

Entrepreneurship, Job Creation, Income Empowerment and Poverty Reduction in Low-Income Economies*

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How to cite this paper: Adenutsi, D. E. (2023). Entrepreneurship, Job Creation, Income Empowerment and Poverty Reduction in Low-Income Economies. *Theoretical Economics Letters*, 13, 1579-1598.
<https://doi.org/10.4236/tel.2023.136089>

Received: October 14, 2023

Accepted: December 19, 2023

Published: December 22, 2023

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Abstract

The fundamental objective of this paper is to provide an insight into the role of entrepreneurship in job creation, income generation and empowerment, and poverty reduction in low-income economies. Having provided a conceptual framework and the theoretical underpinnings of the linkages of entrepreneurship to job creation, income empowerment, and poverty reduction from an economic perspective, the paper develops an entrepreneurship policy-relevant model for breaking the vicious cycle of poverty which has predominantly characterised low-income economies. The paper argues that entrepreneurship is the catalyst for economic growth and development through job creation, income empowerment, and poverty reduction in low-income economies. However, to extend the culture of entrepreneurial thinking and promote entrepreneurship in an economy, governments and other relevant institutions must pursue functional policy goals in this endeavour. Therefore, to create high-income generating job opportunities and reduce poverty through entrepreneurship, there is a need for policy measures and intervention programmes that are critical and consistent with the objective of welfare improvements.

Keywords

Entrepreneurship, Job Creation, Income, Poverty, Low-Income Economies

1. Introduction

Low-income countries are generally poor because of low productivity and

*Originally an unpublished GLISTEN Seminar Paper GSP/09/001 presented by the author at the Inaugural/First Induction Programme of the Chartered Institute of Economists of Ghana, KORKDAM Hotel, Achimota, Accra, Ghana on August 15, 2009.

over-dependency on the primary sector where value addition is at the ebb. This low productivity culminates in low real per capita income, low consumption of essential life-sustaining commodities, low savings, and low capital formation. Invariably, this situation lends credence to the popularly known “vicious cycle of poverty hypothesis” which underlies the perpetuation of underdevelopment of these economies of which Sub-Saharan Africa, Latin America, the Caribbean and South-East Asia have dominated since human civilisation. The irony of the issue is that these features of low-income countries have been prevalent in spite of the abundant human and natural resources available to these economies.

As far back as 1776, Adam Smith identified the significant roles markets can play in the economic growth and development process of nations through job creation, higher incomes, and increased access to basic human needs. Over the past two centuries, evidence has shown the remarkable ability of capitalist-oriented economies to spontaneously increase living standards dramatically from subsistence survival on the margin to the affluence of modern lifestyles. Thus, economies that have a limited scope of market freedom have generally been underdeveloped systematically. To a very large extent, this has justified the significance of the famous expression “the invincible hand” Smith spoke about in 1776 (Smith, 1776).

As the world economy is now driven by market processes and entrepreneurial activities than ever before in human history, policymakers and development experts have, by default behaviour, reached an unmistakable consensus that the role of entrepreneurship in job creation, income generation, and poverty reduction can no longer be downplayed. The relevant empirical evidence is not farfetched. Countries with vibrant private sector participation and a large capitalist class such as the United States of America, the United Kingdom, Germany, Japan, Canada, France, and those from the Nordic and Scandinavian regions are more developed than those from Latin America and the Caribbean, Sub-Saharan Africa, and South-East Asia, which have relatively small capitalist class and hence poor entrepreneurial performance. Quite clearly, the outcome of an entrepreneurial activity should, as expected, have straightforward policy implications for job creation, income empowerment, and poverty reduction efforts of a low-income economy. For instance, in today’s world, the formulation of an economic policy aimed at job creation, sustainable income generation and poverty alleviation, which does not recognise and incorporate entrepreneurship, is most likely to fail. Indeed, such an economic policy may, in itself, be an instrument for retarding economic progress and prosperity.

Given the foregoing, this paper generally seeks to provide an insight into the concept of entrepreneurship and examine the channels through which entrepreneurship can lead to job creation, income empowerment, and poverty reduction in a typical low-income economy. In particular, the paper attempts to theoretically formulate a model for job creation, income empowerment, and poverty reduction for low-income countries from the pursuit of strategic economic poli-

cies on the development of entrepreneurship.

The next section of the paper discusses the conceptual framework and the theoretical underpinnings of entrepreneurship, job creation, income empowerment, and poverty reduction. This section also highlights the broad essential role of entrepreneurship in the economic growth and development process. In Section 3, the empirical literature is reviewed alongside some stylised facts. Section 4 discusses the analytical foundation and methodology. Section 5 presents and discusses the results. In Section 6, the paper concludes with some policy prescriptions.

2. Conceptual Framework and Theoretical Underpinnings

It is not too surprising that in many societies today, poverty abounds and, indeed, has been pervasive amidst abundant economic resources. This is because the concepts of entrepreneurship and poverty have been particularly difficult to define and, widely misunderstood by many, including institutions responsible for policymaking and implementation.

2.1. Definition of Concepts

Within the context of this study, *entrepreneurship* is defined as the identification of business opportunities and the mobilisation of the requisite economic resources to initiate a new business or revitalise an existing business, under the conditions of risks and uncertainties, for the purpose of making profits under private ownership. In simple terms, entrepreneurship is the unique profit-driven productive ideas and pragmatic efforts that make the combination of scarce resources possible under private ownership. An *entrepreneurial activity* is a skilful profit-oriented and self-involving undertaking aimed at creating value through modernisation of production processes or the identification and exploitation of new markets, products, or services. Therefore, any small and medium-scale profit-oriented enterprise, in which the owner has some role to play, not necessarily by fully managing the day-to-day activities of the enterprise, but there exists manifestation of value creation within the production or supply chain of the enterprise, may be considered an entrepreneurial initiative.

Poverty is a state of absolute economic deprivation in which the individual cannot independently have access to basic human life-sustaining essentials such as food, clothing, protection, and shelter. *Job creation* is the income-earning opportunity offered to other people, consciously or unconsciously, in the course of seeking one's own economic interest for initiating an entrepreneurial activity. Job creation from an entrepreneurial activity could be direct (in which case the entrepreneur personally employs other persons into his/her firm), or indirect (when income-earning opportunities are created for other entrepreneurs to emerge to offer subsidiary products/services) through forward or backward linkages.

Income empowerment is the self-confidence, self-esteem, and freedom from

servitude associated with earning or the assurance of earning regular income for undertaking a lawful economic activity, which will enable the income earner to live at least a decent normal life. An individual who has been empowered by income should be in a better position to make independent decisions regarding his/her life and be responsible for making these decisions.

2.2. Essential Role of Entrepreneurship in Economic Growth and Development Process

In this modern world of globalisation when market-based economic system dominates economic thinking and policy formulation, entrepreneurship, and the development of productive capacities within the private sector have become indispensable to ushering countries into a global trading and stronger development network. In this regard, the benefits of entrepreneurship to an economy in the 21st century cannot be underestimated.

To demonstrate the impact of entrepreneurship on employment and income generation which directly reduces economic dependency and poverty, the labour market, showing the changes in labour demand and real wages, a conventional labour market condition has been presented as shown in **Figure 1**. Within the realm of entrepreneurship, the introduction of new enterprises or the growth of already established entrepreneurial endeavours has the tendency to cause an increase in the demand for labour, since an increasing number of firms and higher wages (from \$60 to \$90) requires workers to function at optimum as a necessary condition for enterprise expansion. At this point, the profit-oriented entrepreneur

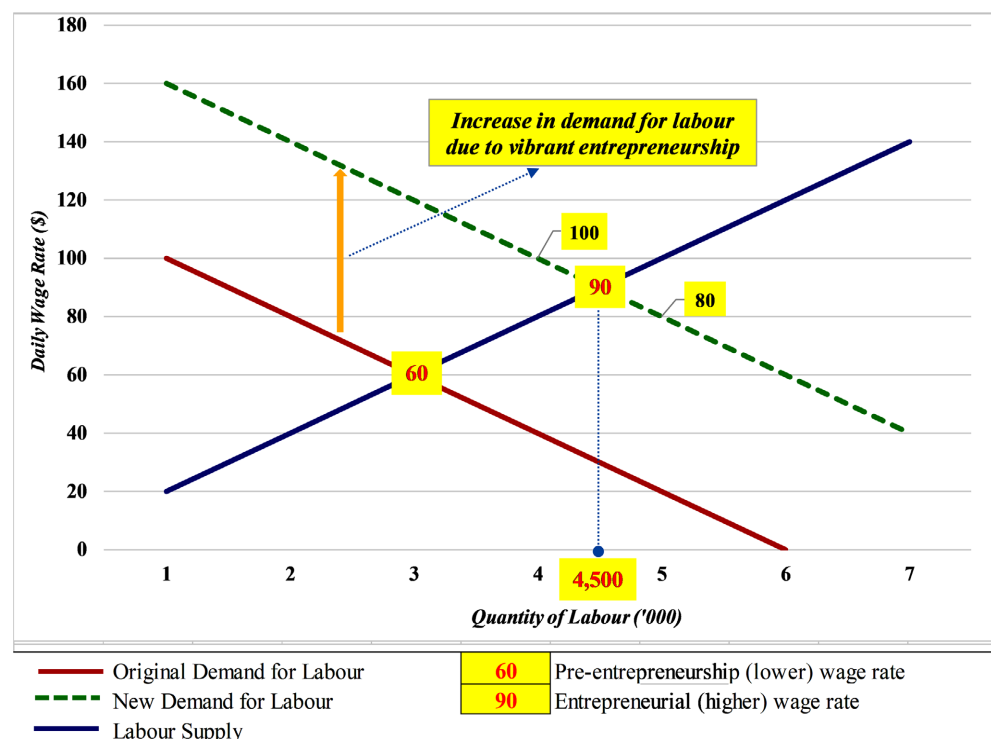


Figure 1. Increase in labour demand due to entrepreneurship.

has no room for labour inefficiency otherwise the most cost-efficient automated technology will be acquired to replace the less efficient labour.

The initial equilibrium in the labour market occurs at the point where the original labour demand curve intersects the labour supply curve at the pre-entrepreneurial relatively lower wage rate of \$60. Entrepreneurship leads to a rise in demand for labour when new entrepreneurial ventures are initiated and as the established firms expand their scope and size of operation. This is indicated by the shift of the demand curve from the red line to dotted green (**Figure 1**). The new equilibrium is determined by the point where the new demand curve (green dotted line) intersects with the supply curve (blue upward-sloping line). As a consequence, there is an increase in the equilibrium wage rate from \$60 to \$90 and more direct jobs have been created (1500 new jobs (*i.e.*, 4500 - 3000)). Once these workers receive real wages above the unemployment compensation rate for their services, they become more economically empowered with a higher chance of escaping poverty.

2.2.1. The Benefits of Entrepreneurship

Entrepreneurship is about making a difference in business as entrepreneurs would only initiate a business if they are convinced that they have what it takes to seize an opportunity to make a difference in a cause that is vital to their personal and professional ambitions in terms of returns on investment. With this in mind, entrepreneurship is essentially about striving to earn a good living as entrepreneurs are often rewarded with substantial financial gain in the form of profits. Another enviable benefit of entrepreneurship is self-employment and own-bossing, which often offers unlimited job satisfaction and flexibility. Entrepreneurship also creates jobs¹ for others and hence could reduce the rates of emigration and unemployment in an economy. Entrepreneurship is a source of income generation that propels economic growth. As entrepreneurs are highly motivated to be competitive and desirous of reaching their full potential because the business is taken as the medium for self-expression and self-actualisation, the production of higher quality goods and services is guaranteed. In this respect, the entrepreneur knows no boundaries as far as business success is concerned because his/her creativity, enthusiasm and vision are limitless. Entrepreneurship also has the potential to enhance the development of new markets as well as the development of entrepreneurial qualities and attitudes among potential entrepreneurs to bring about significant improvements in societies.

Furthermore, entrepreneurship is the key to the growth and development of local industries through the processing of local raw materials into finished and semi-finished goods for domestic and foreign markets. It also promotes the utilisation of improved and cost-effective technology in small and medium-scale enterprises which enhances higher factor productivity at the local level especially in low-income countries where the traditional rural economy is predominant.

¹Jobs are created directly and indirectly through the chain of interrelated value-addition processes within and outside the enterprise. It is common to find positive spillover effects concerning job creation.

2.2.2. The Costs of Entrepreneurship

Despite the numerous advantages associated with entrepreneurship, there are still some costs that are connected with the profession apparently because entrepreneurship is usually a difficult undertaking with a relatively high failure rate. Some of the potential drawbacks associated with pursuing entrepreneurial ventures include uncertainty of the flow and size of income, working hard for long hours which could even be more than 60 hours per week², and the risk of losing one's entire investment. All these impose considerable stress on the entrepreneur.

The advantages and disadvantages of entrepreneurship notwithstanding, a rational individual would choose to participate in an economic activity such as becoming an entrepreneur provided, he/she can be certain that the utility of participation exceeds the utility of non-participation. As far as private entrepreneurship is concerned, the pursuit of an entrepreneurial venture is also determined by whether, the individual is oriented towards opportunity-driven entrepreneurship or survival-driven entrepreneurship, which is further, determined by the socioeconomic status of the individual in context as well as his/her entrepreneurial capabilities and attitude towards risk.

2.3. Entrepreneurship, Employment, Income and Poverty: The Theoretical Nexus

The linkages of entrepreneurship with employment, income, and poverty are quite straightforward even though bi-directional causal relationships are eminent. Development economists opine that economic growth is a necessary precondition for poverty reduction, and arguably the single most important factor influencing poverty. This view seems to have enjoyed tremendous universal empirical support as historically there has been a strong negative correlation between per capita income and poverty indicators (see, for instance, **Figure 4**). Meanwhile, models of economic growth and development have been very consistent in asserting that economic growth is driven primarily by private sector capital accumulation, and hence the economic objective of any modern economy is to promote the conditions that facilitate private sector investment by way of strengthening and motivating the society to develop their entrepreneurial potentials to the optimum.

2.3.1. Entrepreneurship and Job Creation

In an entrepreneurial society, job creation is a common feature as new actors in the economy have new characteristics through open-source culture. Such a society breeds a strong network of angel investors and training activities for future venture capitalists and corporate leaders. Besides, entrepreneurial activity is always about value creation. Value creation enhances factor productivity which

²A survey by **Dun and Bradstreet Holdings, Inc. (2002)** on small-scale business owners shows that 17% strictly devoted at least 60 hours a week to their businesses. Again, about 50% of these entrepreneurs spend between 41 and 60 hours a week on their businesses.

promotes factor utilisation and intensity in a typical production process. Consequently, jobs are created within and outside a particular enterprise from any entrepreneurial activity.

Entrepreneurship increases access to economic opportunities by providing useful information on manpower training and skills development, access to capital, and business development. Through increased knowledge, entrepreneurs can become more competitive in the market. Accordingly, entrepreneurship creates jobs through forward and backward linkages. In a vibrant economy, the development of entrepreneurship breeds the emergence of ancillary enterprises that supply raw materials including energy and related industrial services such as packaging, advertising, insurance, banking, and finance including microfinance, transport, and communication within the supply chain. At the same time, some entrepreneurs may emerge to add value to the by-products generated by the parent firm.

2.3.2. Entrepreneurship, Income Empowerment and Poverty Reduction

Entrepreneurship is very rarely a get-rich-quick business undertaking similar to gambling. Rather, the concept is, in fact, concerned with creating long-term value and consistent cash flow streams for the future through the power of imagination, initiative, and innovation. The long-term value creation focus of entrepreneurship requires that the entrepreneur strategizes towards maximising profits and long-run expansion. Enterprise growth is directly associated with increased demand for productive resources including labour and the payment of realistic and competitive rewards to attract and retain these factor inputs to lend their services to the entrepreneur. In this context, entrepreneurship offers a reliable source of income earning, not only to the entrepreneur and labour, but other factor inputs. Given the long-term focus and the growth potential of entrepreneurial activities, the entrepreneur and labour, and indeed, all income earners from entrepreneurial activities, become more economically independent and confident to confront the challenges of life. It can, therefore, be stated that entrepreneurship promotes income empowerment in an economy. In the modern world, entrepreneurship provides a new approach to fighting poverty and stimulating economic growth in developing countries. Entrepreneurship, to a very large extent, narrows the income gap and delivers a consistent mechanism for earning incomes thereby reducing income inequality and poverty substantially.

In practice, entrepreneurship is directly linked to higher productivity. The incentive for higher factor productivity is higher income. To sustain higher factor productivity to achieve the long-run growth objective of an enterprise, the entrepreneur must be committed to paying higher incomes in real terms. As the entrepreneur and labour keep enjoying higher incomes in real terms, they are naturally empowered economically through incomes, which push them above the poverty line more permanently.

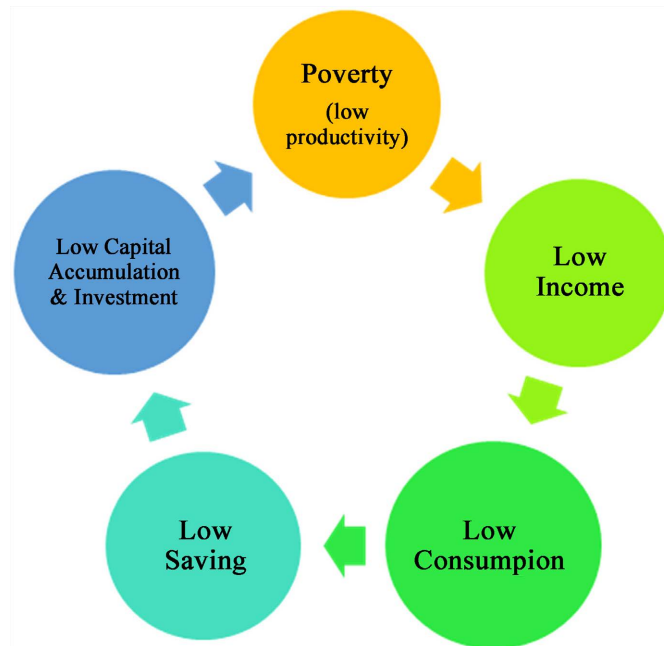
2.4. Entrepreneurship as a Tool for Breaking the Poverty Chain

Until a favourable external shock intervenes to break the cycle of poverty, the very poor of society is very likely to remain poor forever. This scenario is illustrated in **Figure 2**.

The Vicious Cycle of Poverty

From **Figure 2**, poverty arises from low productivity as households face financial constraints and lack the other incentives of entrepreneurship. Low factor productivity is the reason for earning low income which does not empower the household to purchase sufficient basic life-sustaining goods and services although the marginal propensity to consume is one or approximately one. The high propensities to consume have left the household with nothing or very little to save and accumulate capital for investment. The inability of a household to invest implies that the income of this household will remain low in the future and their productive resources will continue to be underemployed or unemployed. This suggests that the vicious cycle of poverty is set in motion. The only way out of this chain of apparent poverty perpetuity is access to essential external resources for boosting productivity which can result in improved household incomes above subsistence levels for surpluses to be generated for investment purposes.

The presence of entrepreneurial capability in a household and the accessibility of basic infrastructure facilitating easy entrepreneurship are the two main factors motivating a household to pursue entrepreneurial activities. Ideally, these push factors must be reinforced by conscious policy actions to boost demand for the goods and services produced by the entrepreneur within the economy.



Source: Author's impression.

Figure 2. The vicious cycle of poverty.

2.5. The Entrepreneurial Process

In a typical market-based economy, an entrepreneurial process takes the form of a profitable idea which commences with the identification and evaluation of a market for a product or a service as well as the resources required to systematically create a new finished product or service to meet the needs of mankind. Economic resources are acquired and a value is created from these resources at a certain cost. The end product is sold at a price higher than the sum of manufacturing and distribution of the product into physically different products innovatively and profitably. For entrepreneurs in a distribution chain, the process commences with the identification of markets with prices for the same product varying across them. The entrepreneur focuses on buying from a lowly-priced market and selling in a highly-priced market for profits over purchases and cost of sales including the cost of transportation, handling, and distribution.

Accordingly, the entrepreneurial process begins with good business idea formulation. A good business idea could be the realisation that a new distribution point at a specific location could be a profitable business undertaking. It must be noted that an entrepreneurial activity involves the application of new knowledge through systematic research which culminates in acquiring resources and application of cost-efficient production techniques. By implication, a good business idea in the form of new knowledge must have a commercial value so that this idea can be useful in creating a product or service that is physically different from the resources used to produce it.

3. Empirical Literature and Stylised Facts

3.1. Review of Empirical Studies

Empirical studies have shown that owners of SMEs are content with their independence which motivates them to be diligent and generate personal income rather than being an employee for someone else. [The Gallup Organisation \(2007\)](#), for instance, found that over 85 percent of owners of SMEs were delighted to have owned their own enterprises than working for another person.

The influx of entrepreneurial activities has contributed to the springing up of ancillary institutions such as microfinance institutions in recent years. [Khandker \(2006\)](#) in a study of microfinance institutions shows that, indirectly, entrepreneurship is the key to poverty reduction not just for the beneficiaries, but also there are positive externalities to the rest of the society. [Coleman \(2006\)](#) and [Hulme \(1999\)](#), however, argue that the ability of microcredit facilities to eradicate poverty is dependent upon the socioeconomic environment of the household in context. What appears evident is that the application of finance to entrepreneurial activities is a more permanent and reliable way of eradicating poverty in an economy.

In more recent studies, [Agide and Dada \(2023\)](#) found that entrepreneurship enhances economic growth as a result of job creation thereby reducing poverty

among 18 African countries. Again, Valliere and Peterson (2010) arrived at a similar conclusion for developing countries. These findings are consistent with the conclusion drawn by Wujung and Mbella (2014) in a study involving Cameroon for the period 1980-2013.

3.2. Stylised Facts

3.2.1. Entrepreneurship and Wealth Creation

In Table 1, it is shown that entrepreneurship is synonymous with wealth acquisition.

Table 1. 2023 ranking of the world's richest and their entrepreneurial ventures.

Rank	Name	Nationality	Net Worth (US\$' billion)	Types of Business
1	William Gates III	United States	50.00	Software
2	Warren Buffett	United States	42.00	Investments
3	Carlos Slim Helu	Mexico	30.00	Telecommunications
4	Ingvar Kamprad	Sweden	28.00	Furniture Retailing
5	Lakshmi Mittal	India	23.50	Steel
6	Paul Allen	United States	22.00	Software
7	Bernard Arnault	France	21.50	Luxury Goods
8	Prince A. Bin Talal Al Saud	Saudi Arabia	20.00	Investments
9	Kenneth Thomson & family	Canada	19.60	Publishing
10	Li Ka-Shing	Hong Kong (China)	18.80	Diversified Sources
11	Roman Abramovich	Russia	18.20	Oil
12	Michael Dell	United States	17.10	Electronics
13	Karl Albrecht	Germany	17.00	Supermarkets
14	Sheldon Adelson	United States	16.10	Casinos, Hotels
15	Liliane Bettencourt	France	16.00	Consumer Products
15	Lawrence Ellison	United States	16.00	Software
17	Christy Walton	United States	15.90	Discount Retail
17	Jim Walton	United States	15.90	Discount Retail
19	S Robson Walton	United States	15.80	Discount Retail
20	Alice Walton	United States	15.70	Discount Retail
21	Helen Walton	United States	15.60	Discount Retail
22	Theo Albrecht	Germany	15.20	Supermarket Retail
23	Amancio Ortega	Spain	14.80	Fashion Retail
24	Steven Ballmer	United States	13.60	Software
25	Azim Premji	India	13.30	Software

Source: Forbes (<https://www.forbes.com/billionaires/>) (accessed November 20, 2023).

From a global point of view, there is a positive correlation between entrepreneurship and wealth. Indeed, all over the world, the richest persons have been entrepreneurs. Examples abound in every community and economy irrespective of the level of development. For instance, in most countries, the richest people of all time have been entrepreneurs who own fleets of marine vessels, aircraft, schools, oil marketing companies, hotels, commercial farms, retail and departmental shops, telecommunication companies, advertising companies, insurance and finance companies, or either engage in extensive import or export business or manufacture/assemble automobiles or computers. This is a clear testimony to the fact that entrepreneurship is the single most important means to create jobs, empower people through increased income, and reduce poverty in an economy.

Successful entrepreneurs have generational succession plans and predictable inheritance systems that guarantee their enterprises as a going concern, offering their immediate dependants business opportunities and reliable access to basic needs of life that include good nutrition, decent housing, quality education, healthcare, energy, transportation, entertainment, and philanthropy.

3.2.2. Entrepreneurship Growth in the Contemporary World

There has been steady growth in entrepreneurship when measured by the total number of limited liability companies registered and operating in the various countries of the world (**Table 2**, Chart A). From 27,033,872 in the year 2006, this figure rose by more than 100 percent in 2020, reaching 57598649.83 despite the devastating effects of COVID-19 on businesses between 2019 and 2020 (**Figure 3**).

The facts presented in **Figure 3** Chart B buttresses the point that the increasing growth in the number of limited liability companies remains true even when population growth is taken into account. Globally, there has been a steady growth in the annual average business density rate from 42 percent in 2006 to about 75 percent in 2020 (**Figure 3**, Chart B).

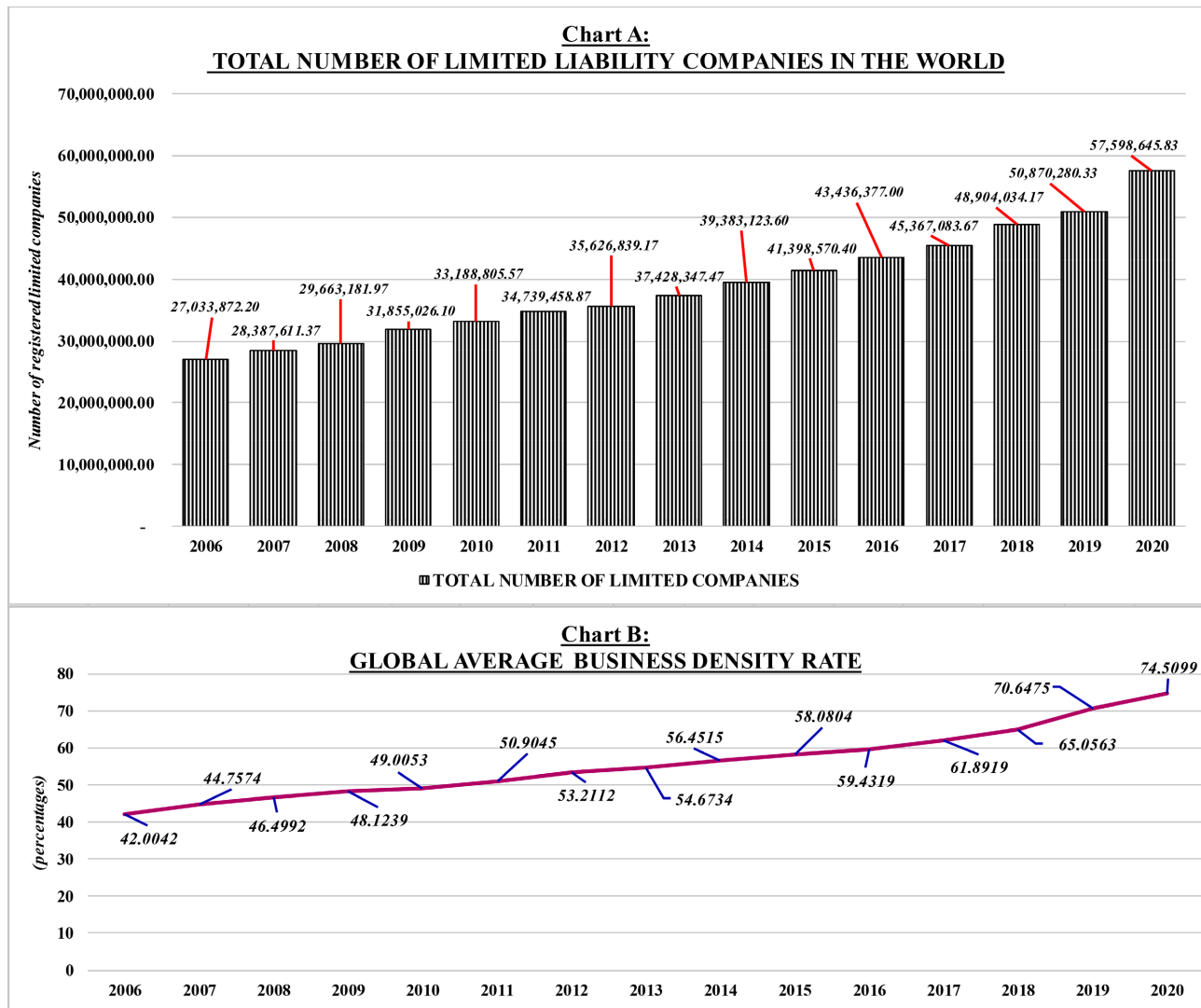
4. The Analytical Foundation and Methodological Approach

4.1. The Analytical Foundation

4.1.1. The Entrepreneurship Channel to Job Creation, Income Empowerment and Poverty Reduction in Low-Income Economies

In **Figure 4**, an attempt is made to explain the process of how entrepreneurship can catalyse job creation, income empowerment, and poverty reduction in low-income economies.

Within the entrepreneurship ecosystem, it is essential that availability and access to the essential ingredients of entrepreneurship are seen as a necessary condition. The sufficient conditions are the low-income earners taking advantage of the favourable conditions under the ecosystem to engage in vibrant entrepreneurial activities and apply best practices and standards for high entrepreneurial performance in order to realise positive impact on their socioeconomic status.



Source: Author based on World Bank database and country-specific national statistics bureaux.

Figure 3. Magnitudes and trends in total number and density of limited liability companies³.



Source: Author's formulation.

Figure 4. A framework of an entrepreneurial approach to job creation, income generation, and poverty reduction in an economy.

³Based on 150 countries/regions *viz.* Afghanistan, Albania, Algeria, Argentina, Armenia, Australia, Austria, Azerbaijan, Bahrain, Bangladesh, Belarus, Belgium, Bhutan, Bosnia and Herzegovina, Botswana, Bulgaria, Brunei, Cambodia, Chile, Colombia, Congo DR, Cook Islands, Croatia, Costa Rica, Cyprus, Czech Republic, Denmark, Dominica, Egypt, El Salvador, Estonia, Ethiopia, Finland, France, Gabon, Georgia, Germany, Greece, Hong Kong (China), Hungary, Iceland, India, Iraq, Ireland, Isle of Man, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Korea Republic, Kosovo, Kyrgyz Republic, Latvia, Lesotho, Liechtenstein, Lithuania, Luxembourg, Madagascar, Malaysia, Maldives, Malta, Mauritania, Mauritius, Mexico, Mongolia, Montenegro, Morocco, Myanmar, Nepal, Netherlands, New Zealand, Nigeria, North Macedonia, Norway, Oman, Pakistan, Panama, Peru, Philippines, Poland, Portugal, Puerto Rico, Romania, Russia, Saudi Arabia, Senegal, Serbia, Singapore, Slovak, Slovenia, Spain, Sri Lanka, Suriname, Sweden, Switzerland, Taiwan (China), Tajikistan, Tanzania, Thailand, Togo, Tonga, Trinidad and Tobago, Tunisia, Türkiye, Uganda, Ukraine, United Arab Emirates, United Kingdom, Uruguay, Uzbekistan, Vanuatu, Zambia, and Zimbabwe. The selection was strictly based on the availability of consistent data.

Table 2 summarises the main components of the determinants of entrepreneurship, entrepreneurial activities, entrepreneurial performance, and socioeconomic impact of entrepreneurship as elements of an entrepreneurial process relevant to job creation, income generation and empowerment, and poverty reduction in a typical economy. Access to capital, attitudes to work and risk as well as investment culture, training, research and development (R&D) and technology, quality of entrepreneurial resources which includes special institutional support services such as business incubators and accelerators, sociopolitical and economic environment, legal and regulatory framework, and government policy are the essential factors influencing the development of entrepreneurship in an economy. Entrepreneurial activities include the identification/creation of business opportunities, evaluation of business ideas/opportunities, business planning, mobilisation of requisite resources, self-involvement/self-employment such as management of the enterprise, and combination of the resources through innovative practices, value addition, and supply chain activities.

Concerning the performance of an entrepreneurial accomplishment, the survival rate of the enterprise, growth of the enterprise, labour force, turnover, and domestic market dominance, penetration of external markets, profit margins, enterprise risk management (ERM) which should include generational succession plan, and tax and other statutory compliance are the key issues involved. In examining the socioeconomic impact of entrepreneurship in an economy, the critical factors often taken into account include job creation, income status of employees and the entrepreneur, level of consumption, rate of saving and investment, overall reduction in poverty levels of employees and the entrepreneur,

Table 2. Elements of entrepreneurship in job creation, income empowerment and poverty reduction.

Determinants of Entrepreneurship	Entrepreneurial Activities	Entrepreneurial Performance	Socioeconomic Impact
Access to Adequate Finance	Identification or Creation of Business Opportunities	Survival Rate of Start-Ups	Job Creation or Rate & Size of Employment
Culture and Attitudes	Formulation of Business Ideas	Growth of Enterprises	Income Generation
Entrepreneurial Resources	Business Plan Development	Labour Force	Consumption
Capacity Building, R&D, and Technology	Resource Mobilisation and Allocation	Penetration of Export Markets	Saving & Investment Rates
Economic, Social, and Political Environment	Value Addition and Supply Chain Activities	Turnover/Market Dominance	Poverty Reduction
Legal and Regulatory Framework	Innovative Practices	Profit Margin & ERM* System	Economic Growth Rate
Government Policy	Self-Employment	Tax and Other Statutory Compliance	Infrastructure/Corporate Social Responsibility (<i>i.e.</i> Community Impact)

Source: Author's own compilation. *Denotes Enterprise Risk Management.

contribution to the growth process of the economy as well as the direct contribution to community development through infrastructural development and corporate social responsibility.

4.2. Methodological Approach

Given that this is a purely theoretical study with the central objective of developing a framework to provide intellectual insight into how entrepreneurship promotes job creation, income empowerment and poverty reduction in low-income economies, the methodology involves suggesting a step-by-step systematic approach for this analysis. First and foremost, a diagrammatic framework focusing on the channels through which entrepreneurship influences job creation, income empowerment, and poverty reduction is proposed. Secondly, a set of simplistic empirical analyses was undertaken to validate the proposed theoretical model. These empirical analyses include panel data estimations and descriptive analyses.

The main source of data is the World Bank databases, notably the *World Development Indicators* and the *Enterprise Surveys Indicators Data*. The time range of the data covers 2014 and 2020 and only low-income countries with consistent data on the key variables were sampled.

5. Results and Discussions

Consistent with the methodology, the results and discussions are two-fold. First, the theoretical model which has been designed to serve as a general framework for analysing how entrepreneurship can serve as a necessary condition and a compelling factor for poverty reduction has been presented. Second, some empirical analyses were carried out in a bid to validate the suggested theoretical model.

5.1. The Theoretical Model of Entrepreneurship for Poverty Reduction

The theoretical model suggested as an entrepreneurial approach to poverty reduction is presented in **Figure 5**.

The underlying assumptions for the formulation of this model include:

- 1) The poor of the society are aware of their socioeconomic conditions and are prepared to work and contribute to the efforts of poverty eradication and livelihood improvement programmes to enhance their low-income status. Thus, people trapped in poverty⁴ should be willing to undertake forced savings at least at the initial stages of the entrepreneurial process.
- 2) The poor are willing and committed to initiate entrepreneurial activities once adequate capital or the requisite determinant of entrepreneurship is available and accessible for investment purposes.
- 3) Cost of capital and lending conditions are favourable for net positive gains on investment.

⁴Persons trapped in the vicious cycle of poverty.

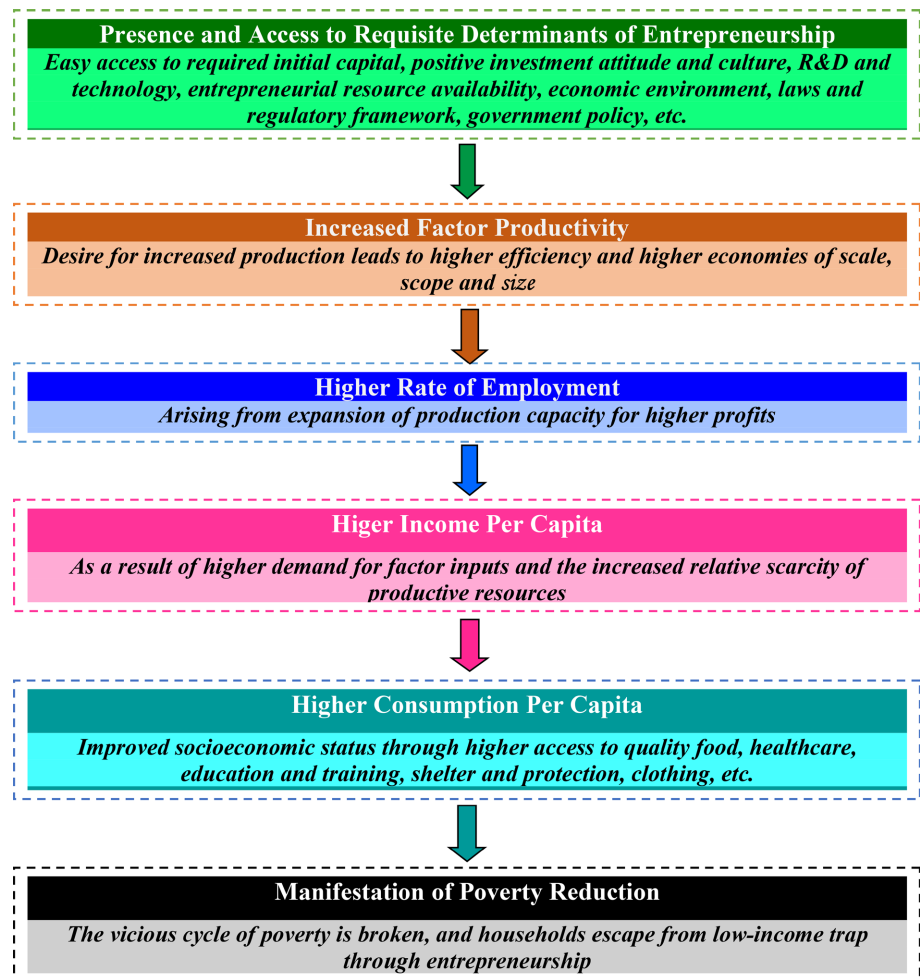


Figure 5. A policy-relevant theoretical model for entrepreneurship and poverty reduction in developing economies. Source: Author's formulation.

4) Economic and market conditions are favourable to promote business and entrepreneurship.

5) Beneficiary entrepreneurs are willing and able to repay loans promptly to sustain the pro-poor business finance scheme.

The starting point is an enabling entrepreneurship ecosystem that is endowed with not only the availability but also easy access to the required initial capital, positive investment attitude and culture, research, development, and technology, entrepreneurial resource availability, stable economic environment, laws and regulatory framework, government policy among other influential factors. This leads to the second stage where there is increased factor productivity due to the innate desire for increased production which leads to higher efficiency and higher economies of scale, scope and size. Following this, the third stage is the increased rate of employment involving the utilisation of idle and underutilised productive resources including labour. The outcome is the higher income per capita stage. Per capita income increases as a result of higher demand for factor inputs and increased relative scarcity of productive resources. Next comes higher

consumption per capita stage as increased access to employment reduces financial dependency rates and income earners effectively demand necessities of life. These necessities include quality food, healthcare, shelter and protection, education and training, clothing, and security. In the sixth and final stage, there is a manifestation of poverty reduction to the extent that the vicious cycle is broken, and households escape from the low-income trap through entrepreneurship. It is important to stress that relying solely on one business or income stream can be risky in most developing countries. Hence, there is a need for poverty-escapee households to diversify their sources of income by exploring multiple entrepreneurial ventures, investments, or other income-generating activities. Other strategies to protect households from slipping into the low-level equilibrium trap include the establishment of emergency funds or enrolling social insurance schemes, prudent investment, continuous learning, and personal development.

Even though, in general, the availability and easy access to any of the essential determinants of entrepreneurship through a policy intervention is the beginning of breaking the poverty cycle, in low-income countries, financial constraints—lack of adequate equity capital and high cost of borrowing arising from excess demand for investible funds—are probably the most prominent barrier for growth and development of entrepreneurship. It is, thus, believed that holding all other factors constant, a policy intervention by way of making investible funds available to potential entrepreneurs would go a long way in creating job opportunities, raising incomes, and reducing the high incidence of poverty in low-income economies.

5.2. Evidence-Based Validation of the Theoretical Model

5.2.1. Entrepreneurship, Income, Employment, and Poverty in Developing Economies

Figure 6 provides some empirical evidence that there is a trend relationship between entrepreneurship as proxied by business density rate, income and poverty reduction in developing economies between 2014 and 2020. As entrepreneurship (business density rate) increases from 17.53 percent in 2014 to 27.03 percent in 2020, real annual per capita income increases⁵ steadily from US\$2489.77 to US\$2635.78, unemployment rate declined from 9.52 percent to 9.20 percent, while poverty gap at US\$2.15 daily declined from US\$16.90 to US\$8.64, and poverty gap at US\$6.85 daily declined from US\$29.10 to US\$21.86 respectively over the same period.

5.2.2. Granger Causality Test⁶ (Table 3)

The Granger-causality results suggest that unemployment rate causes real per capita and business density rate with no reversal. Uni-directionally, real GDP per capita Granger-causes poverty gap at US\$2.15 daily, and business density. Similarly, poverty gap at US\$6.85 daily Granger-causes poverty gap at US\$2.15

⁵The sharp decline in per capita income in the year 2020 could be attributed to the effects of COVID-19.

⁶Econometrically, these results cannot be reliable as Granger Causality test is not applicable to cross-sectional inclined data as is the case for the panel dataset with an $N > T$ structure.

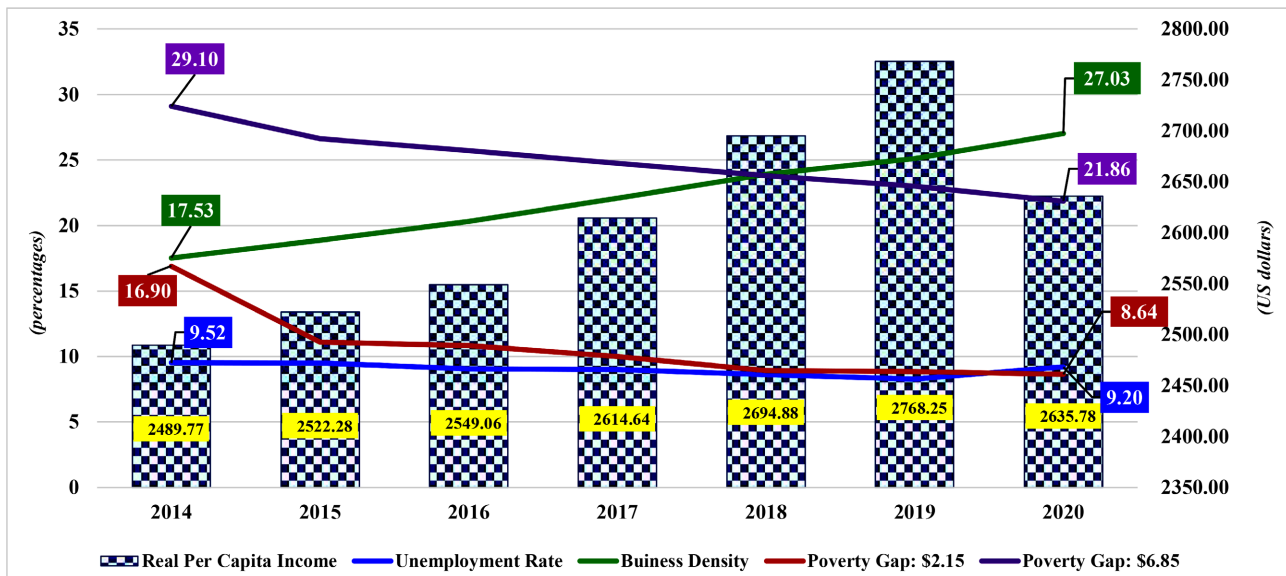


Figure 6. Trends between entrepreneurship, income, unemployment and poverty⁷.

Table 3. Results of panel granger causality test.

Null Hypothesis	F-Statistic	F-Prob.
<i>Unemployment does not Granger Cause Real GDP per capita</i>	4.48539	0.0356**
<i>Real GDP per capita does not Granger Cause Unemployment</i>	0.19551	0.6589
<i>Business Density does not Granger Cause Real GDP per capita</i>	0.41069	0.5224
<i>Real GDP per capita does not Granger Cause Business Density</i>	5.85142	0.0166**
<i>Poverty Gap\$2.15 does not Granger Cause Real GDP per capita</i>	1.59421	0.2084
<i>Real GDP per capita does not Granger Cause Poverty Gap\$2.15</i>	11.0009	0.0011***
<i>Poverty Gap\$6.85 does not Granger Cause Real GDP per capita</i>	0.93863	0.3340
<i>Real GDP per capita does not Granger Cause Poverty Gap\$6.85</i>	0.00311	0.9556
<i>Business Density does not Granger Cause Unemployment</i>	0.04063	0.8405
<i>Unemployment does not Granger Cause Business Density</i>	9.20592	0.0028***
<i>Poverty Gap\$2.15 does not Granger Cause Unemployment</i>	0.40158	0.5271
<i>Unemployment does not Granger Cause Poverty Gap\$2.15</i>	1.85581	0.1748
<i>Poverty Gap\$6.85 does not Granger Cause Unemployment</i>	1.39806	0.2386
<i>Unemployment does not Granger Cause Poverty Gap\$6.85</i>	0.73549	0.3923
<i>Poverty Gap\$2.15 does not Granger Cause Business Density</i>	0.00366	0.9518
<i>Business Density does not Granger Cause Poverty Gap\$2.15</i>	0.36075	0.5489
<i>Poverty Gap\$6.85 does not Granger Cause Business Density</i>	0.78289	0.3775
<i>Business Density does not Granger Cause Poverty Gap\$6.85</i>	1.50159	0.2221
<i>Poverty Gap\$6.85 does not Granger Cause Poverty Gap\$2.15</i>	117.458	0.0000***
<i>Poverty Gap\$2.15 does not Granger Cause Poverty Gap\$6.85</i>	0.40499	0.5253

Source: Author. **/** denotes significance at 5% and 10% respectively.

⁷30 LDCs covered are Afghanistan, Albania, Algeria, Argentina, Azerbaijan, Belarus, Benin, Central Africa Republic, Côte d'Ivoire, Georgia, Guinea, Jamaica, Jordan, Lao PDR, Liberia, Mauritania, Mongolia, Montenegro, Mozambique, Morocco, Nepal, Nigeria, Philippines, Rwanda, Serbia, Somalia, Tajikistan, Togo, Viet Nam, and Zambia. The selection was based purely on the availability of consistent data.

daily (Table 3).

5.2.3. Panel Regression Results

Entrepreneurship proxied by business density rate does not directly affect poverty at conventional statistical levels of significance. Through the unemployment rate and real income per capita, however, entrepreneurship reduces poverty, although the impact is economically marginal as reported in Table 4. For instance, regarding poverty gap at US\$2.15 daily model, a one percent increase in real income per capita reduces the poverty gap by 0.0023 percent while an increase in the unemployment rate by one percent further exacerbates the poverty gap by 0.3511 percent. For the empirical poverty gap at US\$6.85 model, a one percent increase in real income per capita and unemployment rate reduces poverty by 0.0050 percent and 0.6748 percent respectively.

The finding that higher unemployment rate reduces poverty could be explained by the fact that in most developing economies, most employees are underemployed and earn very low incomes that make them worse-off than being employed had unemployment support services existed. However, due to the absence of statutory unemployment compensations, the earnings of these employees trap them in perpetual poverty, worsening their living conditions.

The result that business density is statistically insignificant in explaining variations in poverty reduction directly could be attributed to the fact that poverty in developing countries is highly gender-bias hence once a significant proportion of business ownership is male-dominated, mere increases in business density might not necessarily impact on poverty reduction but rather widen the income inequality and the poverty gap. This result also buttresses the point that entrepreneurship in itself might not be a panacea for poverty reduction unless it passes through other channels such as inclusive job creation in favour of the most marginalised unemployed population.

Meanwhile, the relatively low explanation power of the estimated empirical model and the high coefficients of the constant terms suggest that there are more

Table 4. Results of panel least squares estimation.

Estimation method: Panel Least Squares

Sample: 2014 - 2020

Periods included: 7

Cross-sections included: 30

Total panel (balanced) observations: 210

Dependent Variable	Poverty Gap @ \$2.15					Poverty Gap @ \$6.85			
	VARIABLE	Coefficient	Standard Error	t-Statistic	t-Probability	Coefficient	Standard Error	t-Statistic	t-Probability
	Real GDP Per Capita	-0.0023	0.0006	-4.1288	0.0001	-0.0050	0.0009	-5.3688	0.0000
	Unemployment Rate	-0.3511	0.1345	-2.6099	0.0097	-0.6748	0.2213	-3.0488	0.0026
	Business Density	0.0347	0.0438	0.7929	0.4288	0.1360	0.0720	1.8891	0.0603
	Constant	19.2356	1.7737	10.8446	0.0000	41.0737	2.9183	14.0747	0.0000
	<i>R-squared</i>	0.1445				0.1978			
	<i>Adjusted R-squared</i>	0.1320				0.1862			

Source: Author's estimation.

important factors that account for poverty reduction in low-income economies. Invariably, more than 80 percent of the factors that determine poverty reduction have remained unexplained. Consequently, it is important to identify other crucial factors that explain poverty in these low-income economies. This can be best carried out in micro-level studies due to the fact that most influential determinants of entrepreneurship and poverty are personal and qualitative in nature.

6. Conclusions and Policy Prescriptions

The role of entrepreneurship in national development cannot be overemphasized. Entrepreneurship is the key to economic growth through job creation, income generation and empowerment as well as poverty reduction in low-income economies. Entrepreneurship does not only create jobs, generate income, and reduce poverty; it is the catalyst for innovation and creativity, income redistribution, knowledge, and technological advancement. Unfortunately, economic growth which can be largely attributed to entrepreneurship is not a sufficient condition for income equality and poverty reduction at the macro level. For sustainable poverty reduction, aside the empowerment of the capitalist class, it is imperative to implement specific policies aimed at:

- sequentially and systematically creating the ideal avenue for the presence and access to adequate and quality determinants of entrepreneurship which will lead to increased factor productivity, higher rate of employment, higher incomes per capita, higher consumption per capita, and manifestation of poverty reduction on sustainable basis;
- motivating the very poor of society who may be risk-averse and investment-shy to cultivate the necessary mindset and drive for entrepreneurship;
- establishing microfinance and venture capital institutions purposely to provide funds for the establishment of businesses. In this regard, a collaborative effort from the central government, local government, non-governmental organisations including native associations resident locally or abroad, and religious bodies should be critical in this regard;
- labour wages and national compensation policies must be designed and enforced to ensure that, in real terms, minimum wages are above the statutory unemployment compensation rates;
- regulatory reforms, privatisation, civil service reforms, trade liberalisation and economic openness, financial sector reforms, and improved governance could be key structural measures that governments may pursue to support economic growth and development; and,
- coordinating efforts at the international, national, and local levels to support entrepreneurship development to propel accelerated growth and sustainable development.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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