

EXPLORING THE CONSTRAINTS OF RURAL ENTERPRISE DEVELOPMENT AND POVERTY REDUCTION IN GHANA

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Abstract

The objective of our study is to identify the most relevant factors limiting the poverty reduction and growth potentials of rural micro and small scale enterprises (MSE) in the Northern region of Ghana. For that purpose, we profile the main characteristics of MSEs by means of literature review, focus group discussions (FGD), and personal interviews of key informants. The insight gained from this qualitative research is supported by quantitative data collected by means of a structured questionnaire designed for the local actors in the MSE sector.

The study covered six districts in the northern region. Generally, the study indicates that several constraints related to vocational training, management and lack of access to larger distribution networks and technology hamper the path of rural enterprise development and poverty reduction in rural Northern Ghana.

Policy makers, development planners and business development organisations play a major role in helping the region to overcome these obstacles by designing the appropriate incentive packages, training and financial support for rural small-scale enterprises development.

Key words: Rural small businesses, Enterprise development, Poverty reduction Northern Ghana

1 Introduction

Promotion and development of rural Micro Small Enterprise's (MSE's) as drivers for improved welfare and livelihoods of people is not a new concept in Ghana (GPRS II, 2005). Small business enterprises (defined as independent enterprises, which control relatively small share of the market and usually managed and operated by an individual or family) have always contributed to economic development of many nations including advanced economies. Rural MSE's ensure that, local economic growth through support for local employment creation and income generation, poverty reduction and wealth creation are attainable. The import of this is crucial in a developing nation like Ghana where over 60% of the population reside, operate and eke out a living from such small businesses. It is

estimated that about 69% of the country's population are employed in the MSE sector and majority of these are located in rural areas (GSS, 2002). Thus the sector provides employment for a considerable number of people in rural areas. However, despite this recognition and its significance for local and national economic development, research has not investigated systematically, the real strengths and weaknesses of these rural enterprises, at least in Northern Ghana where poverty is very high (GSS, 2007).

Unlike urban enterprises, rural small businesses are usually diverse and socio-culturally embedded. They mostly employ locally available resources to produce their products, without having to spend so much on production. These characteristics give rural enterprises relative edge over their urban counterparts. These features of rural enterprises may help protect such businesses located in rural areas against any unforeseen social unrest, disintegration, and economic downturn. It will also help restrict over reliance of rural enterprises on expensive raw materials imported from both urban centres and other countries. Since the opportunities and constraints facing these businesses differ from larger and/or more urban enterprises, government's support to rural enterprises should, as a matter of necessity not overlook the contexts within which rural enterprises operate.

Provisions of an enabling policy environment that ensure that gains from such enterprises do not fritter away, is essential. The study was designed to profile the characteristics of rural business enterprises (both existing and potential) as a way of exposing their strengths and weaknesses and how these are and can be addressed effectively. The implications for practice and policy as well as some recommendation of how to give a fillip to the sector were also discussed.

1.2 Poverty and rural enterprises development

In Ghana, poverty is primarily rural, with the northern regions recording the highest incidence of poverty in the country (GSS, 2007). Low agriculture productivity, undeveloped markets and lack of gainful wage employment opportunities as well as restrictive access of the less endowed to productive resources have been iden-

tified as the major causes of poverty in the three Northern regions of Ghana (GPRS II, 2005). In the quest to find answers to the myriad of challenges facing the rural poor, government has taken steps to ensure that the rural person, particularly its entrepreneurs are adequately empowered. Empowering these entrepreneurs gives them the right to acquire the capabilities that ensure their right or freedom to choose the life they wish to have (Sen, 1999).

Studies have shown that rural small-scale enterprises (businesses) stand a better chance of benefiting from the readily available local raw material deposits (Ravinder, 2007) in the regions and communities. The World Bank, (WB, 2004), has indicated that harnessing the human agency, market support institutions and 'crude' entrepreneurial skills of rural entrepreneurs should be major intervention strategies to fast track the rural enterprise development agenda in developing countries. Rural development is therefore linked to entrepreneurship, which among others may take the form of diversifying from mainstream agriculture production to non-agriculture enterprises such as agro-processing, blacksmithing, local restaurant or catering, carpentry, pottery and/or the discovery of new products or service markets within and outside the local communities.

The challenge for government however, is how to encourage local capacity building, particularly in rural areas where most of these businesses are located (GSS, 2000).

1.3 The resurgence of small scale enterprises in Ghana

Until the 1970's, governments pursued policies which, in principal aimed at encouraging large scale business enterprise development (Asante et. al 2002). It was presumed at the time, that successes of large scale urban businesses could transform rural economies through a spill over effect of urban industrial revolution. Economic, industrial and employment policies therefore focused heavily on the corporate sector and state led imports (Frempong, 2003). In the 1970's there was a shift in focus in favour of small scale private sector development (Buame, 1996). Some policy initiatives embarked on by government to resuscitate the numerous but poorly functioning small scale enterprises for income generation, poverty reduction and sustainable development included, the provision of roads, electricity and telephony infrastructure for domestic and commercial uses, good drinking water and sanitation facilities, markets, human resource development facilities as well as strengthening financial institutions and empowerment training programmes in the communities.

The latest of these policy initiatives is the introduction of structural adjustment programme (SAP) and its market liberalization policies in the 1980's and 1990's. These have had major impetus on local industries development. In spite of these programmes, poverty still continues to loom in the countryside. The question that remains in the public is whether existing and emerging small scale enterprises in the private sector have the

needed capacities, regarding the creation of employment and generation of income to ensure Ghana's economic growth and poverty reduction (GoG, 2002).

1.4 The challenge of building local enterprise capacities

Building successful local entrepreneurial capacities for accelerated poverty reduction and economic growth is crucial. Though government is making some efforts, to resuscitate the SME sector in Ghana, these are not without challenges. Lack of localised efforts to build capacities has been adduced to two main factor; firstly, lack of adequate access to infrastructure such as markets, business service provision and financial institutions that have the capacity to sustain programmes of entrepreneurial development and, secondly, lack of adequate business competences and acumen including the management of funds, records, human and other material resources which are crucial for the sustainability and growth of businesses. Other issues that limit the potential of building successful enterprises is the remoteness of rural communities which often disadvantages them in terms of access to business capital, services and clientele markets.

Road networks are either non-existent or poorly developed if not invisible in rural areas. Though some efforts have been made to address this deficiency, more is expected of the government. Rural enterprises fall in different categories, crafters, farmers, fishermen, traders, artisans, youth, middle aged, full time and part time to mention a few. Each of these groupings has different skills, motivations, opportunities and constraints. These must be identified and streamlined in a holistic manner. Market opportunities are crucial but underdeveloped in Ghana.

Storey (1994; 1999) suggested three key areas for developing successful small businesses or enterprises. These include the qualities of the entrepreneur, characteristics of the firm and strategies adopted by the entrepreneur to raise output and grow the business. Although some efforts are been made by the existing small business development institutions such as National Board for Small Scale Institutions (NBSSI), Rural Enterprises Project (REP) and GRATIS foundation, some areas of business development that need serious government attention are the development of efficient and effective financial delivery systems, infrastructure support facilities, entrepreneurial education and training at all levels, adherence to effective marketing strategies and reliable business networking. An important first step to developing such capacities and the concern of this paper is to profile the characteristics of rural micro and small scale enterprises (SME) in the northern regions, with the view of identifying the factors that may limit rural enterprises potential for poverty reduction and economic development of rural areas.

2 Methodology

The study started with a period of two weeks questionnaire pre-testing in some rural communities in the

Greater Accra Region. The survey was carried out and completed in 2008, between the months of March and July. While the region was purposively chosen based on the higher rate of poverty, presence of various non-governmental (NGO's) and governmental (GO's) and the visible presence of but yet untapped abundant natural and human resources, the six districts were chosen randomly from the list of district from the regional administrations sources. The study employed three data collection instruments, participatory focus group discussion (FGD), key informant interviews and questionnaire administration. These three were chosen for the purposes of triangulation. These are sure to provide reliable data and therefore conclusion which might be drawn from the study (Creswell, 2003). The latter was included mainly to capture information about business characteristics, asset distribution and quantitative relationships between business resources and their poverty positions of entrepreneurs. Fundamentally, the use of the two methods was aimed at getting profound insights into challenges of rural MSE's in Ghana both in quantitative and qualitative terms.

The main source of secondary data was collected from the some officials in the Ministries, Departments and Agencies (MDA's) in the districts and regional officers through key informant interviews employing structured questionnaires. Data collected included information on population, vegetation, climate and other socio-economic conditions of the area.

The questionnaire survey contained both open and close-ended questions. It was used to elicit information on existing and potential businesses in the region, cost of production as well as pertinent problems encountered by entrepreneurs in their day to day business activities. The study surveyed six villages and within each, the simple random technique was used to sample entrepreneurs. Though the original language of the questionnaire was English, the questionnaire was administered in the dialects of the people for effective understanding and also to ensure that the right kind of information for the study was gathered. Information was collected from 950 small scale entrepreneurs, most of whom were women. This gives us an estimated response rate of about 82%.

One participatory FGD each was held in every district selected for the study. The people were grouped based on the type of enterprises which was considered as their primary occupation. The FGD also sought to collect qualitative data from real life experiences of entrepreneurs. Questions mainly focused on the nature and availability of raw materials, level of technology use, innovations, infrastructure development as well as business financing, training and marketing issues. Though the study was not designed on strict gender lines, the investigator separated man and women during the FGD due to the sensitive nature of gender in the area of study. Others included the major binding constraints that hinder the development of businesses in the districts. The key people that were interviewed

involved some opinion leaders (6); assemblymen (6), local and regional officers of business support agencies (4), NGO's (4) and politicians in the districts (2). These were selected based on their positions in their respective organization or case communities.

3.1 Results of Study and Discussions

3.2 Characteristics of Entrepreneurs

Though the services sector had more females than men, the study survey revealed that male entrepreneurs dominated most of the enterprises surveyed; about three-quarters of the sampled entrepreneurs were male. Majority (72.0%) of respondents were married. The average number of children per parent was 3. Levels of formal classroom education were quite low; about 16.2% of respondents had received education up to high school (secondary, technical, vocational) level. In corroborating Baah-Nuako's work in Accra, Ghana (Baah-Nuako 1991), the study confirmed that the majority of self-employed managers in Ghana have less of formal education. Despite the few years of formal education, a considerable number (79.4%) of them however, managed to go through apprenticeship training, a typical way of acquiring skills in trade in Ghana. A significant majority (73.7%) of entrepreneurs were within the youthful age of 20 and 35 years old. About a third (34.4%) of entrepreneurs had twenty or more years of working experience.

3 Business Enterprises and their Resources

To explore the characteristics of small scale businesses in the districts, several questions were related to motivations, business categories, ownership, enterprise management capacity and networks. The entrepreneurs were asked to state their motivation for starting a business. The quest of becoming independent or owning a business was cited by a large proportion (78%) of entrepreneurs. Other reasons include the desire to turn past experiences or hobbies into income generating activities for financial gains, self managing entrepreneurs, independence, and seizing the opportunity to supply what in their estimation would be needed by the society. Other reason was the fact that they needed to do something that will support their incomes from small scale farming. Majority (86.2%) of respondents identify themselves as sole proprietors; businesses were small, started and managed by owners. About 12.6% were in partnership while only 1.1% owned limited liability companies. The trend was not different from national statistics. Nationally, sole proprietorship tops the list of registered companies, followed by limited liability companies and partnership (personal interview).

Though the Registrar Generals Department (RGD) is the main body recognised by the country's law, to register companies, the study revealed that only few businesses (6.2%), registered with RGD. The absence of RGD offices in the regions may have contributed to the low registration of businesses with the main body in charge of business registration. Though most entrepreneurs saw the need for such business networks and the benefits they could derive from it, the study revealed that business networks were uncommon among entrepreneurs. Only

3.5% of entrepreneurs had contacts outside the region. While none of the entrepreneurs had a foreign contact, 14.5% of entrepreneurs belonged to networks within the area (town and/or village) where the businesses are set up. What comes close to business network was local association membership. Only about 5.8% were found to be active members of such associations. The few and simple network could explain why most rural entrepreneurs are poor (Granovetter, 1973).

Majority (62.5%) of enterprises were found in the services sector. The few (10.0%) who were into agro processing, mainly groundnut oil and shea butter extraction, *pito* (a local beer) brewing and *kulikuli* (a local groundnut cake) preparations were mainly above 60 years old. The youth were mainly engaged in the services sector as tailors, dressmakers and caterers. The middle aged entrepreneurs however, were found to have spread themselves among all sectors of the rural economy. Could the dominance of the youth in the services sector be attributed to a positive response of people to government's policy of encouraging self-employment or a mere move away from traditional rural enterprises, predominantly oil extraction? These questions are addressed in forthcoming chapters.

The number of entrepreneurs in the trading sector, 'buying and selling' as its commonly called in Ghana, was also found to be high. Though a risk taking venture, the business of 'buying and selling' was said to be much more rewarding and hence the involvement of many people (both men and women). Non traditional income generation activities such as Bee keeping, Rabbit and Grasscutter (a micro ruminant) farming were emerging in the districts. A total of 24.5% of entrepreneurs in the rural localities surveyed were involved in the rearing of the micro ruminants and bee keeping. Surprisingly, despite the availability of abundant raw materials for traditional arts and crafts, those into wood carving, basket weaving and clay pottery were marginally (5.7%) represented.

3.4 Assets of Business Enterprises

The study revealed that though both locally made and imported equipment were used by entrepreneurs, about half of respondents claimed they used locally made equipments and machines in their operations. More than 80.0% of these respondents owned the capital equipment such as lathe and sowing machines, used in their operations. The rest rented such machines from other people within the villages or district. Arrangement for capital equipment use was easy. Arrangements ranged from hiring, leasing, and free holding. The use of locally made machines and equipment was common; the two-thirds of entrepreneurs who usually use locally made capital equipment and/or tools, did so because of the ease of access to spare parts. Although most of these tools and equipment were mainly produced by the local people in the communities, some others are imported from the urban centres. The latter are mainly imported from other countries. Spare parts for imported machines and equipment are also available but, expensive according to the respondents. The respondents clearly indicated their preferences for the imported parts, tools and equipment except for the prices which compels

them to go in for the locally produced items which according to them are often of an inferior quality.

Market information and intelligence were shared through the various identified business networks. Access to market information heavily depended on social relations among people and the membership of business and social associations. This was mainly evident among the tailors and dressmakers associations. It was indicated that leaders or friends and relatives who returned from the 'big towns' always brought some information which was made available, first hand to members of association. However, non association members could only access such business information from their relatives or friends who belonged to the association.

The study revealed that although entrepreneurs employed all forms of labour, the distribution of labour type varied greatly. While some worked for wages others earned nothing for their labour. A significant number of respondents employed on the average a total number of family labour (11), graduate apprentices (7) and apprentices (15), who were mostly not on salary or any wage. On the average, both full time employees (those receiving wages) and part time workers (usually called work and pay staff, as it is known in the services sector) recorded 3 employees each per business entity. Majority of these people are either relatives or friends or their children.

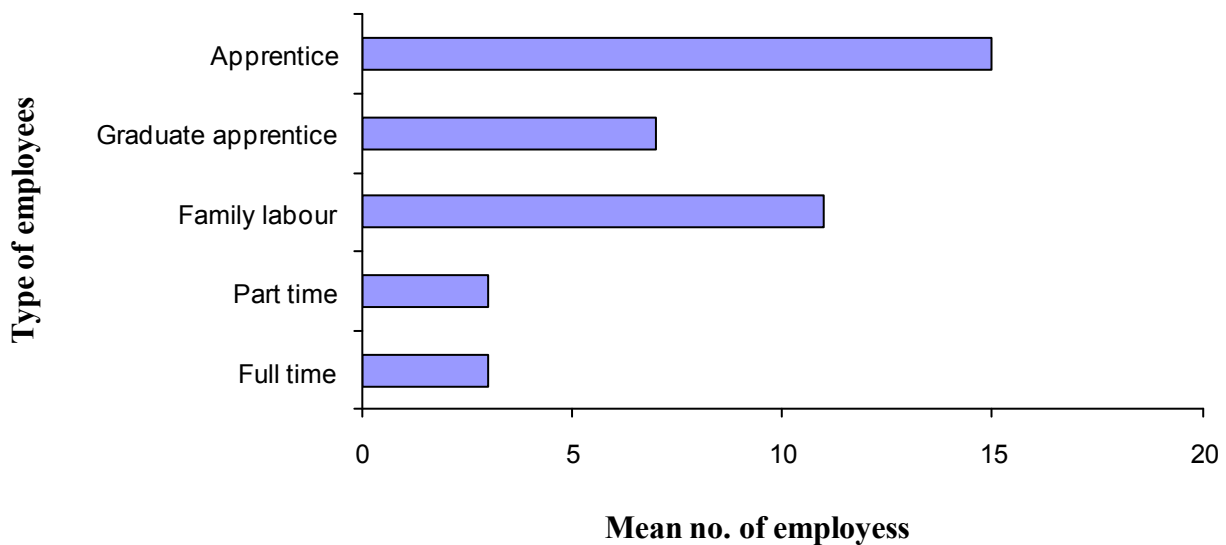
This corroborates Van Dijk (1997) assertion that though relations, particularly ethnicity could limit the success of businesses, it offers relatives access to jobs in the construction companies in Accra, Ghana. Unlike urban entrepreneurs, most rural entrepreneurs employ their relatives and friends or their children in their businesses.

3.5 Marketing, Management and Financing Arrangements

Two issues of importance to the success and survival of any business entity, particularly small scale businesses are access to markets and/or costs of credit. Though entrepreneurs had ready market for their products, the difficulty of getting prompt payments for goods supplied and/or services offered restricts the desire to increase production capacities. The study indicated that products were sold in and outside the districts though a large proportion of clients resided in the villages where the products were produced and a considerable number of entrepreneurs (89.7%) sold their products in the main market or by the roadside.

About 2.3% of the entrepreneurs used Commission agents and Wholesalers to distribute their products. Participation in trade shows or cooperate marketing arrangements among entrepreneurs was conspicuously uncommon; individual business entities employed different marketing strategies to distribute products but none ever used marketing research in their production decisions. As typical of such busi-

Fig 1 Type and level of employees



nesses, particularly in Africa, entrepreneurs produced and sold whatever they had to offer and not really what customers wanted. Business activity is purely production and not market oriented. The main tool of product advertisement was by word of mouth. As one woman said 'if you serve a customer well he/she will not only come back but bring other customers'. The presence of local radio station (FM's) adverts did not appeal to entrepreneurs due to costs which they complain their profits could not support. Hawking or displaying products at strategic locations in the market were also significant in advertisement.

The study revealed that rural entrepreneurs access credit from different sources (formal and informal). Informal sources included money lenders, friends and relatives. The main source of financing was through personal savings (53%). This confirms the observation made by Tetteh and Frempong, (2009) in a similar study in some districts of Ghana. Personal savings as a source of financing entrepreneurial activities was followed by friends and relatives (23%), middlemen (6%) and private organizations such as non governmental organizations (17%) operating in the districts. The above sources were described by respondents as the most preferred and reliable sources of finance when compared to formal banks. If the aphorism 'poor no friend' is true then the poorest among entrepreneurs will always find it difficult if not impossible, to access credit in the community for their farming operations. This may be due to the poor penetration in rural areas, of the numerous micro credit schemes operating in the country.

Formal institutions farmers sourced included Banks (rural and commercial) and some registered credit unions which were also located in the area of study. The study indicates that less than 2% of entrepreneurs claimed they took loans from the banks. Traditionally, high interest rates, lack of collaterals and cumbersome

banking procedures have always remain major challenges that deter small scale entrepreneurs from borrowing from formal financial institutions. High interest rates and stringent conditions attached to informal credits such as the demand for large collaterals and payment schedules were observed to be different for the various categories of entrepreneurs. Women and men for example took money under different conditions, with considerable number of the men been the most successful. Also people of higher standards in the communities had a better chance of accessing loans since they were classified as credit worthy. The situation also posed some difficulties, frustrated and deterred business expansions. The poorest among the poor often suffered from such discrimination.

Terms and conditions of lending were flexible and affordable, allowing entrepreneurs to pay back loans contracted with less difficulty and/or harassments. *Susu*, a form of revolving fund (*an informal financial system where people contribute fixed amounts of money to the Susu collector daily. The amount payable is the sole decision of the contributor. The total amount of money contributed is collected at the end of a stated period*), which is ubiquitous in both rural and urban areas of Ghana, was another source of funding explored by entrepreneurs to mobilise money for their operations, though it was the least patronised source of business fund in the study area for obvious reasons-mistrust.

On the question of savings, 23% claimed they kept their moneys in their homes, while another 32% saved with the Rural Banks located in their vicinities. Rather than saving moneys with the banks or in their homes or with relatives, some respondents (15%) claimed they join some revolving fund groups operating in the communities. These moneys they collect with no interest at the end of a period as agreed upon at the beginning of

the contribution period. Others (18%) also have joined the Susu collectors (both formal and informal) in the communities. Lack of basic understanding of the operations of formal banks, less than enough profit and mistrust in Bank officials contributed to the poor attitude of formal institutional savings in the communities. As one woman puts it, 'I do not save with the Bank because I do not trust the banks. I am my own bank. They use our monies to enrich themselves by buying and driving big cars'.

4. Conclusion

It was realised that the majority of rural small businesses were indeed small in terms of size, owned by individuals as sole proprietors and used mainly manual labour, employed less than ten non waged employees and operated below capacity due to low level of technological improvements. Enterprises used less advanced technologies and innovations and lacked adequate capital for expansion. Effective management, regarding planning, sourcing and organizing human, financial and marketing resources for higher profits was inadequate. In such circumstances the rural entrepreneur had no other choice than to make do with what was available.

It has been recognised that when public and formal institutions fail to deliver efficiently, informal institutions thrive. The characteristic underdeveloped labour, output and financial markets in the study area was therefore not a surprise. Although informal sector institutions and arrangements are said to be inefficient and could disadvantage entrepreneurs and therefore businesses, most entrepreneurs in the area, still relied on them for access, production and exchanges. Enterprises employed mostly family labour and apprentices which were nearly free in terms of wages. Although the investigator did not look at the significance of social capital in this study, the use of such labour force, trust and loyalty, besides financial inadequacies, might have been factored into decisions to use family labour and apprentices. Governments should endeavour to take proactive steps to launch and integrate studies on social relations and employment since they place major roles in development in developing countries.

Informal market support institutions such as credit and output markets must be strengthened since most entrepreneurs preferred that to the formal Banks and other formal arrangements for access to resources. The credit policy and business support systems in the country still need to be scaled up, giving some better concessions to small scale operator. Market support institutions must also be improved. The districts should consider building more and better markets. A considerable proportion of entrepreneurs used mainly locally made tools and equipments, manufactured in the districts or country. An expanded local manufacturing environment will open the area for enhanced economic breakthrough.

5. Implications for policy and practice

Recognizing the importance of the micro and small enterprises (MSE) sector in Government's development policies, the timing of this research is considered appropriate and highly relevant. The relevance of this report is in relation to its coincidence with President J.A Kuffour's declaration of 'Golden age of business' for Ghana. The significant implications of the study to practise and policy lie in its capacity to provide a platform for local entrepreneurs and government to discuss and re-strategize their plans and programmes.

The study observed a marked difference between the characteristics of rural small businesses and small businesses in urban areas. To bridge the gap and ensure that rural enterprises gain from government policy support requires a re-look at the situation. It was evident that the majority of entrepreneurs have not participated in any government programme designed to support their activities. Any such programme aimed at ensuring equitable distribution of resources and outputs as well as provision of efficient service delivery at all levels should be a priority. To design such a programme, requires identifying and understanding the characteristics of rural enterprises and the context within which these enterprises operate. Understanding the constraints and opportunities of enterprises would help in designing pragmatic strategies aimed at transforming rural businesses.

The study shows that more and more entrepreneurs are yet to get receive training in the act of doing business in a more technological and scientific way. Some major constraints of the activities of rural enterprises observed were scarcity of financing, and low levels of entrepreneurship development and management training for a large section of the participants. Most rural entrepreneurs have no or little formal training in technical aspects of their operations. Formal training in small business organization, operation, marketing and management acumen was missing. These factors limit the development and growth of SMEs in rural communities. Traditionally, it is assumed that small business management requires more aptitude for practical activities than formal classroom education. However the study indicated that some amount of formal training or education on some aspects of the business environment is relevant.

Technological advancement and quality controls have become crucial part of modern day business practices. However, the absence and or lack of proper utilization of technological innovations were conspicuous among most rural entrepreneurs. Adoption of most current appropriate technology was also found to be absent. Except the use of some old equipment and gadgets in use technologies in use were mainly traditional. These often lead to drudgery but produces low output. The quest to develop and strengthen the synergies between science and technology on one hand and development of small scale businesses on the other hand should be carefully re-assessed and improved. It is therefore commendable that a suitable programme should be put in place provide on the job training for existing and emerging entrepreneurs.

Access to finance, markets and other business services such as extension entrepreneurial training was poor and clearly should be strongly supported by government through the creation of a more conducive business and policy environments. Establishment of business capital funds, concessionary loans and provision of adequate technical services training to small business in rural areas will go a long way to help reduce poverty and ensure rural development. Such policies must take into consideration the nature of existing and potential businesses, their contexts of operations and delivery systems in the area. Improving the financial markets, access to information, business advisory and other input delivery services could change the business environment. Government must therefore make it a priority to ensure quality control production.

While entrepreneurs accept the need for formal training on the technicalities of their operations, most of them are cash trapped. The government through the District Assemblies (DA) should be encouraged by law to sponsor and/or subsidize the training of local entrepreneurs. This will encourage self employment and small business growth, particularly in rural communities where resources for agro industrial production abound. Participation in local and international trade fairs and/or training at recognised STI training institutes must also be considered crucial. Such trainings must be tailored to meet the needs of these entrepreneurs, taking into consideration the needs of consumers of their good and services in the face of scientific and technological trends in the globalising world.

In the wake of a clarion call for the use of science and technology innovations (STIs) as tools for economic development, it is recommended that government's STI policies should be more focused on micro and small enterprises development especially in rural communities where people can easily take advantage of the abundance of local resources to develop themselves. Developing vibrant small businesses for accelerated economic

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