

Venture Creation and the Poor? Government Assistance, Education and Poverty.

Abstract

We examine under which conditions government social assistance translates into new venture creation by recipients, and how do levels of poverty and education affect this relationship. Data on 8808 individuals included in the 2010 Social Protection Evaluation Survey developed by the Dominican Republic government indicate mixed effects of government social assistance, education, and poverty on new venture creation. While government social assistance by itself had no effect, levels of poverty and education played crucial roles in whether people at poorest socioeconomics groups who were receiving government social assistance started new ventures. Our results provide evidence of their venturing behavior for both research and public policy.

Keywords: government social assistance, poorest socioeconomics groups, new venture creation.

¿La creación de empresas y los pobres? Asistencia gubernamental, educación y pobreza.

Resumen.

Examinamos en qué condiciones la asistencia social del gobierno se traduce en la creación de nuevas empresas por parte de los beneficiarios, y cómo los niveles de pobreza y educación afectan a esta relación. Los datos sobre 8.808 personas incluidas en la Encuesta de Evaluación de la Protección Social de 2010 elaborada por el gobierno de la República Dominicana indican efectos mixtos de la asistencia social, la educación y la pobreza del gobierno en la creación de nuevas empresas. Si bien la asistencia social del gobierno por sí sola no tuvo efecto, los niveles de pobreza y educación desempeñaron un papel crucial en si las personas en los grupos

socioeconómicos más pobres que estaban recibiendo asistencia pública comenzaron nuevas empresas. Nuestros resultados proporcionan evidencia de su comportamiento aventurero tanto para la investigación como para la política pública.

Palabras claves: asistencia social del gobierno, grupos socioeconómicos y creación de nuevas empresas.

Criação de empreendimentos e os pobres? Assistência governamental, educação e pobreza.

Abstrato

Examinamos as condições em que a assistência social do governo se traduz na criação de novos empreendimentos pelos beneficiários, e como os níveis de pobreza e educação afetam essa relação. Os dados de 8808 indivíduos incluídos na Pesquisa de Avaliação da Proteção Social de 2010 desenvolvida pelo governo da República Dominicana indicam efeitos mistos da assistência social, da educação e da pobreza do governo na criação de novos empreendimentos. Enquanto a assistência social do governo por si só não teve efeito, os níveis de pobreza e educação desempenharam um papel crucial em se as pessoas os grupos socioeconômicos mais pobres que estavam recebendo ajuda social governamental começaram novos empreendimentos. Nossos resultados fornecem evidências de seu comportamento aventureiro para pesquisa e política pública.

Palavras-chaves: assistência social do governo, criação de novos empreendimentos.

INTRODUCTION

Does government social aid influence the inclination of low-income individuals to engage in new venture creation (NVC)? What impact do education and poverty have on the likelihood of these people starting new businesses? The resolution to these two inquiries remains ambiguous, but they hold significance not only for governments but also for scholars seeking to comprehend the process of establishing new ventures in conditions of scarcity (Barrientos, 2013; Barrientos and Hulme, 2008; Besharov and Call, 2009; McCord, 2010; Xavier-Oliveira, Laplume and Pathak, 2015). Governments, especially those in developing nations, are keen on assisting persons in the most impoverished socio-economic bracket to enhance their livelihoods. Approximately 70% of the worldwide population, which amounts to 4 billion people, belong to the most economically disadvantaged social groups, and live below the poverty line (Prahalad, 2010; Tasavori, Zaefarian and Ghauri, 2015). The findings indicate that public support in this domain may have rather uncertain or unclear consequences (Mariani, Mattei, Storchi, & Vignoli 2019). Starting a commercial endeavor might serve as a means to enhance one's circumstances. Nevertheless, the specific reasons that influence their decision to initiate a business remain ambiguous, particularly in cases where government social aid is available.

This study investigates the impact of government social assistance (GSA) on individuals' decision-making in establishing new firms. Additionally, it explores the influence of education and poverty on this relationship. We adhere to Sen's (1999) viewpoint that solely considering insufficient income and wealth does not offer a comprehensive understanding of individuals in emerging countries. It is more relevant to analyze the options, or absence thereof, that the impoverished are forced to face. When considering whether to start a new venture, it is important to take into account an individual's poverty level and education.

Poverty corresponds with limited resources, while education indicates potential human capital

and opportunity costs.

Traditional entrepreneurship research operates under the assumption that there is a positive relation between education and the creation of new ventures (Bradley, McMullen, Artz, and Simiyu, 2012). The utilization of accomplished entrepreneurial role models in entrepreneurship education has the potential to positively impact students' entrepreneurial intention and their attitudes towards entrepreneurship (Boldureanu, Ionescu, Bercu, Bedrule-Grigoruță, & Boldureanu 2020). However, a number of scholars have discovered the opposite (Rees and Shah, 1986). We argue that the context significantly influences those mixed outcomes. In impoverished settings, where the majority of businesses are established out of necessity, for basic survival and personal employment (Alvarez and Barney, 2014; Shane, 2010), it is probable that, in contrast to the conventional research findings, higher levels of education would decrease the probability of initiating a new business due to the associated opportunity costs. In such situations, individuals with greater levels of education would likely select secure work over the hazards associated with NVC, based on rational decision-making. Attaining a higher degree of education should enhance the probability of securing paying work. Nevertheless, there is limited understanding of the interaction among education, GSA (government social assistance) and the establishment of new ventures. The impact of education level on new venture development in the context of government backing has not been well studied. Additionally, we examine the impact of the poverty level on the relation between GSA and the establishment of new ventures. Individuals experiencing higher degrees of poverty may find New Venture Creation (NVC) to be more difficult due to limitations in available resources. Government social aid can provide further support to incentivize New Venture Creation (NVC).

According to scholars in this field, decisions made by individuals are influenced by the availability of resources. They argue that when resources are few, individuals prefer to make

more reasonable and well considered choices. This viewpoint was expressed by Luebker in 2014. However, there is limited knowledge regarding the functioning of such a system. Currently, there have been limited studies that examine the impact of resource limitations on decision-making. Furthermore, the existing studies have primarily concentrated on the influence of income alone (Luebker, 2014). Deciding whether to begin a new business can be analyzed as a logical choice considering the costs of resources, including those provided by government social aid for individuals with limited financial means, as well as the potential advantages. By considering government social assistance as a factor that influences a person's decision to start a new business, we are able to analyze individual decisions instead of relying on the prevailing social welfare perspective when studying the most economically disadvantaged populations (Peredo and Chrisman, 2006).

This study provides multiple contributions to the field of entrepreneurship. Our findings align with and expand upon, the significance of scarcity in decision-making. This study provides a detailed explanation of how government social aid influences the preferences of individuals in situations of limited resources. We present empirical evidence demonstrating that government assistance does not consistently foster entrepreneurial activity among individuals in the most economically disadvantaged social groupings. Without taking into account additional criteria like education or poverty levels, it is probable that individuals will be inclined towards wage employment rather than starting a new enterprise. Furthermore, our study provides insights into how the combination of scarce resources and low levels of education can influence individuals' decision-making process in pursuing entrepreneurship. We contend that education has a distinct impact on the conduct of individuals from low-income backgrounds compared to those with greater access to resources. Our findings demonstrate that higher levels of education lead to increased risk aversion and a greater preference for wage employment over starting a new enterprise in the absence of government assistance. However, it enhances the

impact of government social aid on NVC. Specifically, individuals from the most economically disadvantaged socio-economic groups exhibit distinct behavior regarding new venture creation (NVC) depending on whether they receive government assistance or not. Furthermore, our analysis investigates the correlation between new venture creation (NVC) and poverty, specifically focusing on extreme poverty. We present empirical evidence demonstrating that persons residing in conditions of severe poverty are more inclined to establish a new enterprise when they receive assistance from the government. Ultimately, we find that the poverty level does indeed have an impact on the relationship between education level, government social aid, and NVC. Understanding this information is crucial for establishing the reliability of NVC as a means of reducing poverty in developing economies. The comprehension of the impact of social policies on new business formation is evidently more intricate than previously believed.

THEORY AND HYPOTHESES

This research examines two types of resource availability: one determined by individual resources and the other provided by government help via social programs. We study the factors influencing individuals' decisions to start new businesses, specifically considering the impact of poverty (Luebker, 2014) and education levels.

There is a distinct association between poverty and entrepreneurship. Morris 2022 highlights that entrepreneurship offers a promising avenue for persons facing poverty to enhance their livelihoods through such endeavors. Nevertheless, enterprises initiated by those living in poverty face significant limitations with regards to the resources needed to get the venture rolling.

Poverty is typically characterized as a struggle for survival, with scarce resources and a lack of long-term viability. This is consistent with Nakara, (2019), who investigates the

circumstances that drive impoverished entrepreneurs to engage in innovation. That research reveals that elements such as human capital, motivation for opportunity, and financial resources significantly contribute to fostering innovation.

Figure 1 presents the research model.

INSERT FIGURE 1 ABOUT HERE

Government social assistance, poverty, and new venture creation

The focus of our research is to determine the specific circumstances in which individuals living in poverty might initiate a new business venture. The entrepreneurial literature has examined the impact of income on individual behavior, specifically in the context of NVC. Thus far, the scholars have yielded inconclusive findings. The fundamental assumption is that individuals belonging to the most economically disadvantaged social groups establish firms due to a lack of alternative opportunities, making them necessity entrepreneurs. Given the circumstances and the absence of other options, new venture creation (NVC) becomes a sensible decision for such persons. Individuals willingly bear the substantial expenses associated with embarking on new ventures due to the absence of job prospects (Alvarez and Barney, 2014; Khavul, 2010; Luebker, 2014; Viswanathan, Echambadi, Venugopal, and Sridharan, 2014; Webb, Bruton, Tihanyi and Ireland, 2013). They may lack any source of income except for establishing a small business, typically in an unofficial or unregulated manner (De Castro, Khavul, and Bruton, 2014). The inference is that if such individuals had their fundamental needs met, they would not necessarily aspire to become entrepreneurs. Contrary to the "necessity hypothesis," Rosa and colleagues (2007) discovered that the connection between necessity and starting a business was significant but went against the expected direction. Specifically, individuals with low incomes were less inclined to initiate a

business venture. Thus, prior research has not presented definitive evidence on the impact. Nevertheless, there might be other elements that influence the decision-making process regarding NVC, including the government's role.

Governments might offer indirect assistance through various social programs. Those programs might not be specifically targeted towards new venture creation (NVC) but have significant effects on the life of individuals living in poverty and change their status.

Government social aid can enhance the available resources for individuals, thereby making the decision to initiate new companies more appealing. Gov support could fulfill some of their basic necessities, yet the possibility of obtaining a paying employment remains distant.

Therefore, the deployment of resources to initiate NVC would be more logically justified in this particular situation.

In emerging nations, policy focuses on social transformation, and social protection is no different. The varying interpretations of social protection embraced by organizations, governments, and scholars are indicative of the many viewpoints on development upon which they are based. Nevertheless, it is widely accepted that the primary objective of social protection is to safeguard individuals who are economically disadvantaged from the risks they encounter, and to prevent households from plunging into severe destitution because of unfavorable circumstances (Barrientos and Hulme, 2016). The United Nations (2000) provides a definition of social protection as "a collection of government policies implemented to offer support to families with children, as well as to ensure access to essential healthcare and housing" (p.4). These shared "fundamental values" refer to the acceptable levels and security of access to income, livelihood, employment, health and education services, nutrition, and shelter, as stated by the United Nations in 2000 (p.4). This approach expands the scope of social protection to include the guarantee of essential necessities as a prerequisite for both human and economic progress. New venture creation and government involvement has

primarily focused on two areas: government social assistance programs aimed at supporting new ventures, and programs aimed at reducing poverty through microcredit mechanisms. The literature distinguishes between government programs supporting new venture creation and those focused on general welfare (Lerner, 2014; Winn, 1997). While some studies suggest that government interventions can play a key role in fostering entrepreneurial ecosystems (Acs et al., 2017; Acs et al., 2008).

Social protection programs are gaining recognition as a vital tool for reducing poverty and bringing about societal transformation in developing countries (Barrientos, 2008). However, it is crucial to implement a comprehensive approach that goes beyond just protecting the economy and includes principles of fairness and societal entitlements (Sabates Wheeler, 2007). Mkandawire (2007) argues that social policy has the capacity to generate substantial transformations through the enhancement of human capital, the reduction of risk, and the promotion of political stability. The development of these policies is influenced by historical, economic, and political factors, which requires further scholarly research in this field (Mares, 2009).

Poverty frequently imposes significant financial limitations, restricting access to money and traditional work options, so compelling individuals to pursue necessity-driven entrepreneurship. In these instances, government social aid may serve as a vital facilitator, alleviating certain financial obstacles and enabling resource mobilization for new business establishment (Naudé, 2010). This theory posits that in high-poverty regions, governmental assistance may exert a greater influence, as it mitigates the deficiency of alternative resources. The resource dependence theory asserts that individuals depend on available resources to engage in entrepreneurial endeavors, particularly when internal resources are inadequate (Pfeffer & Salancik, 1978). In low-income areas, external aid, such as governmental social assistance, is a vital resource. Consequently, as poverty escalates, the dependence on social

assistance as a support system for entrepreneurship amplifies, thereby reinforcing its correlation with new venture establishment (Aidis et al., 2012).

Social assistance programs are typically formulated to mitigate poverty by offering financial aid and services, hence lowering barriers to business establishment for low-income individuals (Banerjee & Duflo, 2011). Research indicates that in impoverished regions, the influence of these programs on entrepreneurial ventures is amplified due to the absence of other income streams. This indicates that poverty may definitely influence this relationship, amplifying the impact of government support for entrepreneurship.

Studies demonstrate that poverty elevates necessity entrepreneurship, wherein individuals establish enterprises driven by need rather than opportunity (Acs, 2006). In high-poverty environments with restricted job opportunities, government support may enhance entrepreneurial initiatives, so reinforcing the connection between social assistance and business formation (Sutter et al., 2019).

Social welfare programs can foster a conducive atmosphere for risk-taking and innovation in economically disadvantaged areas (Bates et al., 2011). These initiatives mitigate the risks inherent in entrepreneurship by offering a safety net, especially for individuals confronting severe economic difficulties, indicating that poverty enhances the correlation between social assistance and venture establishment.

One view on this problem is that due to limited resources in the most economically disadvantaged groups, individuals should prioritize fulfilling their immediate basic needs and thus discourage the creation of new ventures. The expenses associated with investing in new business creation would prevent them from meeting their essential needs until they begin to reap the rewards.

Individuals experiencing higher levels of poverty face more challenges with NVC. While establishing a new business might generate revenue, individuals in extreme poverty may lack

the financial means to cover the expenses associated with starting out. Rosa et al. (2007) discovered that individuals with low income had a decreased propensity to initiate entrepreneurial endeavors due to the necessity of working extended hours to barely meet their basic financial needs. They lacked adequate profit margins to set aside for savings, and any money saved was allocated towards debt repayment. Over time, the desire to escape by initiating a new business dissipated.

Institutional barriers frequently impede the potential of impoverished individuals to become prosperous entrepreneurs. To tackle this issue, a mix of governmental policy and community action is required (Morris 2020). Nevertheless, government social assistance has the potential to modify this situation by enabling individuals to weigh the advantages and disadvantages of starting a new business, while still having a portion of their necessities provided for. Given that GSA provides some assistance to those in the lowest socio-economic groups, it is probable that they will allocate additional resources towards initiating their own businesses. Given the challenges faced by those in the lowest socioeconomic classes in securing steady employment, NVC emerges as a more logical and economical option, despite its inherent risks. In general, the necessity to fulfill other essential demands that are not covered, coupled with the limited opportunities for obtaining paid employment, should motivate individuals to seriously contemplate New Venture Creation (NVC). This phenomenon will have a more pronounced impact on persons who are residing in conditions of severe destitution. Our proposition suggests that the level of poverty influences the link between GSA and NVC. In other words,

Hypothesis 1:

Poverty positively moderates the relationship between government social assistance and new venture creation so that at higher levels of poverty, the relationship between government social assistance and new venture creation will be stronger than at lower levels.

Education and new venture creation

According to entrepreneurship literature, education has a beneficial impact on the establishment of new businesses (Robinson and Sexton, 1994). Nevertheless, the impact of education on NVC remains uncertain, particularly in developing nations and within the most economically disadvantaged social groups. Education level has been found to have a favorable relation with the establishment of new businesses (Bradley et al., 2012; Knight, Shi and Quheng, 2009; Xavier-Oliveira, Laplume and Pathak, 2015). Education is particularly important in developing nations since there is a lack of essential skills, knowledge, and information needed to prosper in markets (Atkinson, 2000; Hirschman, 1970; Kintgen, Kroll and Rose, 1998; Rosa and Viswanathan, 2007; Sen, 1999). However, other researchers provide contrasting findings, indicating that education reduces the probability of initiating new business ventures (Rees and Shah, 1986). While further education may enable individuals to innovate beyond established enterprises, the opportunity costs associated with non-value creating activities are substantial.

The assessment of costs and benefits of NVC is particularly focused on the opportunity costs for those belonging to the lowest socio-economic category but who are educated.

Entrepreneurs in the most economically disadvantaged group are unable to provide time for self-improvement and training due to the extensive hours they must dedicate to their firm.

Additionally, their limited resources are committed in the business, which carries a significant level of risk. Furthermore, necessity enterprises typically yield minimal gains. According to Le (2000), achieving a higher level of education may increase the chances of entering a job that pays a salary, which in turn reduces the odds of becoming a business owner. Yet, individuals with higher levels of education are expected to possess more detailed knowledge, which enables them to evaluate business prospects more effectively (Rees and Shah, 1986; Xavier-Oliveira et al., 2015). According to Alvarez and Barney (2014) and Shane (2010), in

the poorest socio-economic groups, entrepreneurial opportunities mainly consist of self-employment for basic survival. However, Breznitz and Zhang (2021) found that entrepreneurship education has a positive impact on the establishment of new businesses and high-tech firms. The logical decision for individuals with higher levels of education would be to pursue employment, as it is expected to be more accessible, offer a more reliable income, and avoid the uncertainties typically associated with starting a new business. Individuals with higher levels of education should not opt for new venture creation (NVC) as the most logical decision.

Hypothesis 2

For individuals in poverty, there will be a negative relationship between education level and the establishment of new ventures, so that higher levels of education will result in lower levels of NVC.

Government social assistance, education and new venture creation

However, what is the effect on NVC when GSA and education level are analyzed together? There is a scarcity of existing research on the impact of education on the relationship between government social aid and the formation of new ventures. Previously, we argued that individuals with greater levels of education would be better off pursuing stable employment rather than starting new enterprises. However, the existence of GSA might potentially alter this dynamic and make pursuing new ventures (NVC) a more desirable decision. More precisely, we argue that the connection between GSA and NVC should be enhanced based on the amount of schooling due to four primary factors: Initially, more education should enhance individuals' ability to allocate GSA more effectively, hence enabling them to allocate more resources towards NVC. Furthermore, individuals belonging to the poorest socio-economic groups may have access to low-skilled occupations with meager salaries (Hess, 2005), leading to a mismatch between their educational attainment and the remuneration they may obtain. The inclusion of GSA, along with this, could motivate people to engage in new entrepreneurial

activities. Furthermore, the GSA should enable individuals to assume greater risks and allocate money towards NVC by helping that covers their fundamental needs, either partially or entirely. Saini (2018) emphasizes the significance of government policies in fostering the development of new ventures, specifically in India. This is achieved through programs like the Startup India project and providing assistance to women and underserved communities. Highly educated individuals are more adept at assessing available opportunities, possess superior skills and abilities to allocate resources, and are capable of conducting a cost-benefit analysis of NVC, considering the role that GSA plays in meeting their needs and exploring alternative options for livelihood and support (Atkinson,2000; Hirschman ,1970, Kintgen et al. ,1998; Rosa and Viswanathan, 2007 and Sen ,1999). Therefore,

Hypothesis 3:

Education positively moderates the relationship between government social assistance and new venture creation, so that at higher levels of education, the relationship between government social assistance and new venture creation will be stronger than at lower levels.

Government social assistance, education, poverty, and new venture creation

Ultimately, if education and poverty levels independently enhance the correlation between government social aid and the establishment of new ventures, what would be the combined impact of these factors? Based on the preceding discussions regarding education and poverty, it is anticipated that increased poverty levels will enhance the beneficial impact of education on the association between GSA and NVC for various reasons. Individuals who are less affluent but possess higher levels of education should have a greater capacity to evaluate advantageous business prospects and understand the potential benefits that the GSA (Government Social Assistance) could offer them and their living circumstances. Furthermore, those belonging to the poorest socio-economic category have numerous obstacles when it comes to securing and retaining employment as they strive to escape poverty. Transportation obstacles encountered

by low-income individuals and prospective employees hinder their ability to secure employment (Hess, 2005). Consequently, for people who are poor but possess higher levels of education, the Government Social Assistance (GSA) program may serve as the catalyst that propels them towards the New Venture Creations (NVC). Therefore, we argue that persons belonging to the poorest socio-economic category, who are both less affluent yet possess higher levels of education, and who get government social assistance, are more inclined to initiate new business endeavors compared to those who are less financially disadvantaged. Therefore,

Hypothesis 4:

Poverty level positively moderates the relationship between education level and government social assistance on new venture creation so that, at higher poverty levels, the moderating effect of education level and social government assistance on new venture creation will be stronger than at lower levels.

METHODOLOGY

Data and Sample

For this study, we use data obtained from the 2010 Social Protection Evaluation Survey in the Dominican Republic. This is a census of specific areas developed by the Dominican government to assess the effect of government social assistance in reducing poverty in Dominican households. All households and individuals living in all households in specific geographic areas were interviewed, and the sample includes both actual and potential recipients of government social assistance which focus on general welfare. Since the data collection the amount and the numbers of recipients of all types of government social assistance has increased considerable and constantly thru the years. (Viceministerio de Análisis Económico y Social VAES 2020). Estimates for the final year for which data is available (2019) show that the index dropped to 0.011, representing a 21.4% percentage decline between 2014 and 2019. If we examine the full period from 2007 to 2019, the nation's worldwide MPI decreased by 63.3% overall. Comparably, between 2007 and 2019, the proportion of the population living in

financial poverty fell by 51% in the nation; during that time, 1.7 million people were able to escape poverty. UNDP (2023). The sample examines both individuals and households because social assistance is based on household parameters. The final sample comprised 8808 individuals. To test the hypotheses, we used a logistic regression analysis.

Measures

Dependent variable. *New Venture Creation* is a dichotomous variable that takes the value of 1 if an individual created his/her own business, that is, if an individual is self-employed, and 0 otherwise.

Independent variables. *Government Social Assistance* is a count variable of the number of social policies received. It ranges from 0 to 6. It takes value 0 if an individual does not receive any kind of government social assistance and value 6 if the individual receives help through all of six Dominican government programs targeted at covering basic needs. Following the existing literature, we include direct money transfers and assistance for food, education, health, gas, and electricity. *Programa Solidaridad*, which targets the mechanisms that transmit poverty from generation to generation, includes four components: *Comer es Primero* (eating is first), *ILAE* (education for children), *Bonogás* (assistance with heating gas) and *Bonoluz* (assistance with electricity payments). We also include *SENASA* (national health insurance). Additionally, because the existing literature has recognized that micro-entrepreneurs tend not to own real estate (Maldonado and Gonzalez-Vega, 2008; Weber and Ahmad, 2014), and little is known about how government land distribution can affect NVC, we include the social program called *Titulación de tierras/solares* (land titling). We analyze the global effect of these social programs to capture how they affect NVC.

Poverty Level is a dichotomous variable categorized as either extreme or moderate. According to the World Bank, the extremely poor live on less than \$1/day and the moderately

poor live on less than \$2/day (World Bank, 2010). The 2010 Social Protection Evaluation Survey surveys the poorest 40% of the Dominican population for that year. As this variable is at the household level, it takes value 1 if the household lived in extreme poverty and 0 otherwise.

Education Level is a continuous variable determined by the last grade of schooling an individual received (no education, writing and reading, primary school, high school, vocational training, some college, college degree, postgraduate degree).

Control variables. We include several control variables to account for the alternate explanations of variance in the dependent variable. First, we control for *age*. This variable is measured as a continuous variable (Autio and Acs, 2010). Second, prior work has shown significant gender differences between men and women when creating a new business. It has been recognized that factors such as the tradition of society and the persisting notion that women (more than men) carry the primary responsibilities of the home and the family which generates important “work-home roles conflict” make women to be less likely to be entrepreneurs than men (Miskin and Rose, 1990; Stoner, Hartman, and Arora, 1990). We control for *gender* measured as a dummy variable (0=female; 1=male). Third, we attempt to control for those people living in the household who are potential dependents such as children or elders. This variable is called *dependents* and is operationalized as total percentage of household residents below 18 years old and above 65 years old. Fourth, previous research has demonstrated that *marital status* affects new venture creation (Amit, Muller and Cockburn, 1995; Choo and Wong, 2006; De Carolis, Litzky and Eddleston, 2009). The entrepreneurs in our sample reported between seven different types of marital status: domestic partnership, married, separated, separated from domestic partnership, divorced, widower, single. This variable is operationalized through a categorical variable (1-7). Fifth, the survey asked for the total number of people living in the household. We control for that through a count variable of the number of people. This variable is called *people living in the household*. It differs from the

variable dependents in that this variable covers all people living in the household regardless of age. Given the nature of living arrangements at the poorest socioeconomic groups, this number might be different than the number of dependents. Finally, given that resource scarcity is an important part of our arguments with regards of resources available for NVC, we include expenses for non-basic items such as tobacco, jewelry, donations to the church, lottery tickets, or birthday parties. This variable, defined as *non-basic needs*, is operationalized as a continuous variable.

RESULTS

Table I provides descriptive statistics and the correlation matrix for individual and household variables. The results for the Logistic regression analysis are shown in Table II.

INSERT TABLES I AND II ABOUT HERE

To test the model proposed, as Table II shows, we first entered all the control variables in Model 1. We then entered the variable government social assistance (which includes food, children’s education, heating gas, electricity, national health insurance, and land titling), poverty and education level in Model 2. Finally, in Models 3, 4, and 5 the interaction effects are included. Finally, model 6 presents the full model.

With respect to our control variables, we found that age, gender, and dependents had very strong positive influence on new venture creation. Marital status also had a positive and significant influence on new venture creation, but its impact was weaker. This indicates that, there is a positive relationship between being older, male, married , and having more dependents in the household and creating a new business. However, the effects of non-basic needs and people living in the household, although significant, were negative. This is very interesting because it highlights that if impoverished individuals become entrepreneurs when

they do not have their basic needs covered, satisfying non-basic needs affects the likelihood of entrepreneurial behavior. Additionally, the negative influence of number of people living in the household on new venture creation was stronger than the positive effect of dependents.

Hypothesis 1 proposes that poverty level moderates the relationship between government social assistance and new venture creation so that at higher levels of poverty, the relationship between government social assistance and new venture creation will be stronger than at lower levels. As shown in table 2, poverty level had a positive influence in the relationship between GSA and new venture creation. This means that providing GSA to those people living in extreme poverty is going to strengthen the likelihood to create new business. Thus hypothesis 1 is supported. The predictive margins are shown in figure 2.

Hypothesis 2 proposes that education level is negatively associated with new venture creation. Our results provide strong empirical evidence of this negative influence. Strengthening prior scholar’s arguments that education discourages new venture creation, our results show that more educated individuals who don’t receive support from government don’t create new ventures. That is, we found strong evidence that more education makes individuals more averse to the risks of new venture creation. They prefer to get a wage job. Thus, hypothesis 2 is supported.

Hypothesis 3 proposes that the education positively moderates the relationship between government social assistance and new venture creation, so that at higher levels of education, the relationship between government social assistance and new venture creation will be stronger than at lower levels. Our results show that at higher education level did significantly strengthen that relationship. Thus, hypothesis 3 is supported. Figure 3 includes the predictive margins.

INSERT FIGURES 2 AND 3 ABOUT HERE

Finally, hypothesis 4 proposes that poverty level positively moderates the joint effects of education level and government social assistance on new venture creation, so that, at higher levels of poverty, these joint effects will be stronger than at lower levels. We found that the moderating effect of education on the relationship between GSA and NVC is highly conditioned by the extent of resource limitation (see figures 4 and 5). Figure 4 illustrates the effects for extreme poverty. For those individuals living in extreme poverty who do not have any education level, the likelihood to create a new business is increasing when they receive more government social assistance. On the other hand, when individuals have the highest education level, the opposite happens. That is, the likelihood to create a new business decrease when the support from the government is higher. However, among individuals at the highest level of education, GSA has the opposite effect. That is, extremely poor but highly educated individuals who do receive GSA to cover all their basic needs are likelier to create a new business than equally poor and equally educated individuals who don't.

For moderate poverty levels, the effects are illustrated in figure 5. We can see that these effects are opposite to those under extreme poverty. For those individuals living in moderate poverty who do not have any education level, the opposite effect happens compared to those ones living in extreme poverty. That is, the likelihood to create a new business is decreasing when they receive more and more government social assistance. On the other hand, when individuals have the highest education level, the likelihood to create a new business is increasing when the support from the government is higher. Thus, hypothesis 4 is supported.

INSERT FIGURES 4 AND 5 ABOUT HERE

Viewed in conjunction, our results indicate that government social assistance has mixed effects on new venture creation. It can—but does not always—help individuals to create new

businesses and give them a chance to get out of poverty in the medium/long term. Degree of poverty and education levels have important and complex influences on this process, and their apparent influences differ depending on whether we consider them individually or together.

DISCUSSION

The article commenced by examining the influence of government social assistance on the likelihood of low-income individuals to engage in new venture development. Additionally, it investigated the impact of education and poverty on the likelihood of these individuals initiating new initiatives. Building upon previous research on supporting impoverished individuals in establishing new businesses (Bruton, Ketchen and Ireland, 2013; Hall, Stelvia, Sheehan and Silvestre, 2012; Khavul, 2010; Prahalad, 2005; Shetty, 2010), we examined these questions through a logistic regression analysis. This analysis considers household and individual attributes, the influence of government social assistance on new venture creation (NVC), and the impact of poverty and education levels on these associations.

The findings indicate a significant moderating effect of poverty levels on the relationship between government social assistance (GSA) and new venture creation. The contend that as poverty levels increase, the positive influence of GSA on new venture creation also strengthens, implying that individuals in extreme poverty benefit more from such assistance in terms of entrepreneurial activity. This relationship was supported as Table 2 demonstrates a positive moderation effect of poverty, indicating that the likelihood of new business creation increases with higher poverty levels when GSA is provided. This result aligns with the premise that those facing more severe economic hardship may view entrepreneurship as a viable path out of poverty, especially when bolstered by GSA. The findings suggest that government assistance programs targeting individuals in extreme poverty can be effective in

spurring entrepreneurial initiatives. This could be attributed to the critical role that GSA plays in providing the initial resources or financial stability required to embark on new business ventures, which might otherwise be inaccessible for those in dire economic conditions. Thus, underscoring the importance of tailored GSA policies to foster entrepreneurship among the impoverished.

The results which posit a negative association between education level and new venture creation, reveal a significant empirical trend. The findings align with previous research suggesting that higher education can, in some cases, discourage entrepreneurial activity. Specifically, the data indicates that among those in poverty, individuals with more education are less inclined to initiate new ventures, especially in the absence of government support. This trend may be attributed to awareness of the risks associated with entrepreneurship, prompting these individuals to favor stable wage employment over the uncertainties of starting a business.

The negative relationship between education and new venture creation, as shown in the results, suggests that the skills, knowledge, and risk-averse tendencies fostered by formal education might lead individuals to pursue safer career paths. These results provide valuable insight into the complex role that education plays in shaping entrepreneurial intentions, in particular when taking into account context, such as poverty in this case. The findings of our study indicate that for those in poverty, education level alone has a negative impact on new venture creation. This contradicts previous research that has linked education to higher rates of venture creation, especially in developing countries and among socioeconomically disadvantaged groups (Robieson and Sexton, 1994). However, our results suggest that education can actually decrease the likelihood of new venture creation. (Rees and Shah, 1986).

Other results confirm that education indeed acts as a positive moderator in the relationship between government social assistance and new venture creation. Specifically, we proposed that higher levels of education would amplify the influence of government social assistance on new venture creation. This effect was observed, where individuals with higher educational attainment exhibited a stronger association between receiving government social assistance and engaging in entrepreneurial activities than those with lower levels of education.

Figure 3, showing the predictive margins, visually demonstrates this interaction effect, illustrating how the relationship varies across different education levels. At higher education levels, the positive slope suggests a stronger relation, indicating that educated individuals may leverage government assistance more effectively in entrepreneurial pursuits, possibly due to enhanced skills, resources, or networks that complement the support received. This insight underscores the critical role of education in maximizing the impact of government initiatives on entrepreneurship.

Finally, we find that poverty level positively moderates the combined effects of education level and government social assistance (GSA) on new venture creation (NVC), are complex and context dependent. Specifically, the moderating role of poverty reveals how the joint effects of education and GSA vary significantly under extreme versus moderate poverty levels. For individuals in extreme poverty, the analysis (Figure 4) shows contrasting impacts of GSA based on education level: For those with minimal or no education, GSA has a **positive effect** on the likelihood of new venture creation. As these individuals receive more GSA, their propensity to start a new business increase. This might suggest that for less-educated individuals in severe poverty, GSA may alleviate basic survival needs, allowing them to consider entrepreneurship as a viable option. Among highly educated individuals in extreme poverty, however, the likelihood of new venture creation decreases with higher levels

of GSA. This indicates that for those with substantial education, increased government support might reduce the urgency or perceived need to create a business, as GSA might sufficiently meet their needs.

Notably, at the highest education levels under extreme poverty, a more nuanced relationship emerges: individuals who receive sufficient GSA to cover their basic needs are actually more likely to start new ventures than equally educated but unsupported individuals. This may suggest that while high education provides the capability, receiving adequate GSA provides the security to pursue entrepreneurial activity. In contrast, under moderate poverty (Figure 5), the effects reverse:

For individuals with low education, GSA tends to decrease the likelihood of creating a new business. This may indicate that for the moderately poor, GSA meets their immediate needs without compelling them to seek additional income through entrepreneurship.

Conversely, for those with higher education in moderate poverty, increasing GSA positively impacts NVC. These individuals may view GSA as a supplement that enables them to take calculated risks in venture creation, particularly because their educational background might provide the confidence and skills needed for entrepreneurship.

These results show that poverty level does indeed shape how education and GSA interact to influence NVC. This moderation by poverty level reveals that GSA's role in venture creation isn't uniform but instead varies according to both the severity of poverty and the individual's education, highlighting a dynamic interplay between basic needs, education, and entrepreneurial motivation.

The opportunity costs associated with starting a new business are significant, particularly for individuals in the lowest socio-economic bracket who have received an education. Due to their

extensive work hours, limited resources, and minimal incremental gains, they are unable to allocate time for self-improvement and training. Obtaining a higher level of education can make it easier to find a job that pays a salary or wage, which in turn reduces the chances of becoming a business owner (Le ,2000; Rees and Shah, 1986; and Xavier-Oliveira et al., 2015). However, it increased the relationship between obtaining government assistance and establishing a new enterprise. Furthermore, our investigation did not uncover any proof that people lacking resources initiate new enterprises when disregarding factors such as government support. However, we did see that the poverty level did enhance the correlation between getting GSA and NVC (Atkinson,2000; Hirschman, 1970; Kintgen et al.,1998); Rosa and Viswanathan, 2007; and Sen ,1999). Education improves individuals' capacity to assess opportunities, efficiently manage resources, and conduct cost-benefit assessments of NVC, taking into account the role of government social assistance (GSA) in meeting their needs and exploring other potential options. However, when we examined the combination of education level, poverty level, and government social assistance, we found a clear and substantial negative effect in the establishment of new ventures. The result is perplexing, considering that both education and poverty levels separately enhanced the link between GSA and NVC. The rationale for this conclusion can only be conjectured, however we posit that the driver in this association may be the level of schooling. As the main determinant of employment probability, social wealth might have a greater impact than other factors, especially in situations of significant poverty. However, our findings suggest that additional investigation is necessary to understand the impact of education on nonviolent communication in various settings. The relationship is evidently more complicated than previously believed.

The relationship between receiving social aid from the government and launching a new business is intricate and has multiple aspects. According to Maggioni (1999), government help can enhance a company's technological capabilities, but it can also hinder the effectiveness of start-ups. Meyer (2015) stressed the necessity of enhanced governmental support in creating jobs and providing training in entrepreneurial abilities, particularly for the poor.

Implications

We found that GSA is most effective in encouraging entrepreneurial activities among individuals in extreme poverty. By reducing immediate financial pressures and providing a foundational level of security, GSA enables these individuals to consider entrepreneurship as a viable path to improving their socioeconomic status.

In the context of developing countries as the Dominican Republic, where poverty rates are high, this relationship is particularly relevant. Government programs aimed at alleviating poverty not only improve the living conditions of the poorest but also serve as a catalyst for entrepreneurial activity. This suggests that policymakers in developing countries should prioritize social assistance in regions with higher poverty levels to encourage new venture creation as a pathway to economic growth.

With regards to the role of education our results indicate that it positively moderates the relationship between government social assistance and new venture creation. Specifically, individuals with higher educational attainment benefit more robustly from government social assistance programs in their pursuit of new venture creation, compared to those with lower educational levels.

This finding is consistent with previous research, which suggests that education enhances an individual's ability to recognize and seize entrepreneurial opportunities, making them better equipped to utilize resources provided through social assistance. However, that is only true because of the role of Government assistance. In poverty environments higher education may improve skills related to business planning, financial literacy, and strategic decision-making, which in turn enables recipients of government support to convert this assistance into successful entrepreneurial activities. Therefore, our results confirm that education serves as an

important moderator, amplifying the effectiveness of government social assistance in fostering new venture creation.

The results for education level, government social assistance (GSA), and poverty level on new venture creation (NVC) are more complex, highlighting that role that poverty level plays on combined effects of education and GSA on entrepreneurial activity.

In conditions of extreme poverty (illustrated in Figure 4), individuals with no formal education are more likely to start a new venture as the level of government social assistance increases. This suggests that GSA serves as a critical support for potential entrepreneurs with limited formal education, likely alleviating immediate financial constraints that might otherwise hinder entrepreneurial activity. However, for individuals at the highest levels of education, the relationship changes direction. In this case, increased GSA is associated with a lower likelihood of starting a new venture, potentially indicating that highly educated individuals in extreme poverty may become more risk-averse or find alternative income sources when their basic needs are secured by government support. Yet, a subset of highly educated individuals in extreme poverty does respond positively to GSA when this assistance fully covers their basic needs, suggesting that once financial security is achieved, some may feel more empowered to pursue entrepreneurial ventures.

In moderate poverty conditions (illustrated in Figure 5), the pattern reverses. For individuals with no formal education, increased GSA corresponds with a lower likelihood of new venture creation, which might indicate that moderate financial assistance provides a level of stability that decreases their motivation or need to take on the risks associated with starting a business. Conversely, for individuals with higher levels of education, GSA positively correlates with new venture creation. This indicates that those with educational resources in

moderate poverty situations view GSA as an enabler for entrepreneurial pursuits, possibly by supplementing limited income and allowing them to invest in their business ideas.

These findings demonstrate that the influence of education and GSA on new venture creation is indeed strengthened under higher levels of poverty. The results emphasize that individuals' entrepreneurial responses to GSA vary significantly depending on both their education level and the degree of poverty they experience.

Poverty encompasses not only economic factors, but also social and political aspects (Ansari, Munir and Gregg, 2012). Hence, we must not overlook its social dimensions. This study has significant ramifications for researchers and practitioners, especially governments that are engaged in addressing poverty and promoting entrepreneurship.

Studies have shown that government social assistance, namely in the form of financial support for education, has a positive impact on alleviating poverty in areas with significant poverty rates. Jung, S., Cho, S. H., and Roberts, R. K. (2015). However, the effectiveness of education alone in addressing poverty is limited. Reyes, J. D., and Reyes, J. B. (2023). This suggests that while education is important, it may not be sufficient to address extreme poverty. Studies have demonstrated that social assistance programs, particularly those focused on education, have a significant effect on decreasing poverty rates, particularly during periods of economic.

While government social assistance programs are essential for assisting the impoverished in escaping poverty, the formation of new ventures provides a significant avenue for the poor to become self-reliant, thereby diminishing inequities and lowering their reliance.

on such programs. This study demonstrates the significant impact of implementing social programs that address fundamental needs and offer educational incentives as an effective strategy to foster entrepreneurship among the most economically disadvantaged demographic.

We argue that in addition to providing business support, governments should formulate policies that ensure the fulfillment of fundamental necessities to optimize the effectiveness of each program in alleviating poverty. Therefore, we are aligning ourselves with past research that acknowledges the significance of social protection as one of the three key components of national and development policies, alongside growth and human development (Barrientos and Hulme, 2008). Our findings suggest that providing a bonus to meet essential requirements can potentially promote new venture creation (NVC).

The poverty and education outcomes we have observed are particularly intriguing. Increased levels of poverty are positively correlated with higher rates of new venture creation (NVC), although this relationship is contingent upon the presence of social programs. This information is crucial for policymakers who are interested in enhancing the conditions of the extremely impoverished. However, it should prompt us to decelerate and try to comprehend the consequences. This outcome is perplexing considering prior findings on the relation between poverty levels and new venture creation (NVC), and it justifies the need for additional investigation by scholars.

Limitations and Future Research

The scope of our investigation is limited to the year 2010 due to the constraints of the available data. By expanding the time frame and accounting for policy changes, we may estimate models using panel data. This approach would enable us to analyze the amount by which people's preferences are influenced by the availability of resources.

Furthermore, our database originates from the Dominican Republic. As per the 2010 Monitoring Report of the United States Millennium Goals, the poverty rate in the Dominican Republic was 34%, which equates to nearly three million individuals. Although there is no rationale to suggest that impoverished individuals in other circumstances would exhibit

dissimilar behavior with regards to nonviolent communication (NVC) and government aid, variations in cultures and political systems could potentially influence the link we have examined. Future research should do a comparison analysis to evaluate the impact of social protection on individuals' attitudes towards new venture development in various locations. Additionally, it would be intriguing to examine the influence of alternative initiatives, such as employment programs, on the establishment of new ventures. If government social assistance were structured as a jobs program, it would be more logical for individuals in poverty to opt for employment rather than initiating a new business enterprise. However, let's consider the scenario where government social aid is also specifically focused on promoting the establishment of new businesses. Could that alter the preferences of those individuals? Would it incline them towards the formation of new ventures?

Analyzing the evolution of social entrepreneurship within the most economically disadvantaged socio-economic group would be a fascinating endeavor. How can entrepreneurs establishing microbusinesses form connections with other individuals residing in the same neighborhood facing similar impoverished circumstances? Conducting such a study would provide insight into the ways in which societal ethics can influence and alter individual preferences. Future research should examine the factors influencing individuals' preference for wage job versus entrepreneurial activity in the presence of government social assistance. Does this involve prioritizing urgent demands against making long-term investments? Do individuals experience apprehension towards the potential hazards, or the amount of time required? Considering that microbusinesses established by persons with little income are generally lacking in innovation, do people find the tradeoff between time and benefits of NVC unappealing when it conflicts with meeting fundamental needs? Uncertainty and negative externalities, as well as the impact of unforeseen financial shocks, can also play

a key role in shaping behavior in this scenario. Subsequent investigations could expand our study to tackle these concerns.

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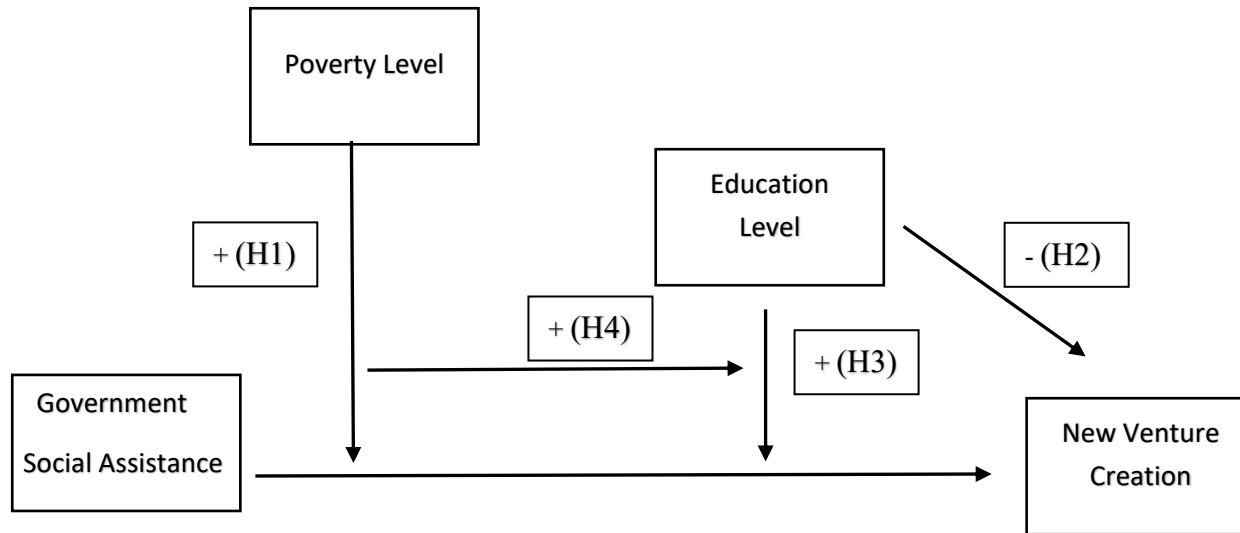


Figure 1. Research model

Table I. Descriptive statistics and correlations

| <i>Variables</i> | <i>N</i> | <i>Mean</i> | <i>S.D.</i> | <i>A</i> | <i>B</i> | <i>C</i> | <i>D</i> | <i>E</i> | <i>F</i> | <i>G</i> | <i>H</i> | <i>I</i> |
|-----------------------------------|----------|-------------|-------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| A. New venture creation | 8808 | 0.54 | 0.49 | | | | | | | | | |
| B. Poverty Level | 8808 | 0.07 | 0.25 | 0.09* | | | | | | | | |
| C. Social Government Assistance | 8808 | 2.67 | 1.18 | 0.06* | -0.01 | | | | | | | |
| D. Education | 8808 | 4.04 | 1.47 | -0.24* | -0.13* | -0.06* | | | | | | |
| E Age | 8808 | 39.78 | 14.81 | 0.16* | 0.05* | -0.01 | -0.33* | | | | | |
| F. Gender | 8808 | 0.68 | 0.46 | 0.28* | 0.05* | 0.03* | -0.14* | 0.01 | | | | |
| G. Dependents | 8808 | 0.41 | 0.23 | 0.01 | 0.03* | 0.13* | -0.04* | 0.04* | -0.07* | | | |
| H. Marital Status | 8808 | 3.27 | 2.57 | -0.04* | 0.02 | -0.03* | 0.15* | -0.41* | 0.02* | -0.12* | | |
| I. Non basic needs | 8808 | 923.28 | 2643.85 | -0.06* | -0.04* | -0.03* | 0.10* | -0.02 | -0.03* | -0.00 | -0.01 | |
| O. People living in the household | 8808 | 4.89 | 2.09 | -0.06* | -0.02* | 0.12* | 0.04* | -0.20* | 0.01 | 0.29* | 0.01 | 0.10* |

† $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$.

TABLE II. Logistic regression analysis

| | <i>Model 1</i> | <i>Model 2</i> | <i>Model 3</i> | <i>Model 4</i> | <i>Model 5</i> |
|--------------------------------|-------------------------|------------------------|-------------------------|------------------------|------------------------|
| Control: | | | | | |
| Age | 0.014*** (0.001) | 0.009*** (0.001) | 0.014*** (0.001) | 0.009*** (0.001) | 0.009*** (0.001) |
| Gender | 0.798*** (0.030) | 0.743*** (0.031) | 0.791*** (0.030) | 0.747*** (0.031) | 0.745*** (0.031) |
| Dependents | 0.219** (0.063) | 0.156** (0.064) | 0.203** (0.063) | 0.166** (0.064) | 0.158* (0.064) |
| Marital Status | 0.012* (0.006) | 0.012* (0.006) | 0.010† (0.006) | 0.013* (0.006) | 0.012† (0.006) |
| Non-basic needs | -0.001*** (5.72e-06) | -0.001** (5.66e-06) | -0.001*** (5.70e-06) | -0.001** (5.68e-06) | -0.001** (5.67e-06) |
| People living in the household | -0.027*** (0.007) | -0.032*** (0.007) | -0.027*** (0.007) | -0.032*** (0.007) | -0.031*** (0.007) |
| Poverty Level | | 0.301*** (0.059) | 0.146 (0.126) | | -0.123 (0.333) |
| Government Social Assistance | | 0.052*** (0.012) | | | -0.057 (0.040) |
| Education Level | | -0.153*** (0.011) | | -0.194*** (0.013) | -0.217*** (0.027) |

| | | | | | | |
|---|----------------------|----------|--------------------|----------------------|--------------------|------------------|
| H1: Poverty Level x GSA | | | 0.089† (0.043) | | 0.283* (0.121) | |
| H3: Education Level x GSA | | | | -0.013*** (0.003) | 0.026** (0.009) | |
| H5: Education Level x Poverty Level | | | | | 0.074 (0.085) | |
| H6: Government Social Assistance X Education Level x Poverty Level | | | | | -0.062* (0.031) | |
| Log-likelihood | | -5575.97 | -5434.60 | -5551.97 | -5445.47 | -5427.39 |
| Number of obs. | | 8808 | 8808 | 8808 | 8808 | 8808 |
| R2 | 0.0806 | | 0.1050 | 0.0857 | 0.1032 | 0.1062 |
| Constant | -0.969*** (0.073) | | -0.236* (0.100) | -0.974*** (0.074) | -0.069 (0.095) | 0.034 (0.144) |

† $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$

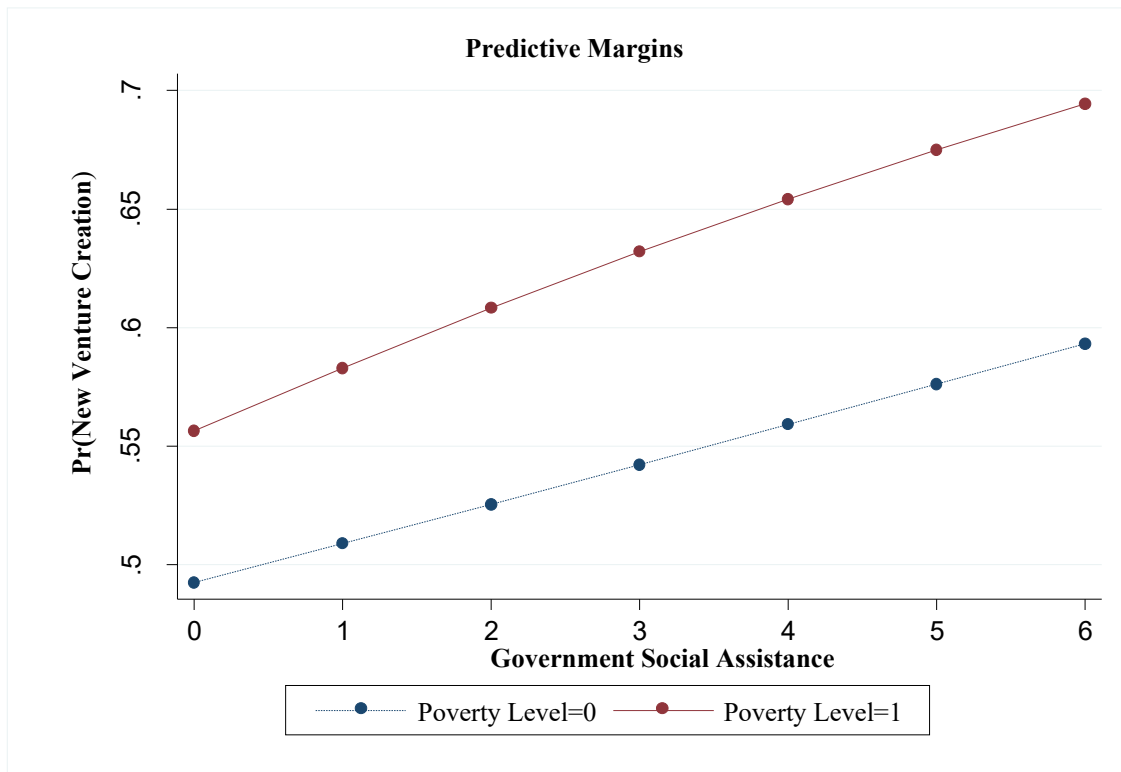


Figure 2. Interaction of poverty level with government social assistance and new venture creation

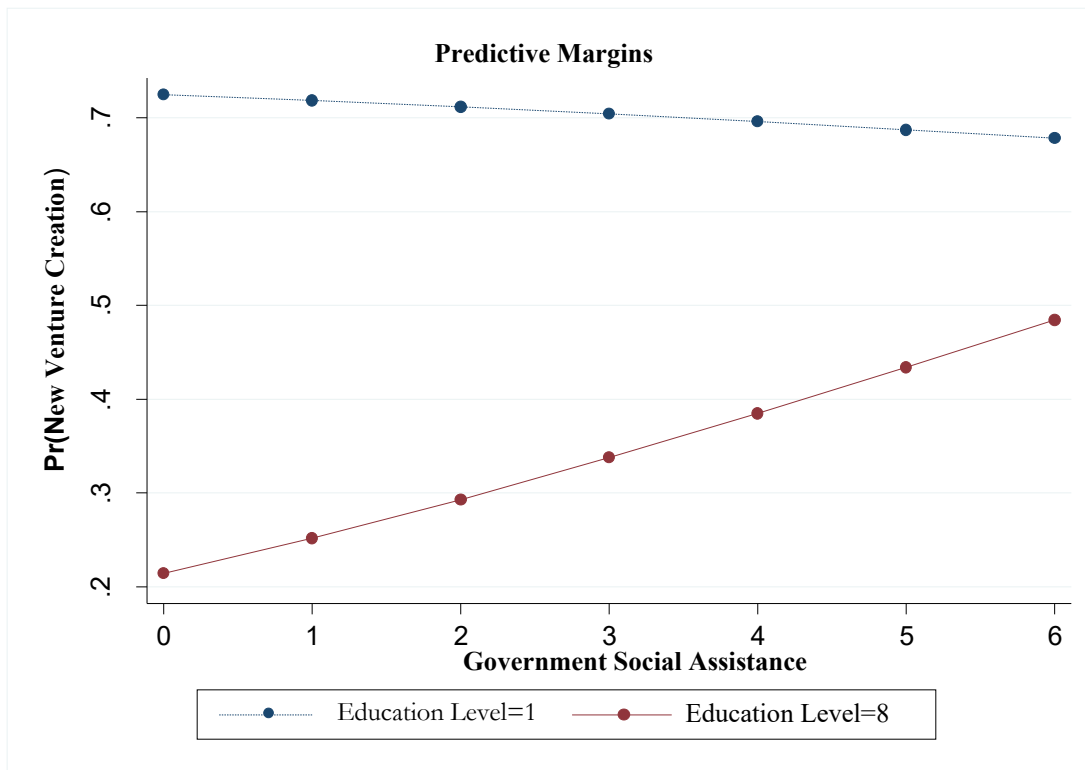


Figure 3. Interaction of education level with government social assistance and new venture creation

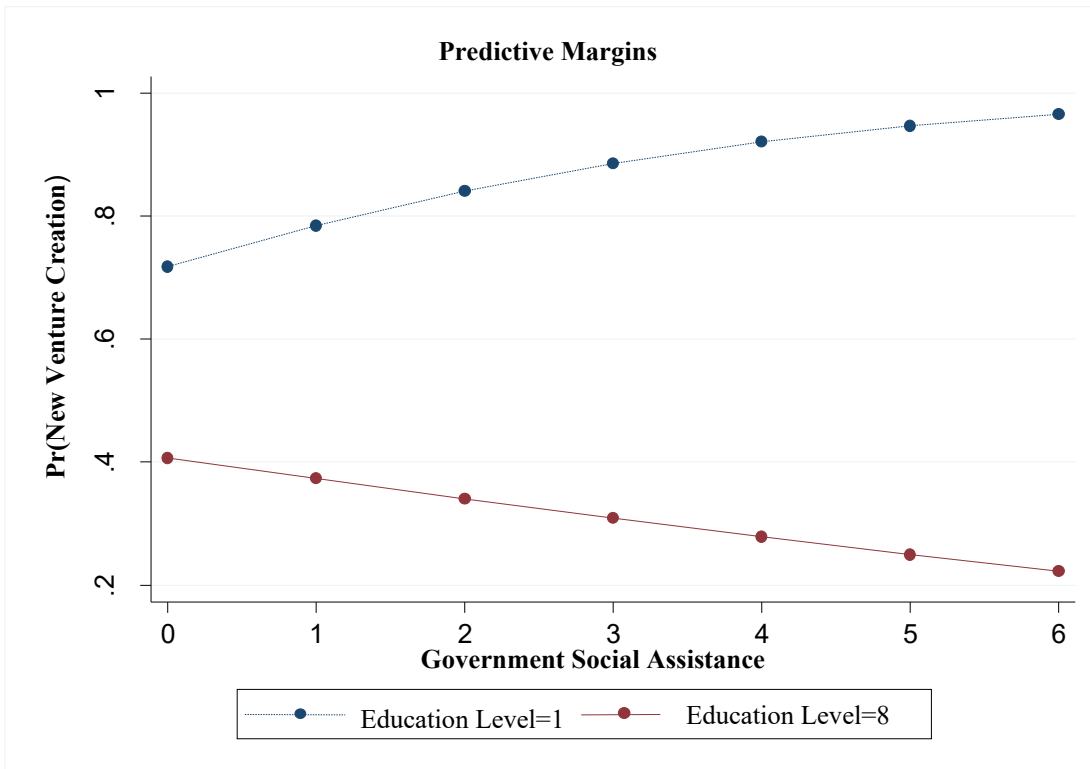


Figure 4. Interaction of extreme poverty level in the relationship between education level and government social assistance on new venture creation

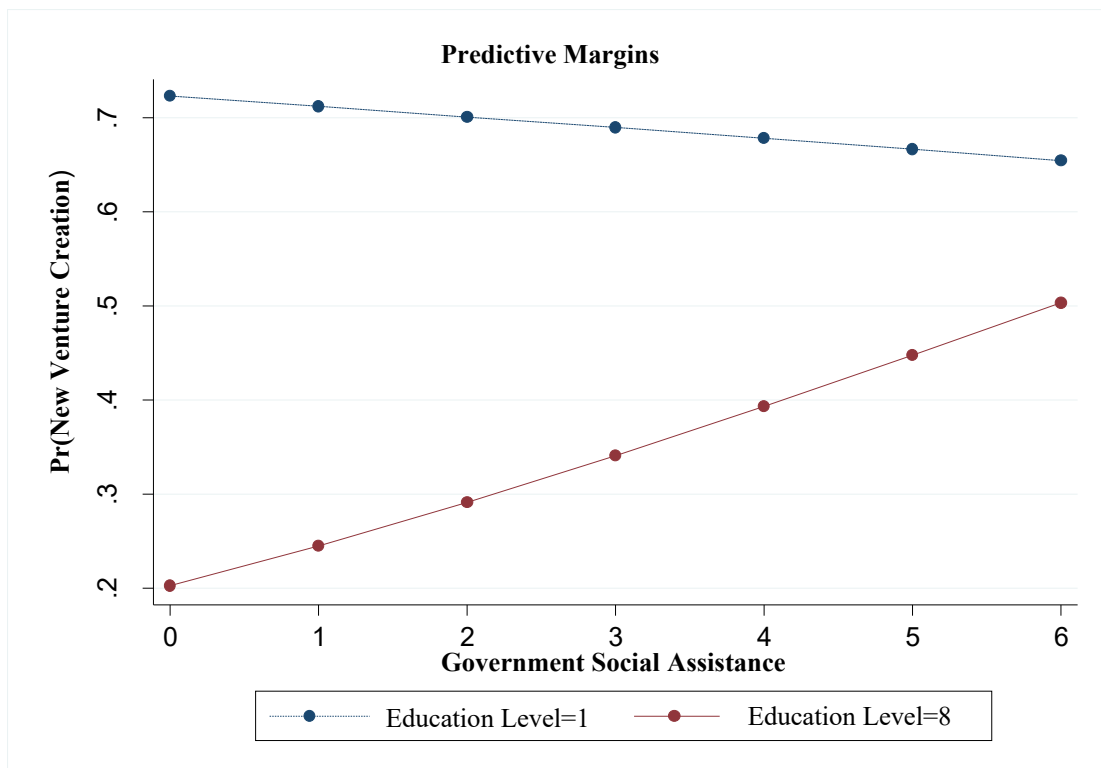


Figure 5. Interaction of moderate poverty level in the relationship between education level and government social assistance on new venture creation.