



ISSN: 0975-833X

RESEARCH ARTICLE

ROLE OF SOCIAL CAPITAL ON TACKLING POVERTY AT SMALL AND MICRO ENTERPRISES LEVEL  
(THE CASE OF TIGRAI REGION, ETHIOPIA)

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ARTICLE INFO

Article History:

Received 10<sup>th</sup> September, 2014  
Received in revised form  
15<sup>th</sup> October, 2014  
Accepted 09<sup>th</sup> November, 2014  
Published online 27<sup>th</sup> December, 2014

Key words:

Social capital,  
Tigray,  
Small  
and Micro enterprises.

ABSTRACT

As the title indicates, the emphasis of the study was on the role of social capital on poverty reduction with specific reference to small and micro enterprises in Tigray region. The reason that this area was studied is that, major emphasis of governments and economists was on the economic and human capital by excluding the social capital while they establish or describe the small and micro enterprises. But, current studies made by growth and developmental experts revealed that, the above mentioned capitals (economic and human) would not bring a sound result unless they are supplemented by social capital. As a result of this, governments including the Ethiopian government have returned their attention towards the social capital currently. Hence, the research team was largely motivated to assess the role played by social capital by putting the following objectives:

- How SMEs define and articulate social capital
- what norms and values are followed to enter and stay in SMEs business activities
- what lessons can be transferred to policymakers and strategy designers

To pinpoint the above objective, the research team has employed a survey study on three selected towns by approaching a sample of 217 SMEs owners/managers. The finding revealed that there is a networking system among the existing SMEs. This networking system helped the SME owners to share information, borrow and lend money in times of shock and they are active participant on the mentioned and other social capital indicators. Such networking system plays a great role on poverty reduction within the SMEs.

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1. BACKGROUND AND JUSTIFICATION

Poverty alleviation is the prime focus of the Millennium Development Goals and it is the most important issues of humanity. One cannot imagine bringing sustainable economic development without big improvements in the economic welfare of the world's population and of course the dreams of global level sustainable development may not be achieved without due focus on poverty alleviation of the businesses' nearby community. The issues of poverty are pervasive. In one direction it can be associated with need, hardship and lack of resources across a wide range of circumstances. For others, it is a moral and evaluative issue. For some it can be expressed in terms of deprivation like adequate housing, food, sufficient income, employment and access to social services (such as water, electricity and health) and status. In this case poverty can be classified in to three: Extreme, moderate and relative poverty (Boyle and Bogudla, 2007).

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In the context of extreme poverty households unable to meet their basic survival needs such as food, cloth and shelter. In moderate poverty basic needs are barely met-people must forgo education and health care. Whereas in relative poverty household's income level is below a given proportion of average national income, that is, people lack access to quality health care, education and prerequisites for upward mobility. Poverty can also be characterised by a lack of asset wealth; that is, resources that people can use to rise out of poverty or to sustain themselves above poverty levels (Ibid). Asset wealth comes in the form of human capital (knowledge and skills) and the type of financial assets (property, savings and investments) that can provide future stability and growth opportunities or that can be transferred among generations.

Poverty in Ethiopia affects most of the population

Subsistence agriculture –usually involving farmers working convey small land –holding –dominates the economy. Agriculture contributes about 43% of the country's domestic product, accounting for about 90% of the export earnings. However, inefficient markets, outdated production techniques

and lack of credit hamper advancement in agriculture. These trends paved the country to have huge number of unemployment both in rural and urban areas. Hence the government of Ethiopia has been devising diverse mechanisms to curb the consequences of poverty, for one thing, through the development of micro and small size enterprises. Today there is government -private partnership to make the small and medium size enterprises as an engine for growth, job creation and poverty alleviation throughout the country.

Micro and small enterprises acting as the major components of the national economy are offering employment to the majority of people in Ethiopia. They become also the second employment creator next to agriculture. Because of this the government of Ethiopia today has much attention to the promotion and development of such enterprises throughout the country; of which the State of Tigray is one. Tigray through its Regional Micro and Small Enterprise Development Agency (2001) developed MSE strategy aimed at facilitating economic growth and equitable development, create long-term jobs, strengthen cooperation among MSEs, provide basis for medium and large scale enterprises, promote export and other similar objectives. Unfortunately, the rate of unemployment in Tigray is too high. Compounded with this, the civil structure in the region is over saturated holding more than 70,000 civil servants and this number is believed to be the highest proportion in the country. Moreover, the contribution of the private sector in generating employment opportunities is too limited. The trend indicates the absence of room to employ the vast majority of the young generation graduated from various levels of training institutions (Aksum University, 2011).

Though governments across the globe including the Ethiopian government gave larger emphasis for the establishment and promotion of SMEs, the outcome was not found as required. Among many reasons to this, to achieve the goal of such small and micro enterprises, theories of economic development stress the importance of money and machinery, healthy and skilled workforce and technology (Knack and Keefer 1997, Putnam 1993).

#### **But there are still unanswered critical questions**

- Are small and micro enterprises equipped with the necessary armament to alleviate poverty?
- Are we winning or losing the battle against poverty alleviation?

To answer these questions, development and growth specialists are inclining towards the importance of social cohesion (social capital) for societies to prosper economically and for development to be sustainable, in addition to human and economic capital.

According to, Portes (1998), cited by Ian Falk, (2000)

- economic capital is in people's bank accounts
- human capital is inside their heads where as
- Social capital inheres in the structure of their relationships.

Hence, Social capital as defined by the OECD is:

“Social capital is the Networks together with shared norms, values and understandings that facilitate co-operation within or among groups”.

The potential benefits of social capital can be seen by looking at social bonds. Friends and families can help us in lots of ways:

- Emotionally
- socially
- economically
- labor service and
- information and resource sharing

In the United Kingdom, for example, a government survey found that more people secure jobs through personal contacts than through advertisements. There is therefore a need to investigate these social resources and derive lessons for poverty- alleviation programs on alternative strategies to address the increasing problem of poverty. It is with this context that we have employed the social capital concept in this study to explore opportunities and limitations offered in social resources found among SME towards development and poverty alleviation.

The main agenda of this research was targeting on investigating how social capital is used as a strategy to tackle poverty in the micro and small enterprises in Tigray. The study investigated how micro and small enterprises found in the region mobilize social resources in the form of social capital and utilize these resources as a strategy to carry out transactions. Specifically, the study demonstrated how social capital contributes to the initiation and continuity of micro and small enterprises thereby fighting with poverty. Specifically the research has addressed the following questions:

1. How do micro and small enterprises define and develop social capital?
2. How do entrepreneurs use social capital to enter and stay in micro and small enterprises?
3. What are the norms and values that guide transactions and exchanges in micro and small enterprises?

What lessons do the existence of social capital in the micro and small enterprises provide for poverty-alleviation strategies?

#### **1.1. Objectives of the project**

##### **General objective**

To assess the role of social capital on poverty alleviation endeavors of the SMEs in Tigray.

##### **Specific objective**

- To examine the forms of social capital in micro and small enterprises.
- To examine the mechanisms by which social capital is used to enter and stay in micro and small enterprises.

- To describe the norms and values that guide transactions and exchanges in micro and small enterprises with stakeholders.
- To assess the application of social capital towards poverty-alleviation strategies.

## 1.2. Significance

### There are two main advantages of this research:

1. Knowledge building: This study will contribute to the analysis of the concept of social capital with specific reference to micro and small enterprises in Ethiopia in general and in Tigray in particular. In Ethiopia there is a gap in micro and small enterprise research as far as social capital is concerned. This study therefore will contribute to fill the gap.
2. Deriving lessons for strategies of poverty-alleviation. It is so long that our government is giving due emphasis on micro and small enterprise in tackling the deep rooted enemy of the country-poverty. The government is ratifying different policy documents on promoting and assisting the micro and small business enterprises. There is a remarkable improvement in this regard; however, much is remain to materialize and implement the policy documents. Therefore, this study will make an effort to provide evidence that can be used and incorporate in to policies and programs of intervention to use strategically and promote social capital in micro and small enterprises as a strategy for poverty-alleviation.

## 2. REVIEW OF RELATED LITERATURE

### 2.1. An overview

Social capital has come to mean many things to many people, so much so that critics are increasingly asking what social capital is not. Even if we can agree on a reasonably precise definition of social capital, scholars disagree about what level of analysis the concept refers to. Is it the individual? Family? Neighborhood? Nation? (Coleman, 1988).

Then What Is Social Capital?

According to OECD (n.d), the concept of social capital became fashionable only relatively recently, but the term has been in use for almost a century while the ideas behind it go back further still. "Social capital" may first have appeared in a book published in 1916 in the United States that discussed how neighbors could work together to oversee schools.

Similar study by Lindon (2002) describes that social capital paradigm includes social capital, networks, socio-emotional goods, attachment values, institutions, and power. Social capital is a person or group's sympathy for others. Social capital resides in sympathetic relationships that can be described using network. One reason to value social capital, according to Lindon, is because it can produce economic benefits and if neglected, economic disadvantages. Another reason to value social capital is because it can be used to produce socio-emotional goods that contribute to a country's

socio-emotional health. Sometimes socio-emotional goods become embedded in objects.

From various definitions in this document and outside this, Social capital is referring to the social relationships and patterns of reciprocal, enforceable trust that enable people and institutions to gain access to resources like social services, jobs, or government contracts. Social capital is a structural aspect of communities, embodying the context-specific networks that people and institutions use to achieve their goals. More specifically, Portes (1998) has put that social capital is more of a process, rather than a quantifiable set of relationships. Porter added that Confusion about social capital in policy circles comes from the ways that researchers measure social capital: some simply count the number of friends someone has or the number of organizations that they belong to. However, researchers and policymakers cannot necessarily identify social capital by counting connections because often the quality of these relationships is more important than the quantity.

### 2.2. Classification of Social Capital

In addition to this, OECD has classified social capital into three as follows

- Bonds: Links to people based on a sense of common identity ("people like us") such as family, close friends and people who share our culture or ethnicity.
- Bridges: Links that stretch beyond a shared sense of identity, for example to distant friends, colleagues and associates.
- Linkages: Links to people or groups further up or lower down the social ladder.

### 2.3. The Role of Social Networks in Economic Action

Presumptions of economic development underline the substance of money and machinery, a healthy and skilled workforce and technology. However, development and growth specialists are uncovering the importance of social bond for societies to prosper economically and for development to be sustainable (Knack and Keefer 1997; Putnam 1993). "Social capital forms the underpinnings of poverty and prosperity" (Narayan 1997). Parallel to this, Robinson (2002) emphasizes that almost all economic behavior are implanted in networks of social relations. Dasgupta (1988) has further supported this idea that Social capital and trust can make economic transactions more efficient by giving parties access to more information, enabling them to coordinate activities for mutual benefit, and reducing opportunistic behavior through repeated transactions. Generally, Social capital plays a momentous part in shaping the outcomes of economic action at both micro and macro levels (Narayan 1997).

#### 2.3.1. Role of social capital at the Macro level

Societal level social capital is critical in determining how the government functions (Putnam 1993) and what types of private sector develops in an economy (Fukuyama 1995).

#### Public Sector

Constructive state participation in economic development hinges on a delicate balance between external social ties and internal cohesiveness. Ideally, highly skilled and well-respected state bureaucracy utilizes its close working relationship with business leaders to enhance the market performance of private and public sector organizations. Government effectiveness, accountability and the ability to enforce rules fairly directly impact economic growth by enabling or disabling the development of domestic firms and markets and encouraging or discouraging foreign investment (Narayan 1997, Putnam 1993).

### Private Sector

Fukuyama (1995) found that more expansive social networks of the United States and Germany generate a greater number of large corporations than do societies like China, in which family networks form the foundation of private enterprise. Simultaneously fostering economic development at micro and macro levels is critical in order to promote growth and alleviate poverty in ways that are sustainable.

### 2.3.2. Role of Social Capital at Micro Level

#### Family

- Social capital is used among the poor to insure themselves against shocks, such as bad health, inclement weather or government cutbacks and to pool their resources, such as food, credit or child care. In addition to enabling poor people to start up small enterprises and increase their income, informal relationships often mean the difference between day-to-day survival and despair.

#### Firm

- Dense and overlapping social networks increase the likelihood of economic cooperation by building trust and fostering shared norms. The social capital generated within and between firms is especially important for lowering risk and uncertainty at the local level (Fountain 1998).
- Social capital facilitates valuable information exchange about products and markets and reduces the costs of contracts and extensive regulations and enforcement. Repeated transactions and business reputation provide the necessary incentives for parties to act in mutually beneficial ways.

#### Community

- Social capital at the community level impacted poverty by making government services more effective, facilitating the spread of information on agriculture, enabling groups to pool their resources and manage property as a cooperative, and giving people access to credit who have been traditionally locked out of formal financial institutions (Narayan 1997).

### 2.4. Poverty Alleviation and Sustainable Development: The Role of Social Capital

“No man is an island; every man is part of the main. Any man’s death [and poverty] diminishes me because I am involved in mankind, and therefore never send to know for whom the bell tolls; it tolls for thee” (John Donne, English Poet, 1573-1631: cited by Robison *et al.*, 2002). The above poet reveals that network between or among different peoples affects either in good or bad way. Poverty is a major cause and effect of global environmental problems: Poor people are often seen as compelled to exploit their surrounding for short-term survival and are assumed to be the ones most exposed to natural resources degradation. Despite these intuitively plausible statements, the debate on the characteristics of poverty-environment interaction has been likened to a puzzle, where we possess several pieces, have identified some crucial links and features, but still lack the entire picture (Asadi, 2008).

According to Asadi, a poverty agenda will often require extension and education services to focus initial emphasis on empowerment of the poor, building capacity at individual and institutional levels and building demand for services where there has been little in the past. Equity in access to services requires proactive efforts to reach out to the poor and to women and minority groups. Extension programs must recognize that the poor have very limited capacity to invest in new technologies and that risk is a question of survival. Poverty-focused extension services will have to address social and organizational constraints to innovation, such as facilitating rural financial services, obtaining secure land tenure and improving management of community resources.

A poverty focus might also require attention to social issues formerly considered outside the domain of extension (i.e., education, facilitating access to health, education and social programs). Recognizing poverty reduction as an extension goal requires new procedures for priority setting and allocation of scarce public resources, designing programs to meet different client needs and evaluating programs recognizing the different cost implications and impact indicators implicit in poverty-targeted programs. According to Robinson *et al.* one reason to value social capital is because it can produce economic benefits and if neglected, economic disadvantages. Another reason to value social capital is because it can be used to produce socio-emotional goods that contribute to a country’s socio-emotional health. Sometimes socio-emotional goods become embedded in objects. When this occurs, the meaning and value of the object change. The change in the value of an object produced by embedded socio-emotional goods is the object’s attachment value.

Individuals exchange both physical and socio-emotional goods. Institutions are the rules that order and give meaning to exchanges. Institutions with high attachment values are more likely to be observed than those whose compliance depends on economic incentives or threats. Finally, power, the ability to influence others, depends on one’s resources, including one’s social capital.

In most personalized transactions, persons exchange both socio-emotional goods and physical goods and services. Moreover, as stated by Paul *et al.* (2009), the relative amounts of socio-emotional goods and physical goods and services exchanged will alter the levels and terms of trade when measured in physical units. As Knack (1999) stated, since one's ability to include socio-emotional goods in exchanges for physical goods and services depends on one's social capital, the terms and levels of exchange of physical goods and services will be influenced by the transacting party's social capital. Paul *et al.* (2009) supported this argument that those with high levels of social capital will have advantages over those who lack social capital because they can exchange both socio-emotional goods and physical goods and services. Furthermore, since social capital alters the terms and levels of trade and the terms and levels of trade influence the distribution of incomes derived from trades, and then social capital also has an important influence on the distribution of household income and poverty (*ibid*).

Similarly, Asadi (2008) identified that those who deliver social capital internalize changes in the well-being of those who are the objects of their sympathy. As a result, those who have social capital have the potential to receive preferential treatment, including the opportunity to exchange on favorable terms, to receive gifts, to have their transaction costs reduced, and to be insulated from opportunistic actions. As social capital increases, according to Asadi, one's sympathy and concern for others increases and may produce the following effects. First, one may be more willing to invest in high exclusion cost goods (sometimes called public goods). Every society must incur some costs to provide their citizens with goods and services which are costly to exclude anyone from their use. These goods may include education, law enforcement, some health and transportation services, sanitation, food safety, defense, and environmental protection.

In a social capital-rich country in which incomes are relatively equal and in which citizens take an interest in each other's welfare, public goods are more available and their benefits more evenly distributed than in countries in which social capital is narrowly distributed (Paul *et al.*, 2009). He added that, in social capital-poor countries with significant inequalities and poverty, the costs of public goods are often concentrated while their benefits are diffuse. This condition often leads these countries to under-invest in public goods and for those who are wealthy to substitute private goods for public ones. Similarly, as stated by Fukuyama (1995), as a country's collective social capital increases, its institutions are more widely accepted and the ability to trade and exchange is enhanced. In contrast, in countries with diminished and disconnected networks of social capital, the formal institutions that apply generally are replaced with informal ones that depend on personalized relationships and these reduce the number of exchange possibilities. Moreover, dependence on informal institutions often produces corruption and unequal distribution of benefits. In the complete absence of formal institutions, orderly exchange collapses.

Many findings (e.g. Robison *et al.*, 2002) described that social capital increases within networks of transacting partners, the

disparity of benefits decreases and the average level of benefits increases. According to Robison *et al.* (2002) this inverse relationship between disparity of income and average income results from terms of trade in social capital-rich networks which favor the disadvantaged and reduce disparity, from increased investments in public goods which provide opportunities independent of one's income, and from societal rules among those who share social capital which provide more nearly equal opportunities.

## 2.5. MSE Growth and Social Capital

The core capabilities of SMEs today are knowledge, learning and innovation. These are more likely to be found where suppliers, customers, educational institutions, research laboratories and labor are concentrated (Rosenfeld, 2002). However, such concentrations are traditionally the domain of cities and large corporations. SMEs, and in particular, those that exist in rural and regional areas, are normally characterized by a deficiency of resources and market presence (Rosenfeld, 2001). Furthermore, rural SMEs are isolated from other SMEs and their avenues for connection are sparse. Social capital has gained wide acceptability as a fertile theoretical perspective for understanding and predicting the norms and social relations embedded in the social structures of SMEs. It is these patterns of social interrelationships that enable people to coordinate action to achieve desired goals (Putnam, 1993).

## 3. RESEARCH METHODOLOGY

### 3.1. Sources and Methods of Data Collection

#### 3.1.1. Documentary Sources

This research was partly depending on secondary data. The data that has been collected was focusing on two aspects :(i) socio-economic profiles of the selected towns (ii) the other source of secondary data was from the development, structure and dynamics of micro and small enterprises working in the selected towns. The data was then collected from the central statistical authority of the country and the specific region, the bureau of trade and industry, the bureau of micro and small enterprises coordination, previous research findings, and similar reports in the given sectors.

#### 3.1.2. Field Survey

The field data was collected from micro and small enterprises managers, regional officials dealing with the micro and small enterprises and key informants. Hence, the information and data needed for the study has encompassed both primary and secondary data sources.

#### 3.1.3. Methods of Data Collection and Instruments

Triangulation has been applied in data collection to ensure reliability. Hence in this research three methods of primary data collection were employed namely semi-structured questionnaires, key informant interviews and focus group discussion.

## I. Questionnaire

Questionnaires were designed mainly to gather quantitative data. The questionnaires were closed and open ended questions.

## II. Design of the questionnaire and procedures of data collection

The survey questionnaire is composed of closed ended and open ended questions. The questions were translated in to Tigrigna language believing the respondents can easily understood the language. The survey was conducted in the form of questionnaire interview on the assumption that many of the respondents cannot read well. 27 enumerators were employed to undertake the questionnaire interview. The principal researcher has provided one day training to enumerators, particularly on issues of “how to convey the messages of each question in the questionnaire to avoid misinterpretation”. Besides, the enumerators were informed about how to probe ideas and communicate in case some respondents become unwilling, lack of confidence/interest or pending to interrupt the interview. The administrators (researchers) partly were conducting the interview together with the employed enumerators.

## III. Key Informants Interview

Respondents who have ample experience and know-how on the area were considered in the study. These include; experts and officials from Bureau of Trade and Industry, SMEs coordinating office, Central Statistical Agency (report), and selected qualified workers from the sample sectors. The reason that we approach different segments in the interview is so as to explain the nature and causes of poverty, impact of poverty, access to resources and trends in the quality of services and mechanisms used by the selected business organizations.

## IV. Sample Selection and Sampling Techniques

Multi-stage sampling design was used to define the samples in this study. In this case three units were assumed in the sampling process: geographic areas (primary units), businesses (secondary units) and business owners (tertiary units).

### a. Geographic Areas (Primary Units)

Tigray has seven zones (including Mekelle) namely: Western, North Western, Central, Eastern, South Eastern Southern and Mekelle zone. From these, three towns which have relatively large number of small and medium size enterprises were selected (purposively). The sample towns include: Adigrat, Wukro and Mekelle.

### b. Businesses (Secondary Units)

This study focuses on micro and small and size enterprises found in the sampled region. Accordingly, these businesses are stratified based on their nature and the following sectors are included in the study: construction, industry and food and related activities.

### c. Business owners (Tertiary Units)

After classifying the business types into three strata, the target sample components were selected by simple random sampling. The sampling procedure was conducted as follows.

**Table 3.1. Summary for sample size determination**

No	Sample Town	Sector(Total Population)			Total Population	Sector (Sample size)			Sample Size
		S1	S2	S3		S1	S2	S3	
1	Mekelle	2444	1547	2763	6754	35	22	50	107
2	Wukro	156	296	932	1384	6	10	19	35
3	Adigrat	209	385	815	1409	10	20	45	75
	Total	2,809	2,228	4,510	9,547	51	52	114	217

### 3.1.4. Method of Analysis

The study has deployed a combination of quantitative and qualitative analysis. The quantitative data was mainly derived from the survey questionnaire which applied simple statistical tools. The work has employed descriptive analysis technique in which simple average, percentage /proportion, ratio and ranks were major components. Moreover, tables were used to clearly illustrate and present the survey data. Qualitative information was also employed to cross check the reliability of the quantitative information.

## CHAPTER FOUR: RESULTS AND DISCUSSION

In this chapter, the findings obtained through questionnaire, interview and focus group discussion is going to be depicted and discussed. Under each illustration, discussions and interpretations of the major finding has been made.

### 4.1. Demographic Characteristics of Respondents

This section demonstrates the highlight of the general demographic spectrum of the respondents. Under this section, the sex, age educational level and the like are going to be summarized and interpreted.

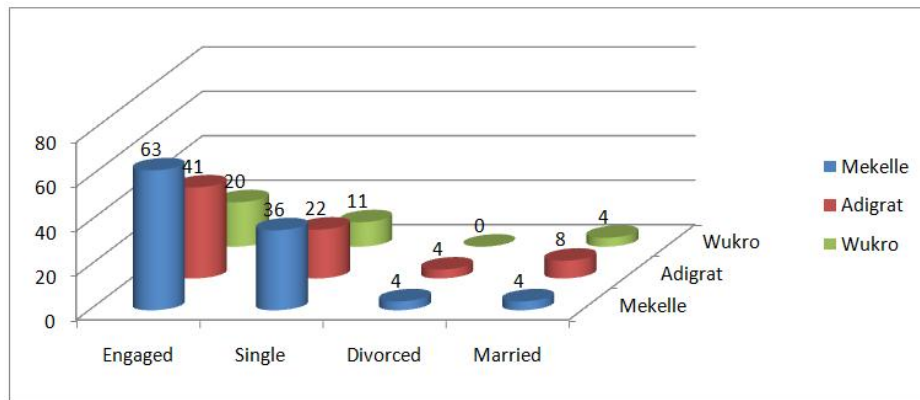
The gender and age distribution of the respondents has been illustrated on table 4.1. As summarized on the table, the male female proportion across the three study areas is almost similar. In general, 61.30% of the total respondents were males and the remaining were females (computed by bringing together the three study areas into one).

On the same table, the age category of respondents has been displayed. From the total target respondents, more than 78% were found to be below 33 years of age. On the other hand, only 3.22% out of the total had 42 and above years of age. From this, one can conclude that majority of the owners of small and micro enterprises are owned by youth.

**Table 4.1 Gender and Age Distribution of respondents**

Items	Study area			Grand total	
	Mekelle	Adigrat	Wukro		
Sex	Male	64= 59.8%	47=62.67%	22=62.86%	Male= 133.....61.30%
	Female	43=40.2%	28=37.33%	13=37.14%	Female= 84.....38.70%
Total	107	75	35	<u>217</u>	
Age	18-25	52(48.6%)	21(28%)	9(25.71)	18-25=82.....37.79%
	26-33	30 (28.04%)	42(56%)	16(45.71%)	26-33=88.....40.55%
	34-41	21(19.63%)	10(3.3%)	9(25.71%)	34-41=40.....18.43%
	≥42	4(3.74%)	2(2.67%)	1(2.86%)	≥42=7.....3.22%
Total	107	75	35	<u>217</u>	

Source: Own computation, survey 2005

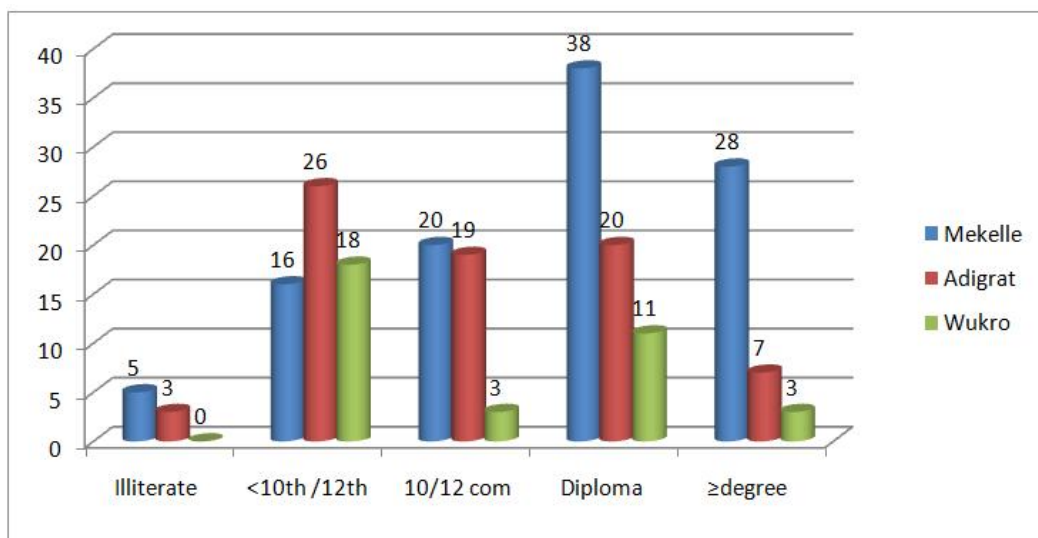


Source: Own computation, survey 2005

**Chart 4.1 Marital Status of Respondents**

When we see the marital status, from chart 4.1, majority of SMEs owners (57.14%) are married. The next largest portion of the respondents was comprised by unmarried (31). As we draw some ideas from the focus group discussion, the married one can enjoy additional values of social capital than the single and the divorced. Because, as the discussants emphasized that, if a business owner is married, his/her spouse and or children would inject valuable asset (in the form of advise, moral support and psychological encouragement) to the business establishment.

From the total respondents, as described on chart 4.2, close to 50% were found to be diploma holders. As noticed from the chart, only 3.7% were found to be illiterate. Though social capital is the set of norms, networks and values found within the society or business premises, educational enrichment would further help to develop and acquire the prevailing social capital.



Source: Own computation, survey 2005

**Chart 4.2. Level of education of Respondents**

### 4.2. Business characteristics and startup conditions

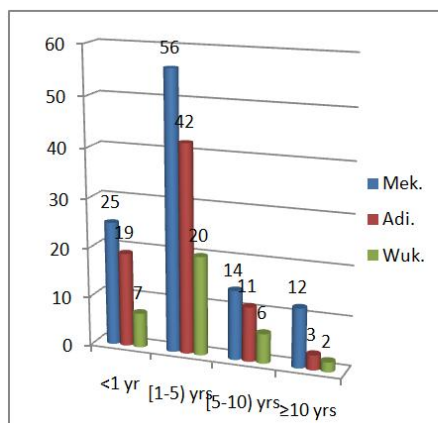
This section presents the length of time when the businessman runs his/her business, the main activities and the perception of the respondents on the existence of certain social capital attributes.

Regarding the time horizon for how long the business owners has run the current business, a check list or question was arranged to be filled by the respondents. Though the response for this particular question is sparsely distributed across several time intervals, the largest number of the respondents replied that they have run their current business for the last 1-5 years. Numerically, this constitutes about 54%. The next largest response was represented by those who run their current business for no more than a year. This accounts for about 23%. The joint figure shows that above 77% of the sampled SME owners have run their business for no more than five years. Hence, though the start to use the existing social capital is encouraging, it can be concluded that social capital in majority of the SMEs is not expected to well established. Because, on the one hand the time of establishment of the larger number of the sampled SMEs, as illustrated above is about few years ago. On the other hand, social capital is not something that can flourished overnight. Rather, it needs relatively longer period of time to well assimilated.

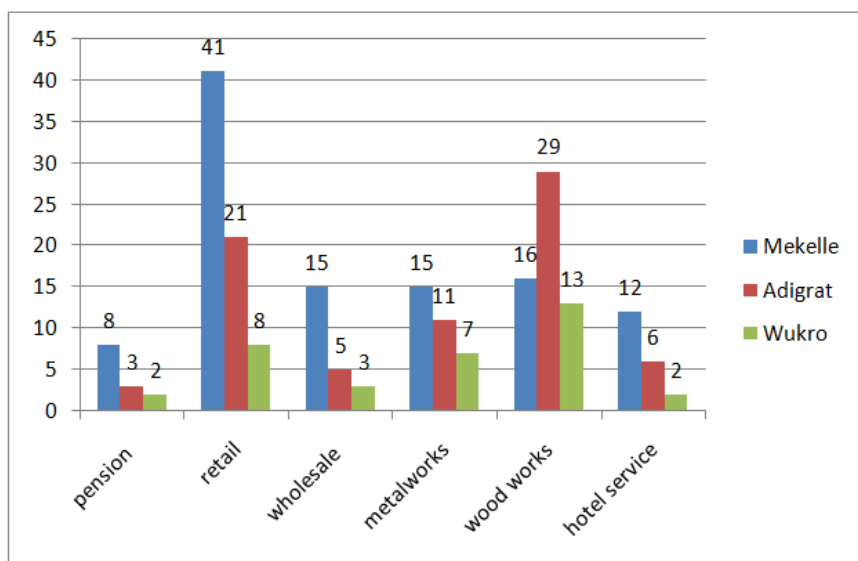
Small and Micro Enterprises can be classified into several types/categories/. Pension, Retail, wholesale, and the like were some of the lists of our checklist. From among those checklists, respondents were request to put a mark in front of the business they possess. As clearly revealed on chart 4.4 above, the main activities/types/ of SMEs owned by the respondents can range from pension (smallest share) to retail (the largest share). The illustration clearly shows that above 74% of the main activities/types/ of SMEs were found to be grouped into three major businesses (i.e. retail, woodwork and metalwork).

The total number of samples for this table is 217

Respondents were asked whether they perceive the existence of some social capital items, as described on Table 4.2. About eight indicators of social capital were listed down and respondents were requested to put their feeling ranging from very low to very high. Now, look the table (Table 4.2). To begin with the first item (i.e. the existence of proximity of friends/relatives, exceeding 75% of the total respondents (166 out of 217) have stated that the existence of proximity of friends (business -to-business) as well as with relatives (especially with parents and family members) was jointly marked as high and very high (47.93% and 28.57% respectively). This indicates that the proximity of friends & relatives is considerably high. In contrast, about 17% of the total respondents replied that the proximity is relatively low.



Category	Key		
	Mek.	Adg.	Wuk.
<1 yr	25	19	7
[1-5] yrs	56	42	20
[5-10] yrs	14	11	6
≥10 yrs	12	3	2
Total	107	75	35



Source: Own computation, survey 2005

Chart 4.4. Main Activities of Business



Table 4.2. Respondents Perception on the Prevailing Of the Under Mentioned Social Capital Item

No	Description of Social Capital		very low	low	not certain	high	very high
			Count	Count	Count	Count	Count
1	Proximity of friends/relatives	Count	11	28	12	104	62
		%	5%	12.90%	5.53%	47.93%	28.57%
2	Contact with friends/family/neighbor	Count	10	28	19	110	50
		%	4.60%	12.90%	8.76%	50.69%	23.04%
3	Perceived barriers to contact with friends/relatives	Count	52	72	25	53	15
		%	23.96%	33.18%	11.52%	24.42%	6.91%
4	Has someone to rely upon outside of household	Count	54	51	16	64	32
		%	24.88%	23.50%	7.37%	29.49%	14.75%
5	Advising and bringing up children	Count	30	18	28	87	54
		%	13.82%	8.29%	12.90%	40.09%	24.88%
6	Depth of socialization networks	Count	38	38	36	68	37
		%	17.51%	17.51%	16.59%	31.34%	17.05%
7	Social relations at work	Count	9	14	17	99	78
		%	4.15%	6.45%	7.83%	45.62%	35.94%
8	Perceived norms of social support	Count	11	14	21	104	67
		%	5%	6.45%	9.68%	47.93%	30.88%

Table 4.3. Level of participation of micro and small enterprise on the following aspect of social capital

No.		Very low	Low	Not certain	high	Very high
Participation or involvement in local groups	count	34	23	12	95	53
	%	15.7	10.6	5.53	43.8	24.4
Perceived barriers to involvement in local groups	count	49	52	16	70	30
	%	22.6	23.96	7.37	32.3	13.82
Level/intensity of involvement in local groups	count	28	49	20	84	36
	%	12.9	22.6	9.2	38.7	16.6
Participation in voluntary schemes connected with work	count	31	42	17	98	29
	%	14.3	19.4	7.8	45.2	13.4
Political activity or voting	count	17	34	23	96	47
	%	7.8	15.7	10.6	44.2	21.7
Members of the clubs/groups e.g sport	count	44	64	20	52	37
	%	20.3	29.5	9.2	23.96	17.05
Participation in religious activities	count	39	30	17	72	59
	%	17.97	13.82	7.83	33.2	27.2
School board	count	69	73	23	37	15
	%	31.8	30.88	10.6	17.05	6.91
Community council	count	51	65	25	57	19
	%	23.50	29.95	11.52	24.42	8.8
Anti-crime or victim support	count	26	22	12	100	57
	%	11.98	10.13	5.53	46.08	26.3

Source: Own computation, survey 2005

Next to this, target respondents were approached to display their responses whether there is a contact (e.g. sharing of information, borrowing and lending of money, giving and receiving of advice, consultation and mentoring etc) with friends (business to business) and with relatives. As a result of this, majority of the respondents (above 73%) have agreed that there is a strong contact with the above mentioned actors. This was further discussed in the focus group discussion. What was concluded by the discussants is that such contacts help the business to cope up some hostile situations in times of shocks and crises. The participants added that not only in the hostile times, but also in a normal situation, contacts with co-business, consultants and families etc can enhance the growth and expansion of a particular business.

But, building stronger and sustainable contact is not as easy as ordinarily perceived. When we see the responses about "the barriers to contact with friends/relatives", more than 30% of the total respondents argue that there are many bottlenecks to promote healthy contacts. To go deep in to the dimensions of the barriers, the same issue (question) was raised on the focus

group discussion. What the participants of the discussion agreed is that; similarity of business (rivals), lack of awareness about team spirit, chasing few resources (scarcity), poor mindset towards self employment (from parents aspect) and the like are some of the barriers of developing a contact with friends and relatives. However, around 56% of the respondents disposed that barriers to contact with the mentioned stakes is relatively small.

Lastly, regarding the norms of social support (number 8 of Table 4.2), close to 80% (171 out of 217) of the respondents have know-how about the existence of norms of social support in times of hazardous conditions (e.g. bankruptcy, fire, theft etc). This issue was further discussed & debated in the focus group discussion. The conclusive idea of the FGD participants was when they enter into a business; they jot down many supportive conditions. Among such conditions are the norms of social support. Hence, it can be concluded that social capital in the form norms of social support, social networks, sharing information and aiding with money is prevailing within the atmosphere of small and micro enterprises. It should be noted

that, it is not only the existence of such social capital it has also been underlined that they are playing a fundamental role within the business environment.

#### 4.3. Involvement of Some Owners on the Specified (Table Below) Social Capital Categories

Whether the respondents have experienced (involved) in the following set of social capital categories or not, certain questions have been presented to them. The summary and detail of the responses are displayed in the next table and the forth coming discussion. As per the table reveals, sample respondents were highly participated in local groups (43.8%) with its high level of intensity involvement in local group (38.7%) and high Participation in voluntary schemes connected with work (45.2%), high Participation in religious activities (33.2%) strong or high Anti-crime or victim support (46.08%) with high Perceived barriers to involvement in local groups (32.3%) respectively. But, to the contrast of these sample respondents reveals being members of the clubs/groups e.g. sport, School board, and Community council is low. Though the table shows sample respondents were highly participated in levels of potential social capital, they seem to have benefited especially from participation to a certain extent, but not from Members of the clubs/groups e.g. sport, School board, Community council, which is found to be quite low. So from this we can reveal that, in sample of the study area they were generally not satisfied with their level of participation specifically being Members of the clubs/groups e.g. sport, School board, and Community council.

#### 4.4. Role of social capital on poverty reduction

The role of social capital on poverty reduction, with no doubt, is positive. But, unless we use it properly, social capital will have a very little contribution on poverty reduction. Here, in this section respondent's reflection on whether social capital plays a role on poverty reduction or not will be analyzed.

**Table 4.5 Social Capital Have Positive and Sign. Effect on Poverty Reduction**

Description	Frequency	Percentage (%)
Yes	130	59.9
No	87	40.1

Source: Own computation, survey 2005

Question regarding effect of social capital on household welfare has been provided for the respondents and the result can be observed from Table 4.5 Hence, 130 (59.9 percent) of respondents replied positively as social capital has a great influence and significant on household welfare of people working in small and micro enterprises. But 87 (40.1 percent) of them responded negatively.

To substantiate this idea, key informant interview has been made with experts and officials from Bureau of Trade and Industry, SMEs coordinating office, Central Statistical Agency, Bureau of Labour Affaires of the sampled region and selected qualified workers from the sample sectors. Thus, similar answer has been obtained from all of them as social capital has

a crucial role for the improvement of families' living standard in particular and for the GDP of the country in general.

From this we can observe as social capital has a positive and significant effect on house hold welfare of people working in small and micro enterprises.

**Table 4.6 Net work support significantly reduces HH poverty**

Description	Frequency	Percentage (%)
Yes	148	68.2
No	69	31.8

Source: Own computation, survey 2005

As shown above in table 4.6 Net work or working in association has played a great role on house hold poverty reduction. Thus, 148 (68.2 percent) of the respondents do have a positive answer, whereas the remaining 69 (31.8 percent) replied negatively. To come up with consensus information a Focus Group Discussion (FGD) has been conducted and they replied as working in association has a pivotal role on reducing poverty not only for them but also for the country in general. Because, association creates new ideas, different skills and capabilities, working in association are better than working alone, government involvement in keeping peace and security, provide training and education, advertising to work in team, providing suitable condition etc than those previous administrations, they replied.

**Table 4.7 Support comes from...**

Description	Frequency	Percentage (%)
Social support	104	47.9
Government support	77	35.5
Institutional support	25	11.5
Others	11	5.1

Source: Own computation, survey 2005

As depicted in table 4.7, support comes from different directions to reduce poverty. Hence as of the result obtained from the respondents, 104 (47.9 percent) of them replied as support comes from family, individual, and neighbor (social support), whereas 77(35.5 percent) of them responded as government aid reduce poverty, and 25 (11.5 percent) of them answered as poverty alleviation mechanism comes from institutional supports like Microfinance institutions, none governmental organizations, etc. The remaining 11 (5.1percent) replied as others like religious institutions have contribution on reducing poverty. Thus, everyone can conclude as social support has ranked first to reduce poverty.

**Table 4.8 Concerning Bankruptcy**

Description	Frequency	Percentage (%)
No one would help	18	8.3
Families	118	54.4
Neighbors	14	6.5
Friends	12	5.5
Religious leader or group	0	0
Community leaders	7	3.2
Business associations	38	17.5
Mutual support group to which s/he belong	10	4.6

Source: Own computation, survey 2005

Table 4.8, shows the thought of respondents concerning the direction of support comes from during bankruptcy or economic loss happen on their neighbors. Therefore, as it can be clearly observed, 118 (54.4 percent) of them replied as support during economic loss comes from their own family, 38 (17.5 percent) of them answered as business associations like insurance companies have a role when bankruptcy occur on their neighbors, 18 (8.3 percent) of them replied as no one would help their neighbor when they fail in economic loss, 14 (6.5 percent) of them quoted their response as neighbors help their neighbors when loss exists, 12 (5.5 percent) of them said friends help their neighbor during economic loss occurrence. 10 (4.6 percent), 7 (3.2 percent), 0 (0 percent) of respondents responded as help come from mutual support group, community leader and religious leader respectively. Thus, it can be concluded as family support has a great role on helping those peoples failed in economic loss.

**Table 4.9. Attitude of respondents towards the welfare of their own family**

Do you believe that people concerns on the welfare of their own family	Frequency	Percentage (%)
Strongly agree	45	20.7
Agree	72	33.2
Disagree	67	30.9
Strongly disagree	12	5.5
Don't know/not sure	21	9.7

Source: Own computation, survey 2005

As it can be grasped from Table 4.9, questions regarding whether peoples mainly focus on the welfare of their own families or much concerned for other people welfare has been provided for respondents to understand their attitude. Hence, the result reveals us, 117 (53.9 percent) of respondents replied as they relay on the welfare of their own family and not much concerned for other people welfare, 79 (36.4 percent) of them reflect their attitude as peoples have much concern for others than their own families, the remaining portion, 21 (9.7) of the respondents replied as they do not have knowledge concerning this issue.

**Table 4.10 Response on how peoples trust each other**

Description	Frequency	Percentage (%)
Do trust	77	35.5
Do not trust	44	20.3
Don't know/ not sure	96	44.2

Source: Own computation, survey 2005

From table 4.10, the result obtained from respondents can be easily observed with regard to honesty, that means whether peoples trust each other or not during the time of borrowing and lending of money to launch small and micro enterprises. Consequently, 77 (35.5 percent) of them answered as they do trust each other, 44 (20.3 percent) replied as peoples do not have a trust at the time of borrowing and lending to start small and micro enterprises, whereas the remaining 96 (44.2 percent) of them answered as they do not have a knowledge concerning this matter.

**Table 4.11 Respondents' knowledge on accessing information**

Description	Frequency	Percentage (%)
Yes	121	55.8
No	96	44.2

Source: Own computation, survey 2005

Questions concerning whether peoples involved in Micro and small enterprises access information or not has been designed and asked the respondents. Thus, as the result depicts in the Table 4.11, many of the respondents 121 (55.8 percent) confirmed as they are familiar with information and 96 (44.2 percent) of them responded as they do not have access for information. Information has a key role for every business; it can enhance the livelihood of small and micro enterprises to exist and promote in the market.

Furthermore, the interview result obtained from selected qualified workers from the sample sectors supports the idea that information is available multidirectional.

**Table 4.12 Respondents' response on most source of information**

Description	Frequency	Percentage (%)
Media (TV, Radio, News papers, magazines)	95	43.8
Similar business (discussion, asking, etc)	69	31.8
Training and workshops	32	14.7
Daily occasions like lunch time, through walking, informal talks etc	20	9.2
Others	1	0.5

Source: Own computation, survey 2005

As shown in the above table 4.12, all source of information has mentioned and which source is mostly used for people has been asked. Accordingly, 95 (43.8 percent) of the respondents answered as media like television, news paper, radio and magazines are highly used, 69 (31.8 percent) of them replied as they access information by discussion/ asking friends and neighbors, 32 (14.7 percent), 20 (9.2 percent), 1 (0.5 percent) of them replied as they access information from training and work shop, daily occasions like lunch time, through walking, informal talks and others respectively. Thus, it can be concluded as peoples obtain information from media for their daily businesses.

## Chapter five conclusion and recommendation

### 5.1. Conclusion

Poverty situation is the major challenge of our people. Despite this truth, there is a hope for our people to tackle this problem through different sectors -of which SMEs are the vital ones. SMEs struggle to fight poverty using different means –one of them is social capital. The later indicates the networks, associations, power, values, norms, trust, shared vision and collective actions of the parties engaged in social capital. To this end this study has witnessed the existence of social capital in SMES of our country. The participants' level of education, marital status and working experience strengthen their bond to reap the benefits of social capital.

The study confirmed that the existence of strong tie among owners of SMEs in areas such as sharing of information, borrowing , giving and receiving of advice , consultation and the like. Such contacts help the business owners to cope up hostile situations in time of shocks and crises and hence enhance the growth and expansion of their businesses. The results of the study also reveal the positive concern of the

business owners towards the environment. They are well aware about the disadvantage of crime and victimization and hence they work together to avert the consequences of such issues. Moreover the business owners level of understanding about the importance of mitigating socio-economic inequality was so high and to address this they work together for the better of their country in general and community in particular. The study further witnessed that social capital as an important mechanism to fight poverty. SMEs engagement on social networking and associations played a pivotal role in reducing their household poverty situation.

Despite the aforementioned positive contributions of business owners' social capital, still there are a lot of challenges that need to be improved. The fight to attract customers, the lack of awareness about team work, the scarcity of resources and the poor mindset towards self employment are the main challenges to promote healthy contacts. Moreover the tendency of business owners not to participate in sport, school and community clubs as well as self center behavior of the business owners during the time of economic losses hampered the truth motives of social capital.

## 5.2. Recommendation

As we have tried to discuss in Chapter 4 in detail, there are a lot of indicators as to the development of social capital in business working in our country, but still there are a lot of challenges. Hence we recommend the following:

### 1. Government Support

The low level of awareness towards being membership on different clubs (such as sport, school and community) may witness the lack orientation. Therefore government should arrange different seminar, workshops and forums which can enhance the business owners' understanding on values and advantages of such issues.

- To increase the capital of the enterprises, government should provide training service in areas such as cash management, customer handling and management skill. The respondents further claimed, government to supply them IT based training and provide update data or information on IT based bossiness.
- To cope up with existing market competition, government needs to supply market related information such as the price of raw materials and finished products both at local and overseas markets.
- In order to increase market potential and productivity as well government should create business linkage with medium and large business organizations sector wise. The greater the market linkage between micro and small enterprise; and the medium as well as large enterprise, the greater will be the market potential and market share for micro and smell enterprise. Therefore, the owners of such enterprises claimed to have effective and efficient working relationships with medium and large enterprise in their respective areas.
- To increase the moral and productivity of micro and small enterprise, government should allocate incentive based

performance. Such incentive like machineries, equipment, tools and other related prizes should be linked with the day to day business performance of micro and small enterprise. The respondents stressed that; government should have clear procedures and standards as to the allocation of the incentives.

- Government should establish fair and equitable office practices and procedures in all government office. To this end, there should be fair taxation system or government should reduce the tax burden levied on micro and small enterprises. Related with this, government should encourage the micro and small enterprises to organize them and to have periodic meeting to discuss on day to day operations. Moreover, government needs to be open discussion forum between micro and small enterprises and the local community. This will create healthy and peaceful working environment for the society in general and the micro and small enterprises in particular. In line with this, government should also take part in developing effective monitoring and evaluation mechanisms on the day to day activities micro and small enterprises

### 2. Programs of Intervention

There is tendency of not helping others during the times of economic losses among the participants of this study. To tackle this problem, financial institutions like micro finance and insurance companies can supply funds to SMEs business owners. The increase in the financial strength of the business will increase their intention to help others.

### 3. Conducting Monthly and Annual Celebrations

To increase the business owners' level of trust, willingness, shared values, shared norms and contacts, they better have frequent contacts supported by arranging get together, annual tours, visiting historical places, "Ikub", "Idir" and the like.

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