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DETERMINANTS OF FEMALE ENTREPRENEURSHIP IN IRAN: AN INSTITUTIONAL APPROACH

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ABSTRACT: *The purpose of this paper is to analyse the factors that influence female entrepreneurship (opportunity and necessity entrepreneurship) in Iran, using institutional economics as the theoretical framework. The empirical research uses the Logit Model and the Multinomial Logit Model to analyse a dataset for Iran based on the Global Entrepreneurship Monitor (GEM) and covering the period 2011–2015. The study concludes that informal factors (fear of failing, entrepreneurial skills, and*

female networks) are more relevant to female entrepreneurship than formal factors (education and start-up capital). The research recommends that policymakers consider the institutional factors that affect female entrepreneurship in Iran and design support policies to foster female entrepreneurial activity.

KEY WORDS: *Female entrepreneurship, necessity entrepreneurship, opportunity entrepreneurship, institution, Iran*

JEL CLASSIFICATION: L26, J24, O17, O43

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1. INTRODUCTION

Entrepreneurship is becoming a global phenomenon and a key driver of economic development and change in a wide variety of countries (Schumpeter 1939; Lafuente & Vaillant 2008; Chowdhury 2007). It is also becoming increasingly clear that women are less involved in entrepreneurship than their male counterparts (Langowitz & Minniti 2007). In recent years, researchers have paid increasing attention to female entrepreneurs (Welter et al. 2004; Minniti et al. 2005; Colette and Johnston 2007; Welter and Smallbone 2010; Byrne and Fayolle 2013; Kariv 2013; Ramadani et al. 2013). There are two main reasons why female entrepreneurs merit academic investigation. They are recognized as an important untapped source of economic growth as they create new jobs for themselves and others, and they provide different solutions to management, organization, and business problems as well as to the exploitation of business opportunities. Furthermore, female entrepreneurship has been traditionally neglected both in society in general and in the social sciences, as mainstream research, policies, and programmes tend to be “men-streamed” (Baker et al. 1997; OECD 2004)

With respect to transition economies like Iran, as Kitching and Woldie (2004) note, there are many questions and concerns about the position of female entrepreneurs. Have economic and political developments in recent years given women more opportunities to start their own businesses? What type of businesses are women involved in? Thus, the purpose of this paper is to analyse the factors that influence female entrepreneurship in Iran, using institutional economics (North 1990, 2005) as the theoretical framework. The empirical research uses data from the Global Entrepreneurship Monitor (GEM) for Iran covering the period 2011–2015.

To better understand the status of female entrepreneurship in Iran it is important to study its determinants. Schooling and having entrepreneurial experience and skills are positively related to self-employment. Education increases the ability to develop business skills and perceive business opportunities (Ucbasaran et al. 2008, Sternberg & Wennekers 2005, Arenius & Minniti 2005): highly educated entrepreneurs are less likely to fail than low-educated entrepreneurs (Bates 1995; Coleman 2007). Experience can increase the ability to perceive opportunities and can be important during the start-up phase of a company (Davidsson & Honig 2003; Rehman & Elahi 2012). Having a network of entrepreneurs is also considered important during the start-up phase of a company (Davidsson & Honig 2003): other entrepreneurs can provide information that would take time

and money if the entrepreneur had to find it independently (Dubini & Aldrich 1991).

Another important aspect when investigating female entrepreneurship is the distinction between necessity entrepreneurship and opportunity entrepreneurship. Necessity entrepreneurs become self-employed because they have no other job opportunities (Reynolds et al. 2003). Women in developing countries are often poor and have bad or no job opportunities (Langowitz & Minniti 2007) and so are more likely to become necessity entrepreneurs (Reynolds et al. 2003, Minniti & Arenius 2003). Opportunity entrepreneurs become self-employed because they perceive business opportunities (Reynolds 2004).

Following this brief introduction the paper is structured in four additional sections. First, the theoretical framework of the investigation is presented. Next, the methodology employed in the empirical work is explained and then the most relevant results of the study are discussed. Finally, the article provides the conclusions and future research directions.

2. THEORETICAL FRAMEWORK

In this paper we use institutional economics as the conceptual framework (Guerrero and Urbano 2012; Smallbone et al. 2010; Urbano et al. 2011). Amine and Staub (2009), Estrin and Mickiewicz (2011), and Noguera et al. (2013) apply this theory to analyse the environmental factors that condition female entrepreneurship. Institutional economics (North 1990, 2005) develops a general concept of institutions. North (1990) distinguishes formal institutions (laws, regulations, and government procedures) and informal institutions (beliefs, ideas, and attitudes – that is, the culture of a society). In this study the formal institutions are education and household income and the informal institutions are entrepreneurial skills, fear of failure, female networks, and female role models.

2.1. Education and entrepreneurship

Initial studies of entrepreneurship established a negative relationship between educational level and entrepreneurship, suggesting that pursuing an entrepreneurial career was left to those who did not have a high educational level (Collins and Moore 1964). However, recent works (Robinson and Sexton 1994; Bates 1995; Orser et al. 2012) demonstrate quite the opposite, that there is a positive relationship between higher levels of education and the likelihood

of creating a business. Furthermore, these studies indicate that women rely on advanced education as their route to self-employment much more than men. In addition, some authors suggest a positive relationship between education level and entrepreneurship, using human capital theory (Schultz 1959; Becker 1964) or resource-based theory (Urbano and Yordanova 2008; Castrogiovanni et al. 2011).

Formal education is a powerful tool that can help people to develop business skills and business opportunities (Ucbasaran et al. 2006; Sternberg & Wennekers 2005; Arenius and Minniti 2005). Education can improve the ability to perceive business opportunities (Davidsson and Honig 2003; Bates 1995; Gimeno et al. 1997; Robinson and Sexton 1994) and highly educated entrepreneurs are less likely to fail than low-educated entrepreneurs (Bates 1995; Coleman 2007). Handy et al. (2007) and Coleman (2007) find a positive relationship between schooling and female entrepreneurship, while several studies find a negative or no relationship between being educated and entrepreneurship (Grilo and Irigoyen 2006; Wang and Wong 2004; Reynolds et al. 2003; Djankov 2006; Castagnetti and Rosti 2011). Thus, results regarding the relationship between schooling and entrepreneurship are inconsistent. Taking into consideration the different positions found in the literature, in this paper we consider education level to be an important factor in entrepreneurial activity. Therefore, we propose the following hypothesis:

Hypothesis 1: Education has a positive effect on female entrepreneurial activity.

2.2. Start-up capital

The amount of start-up capital is important when deciding to become an entrepreneur. The amount of start-up capital depends on the amount of fixed costs. Women tend to use less money than men do when they start a company, which can affect the future of the business. Besides using less money than men, female entrepreneurs use less external finance (Carter and Rosa 1998) and prefer to use their own savings. When they need financial support they prefer to borrow money from their family and friends (Carter and Rosa 1998; Hisrich and Brush 1987; Olm et al. 1988; Johnson and Storey 1993).

There are different explanations for why women use less start-up capital when they start a business. One is that women work in industries with less growth potential and with much higher exit rates (Parker 2009). Another is that women have to take care of their households as well as running their own businesses (Verheul and Thurik 2001). Based on the literature, we form the following hypothesis:

Hypothesis 2: Start-up capital has a positive relationship with the probability of being a female entrepreneur.

2.3. Entrepreneurship and fear of failure

A number of studies have attempted to determine the relationship between entrepreneurship and the fear of failing as a business owner (Djankov et al. 2006; Grilo & Irogoyen 2006; Arenius & Minniti 2005; Langowitz & Minniti 2007; Elston & Audretsch 2010). The results are mixed. Several scholars find a positive relationship between entrepreneurship and risk attitude (Djankov et al. 2006; Grilo and Irogoyen 2006; Caliendo et al. 2006), other studies find no relationship (Wang and Wong 2004; Vaillant and Lafuente 2007), while some studies find a negative relationship between necessity entrepreneurship and fear of failing as a business owner (Arenius and Minniti 2005).

Hypothesis 3: Fear of failing as a business owner has a negative effect on female entrepreneurship.

2.4. Entrepreneurial skills

Work experience, managerial experience, and previous start-up experience can all help individuals to perceive business opportunities (Davidsson & Honig 2003; Rehman & Elahi 2012). Managerial experience is important during the start-up phase, when a lot of coordination is needed to establish the business. Individuals with previous entrepreneurial experience may well have more confidence in their abilities because they know the pitfalls and risks related to the start-up phase (Kim et al. 2006). Individuals with previous managerial skills have less difficulty managing a company (De Vita et al. 2013). Both theoretical and empirical studies have found a positive relationship between experience and entrepreneurship (Becker 1964; Coleman 2007; Heilman and Chen 2003; Davidsson & Honig 2003). A number of studies have found that knowledge, skills, and work experience are positively related to female entrepreneurship; therefore, the following hypothesis will be tested:

Hypothesis 4: Entrepreneurial knowledge, skills, and experience have a positive effect on female entrepreneurship.

2.5. Female networks

Networks can help to perceive business opportunities, provide valuable, specific industrial information, and contribute to a person's entrepreneurial goals (Carter et al. 2003; Greve & Salaff 2003). In the entrepreneurial process, entrepreneurs need resources such as information, capital, and skills, and these can be made available through their networks (Aldrich and Zimmer 1986). Some scholars also confirm the importance of personally knowing someone who has recently started a business and of his/her influence on the probability of starting a business. Furthermore, he/she can provide different perspectives and relevant knowledge, and offer emotional support (Hoang & Antoncic 2003; Greve 1995; Allen 2000; Kwong et al. 2012; Langowitz & Minniti 2007).

Langowitz and Minniti (2007) find a positive relationship between being networked and women's entrepreneurial propensity: having a network of entrepreneurs is one of the most important variables when considering becoming self-employed. Based on the discussion above, we believe that having a network of entrepreneurs increases the probability of an Iranian woman becoming self-employed. We therefore propose:

Hypothesis 5: Having a network of entrepreneurs has a positive influence on female entrepreneurship.

2.6. Female role model

A role model can be defined as a person who is similar to oneself, making it easier to learn from the role model and to define one's own self-perception (Gibson 2004). Knowing an entrepreneur with similar characteristics is a factor that can increase the probability of creating a business by reducing the uncertainty associated with the process of starting a new business (Davidsson and Honig 2003; Arenius and Minniti 2005). Role models are important because of their ability to enhance self-efficacy.

Exposure to a role model may be more important for how women perceive their entrepreneurial skills than it is for men (Minniti and Nardone 2007). However, there is an absence of female role models because the necessary attributes for being a role model are generated by organizations that place a higher value on male characteristics than female characteristics, thus reducing the probability that women become role models (Meyerson and Fletcher 2000). Female role models are important because they not only offer professional orientation but

also provide information and knowledge about specific problems related to reconciling work and family – an important aspect when a woman is deciding to set up a business. Based on the previous literature, we derive the following hypothesis:

Hypothesis 6: Female role models have a positive influence on female entrepreneurship.

3. DATA AND METHODOLOGY

As noted previously, in this research we propose that both informal and formal institutions influence female entrepreneurial activity. We test the hypotheses using Iranian time series data covering a 4-year period (2011–2015). The data for analysis is retrieved from the Global Entrepreneurship Monitor (GEM). Table 1 presents the dependent and the independent variables used in this study.

Table 1: Description of variables

| Variable | Description | Source |
|---|--|---------------|
| Dependent variable | | |
| Total Early-stage entrepreneurial Activity (TEA) | Percentage of individuals (Male/Female) aged 18–64 in the population who are either nascent entrepreneurs or owner-managers of a new business | GEM 2011–2015 |
| Female Total Early-stage entrepreneurial Activity (FTEA) | Percentage of females aged 18–64 in the population who are either nascent entrepreneurs or owner-managers of a new business | GEM 2011–2015 |
| Opportunity Entrepreneurship | Percentage of females aged 18–64 in the population who i) claim to be driven by opportunity as opposed to finding no other option for work; and ii) indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income | GEM 2011–2015 |
| Necessity Entrepreneurship | Percentage of females aged 18–64 in the population who are involved in entrepreneurship because they have no other work options | GEM 2011–2015 |

| Variable | Description | Source |
|-------------------------------|---|---------------|
| Formal institutions | | |
| Education | Percentage of women enrolled in tertiary education | GEM 2011–2015 |
| Start-up capital | The amount of start-up capital in two levels, high and low | GEM 2011–2015 |
| Informal institutions | | |
| Fear of failure | Percentage of female fear of failure that would prevent them from starting a business | GEM 2011–2015 |
| Entrepreneurial skills | The woman thinks she has the required knowledge, skills, and experience to set up a business | GEM 2011–2015 |
| Female network | Percentage of females who know someone personally who started a business in the past 2 years | GEM 2011–2015 |
| Female role model | Percentage of females aged 18–64 in the population who are currently owner-managers of an established business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months | GEM 2011–2015 |
| Control variables | | |
| Age | The age range is between 18 and 64 years | GEM 2011–2015 |
| Business closure | A woman has abandoned, discontinued, or quit a business in the last 12 months | GEM 2011–2015 |
| Household income | Household income in three levels, high, medium, and low | GEM 2011–2015 |
| Opportunity perception | The woman perceives an opportunity to start a business in the next 6 months in the area where she lives | GEM 2011–2015 |

The logistic regression model is used to test the hypotheses. In logistic regression, the outcome takes one of two values, 0 or 1. We developed two models to analyse the determinants of female entrepreneurship. Model 1 provides information on how the proposed factors influence the decision to become an entrepreneur. Model 2 gives information on how the determinants influence female opportunity entrepreneurship and necessity entrepreneurship in Iran.

The general model considered in this study is as follows:

$$FTEA = a + \beta_1 F + b_2 I + b_3 V + \varepsilon_i$$

where Female Total Early-Stage entrepreneurial Activity (*FTEA*) is the dependent variable, *F* is a matrix of formal institutions, *I* is a matrix of informal institutions, *V* is a matrix of the control variable, and ε_i is a disturbance term. In this study two general models are considered in order to test the hypotheses. The dependent variable in the first model is *FTEA* and is a dummy variable. Value 0 stands for females who are not involved in TEA and value 1 stands for females who are involved in TEA. In the second model, *FTEA* is a categorical variable. The variable has 3 values. Value 0 stands for females who are not involved in TEA, value 1 stands for females involved in necessity entrepreneurship, and value 2 stands for opportunity-based female entrepreneurs. We estimate the first model using the logit method and the other two models using the multinomial logit regression method.

4. RESULTS AND DISCUSSION

The first model analyses the effect of formal and informal institutions and control variables on female entrepreneurship. Table 2 presents the results of logit regression in model 1.

Table 2: Logit regression results of model 1

| Variable | Coefficient | Margin | T-statistic |
|------------------------|-------------|----------|-------------|
| Education | -0.511 | -0.074 | -0.4139 |
| Start-up capital | 0.388 | 0.054 | 1.0064 |
| Fear of failure | 0.293*** | 0.036** | 4.1324 |
| Female network | 1.324** | 0.169** | 2.0876 |
| Entrepreneurial skills | 0.412** | 0.071** | 2.0943 |
| Female role model | 0.345** | 0.242** | 2.0631 |
| Age | -0.315 | -0.472 | -1.0842 |
| Business closure | -0.832** | -0.123** | -2.0621 |
| Income | 0.079** | 0.032** | 2.0774 |
| Opportunity perception | 0.067** | 0.078** | 2.0853 |
| Number of Observations | 4,494 | - | - |
| -2 Log Likelihood | 21.438 | - | - |
| Cox & Snell R Square | 0.587 | - | - |
| Nagelkerke R Square | 0.756 | - | - |
| Hosmer & Lemeshow Test | 7.877 | - | - |

Note: *, ** and *** denote statistical significance at 10%, 5%, and 1% respectively

Table 2 shows that the coefficients of formal institutions are not statistically significant, while the coefficients of all informal institutions are significant. In addition, business closure has a negative and significant ($p < 0.05$) influence on female entrepreneurial activity, in line with the results of Koellinger & Minniti (2006). The marginal effect is -12.3, which means that the probability of becoming an early-stage entrepreneur having shut down a business in the last 12 months is decreased by 12.3 percentage points, *ceteris paribus*.

Furthermore, both household income and opportunity perception have a positive and significant ($p < 0.05$) influence on female entrepreneurial activity, in line with the reviewed literature (Arenius and Minniti 2005; Langowitz & Minniti 2007).

A multinomial logit regression is performed for model 2. The base outcome in this model is TEA=0. Therefore, we will compare the results of the model with females who are not involved in early-stage entrepreneurship. Table 3 presents the results of multinomial logit regression in model 2.

Table 3: Multinomial logit regression results of model 2

| Variable | Opportunity entrepreneurship | | | Necessity Entrepreneurship | | |
|------------------------|------------------------------|----------|-------------|----------------------------|----------|-------------|
| | Coefficient | Margin | T-statistic | Coefficient | Margin | T-statistic |
| Education | -0.345 | -0.123 | -0.4067 | -0.234** | -0.152** | -2.3018 |
| Start-up capital | 0.322* | 0.078 | 1.8529 | 0.438 | 0.129 | 0.8765 |
| Fear of failure | 0.223** | 0.145** | 2.0326 | 0.269** | 0.039*** | 5.1312 |
| Female network | 0.618** | 0.337** | 2.0689 | 0.375** | 0.169*** | 4.1345 |
| Entrepreneurial skills | 1.238** | 0.139*** | 4.0785 | -0.121** | -0.016** | -2.0221 |
| Female role model | 0.376 | 0.332 | 0.5564 | 0.215 | 0.452 | 0.3534 |
| Age | 0.012** | 0.013** | 2.0234 | -0.847** | -0.002** | -2.0441 |
| Business closure | -1.354** | -0.128** | -2.0512 | -0.458** | -0.024** | -2.0223 |
| Income | 0.056** | 0.023** | 2.0654 | -0.312** | -0.017** | -2.0761 |
| Opportunity perception | 0.543** | 0.064** | 2.0433 | -0.987** | -0.012** | -2.0123 |
| Number of Observations | 4,374 | | | 1,632 | | |
| -2 Log Likelihood | 59.768 | - | - | | | |
| Cox & Snell R Square | 0.621 | - | - | | | |
| Nagelkerke R Square | 0.789 | - | | | | |
| Hosmer & Lemeshow Test | 8.523 | - | - | | | |

Note: *, ** and *** denotes statistical significance at 10%, 5%, and 1% respectively

In second model we use multinomial logit regression to investigate the effect of control variables and formal and informal institutions on both opportunity and necessity entrepreneurship. The results show that the influence of education on female necessity entrepreneurship is negative and significant ($p < 0.05$). The marginal effect is -15.2, which means that the probability of an educated person becoming a necessity entrepreneur decreases by 15.2 percentage points, *ceteris paribus*. These results are in line with the findings of Bates (1995), Coleman (2007), Davidsson & Honig (2003), and Rehman & Elahi (2012).

Moreover, the results show that the coefficients of informal institutions have a statistically significant effect and are the expected sign, except for female role model. Thus, informal institutions such as fear of failure and female networks have a positive and significant influence ($p < 0.05$) on opportunity and necessity entrepreneurship for Iranian women. Entrepreneurial skills have a positive

effect on opportunity entrepreneurship but a negative effect on necessity entrepreneurship.

All of the control variables are the expected sign and are significant. The effect of age on opportunity entrepreneurship is positive, but it has a negative effect on necessity entrepreneurship, in line with Bhola et al. (2006) who found that opportunity entrepreneurs are generally older and more experienced than necessity entrepreneurs. In addition, opportunity perception has a positive effect on opportunity entrepreneurship and a negative effect on necessity entrepreneurship, in line with the findings of Koster & Rai (2008) and Reynolds et al. (2003). Finally, income has a positive effect on opportunity entrepreneurship and a negative effect on necessity entrepreneurship.

Hypothesis 1 proposes a positive impact of education on entrepreneurial activity and Hypothesis 2 a positive influence of start-up capital on female entrepreneurship. However, the coefficients of these formal institutions in models 1 and 2 are not statistically significant; thus, the data rejects Hypotheses 1 and 2. Likewise, Hypothesis 3 proposes a negative impact of fear of failure on entrepreneurial activity and Hypothesis 4 a positive influence of entrepreneurial skills on female entrepreneurship. The coefficients of these informal institutions in models 1 and 2 are statistically significant; thus, the data supports Hypotheses 3 and 4.

In Hypothesis 5 we propose that female networks have a positive influence on female entrepreneurship. The coefficient of this informal institution is positive and statistically significant ($p < 0.05$); thus, the data supports Hypothesis 5, in line with the reviewed literature (Langowitz and Minniti 2007; Brush et al. 2009; Davidsson & Honig 2003; Greve & Salaff 2003; Renzulli et al. 2000). Finally, Hypothesis 6 postulates that female role models have a positive influence on female entrepreneurship. Models 1 and 2 show that female role model is not statistically significant; thus the data rejects Hypothesis 6.

5. CONCLUSIONS

The main purpose of this paper is to contribute to the existing entrepreneurship literature by exploring the influence of formal and informal institutions on female entrepreneurial activity in the Iranian context. To achieve this aim we developed two models for the period of 2010–2015, using data from the Global Entrepreneurship Monitor. The first model provides information on how the

proposed factors influence the decision to become an entrepreneur for Iranian women. Model 2 provides information on how the determinants influence female opportunity entrepreneurship and female necessity entrepreneurship.

The main findings of this study show that formal institutions such as education and start-up capital have no significant influence on female entrepreneurship in Iran. A possible explanation for the education–entrepreneurship nexus is that in developing countries like Iran, most female entrepreneurs are often poor and have bad or no job opportunities. The reason these women cannot find a job could be that they lack education (Bhagavatula et al. 2010; Jamali 2008). These women are more likely to become necessity entrepreneurs and to be active in low-technology sectors (Verheul et al. 2009; Bhagavatula et al. 2010; Jamali 2008). Furthermore, it is possible that highly educated women are less likely to consider becoming self-employed, because they have good job prospects in larger firms. One explanation for the relationship between start-up capital and entrepreneurship could be that risk aversion drives women to become self-employed. Women are more risk averse than men and this is one of the reasons why women prefer small businesses with a smaller amount of start-up capital. To reduce the risk, women try to fund their businesses with money of their own or from friends or family. Thus, a woman's reason for becoming self-employed is not to make money but to have flexibility and independence.

Based on the findings of the current research, the informal institutions that appear to be most relevant to the creation of businesses by women are entrepreneurial skills, fear of failure, and female entrepreneur networks. Having entrepreneurial experience, skills, and knowledge is not significantly related to necessity entrepreneurship. Necessity entrepreneurs are often inexperienced and low-educated (Bates 1995; Coleman 2007; Davidsson & Honig 2003; Rehman & Elahi 2012). They are more likely to have limited knowledge in the entrepreneurship and business fields they are active in, compared to educated and experienced entrepreneurs. Earlier studies by Becker (1964), Coleman (2007), and Davidsson and Honig (1995) do find a positive relationship between entrepreneurial skills and entrepreneurship. In addition, fear of failing as an entrepreneur has a positive effect on the decision to become self-employed. Djankov et al. (2006), Hederson & Roberson (2000), Cramer et al. (2002), Caliendo et al. (2006), and Begley (1995) find similar results. Yet there are studies that conclude that fear of failure does not have an effect on entrepreneurship (Wang and Wong 2004; Vaillant and Lefeunte 2007; Ram et al. 2013). Finally, the presence and visibility of a greater number of women entrepreneurs in society can help potential female entrepreneurs to create their own businesses (Brush et al. 2009; Greve and Salaff 2003). However, having

a network of entrepreneurs might be less important for female opportunity entrepreneurs because they are educated and often have had several jobs where they have developed the necessary competencies to start a business (Block & Wagner 2010). Therefore, in Iran informal institutions are more important for the promotion of female entrepreneurship than formal institutions, which is in line with other studies in this field (Alvarez et al. 2011; Coduras et al. 2008; Noguera et al. 2013; Urbano et al. 2010).

With regard to the line of future research, one suggestion is to carry out a longitudinal study on female entrepreneurship in developing countries, incorporating additional independent variables to improve the findings. Our research recommends that the government increase the presence and visibility of female role models in society and designs education programmes from primary school to university which promote a set of attitudes and values that encourage a positive perception of entrepreneurship.

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DETERMINANTS OF FEMALE ENTREPRENEURSHIP IN IRAN

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