial activity.

However, researchers that focus attention on how entrepreneurship can be developed looks at the individuals' contribution and factors that hinder such development. They examine the socio demographic factors of individual entrepreneurs and factors that limit their potential to grow their ventures or firms. The role played by individual actors or entrepreneurs is central in micro level analysis of entrepreneurship development. While in some situation individuals characteristics is not important the focus may be shifted to how macroeconomic variables such as poverty, economic growth, employment/unemployment influence entrepreneurial entry and exit. This means that the interest of researcher have shifted from micro to macro level of analysis.

At whatever level of analysis, what the researchers consider is how to determine the influence and impact of policies in generating and promoting entrepreneurial activities. Since it is clear that entrepreneurship is good for economic growth, poverty reduction and employment creation, some people often raises some questions on whether entrepreneurship could be supported by the government or not. It is also argued that what is important in entrepreneurship development is not only the quantity of entrepreneurs or number of business start up but the quality of those entrepreneurs or start up (prevalence of high impact entrepreneurs).

However, the quantity and quality of entrepreneurs in any country is dependent on the environment and entrepreneurial policy in place. Entrepreneurs are those that create novelty and come up with radical innovations that propel the economy. Although they have independent mine and strategically focused, their actions are usually been influenced by the existing policies and regulations. The entrepreneurs normally have certain expectations from the government since they cannot exist in a vacuum, they must operate within the ambit of the law. Therefore existence of well articulated policy could play a critical role in promoting entrepreneurial development.

Public policy is regarded as an instrument for provision of people's needs and sustenance of the civilization (Mbieli, 2010). It has to do with the relationship or interaction between the government and the environment. It is considered as the end product of the political system or response of authority to the needs and problems of the country. In a nutshell public policy is just a guide which gives direction to the state on what to do or not to do in an attempt to serve the interest of the public in a better ways.

In formulating policy the state/government considers the interest of wide range of people in which the policy will affect their lives or businesses either directly or indirectly. Among other things the government will be responsible for determining policy on entrepreneurial activity which will address both entrepreneurs and societal needs.

2. The rate of entrepreneurial/new business start up

Depending on the dimension of a study or interest of the researcher, entrepreneurship is often seen as a new business creation or start up. Arguments were raised with respect to which category of entrepreneurs are more entrepreneurial. In most cases people consider micro and small entrepreneurs to be more innovative and entrepreneurial because they dominate service sector of developed economies and they came up with radical innovation that keep the globe on constant changes. Similarly small and medium enterprises (SMEs) are also regarded as a vehicle for entrepreneurship (Thurik and Wennekers, 2004).

Although in Nigeria most SMEs are found in the informal sector, they often contribute greatly in provision of jobs to the teeming number of youth and help them to earn income on daily or monthly basis to sustain their lives and their immediate family members. Like in any other country, chunk of

SMEs in Nigeria are operating in the service industry and a sizeable portion of the adult population are engaged in self-employment providing variety of services. The greater number of entrepreneurs are not opportune to set of big firm because of unavailability of resources. The poor and unemployed persons in the society can be motivated to start up their own business in order to solve their personal financial predicament by harnessing their entrepreneurial potentials into practice.

Those with high entrepreneurial spirit could mobilize little resources to start up business and make sure it grows big. It is believed that strong entrepreneurial spirit and positive orientation among people can be considered as a motivational force for economic progression of a country. As Joseph Schumpeter put it, the key success of market is actually lies in the entrepreneurial spirit of some people that continued to develop new products and technologies (Kreft and Sobel, 2005).

The poor are usually confronted with the problem of low income and fewer networks, but still can demonstrate their entrepreneurial skills and ability by doing something perhaps small. In fact those living with poverty are necessitated to look for alternative ways of surviving especially in a place where paid employment is very difficult to get. In trying periods people are compelled to be creative and innovative. The poor may probably turned to entrepreneurs by starting micro business in accordance with their existing physical and human capital. These kinds of people that are pushed to start up new business are refers to as Necessity entrepreneurs. But the proliferation of necessity entrepreneurs could have far reaching implication on the country's economic growth in both short run and long run.

The rate of entry into entrepreneurship will likely affect country's productivity by increasing the intensity of competitions and innovations (Nickel, 1997; Nickel et al, 1997 and Geroski, 1989). The entrepreneurs could be responsible for new combination by introducing wide range of products and services to the market in order to satisfy the taste and demands of the customers (Stel, Carree and Thurik, 2005). In Nigeria usually micro and small enterprises are registered under category of "business name and private limited liability companies". The table 1 below gives details of companies registered under business name and private limited companies for some years. In some studies newly business created are used as a proxy for entrepreneurship (Lafuete and Driga, 2007).

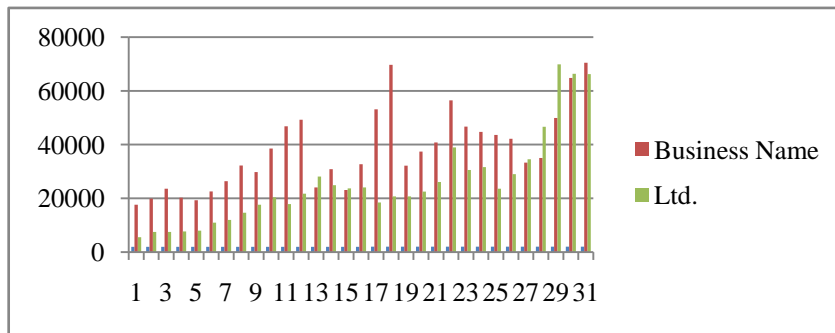
Table 1: Total number of business registered in Nigeria (1980-2010)

Year	1980	1985	1990	1995	2000	2005	2010
Business Name	17,645	22,567	46,824	32,723	40,813	42,173	70,464
Private Limited Companies	5,526	10,981	17,881	24,066	26,119	29,023	66,256

Source: Corporate Affairs Commission, Nigeria

Entrepreneurs choose to register their business under business name especially if the business is micro or small depending on the orientation of the entrepreneur. Those registered under this category usually have small capital, fewer employees and there is no clear demarcation between the owner and business. The private limited companies are considered as more advance in terms management, business operation and resources availability. From table 1, it seems there is steady increase of number of businesses registered in Nigeria under the two categories. In 1980 there were 17,645 and 5,526 businesses registered under business name and private limited companies, while by the year 2010 the figures rose to 70,464 and 66,256 respectively. Figure 1 depicts the trend for businesses registered for 31 years under the two categories as earlier mentioned.

Figure 1: Trend of business registration in Nigeria



It is expected that the increase in the number of businesses should be reflected in a reduction in the number of unemployed persons and poverty level in the country. But that is not achievable because of the reality on ground. This perhaps can be attributed to some problems for instance Nigeria population is growing at a geometrical progression, secondly there is high rate of exit or closure of businesses and thirdly there is no credible policy in support of entrepreneurship in the country.

3. Scource of poverty and coordination failure

High incidence of poverty is one of the predominant features of low income developing countries. It is observed that as the income of developed countries is increasing, the income distribution of some developing economies is deteriorating (Samli, 2008). This problem may be related to the problem of inequality in distribution of resource, high unemployment, low per capita income, high level of illiteracy etc. It can be argued that Inequality in particularly has to do with uneven treatment in the distribution of countries' financial resource within its geographic entity (Keister, 2005) and probably the structural disposition of different groups within the population. The poor is getting poorer and the rich is getting richer. This means that the system only enriches the fortunate few and impoverished the unfortunate majority of the population.

But inequality actually may have its advantage to particularly the poor who have been marginalized. It has advantage in the sense that it will necessitate the poor people to reawaken their entrepreneurial ability and prowess. The declaration of eight millennium development goals (MDGs) by world leaders in 2000 serves as an impetus for poverty reduction in the world. The United Nation resolved in the declaration to reduce poverty in order to provide a decent livelihood to millions of people around the world (Kalirajan and Singh, 2009; Akpomi, 2009; MDGs report 2009 and Sach, 2005). The fights against poverty and other socio-economic problems in Nigeria become intensified since this declaration.

Every country has a responsibility within the context of MDGs to contribute positively towards the reduction of poverty (Ewhrudjakpor 2008). Economic growth and poverty reduction are supposedly the ultimate goals of all development endeavours of any nation (Akoum, 2008). The Millennium Declaration gave the world a global compact for development against which every member of the global community must face the present socio-economic realities and deliver within its constraints of both human and natural resources. As part of priorities there is the need for concerted and collective effort toward empowering people so that poverty can be reduced in all ramifications across the globe.

It is pertinent to note that the greater portion of Nigeria population is classified as poor based on the standard of World Bank international poverty line (less than 2 dollars a day). There was a persistent decline in general condition of the people for the past three decades. The available statistics clearly indicate that the poverty rate of the growing population is on the increase. It can be deduced that the spate of poverty as it is in Nigeria today is as a result of lack of good public policy, insensitivity of the past leadership, high level corruption and lack of provision of basic needs, infrastructures and amenities. In fact there is nothing at present to suggest that Nigeria is moving toward realization the global dream of reducing poverty before the year 2015.

However, the problem of poverty is not only peculiar to Nigeria but a common problem to most developing nations. When considering the globe in this analysis a significant number of the world population lives in poverty. Table 2 shows the estimates of Nigeria population and the percentage of those in poverty in both absolute and relative terms. The data indicates that in both absolute and relative measure the percentage of poor is increasing from 2004 to 2011.

Table 2: Poverty level in Nigeria 2004 to 2011

Levels	2004 (%)	2010 (%)	2011 (%)
Relative poverty	54.4	69	71.5
Absolute poverty	54.7	60.9	61.9
Dollar per day	62.8	61.2	62.8
Estimated population (in million)	126.3	163	168

Source: National Bureau Of Statistics

The goal of addressing poverty might remain elusive unless much emphasis is laid down on the development of entrepreneurial skill (Akpomi, 2009). There are two strands of arguments from the literature pertinent to this issue, first, that the spate or pervasiveness of poverty, unemployment and general poor economic conditions marred or even stifles entrepreneurial disposition in the country, hence majority of people will become hopeless and helpless. While others argued that these kinds of situations make it necessary for people to find means of surviving by being entrepreneurial. However, unless and until people begin to think of how to develop the culture of entrepreneurship, their economic prosperity will be declining. Economic development can be achieved alongside with entrepreneurship development in the country through effective policies.

It is argued that the depth and extent of global poverty would be far greater without the activities of entrepreneurs who have created jobs and wealth (Singer, 2004). This clearly signifies that entrepreneurship is a good tool in fight poverty. The entrepreneurial skills and attitudes provide benefits to society even beyond their application to business activity (Akpomi, 2009). Despite the growing awareness of this fact by policy makers, little has been done in the country to promote high impact entrepreneurs/business start up in curtailing unemployment and poverty rate. The absence of enabling business framework and scarcity of support structures for new businesses can undermine entrepreneurial endeavour (Jesselyn Co, 2004). This fact is particularly common in Nigeria where the basic infrastructures are not available to support both entrepreneurial and industrial growth.

The expression of pessimism on achieving the target of millennium development goals is perhaps as a result of the growing political, religious and socio-ethnics crises in some part of the country. Many people are constantly been distracted from their business pursuits. Some people have to leave their homes for safety and abandoned their business because the environment is no longer safe and secured. People automatically lost their employment, capital and properties without a social safety

net and consequently fall into poverty again. A large number of people are only thinking of survival rather than being economically productive. The atmosphere for economic prosperity is no longer there and as such their entrepreneurial capabilities have been seriously undermined.

The issue of corruption is another serious problem that undermines entrepreneurship development and accelerated the impoverishment majority of Nigerians. The spate of corruption has per reaching implication in almost all aspect peoples' lives in the country. It raises transaction cost, increases insecurity and uncertainty and lack of respect for government action (Luiz, 2006). To stimulate economic growth government must provide policies and incentives to attract individual to become entrepreneurs. The system should be seen as transparent and free from corrupt practices that will give way for productive entrepreneurship.

There is a rampant abuses and poor policy implementation which appears to be a major issue to tackle among African nations (Makinde, 2005). In a number of occasions the government involved professionals and experts in some areas to design good policies but in most cases the actual implementation becomes impossible. However, despite this sad revelation it also encouraging to state that the future of Nigeria remains very bright. But something must be done now to ensure that the country is return to the normal route of economic prosperity. It is believed that entrepreneurship has the potentialities of engaging mass population especially through micro and small businesses.

It is important to realize that government interventions may be meaningless if all things are going as expected. There may be no need of any sort of intervention if the market is efficient and well coordinated. The market failure is considered to be one of the major reasons why the government should play an active role. An economic system is made up a combination of interrelated and interconnected economic activities or processes that need to be coordinated. Therefore attaining efficient system requires a good coordination among these various economic activities. To Glavan (2007) "the central pillar of the literature of coordination failure is the idea that economy can fail to achieve coordination among complementary activities. Coordination failure leads the market to an outcome (equilibrium) inferior to a potential situation where resources would be correctly allocated and all agents would be better off".

In a free market situation the decision on what to produce is left to the entrepreneurs and prevailing market conditions. The entrepreneur is assumed to be rational by determining what production is desirable giving his calculations of potential profit or loss. The entrepreneur can only remain in business by demonstrating entrepreneurial ability to pass the market test. The precarious situations of Nigeria business environment and coordination failure could make entrepreneurs vulnerable and susceptible to potential loss and possible exit from their business.

The reality today is that the conditions under which business operates create undue pressure and uncertainty among entrepreneurs about the future of their enterprises sustainability and its potential growth. It was highlighted by some economist that some poor countries cannot simply grow because they have problem of coordination failure among complementary industries. It can be evident in Nigeria a wide gap between the poor who have entrepreneurial potentials and the financing institutions that provide funds for the needy entrepreneurs. Most of the poor people cannot afford the opportunity to access microfinance to put their idea into reality because of so many conditions and constraints attached to disbursement of loans.

From the survey conducted in 2011 on 500 micro and small enterprises, it was discovered that only very little of the entrepreneurs were able to secure external finance from financial institutions and government. From table 3 the data shows that majority of the entrepreneurs 58.8% used their

personal savings and 35.4% from family and friends to start up their business. The data have shown the entrepreneurs are operating their business for at least 7 years, this indicates that they are not newly established businesses. But unfortunately about 63% of them are operating informally, they were unable to register their business with the country's corporate affairs commission. This could possibly be one of the reasons why the entrepreneurs face difficulties in accessing any entrepreneurial support from both government and other private financing firms.

Table 3: Frequency distribution of business information

	Items	Frequency	Percentage %
1)	Official status of the business		
	Not registered	313	62.6
	Registered	187	37.4
2)	Business duration(years)		
	=< 1	29	5.8
	2 - 6	182	36.4
	7-11	131	26.2
	12– 18	99	19.8
	19 and above	59	11.8
3)	Number of employees		
	Nil	66	13.2
	1 – 9	372	74.6
	10 – 20	51	10.2
	21 – 30	7	1.4
	31 – 40	1	.2
	41 and above	2	.4
4)	Start-up capital		
	<N100, 000	280	56
	N100, 000 – N400, 000	109	21.8
	N400, 001 - N800, 000	55	11
	N800, 001 - N1, 000, 000	28	5.6
	N1, 000,001 and above	28	5.6
5)	Main source of start-up capital		
	Bank loan	14	2.8
	Government	8	1.6
	Personal savings	294	58.8
	Family and friends	177	35.4
	Other sources	7	1.4

Source: Micro and small enterprises survey 2011

It is also noted that because of the inability of the micro financial institutions to manage the outflow and inflow of funds, they tend to lose a lot of income which jeopardizes their future corporate survival. Apart from accessibility of microfinance, the government seem to have failed in providing basic infrastructures necessary for entrepreneurial undertaking. The entrepreneurs were forced to act independently in order to face business challenges as they are evolving every now and then. Most businesses find it difficult to deal particularly with the problem of power/energy supply for them to function competitively.

Entrepreneurs gave an account of their hardship and anger about inadequate public utilities to support their enterprise. They mostly resort to alternative sources of energy in order to continue operating at a very high cost. It was investigated that this is one of the most difficult challenges facing entrepreneurs in the Nigeria. It is believed that if the government can improve the electricity supply substantially, the Nigeria economy will spring up again and more employment could be

generated for majority of people who were unemployed. Below are comments of some entrepreneurs during the interview conducted;

“The problem of power supply is seriously affecting our business, we are really suffering in running a standby generator. It is highly expensive to buy diesel every day for the generator to be working and all our profit is going there”.

“The environment is very difficult to cope with because of the problem of power supply. I have to spend a lot of money daily to purchase diesel for generators. My business cannot go on without electric supply”.

“If the government can increase power supply to small scale businesses it will be good for the economy. A lot people cannot cope with the situation, they have to close their business because of high cost of maintaining stand by generator every day”.

The supply of electricity is grossly inadequate across the country. In Kano state the existing capacity of installed transformers is 450 megawatts but the supplies fall far below the existing capacity which can be seen in table 4 below;

Table 4: Monthly average of electricity supplied/consumed in Kano state in megawatts (MW) for 2010- 2011

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2010	188.1	202.3	216.1	210.9	188.4	191.7	191.1	186	185	196.2	188.6	181.8
2011	211.4	204.7	224.4	213.8	204	195.8	214.8	217.9	190.3	234.9	224.4	235.5

Source: National power holding company of Nigeria

The actual demand for electricity surpasses the present capacity of the installed transformers, so if electricity can be supplied to the full capacity still there will be a need for additional electricity load to satisfy both industrial and domestic consumers. Other entrepreneurs that cannot survive the pressure and harsh business environment were compelled to close their business. Unless government rededicate its effort to ensure adequate supply of electricity, provision of other basic infrastructures and effective coordination of various support activities, there will be no any meaningful reduction in poverty. The country will be mired in a poverty trap and high rate of social vices will be evidence.

4. Rule of the game and entrepreneurial activity

The encouragement for business starts up and continued existence of large number of entrepreneurs should not be the only issue of concern to any responsible government and policy maker. It is important to find out what kind of entrepreneurial activity is going on and what kinds of entrepreneurs are likely to come up in the country. There is every possibility that entrepreneurship can take a different forms that may be of various impact to the country’s economic output. It should be realised that not all entrepreneurial activity is needed and is to be encouraged (Sauka, 2008; Baumol, 1990 and 1993).

Individuals are often called entrepreneurs because they are engaged in profit generating activities which consequently add to their wealth and prestige without necessarily adding any value to their country's economy. In most instances they are not even concern about how their activities contribute to the overall output of the economy (Sauka, 2008) and conversely how much their activities help in retrogressing economy. Attempts have been made to distinguish between various forms of entrepreneurship based on its positive and negative consequences to economy.

Baumol (1990) provides an elaborate explanation on various entrepreneurial activity, they are categorised as productive, unproductive and destructive entrepreneurship. Although effort has been made to make this distinction, still there is no consensus in the literature as to what determines productive, unproductive and destructive entrepreneurship. Productive entrepreneurship is refers "to any activity that contributes directly or indirectly to net output of the economy or to any capacity to produces additional output" (Baumol, 1993). It is considered very vital to economic performance of any country (Davidsson and Herenkson, 2002).

Some other activities such as rent seeking, racketeering, smuggling, drugs pushing, and any corrupt practices are few examples of unproductive activities that are income generating but harmful the economy. From theoretical point of view this meaning has been summarised to assume that any activity that is wealth creating is considered as productive and any redistributive activity as unproductive (Desai, Acs and Weitzel, 2010).

The prevalence of either productive or unproductive entrepreneurship is usually depending on the structure of pay offs in an economy. The existence of entrepreneurs is necessary in any country but their economic as well as social impact is dependent on the incentives set by the institutions in place. The entrepreneurs normally act in accordance with the rule of the game in whatever context. The allocation of entrepreneurial resources to either productive or unproductive entrepreneurship varies across countries. In a situation where the rule of the game is not favourable to productive entrepreneurs, there will be a proliferation and dominance of unproductive entrepreneurs.

The presence of weak and unstable institutions and societal norms and values can be a possible cause for unproductive entrepreneurship (Baumol, 1993; Welter and Smallbone, 2004). Taking close analysis of unfolding events in Nigeria, productive entrepreneurs are often at the receiving end of economic woes. This is because it is difficult for them to surmount some of the business upheavals as a result of unwanted activities of some entrepreneurs in the same business arena.

Although there is a laid down procedures, rules and regulations governing the conduct of every player, lack of adherence and enforceability renders it weak or rather absent. Many people prefer and find it easier to follow short cut or in some occasion cutting corners to get what they want as oppose to due process at the detrimental of other people and the system. It is devastating and disheartening that the prevalence of unproductive entrepreneurs breeds more unproductive entrepreneurship in the country. The corrupt practices of public officials are responsible for accentuating negative attitudes and excesses of the entrepreneurs.

For the rules and regulations to be in full force the people in charge must show a sense of responsibility, patriotism, professionalism and above all sincerity to public trust. As long as the rule of the game continues to support unproductive and destructive entrepreneurship, the incentive for productive engagement will be vitiated. The reward structure is very important determinant of what kind of entrepreneurship shall prevail. This means that policy at a particular time and space can influence the allocation of entrepreneurial talents. Therefore the responsibility of the government as a coordinator of resources is to ensure that all policies that are formulated gives room for addressing socio-economic issues of the people. It can be meaningless if policy can create opportunity for activities that are believed to be damaging to the economy.

5. Conclusion and policy implications of the paper

The increasing rate of business start up in any country could be an indication of more individuals' effort and willingness to engage in economic activity. But the question is whether these activities can be translated into economic development through job creation and poverty reduction or not. It will be meaningful if the entrepreneurs are in a way adding value to country's economy but it is disastrous if they behave in a contrary manner. Despite the high rate of entrepreneurial activity in developing countries, the major problem is that most businesses are not making any impressive impact in poverty reduction among people.

Understandably entrepreneurs are driven by profit and they tend to engage in various activities to satisfy their desire for profit maximization, yet their contributions economically and socially count so much to the country's performance. In many instances the entrepreneurs do not take time to evaluate the consequence of their actions to the economy. There is beauty in free market economy because it allows free entry and exit to the market and creates business opportunities for economic gains. Of course capitalist and entrepreneurs play crucial role in promoting competition and innovations. The spirit of entrepreneurial economy is based on the intense competition and innovations that keeps the face of global economy more flexible and dynamic.

One thing that is important to believe is that the existence of entrepreneurs is not a guarantee that everyone is acting productively to advance economic growth. Similarly, the absence of coherent public policy toward entrepreneurship will not be in the good interest of the country's economy. The situation will be more devastating if the institutions in place are weak and shaky to support productive entrepreneurship. Moreover, the coordination failure among the existing institutions and sectors of the economy is something to reckon with.

The government neglects for infrastructural development that are necessary to support entrepreneurship added a lot of pressure on the available resources in Nigeria. It is not surprising that every year the government budgeted for programmes that are designed to reduce poverty and create jobs but the problem keeps escalating. In short government programmes and initiatives become a medium through which funds can be appropriated without evaluating their economic and social impacts.

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