
RURAL ENTREPRENEURSHIP AND DEVELOPMENT – AN ERITREAN PERSPECTIVE

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ABSTRACT

An attempt is made in this paper to discuss the key issues related to entrepreneurship and its relationship with rural development. The analysis is then broadened to understand the determinants of rural entrepreneurship and the environment conducive to its development. Consequently, the policies that are necessary to make this environment favourable have been discussed in detail. The generic constraints that are faced by rural enterprises have been listed out. The paper also emphasises the importance of rural enterprise development in Eritrea. The paper discusses entrepreneurship activities in rural Eritrea and identifies the challenges and provides some policy implications. The conclusion is that to accelerate economic development in rural areas, it is necessary to promote entrepreneurship. Entrepreneurial orientation in rural areas is based on stimulating local entrepreneurial talent and subsequent growth of indigenous companies in the country. This in turn would create jobs and add economic value to a region, and at the same time, it will keep scarce resources within the community.

Introduction

More than 1.3 billion people in this world live in extreme poverty, that is, one in every five persons (United Nations Report, 1997). As the world's economies become more inter-dependent, solving a problem as big and as difficult as poverty demands international alliances. According to the International Fund for Agricultural Development (IFAD), the Millennium Development Goals set forth by the United Nations are a guiding light for international cooperation for development, in particular, the target to halve the proportion of hungry and extremely poor people by 2015. But the starting point to achieve this target must be the recognition that poverty is predominantly rural. Three quarters of the world's poor, about 900 million people, live in rural areas where they depend on agriculture and related activities for their livelihoods. The reality is that the Millennium poverty target cannot be met unless the world addresses rural poverty.

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The World Bank's strategy launched in 2002, called 'Reaching the Rural Poor' focuses on improving the lives of those living in rural areas. Ian Johnson, the Vice-President for Sustainable Development states that this strategy is contributing to the increase of productivity in rural areas, which will have a very positive impact on other sectors of the national economy. Petrin (1994) affirms that rural development is now being linked more and more to entrepreneurship. Entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities, and to sustain a healthy economy and environment.

The acceptance of entrepreneurship as a vital force for development by itself will not lead to rural development, and the advancement of rural enterprises. What is needed in addition, is an environment enabling entrepreneurship in rural areas. The existence of such an environment largely depends on policies promoting rural entrepreneurship. The effectiveness of such policies, in turn, depends on a conceptual framework about entrepreneurship (Petrin, 1994).

This paper deals with the following three issues.

1) Firstly, it sets out the reasons why promoting entrepreneurship as a force of economic change must take place if many rural communities are to survive; 2) Secondly, it deals with what policies are necessary in order to create an environment in rural areas conducive to entrepreneurship; and 3) Thirdly, it considers the generic constraints that are faced by entrepreneurs in rural areas, and the initiatives that can assist their development.

The Importance of Rural Entrepreneurship

The Entrepreneurship Concept : In order to understand the role played by entrepreneurs in developing an economy, it is important to understand the concept of entrepreneurship. While choosing a definition for entrepreneurship most appropriate to the rural area context, it is important to bear in mind the skills that will be needed to improve the quality of life for individuals, and to sustain a healthy economy and environment. Taking this into consideration, one can find that each of the traditional definitions has its own weakness (Tyson, Petrin, Rogers, 1994: 4). Hence, the most appropriate definition is a combination of three, wherein, entrepreneurship can be defined as a force that mobilises other resources to meet unmet market demand; the ability to create and build something from practically nothing (Timmons, 1989); the process of creating value by pulling together a unique package of resources to exploit an opportunity (Stevenson, et al., 1985).

Determinants of Entrepreneurship : The need to understand the determinants of entrepreneurship is as important as understanding its concept. The origins and determinants of entrepreneurship span a wide spectrum of theories and explanations (Brock and Evans, 1989; Carree, 1997; Carree, Van Stel, Thurik and Wennekers, 2002; Gavron,

Cowling, Holtham and Westall, 1998; OECD, 1998). However, it is generally accepted that policy measures can influence the level of entrepreneurship (Storey, 1994 and 1999; EZ, 1999).

Research analysing the determinants of the decision to start a new business has so far stressed the role of individual characteristics, access to capital and institutions. Social factors may also play a role in the decision to become an entrepreneur because, as shown by a growing literature, social interactions affect the payoffs from a variety of economic decisions (Giannetti and Simonov, 2003). A widely accepted view is the following: while personal characteristics as well as social aspects clearly play some role, entrepreneurship and entrepreneurs can also be developed through conscious action (Petrin, 1994).

Development of entrepreneurs and of entrepreneurship can be stimulated through a set of supporting institutions, and through deliberate innovative action which stimulates changes and fully supports capable individuals or groups. Therefore, policies and programmes designed specifically for entrepreneurship promotion can greatly affect the supply of entrepreneurs, and thus, indirectly represent an important source of entrepreneurship.

This view has important implications for entrepreneurship development in rural areas of Eritrea. If currently entrepreneurial activities in a given rural area are not thriving, it does not mean that entrepreneurship is something inherently alien to rural areas. While this feeling could have some legacy due to the slower pace of changes occurring in rural areas compared to urban ones, proper action can make a lot of difference with respect to entrepreneurial behaviour of people living in rural areas.

Role Played by Entrepreneurs in Rural Development : Entrepreneurial activity and new firm formation are unquestionably considered engines of economic growth and innovation (Baumol, 1990; Murphy, Shleifer and Vishny, 1991). As such, they are among the ultimate determinants of the large regional differences in economic performance. The importance of new firm formation for growth has been recognised since Schumpeter (1934). According to the Global Entrepreneurship Monitor Report (2000), about 70 per cent of an area's economic performance is dependent upon how entrepreneurial the area's economy is. Entrepreneurial orientation in rural areas is based on stimulating local entrepreneurial talent, and subsequent growth of indigenous companies. This, in turn, would create jobs, and add economic value to the country and the region as well, and at the same time it will keep scarce resources within the community. According to Petrin (1992), to accelerate economic development in rural areas, it is necessary to build up the critical mass of first generation entrepreneurs.

Studies conducted by Economic Commission for Latin America and Caribbean (ECLAC), and Food and Agricultural Organisation (FAO) in the Latin American and Caribbean region have indicated that rural enterprises can be an important modernising

agent for small agriculture. Governments have supported this process by creating incentives for agro-industry to invest in such regions. This has not only been attempted in developing countries, but it has also been a clear policy of the European Union (EU) which channels a large part of the total common budget to develop the backward and poor regions of Europe.

Lyson (1995) emphasises the prospects of small-enterprise framework as a possible rural development strategy for economically disadvantaged communities, and provides this description of the nature of small-scale flexibly specialised firms: "First, these businesses would provide products for local consumption that are not readily available in the mass market." Second, small-scale technically sophisticated enterprises would be able to fill the niche markets in the national economy that are too small for mass producers. Third, small, craft-based, flexibly specialised enterprises can alter production quickly to exploit the changing market conditions."

According to a study conducted in the United States, it has been found that the rural poverty has become as intense as that found in the inner cities, and has stubbornly resisted a variety of attempts at mitigation through economic development policies. The latest strategy for addressing this problem is the encouragement of emerging home-grown enterprises in rural communities. The expectation is that these new ventures-a) will provide jobs or at least self-employment; b) will remain in the areas where they were spawned as they grow; and c) will export their goods and services outside the community, attracting much-needed income (Lyons, 2002).

Gavian et al., (2002), in a study on the importance of SME development in rural employment in Egypt, have suggested that SMEs are traditionally thought of as well poised to respond to increased demand by creating jobs. It is important to stress here that rural entrepreneurship in its substance does not differ from entrepreneurship in urban areas. Entrepreneurship in rural areas is finding a unique blend of resources, either inside or outside of agriculture. The economic goals of an entrepreneur and the social goals of rural development are more strongly interlinked than in urban areas. For this reason entrepreneurship in rural areas is usually community based, has strong extended family linkages and a relatively large impact on a rural community.

Policy Implications for Rural Entrepreneurship

Studies have shown that SMEs in rural areas in the UK (particularly remote rural areas) have outperformed their urban counterparts in terms of employment growth (Keeble et al., 1992; Smallbone et al., 1993a). Behind each of the success stories of rural entrepreneurship there is usually some sort of institutional support. Lu Rongsen (1998), in a study in Western Sichuan highlights the important factors responsible for the rapid development of enterprises in the area. These include uniqueness of the products in so far as they are based on mountain-specific, local natural resources; development of infrastructure; strong and integrated policy support from government; and a

well-planned marketing strategy and link-up with larger companies and organisations for marketing nation-wide and abroad.

According to Petrin (1994), the creation of such an environment starts at the national level with the foundation policies for macro-economic stability and for well-defined property rights as well as international orientation. The policies and programmes targeted specifically to the development of entrepreneurship do not differ much with respect to location. In order to realise their entrepreneurial ideas or to grow and sustain in business, they all need access to capital, labour, markets, and good management skills. What differs is the availability of markets for other inputs.

The inputs into an entrepreneurial process capital, management, technology, buildings, communications and transportation infrastructure, distribution channels, and skilled labour, tend to be easier to find in urban areas. Professional advice is also hard to come by. Consequently, entrepreneurial behaviour, which is essentially the ability to spot unconventional market opportunities, is most lacking in those rural areas where it is most needed, i.e., where the scarcity of 'these other inputs' is the highest.

Rural entrepreneurship is more likely to flourish in those rural areas where the two approaches to rural development, the 'bottom-up' and the 'top-down', complement each other. The 'top-down' approach gains effectiveness when it is tailored to the local environment that it intends to support. The second prerequisite for the success of rural entrepreneurship, the 'bottom-up' approach, is that, ownership of the initiative remains in the hands of members of the local community. The regional development agencies that fit both criteria can contribute much to the rural development through entrepreneurship.

The National Spatial Strategy (NSS), the national planning framework for Ireland for the next 20 years (2002-2020), recognises the importance of making the most of cities, towns and rural places to bring a better spread of opportunities and a better quality of life. It advocates the following features as appropriate rural enterprise policy elements:

- 1) The nature of the enterprise encouraged to locate in rural areas must be appropriate to those areas in economic, social and environmental terms, e.g., location of overly large enterprises in rural areas should preferably be avoided;
- 2) Enterprise policies must be flexible to facilitate local circumstances rather than being rigid national ones;
- 3) Policy towards enterprise must involve features which go beyond the bounds of traditional enterprise policy, e.g., in relation to social infrastructure to attract and retain the necessary workforce;
- 4) Policies in relation to enterprise in rural areas and in smaller towns should be seen as an integrated package. There must also be flexibility in relation to how smaller towns' enterprise functions are perceived. These vary depending on the nature of the area;
- 5) Policy towards rural enterprises should

encompass all rural enterprise and not just traditionally grant-aidable manufacturing, i.e., in a rural context any rural enterprise is in principle equally desirable; 6) There is a need to focus on new rural enterprises other than tourism. There is a danger that an overly heavy burden in terms of expectations is being placed on the shoulders of rural tourism as the only viable alternative to farming; 7) There will need to be consistency and coordination regarding the choice of rural enterprise locations among the various bodies involved rather than each having its own unilaterally chosen list.

A study conducted by Smallbone and North (1997), reveals that firms that demonstrated the highest level of innovative behaviour were growing in terms of sales and also generating employment, although it is important to stress that the relationship between innovation and growth is an inter-dependent and mutually reinforcing one, rather than a simple cause and effect relationship.

Piore and Sabel(1984), in their book, "The Second Industrial Divide", outline a policy framework for small business development, which states that economic development is more likely to succeed if it takes place within a political context, where local communities actively nurture and support small-scale, industrially diverse, flexibly specialised enterprises. Within this context, small business development is one component of a comprehensive economic development strategy comprising both large-scale, mass- production enterprises and small-scale, flexibly specialised production units.

Organisation for Economic Cooperation and Development's (OECD) (1999) work on government policy for enterprise development advocates best practices in four broad areas related to SMEs. These practices are appropriate for both agro-industries and other rural enterprises. Specifically, OECD advocates facilitating:

- Efficient and unbiased financial markets for SMEs;
- A suitable business environment for SMEs;
- Education, training and the capability of SMEs to compete; and
- Access to information, networking and the global marketplace for SMEs.

To summarise, Petrin (1994) maintains that policy implications for rural entrepreneurship development can be: 1) Sound national economic policy with respect to agriculture, including recognition of the vital contribution of entrepreneurship to rural economic development; 2) Policies and special programmes for the development and channeling of entrepreneurial talent; 3) Entrepreneurial thinking about rural development, not only by farmers but also by everyone and every rural development organisation;

Problems Faced by Rural Entrepreneurs

According to a study by Tarling et al., (1993), in rural UK, a number of potential weaknesses in the competitiveness of rural firms, in particular certain aspects of the

operating environment and the firms' responses to them have become evident. In this respect, Vaessen and Keeble (1995), also point out that the external environment in the more remote rural areas particularly, presents challenges for SMEs, which they need to adapt to if they are to survive and grow. These include the limited scale and scope of local market opportunities which make it necessary for firms to be particularly active in developing non-local markets if they are to grow. Another aspect of the external environment in these remote rural areas is the labour market, in which relatively low wage levels in comparison with urban areas combined with qualitative characteristics of the rural labour force (e.g. loyalty to the firm) reduce the incentive for firms to invest in labour saving process innovations, particularly in the more craft-based sectors.

A further characteristic of the remote rural business environment is the lack of a local industrial and service milieu which means that there are fewer opportunities for firms to sub-contract out locally than in an urban context. From the point of view of innovation specifically, the low density of the business population results in a small number of potential collaborating firms locally, as well as more sparsely distributed research and development, educational institutions and business support providers compared with some other types of location. This raises questions about the extent to which the characteristics of remote rural environments constrain innovative activity in SMEs; another issue which concerns the implications of these features for the type of policy response that is likely to be effective.

The National Spatial Strategy of Ireland (2002) also indicates the following issues as key constraints in the development of rural enterprise in Ireland:

a) The issue of transport and accessibility in general, and of remoteness; b) The low skill base of many rural areas emerged as important; c) The lack of sufficient funding continues to be perceived as a major constraint; d) The low enterprise base in many rural areas is seen as a key issue, and there is a general feeling of being caught in a vicious circle where an existing lack of enterprise contributes to a low degree of enterprise potential; e) The absence of facilities and services both for enterprises and for their workforces emerged as important; f) Competition from larger centres was seen as crucial in a number of areas. In some cases, it was suggested that the proximity to such areas can to some extent be a disadvantage from this perspective; and g) Issues of planning and zoning were seen in some areas as significant as was the fact that it may be more difficult to obtain planning permission for certain types of enterprises in rural areas.

Smallbone and North (1997) in a study in rural England have identified the specific areas of support needs that rural SMEs require: marketing, process innovation, improving access to specialised training and assistance in the use of internet. Gavian et al (2002), in a study in Egypt point out that by continuing to provide supply-side

solutions without expanding the market for their products and services is highly unlikely to generate employment through expansion.

Figure 1: Problems Faced by Rural SMEs , and Suggested Initiatives

Problems	Suggested Initiatives
1	2
Technical Assistance: <ul style="list-style-type: none"> . High costs . Few support institutions 	<ul style="list-style-type: none"> . Preparation and training of national trainers / counsellors; . Application of successful experiences; . Promotion and development of institutions for support services of technical kind.
Entrepreneurial Attitude: <ul style="list-style-type: none"> . Tendency towards isolation . Lack of organisation and integration. Little willingness to undertake associative entrepreneurial projects 	<ul style="list-style-type: none"> . Entrepreneurial training and preparations; . Dissemination of successful associative experiences; . Support to, and cooperation with, existing business / entrepreneurial associations; . Training and preparation of enterprising young people.
Financing: <ul style="list-style-type: none"> . Limited access to financing, both for start-ups and expanding enterprises; . Lack of endorsement and guarantees 	<ul style="list-style-type: none"> . Association – grouping; . Assistance in establishment of credit schemes targeting SMEs (mutual guarantee schemes etc).
Policy and Enabling Environment: <ul style="list-style-type: none"> . Excessive regulations and formalities; . Political and economic instability 	<ul style="list-style-type: none"> . Identification of specific obstacles and bottlenecks; . Recommendations for change and improvement within these areas; . Adaptation and adjustment of legal framework.

(Contd.)

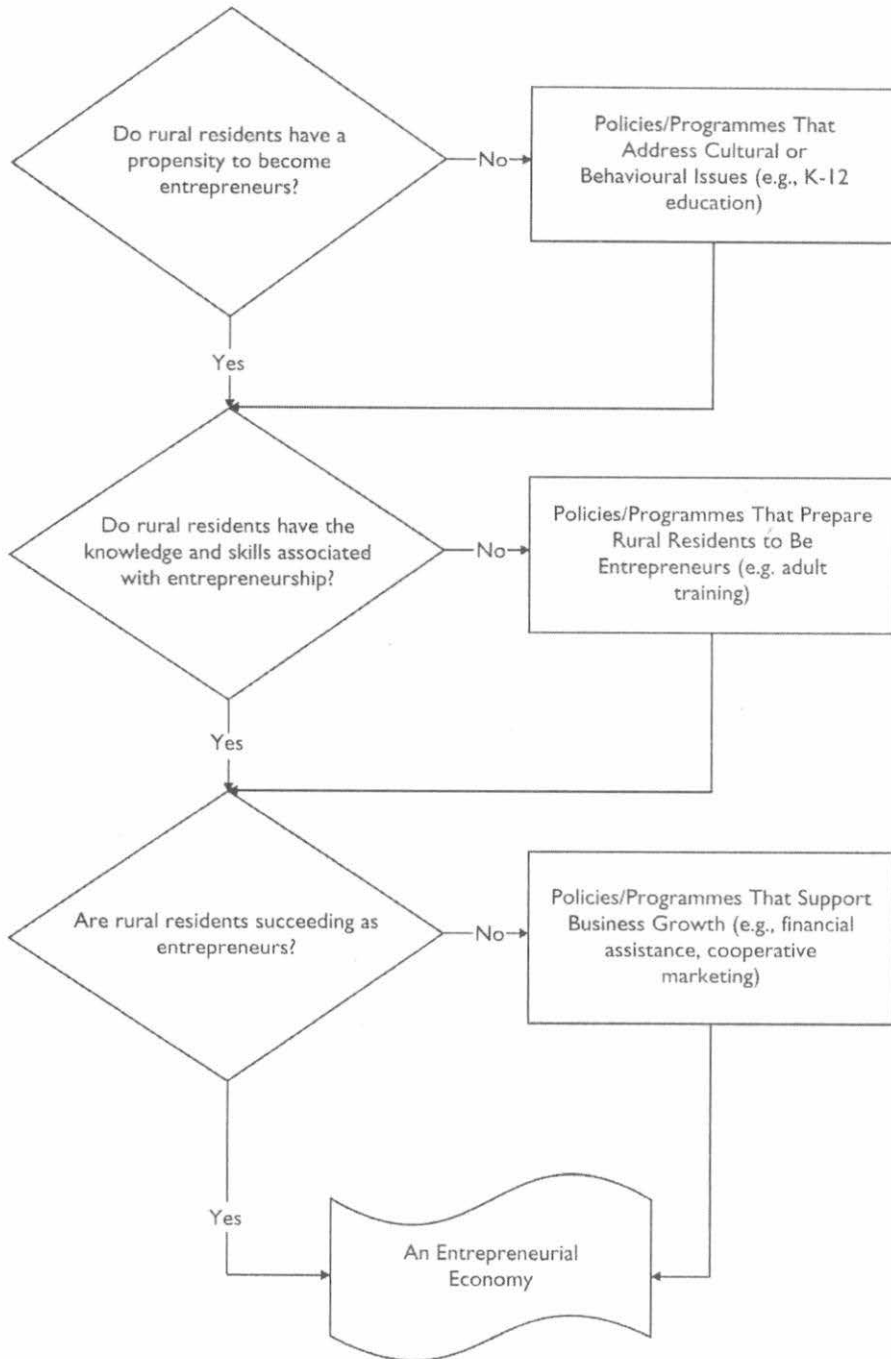
Figure 1 (Contd.)

1	2
Gender Imbalances:	
<ul style="list-style-type: none"> . Difficulties for women to start up businesses; . Difficulties for women entrepreneurs to get access to support and finance services 	<ul style="list-style-type: none"> . Entrepreneurial training and preparation; . Sharing of experiences and best practices for women entrepreneurs; . Assistance in establishment of micro credit schemes geared towards women.
Qualification of Human Resources:	
<ul style="list-style-type: none"> . Little specialisation and training; . Low level of productivity . Low valuation and encouragement to work 	<ul style="list-style-type: none"> . Skills training . Managerial training . Improvement of the work environment, organisational climate.
Market:	
<ul style="list-style-type: none"> . Low share in the domestic market and almost no share in external markets; . Problems in acquisition of inputs; . Lack of expertise in the area of domestic and external marketing; . Lack of insight into product differentiation and other competitiveness issues. 	<ul style="list-style-type: none"> . Entrepreneurial training and preparation; . Counselling and advisory services by qualified personnel; . Information links, regional and international networks; . Establishment of business / entrepreneur associations; . Vertical integration (possible labour specialisation)

Framework for Encouraging Rural Entrepreneurship

Jay Kayne with the Kauffman Foundation created the following figure during the Second Minnesota Academy working session in Rochester, Minnesota. This figure provides a general framework for encouraging rural entrepreneurship. In the final analysis, this framework provides the critical questions necessary for assessing the entrepreneurial opportunity in any rural place or state.

Framework for Encouraging Rural Entrepreneurship



Source : Jay Kayne, Kauffman Centre for Entrepreneurial Leadership, 2000

Rural Enterprise Development in Eritrea

Profile of the Country : Eritrea is one of the smallest countries in Africa with a population of approximately 4.3 million. It is located in the Horn of Africa, bordered in the North and West by Sudan, in the South by Ethiopia and Djibouti and in the East by the Red Sea. The modern history of Eritrea dates back to the period of colonisation, by Italy during more than 50 years (1890-1941) and later for about ten years under the administration of the Great Britain. Eritrea was federated with Ethiopia in 1952 by United Nations' resolution. During the period 1952-1962, the Ethiopian regime undermined the federation and ultimately annexed Eritrea as one of the provinces of Ethiopia without the United Nations taking action to defend its own resolution or the people of Eritrea. In 1961, an armed struggle for liberation began and lasted for thirty years. On 24 May 1991 the thirty-year war concluded with a victory of the Eritrean people. In May 1993, Eritrea declared its independence following an internationally supervised referendum.

It is found that the distribution of income is unequal, and 66.5 per cent of population live below the national poverty line. Its per capita income is \$ 230. It is to note that more than 75 per cent of people live in rural areas, and practise agriculture as their main occupation. Eritrean economy is not recovered yet from the shocks of border conflict with Ethiopia during 1998-2000. It is therefore, facing a number of challenges. These include: maintaining the macro-economic stability while providing better education and health, governance issues and gender inequality, high unemployment rates, the need to attract new investment, and adapt to the changing trade environment.

In line with this, there is a need to develop the rural entrepreneurship in the country and thus reconstruct the war-torn Eritrean economy (Rena, 2007b). The SMEs (Small and Medium Enterprises) in Eritrea are generally categorised as the firms with less than 100 employees. At present, Eritrea experiences, a lot of problems and hardships, and this is not just as an effect of the economic downturn due to the border war with Ethiopia. There are a number of bottlenecks, including serious under-capitalisation with difficulty in gaining access to bank credits and other financial markets; corruption and a lack of transparency; very high bureaucratic costs; but most damagingly, a seemingly lack of government interest in and support for the roles that SMEs play in national economic development and competitiveness (Rena, 2006a). There appears to be an inadequate level of awareness among the entrepreneurs about government policies that concern their businesses. However, most of the entrepreneurs think that changes are required to create a more conducive environment for their respective operations and to facilitate the growth of their enterprises.

Rural Entrepreneurship Development : As stated earlier, 75 per cent of the people live in rural areas and depend on agricultural sector for the food and employment. It is observed that the rural entrepreneurs start generating their own income, particularly

women are more empowered to make their own decisions. It can be argued that their economic empowerment is a basis for social empowerment as well. A significant number of women entrepreneurs who are engaged in growth-oriented and small enterprises are making use of the support, skills and assistance of the spouses, Society and the Government. It is observed that women entrepreneurs in both micro and small enterprises repeatedly referred to these largely marketing-based constraints. This implies that regardless of the scale of the enterprises, most women entrepreneurs seem to have common marketing problems. Further details from the survey would indicate that many of these problems emanate from their limited mobility and multiple responsibilities as homemakers and entrepreneurs. They cannot aggressively penetrate into market niches beyond their areas of operation because of the above reasons, and also this is compounded by their lack of marketing know-how. They are often unable to afford to have market research conducted in their areas of business due to limited resources. Cultural and social class issues also impinge upon their entrepreneurial behaviour, such that they may shy away from processes that involve "aggressive" sales and marketing activities.

It is also observed that most of the women running small enterprises in Eritrea cannot access bank credit because of lack of fixed assets to offer as collateral. Some of them were able to get a bank loan as they were able to use theirs or their parents' fixed assets as loan security. Even those who have accessed credit complained that the terms and conditions of the loans were not favourable for the type of their enterprises.

The entrepreneurs in micro and small enterprises are trying to use significant portions of their profits for expanding their enterprises, and others have been borrowing from the informal sector. Borrowing from the informal sector is only a short-term solution because such loans cannot finance the sort of long-term investments that are required to develop and grow their enterprises. This situation will tend to constrain the rural entrepreneurs' abilities to grow their businesses. Business strategies of expansion, diversification and maintaining market share all require sources of funds, and yet the women entrepreneurs have to rely primarily on their own resources and the profits from their enterprises. Clearly this situation provides both an opportunity and a challenge for support agencies to be able to offer suitable loan products to rural entrepreneurs engaged in both micro and small enterprise undertakings. The rural entrepreneurs are engaged in services, trade, and production of handicrafts.

Although, savings are one of the means of accumulation of capital, many rural entrepreneurs reported that savings alone were not always sufficient for running and expanding their business operations because of the high inflation in the country due to the border war with Ethiopia. The growth of the enterprises can be restricted due to a lack of finance for working capital and for long-term capital investments. The rural entrepreneurs found it very difficult to access credit from the banks due to the requirements of the banks, such as the collateral, the expected level of contribution

from the rural entrepreneurs themselves, and from MFIs due to the low loan ceiling, and the inconvenient lending and repayment arrangements. The majority of women entrepreneurs have experienced difficulties in finding and acquiring land and premises for production or provision of services, as well as for selling purposes. Most run their businesses from rented premises, but the relatively high rents pose critical problems for them and can hinder their expansion and diversification.

The vast majority of entrepreneurs, particularly women, market their products and service to their local markets, which for most means a limited market access. Very few of the small-scale and growth-oriented enterprises sell at regional markets. This shows that there is limited exploration of market development into new markets, which should bring better price advantages. Because of these reasons, many of the women entrepreneurs are engaged in stiff competition with one another for the same small local markets, and this inevitably results in lower returns all round. The potential for market development is also limited since many of the women are engaged in similar types of businesses. Many of these business sectors are traditionally dominated by women for historical and socio-cultural reasons. The mobility of some of the women entrepreneurs is also restricted by family responsibilities and cultural barriers, and this contrives to limit their access to wider markets. Most of the women entrepreneurs sell their products directly to consumers, and few markets through intermediaries such as wholesalers. The limited linkages between the women micro-entrepreneurs and the medium and large businesses also mean that their opportunities are limited for networking and growth (Rena, 2006a).

Women entrepreneurs use a narrow range of promotional methods with the majority using word of mouth and signboards to advertise their products/services. Advertising, using exhibitions, distributing flyers and business cards are not well used by the women entrepreneurs. Once again, this is partly due to their lack of promotional know-how and partly their lack of resources. Many women entrepreneurs lack access to adequate business development services. The reasons indicated for this are: a low level of awareness about service providers, and some women entrepreneurs themselves are not accustomed to seeking and obtaining such support services. There also seems to be only a limited range of services available that are tailored to the specific needs of women entrepreneurs.

Challenges for Rural Enterprise Development in Eritrea :

- 1] The bureaucracy of government regulations and red tape, the largely negative attitudes towards business, and the overall lack of transparency prevent the development of a real public-private partnership for business.
- 2] There are great differences between the laws and customary practices as regards gender equality in society, and this impacts negatively on the operations and effectiveness of women entrepreneurs.

3] The licensing procedures relating to business are overly bureaucratic, and obtaining accessible information about new laws and legislation in a timely manner is a major inhibitor for business development.

4] Attitudes to business owners, including women entrepreneurs, are in general negative in so far as they are seen as being unethical.

5] Rural entrepreneurs' associations need to be supported to be more representative, member-based, open and effective. There is a need for better networking within and between different business associations.

6] The informal economy needs to be recognised in some way. It is a dominant sector in the Eritrean economy and employs many poor people, especially women. Poor working conditions and little income security for those engaged in the informal economy makes them very vulnerable.

Threats in the Rural Entrepreneurship Development :

1] Efforts to enhance the rural entrepreneurship development in Eritrea have been hampered by high magnitude and occurrence of natural disasters (drought and famines) in the context of global climate change; 2] The spread of HIV/AIDS constitutes a major threat where more than 3 per cent of the people are affected by the disease. The FAO has estimated that in the 25 most-affected African countries, AIDS has killed seven million agricultural workers since 1985. It could kill 16 million more within the next 20 years. More people living with HIV reside in rural areas engage in the rural entrepreneurship too; 3] The border conflict with Ethiopia (1998-2008) and escalating tensions since 2000 till 2007. The border has not been demarcated between these two countries. This constitutes a big threat to the rural development and poverty reduction, food security and rural sustainable development in the country; 4] Insufficiency of investment, funding is not in harmony with the economic importance of agriculture and rural economy in Eritrea; and 5] Lack of necessary environment for private sector participation, weak sustainability of development programmes, projects and networks beyond donor support and the paucity of Public-Private Partnership in conducting the development activities in the country leave the rural sector destitute (Rena, 2006b).

Implications for Rural Entrepreneurship Development : Despite the Government efforts in mitigating the threats and improving the rural entrepreneurship with the Small and Micro Finance Programme (SMCP), the problems remain high. Hence, Eritrea has a long way to go in developing the rural enterprises like India and Bangladesh. The Government of Eritrea should give special emphasis to the allocation of land and premises to the entrepreneurs at reasonable rates. Improve the entrepreneurs' access to resources by, for example, encouraging associations of the entrepreneurs to help their members to access Business Development Services (BDS) through referral systems. The Government should take the lead in a number of initiatives aimed at

changing the attitudes of society towards the rural entrepreneurs and creating a more positive and constructive environment for their expansion and growth.

In line with this, there is a need to strengthen the capacities of Micro Finance Institutions (MFIs) like the SMCP, in order that they are better able to: (i) Extend their activities to more rural areas of the country; (ii) Improve the coverage of their services across the country; (iii) Improve their products and lending services to meet the needs of growth-oriented; (iv) Business entrepreneurs by providing larger loans and longer repayment periods; and (v) Review interest rates with a view to offering variable rates based on business needs.

As the informal economy is largely dominated by the rural population in the country, it is important that steps are taken by the Government and BDS providers to improve their economic and social protection position by: (i) Providing some form of 'official' recognition to informal workers to protect them from harassment and provide basic forms of social protection; (ii) Providing financial and non-financial support to rural entrepreneurs in the informal economy so that they can more easily access and navigate the steps involved in formalising their businesses; (iii) Special efforts should be made to improve partnerships between all actors who influence the socio-economic environment for the rural entrepreneurs; (iv) There is a need to promote and support the practice of good governance by all, in Government, business and non-government organisations. There is a need to highlight and reward positive, honest and transparent practices wherever and whenever they occur; (v) There is a need to promote gender equality in enterprise development; (vi) Develop rural entrepreneurs' voice through advocacy and lobbying; (vii) The rural entrepreneurs need to be supported and profiled in exercising their rights; and (viii) There is a need to promote and support the practice of good governance by all, in government, business and non-government organisations.

Besides, to encourage the spirit of enterprise positively among Eritrean young people, Eritrean Institute of Technology and other institutions of higher learning must be encouraged to become more commercially focused, and more entrepreneurial. In line with this, the College of Business and Economics (CBE) - Hal hale has to introduce many entrepreneurship development and business development programmes. It is very important that they should be encouraged to develop more ties with local businesses, and hold more business related activities on the campus. Students of CBE should be encouraged to take business studies modules as part of their main courses. This will help develop the interest in business, and provide the basic understanding of what to expect when going into business. The knowledge gained will help provide students with a ready option when they graduate, rather than wasting their time looking for the jobs that are not available. This will ultimately help to reduce the pool of unemployed young people in the country (Rena, 2007a).

It is important to establish a Small Business Development Bank (SBDB) in Eritrea to concentrate solely on the funding of indigenous businesses, and thus promote entrepreneurship. The SBDB will help to combat the problem of under-capitalisation, by providing the necessary, cost-effective, and easily accessible funding for businesses.

Lastly, it should not be the sole role of the Government to provide financial assistance to businesses in Eritrea. The government has to seriously look into how it can encourage the growth of equity funding in Eritrea. Largely practised in both the US and the UK, equity funding can help provide the necessary funds for large scale growth and development of Eritrea. Equity funding, or venture capital as it is widely known, has been the secret behind the growth of Silicon Valley, and the mass number of fast growing high technology companies that abound there. With the high number of Eritrean Diaspora (about one million) originating from Eritrea, the government has to find a way of encouraging them to invest their wealth in small up-coming businesses, thereby helping them and the country to grow and prosper.

It is observed that the main problem in Eritrea's economic development is a relatively low industrial resource base including the shortage of indigenous entrepreneurs. As stated earlier, more than 75 per cent of Eritrean population live in villages, it makes it all the more necessary to make an earnest attempt to create an environment and supporting policies which will aid in the development of rural entrepreneurs in the country (Rena,2006a). It is found that the growth potentials of Eritrea are in the agricultural sector, including agro-industrial activities, as well as in tourism and mining. The country's ecological conditions are ideal for growing a wide range of crops and diversifying commercial and traditional agriculture into high value horticultural crops, which have linkages with agro-industrial activities. Given Eritrea's pleasant and varied landscape, tourism prospects are extremely buoyant, and as yet under-exploited. There are also several opportunities for growth in the mineral sector. Keeping the positive factors in mind, the dawn of Eritrea's rural economy lies in the hands of its entrepreneurs (Rena, 2006b).

However, there are a few factors which are acting as constraints to rural development in the country. The Ministry of Trade and Industry (1998) asserts that these include inadequate access to development finance for investment; inadequate access to markets; and, there is currently no agricultural policy that would harmonise marketing, supply of inputs and extension services. A further constraint is the lack of knowledge and self-confidence of the people in rural communities due to limited experience and lack of education. People who have never been given a chance often have difficulties responding when all too rare opportunities arise. The Government of Eritrea realises that lack of knowledge and self-confidence is a very serious constraint to development, and should come up with a national training plan and support infrastructure. Yet another constraint faced by the country is to move away from the notion of

poverty alleviation to wealth creation. Wealth creation on the other hand leads to a focus on business and ownership, a proven combination in today's world.

To sum up in the words of Jaya Prakash Narayan (1962), "Rural industrialisation would have to be based on two factors: (a) Local resources, both human and material, (b) and local needs. 'Local' does not mean a single village; it might mean a village, a group of villages, a block or a district - depending on the nature of the industry and the technology used. There are to be no pre-conceived limitations or inhibitions of a doctrinaire or sentimental type in regard to such matters as the use of power and technology. The aim and total long-term effect of rural industrialisation should be to convert the present lopsided purely agricultural communities into balanced agro-industrial communities."

Conclusion

In the last three decades, there are many changes manifested in the rural economies all over the World. Rural enterprises are important generators of employment and economic growth internationally. It is important to stress that rural entrepreneurship in its substance does not differ from entrepreneurship in urban areas. Entrepreneurship in rural areas is finding a unique blend of resources, either inside or outside of agriculture.

This paper has attempted to understand the role played by rural enterprises in economic development and how governing bodies can help to foster its growth. The promotion of entrepreneurship and the understanding where entrepreneurship comes from is as equally important as understanding the concept of entrepreneurship. The environment which is considered most favourable for their growth forms the basis for the development of policies for entrepreneurship development. Policy implications for rural entrepreneurship development in Eritrea can be summarised as: (a) Sound national economic policy with respect to agriculture, including recognition of the vital contribution of entrepreneurship to rural economic development; (b) Policies and special programmes for the development and channeling of entrepreneurial talent; (c) Entrepreneurial thinking about rural development, not only by farmers but also by everyone and every rural development organisation; and (d) institutions supporting the development of rural entrepreneurship as well as strategic development alliances.

However, despite their phenomenal growth, rural enterprises have many common constraints to their development. The Governments and donors can help address these constraints by facilitating efficient and unbiased financial markets; a suitable business environment; education, training, and competitive capacity; and access to information, networks and the global market place. To conclude, the paper has also pointed out the importance of rural enterprises in the development of the economy of Eritrea.

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