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Social capital as a differential of long-term survival in small and medium-sized enterprises in Ethiopia

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Abstract: *This study is based on a longitudinal study of small and medium-sized enterprises operating in five major cities of Ethiopia. The study shows that small and medium-sized enterprises in Ethiopia often suffer from lack of access to finance. Such enterprises raise finance from indigenous informal financial schemes called "iqqub". The schemes lend money to members free of interest, and operate based on mutual trust. The study shows how valuable "iqqub" schemes are to the long term survival of small and medium-sized enterprises in Ethiopia. Predictors of long term survival are estimated by using hazard ratios estimated from the Cox Proportional Hazards Model. The study shows that the long term survival of small and medium-sized enterprises is significantly influenced by access to social capital. The study found that 21% of small and medium-sized enterprises failed in the 9-year long period of study. The study also showed that 61% of businesses that survived the 9-year long study period had borrowed finance from "iqqub" schemes, and that only 18% of non-survivors did the same during the same period of study.*

Keywords: Small and medium-sized enterprises, social capital, access to finance
JEL: G21, G23, E51

Introduction

This study is based on a longitudinal study of small and medium-sized enterprises operating in five major regional cities of Ethiopia. A review of the relevant literature shows that small and medium-sized enterprises operating in Ethiopia often struggle significantly to raise finance that is needed for routine operation. Small and medium-sized enterprises in Ethiopia often suffer from lack of access to finance because they do not get loans from commercial banks and formal money-lending institutions. Small and medium-sized enterprises often seek financial assistance from informal financial schemes called “iqqub”. These are indigenous, informal money lending associations that are similar to social capital schemes that operate in the rest of the world. Iqqub schemes lend money to fellow members of the scheme free of interest, and operate based on mutual trust. The study shows that “iqqub” schemes are quite helpful for the long term survival and viability of small and medium-sized enterprises in Ethiopia. Predictors of long term survival are estimated by using hazard ratios estimated from the Cox Proportional Hazards Model. According to Frane and Roncevic (2003), social capital is the expected collective or economic benefits derived from the preferential treatment and cooperation between individuals and groups. A similar definition is provided by Adler and Kwon (2002). Anderson, Locker and Nugent (2002) argue that social capital needs to be regulated and formalized if it is to yield tangible economic benefits to small, micro and medium-sized enterprises. Adler and Kwon (2002) have pointed out that social capitals currently in use in the world’s least developed economies lack the capacity to make meaningful economic contribution.

A 9-year long study (2002 to 2010) was conducted based on a random sample of 407 small and medium-sized enterprises operating in five major cities of Ethiopia (Addis Ababa, Awassa, Bahir Dar, Nazareth and Mekele) in an attempt to identify and quantify predictors of long-term survival and viability in small and medium-sized enterprises. The Cox Proportional Hazards Model was used for estimating hazard ratios. This particular study is a continuation of the 6-year long study conducted by Bekele and Worku (2008) in which 500 small and medium-sized enterprises were followed up in the period 1996 to 2001. At the end of 2001, 93 of the 500 businesses (18.6%) had failed. In this study, the remaining 407 businesses were followed up between 01 January 2002 and 31 December 2010. The methods and materials used in this study (2002 to 2010) are similar to those used in the first round of study (1996 to 2001). At the end of the second round of study, 86 of the 407 businesses (21.13%) were out of business, mostly due to lack of access to finance required for routine operation, poor managerial skills, as well as poor technical skills. Businesses that survived the 9-year study period were characterized by extensive utilization of finance raised from the informal financial sector.

Small and medium-sized enterprises do not have the collateral needed for borrowing finance from formal money lending institutions in Ethiopia. The Commercial Bank of Ethiopia requires collaterals as a requirement for lending money. For this reason, small and medium-sized enterprises borrow money from the informal financial sector. In this regard, the most notable source of finance is “iqqub” schemes. The schemes are a form of social capital. They are indigenous financial associations in which financial contributions are routinely gathered from fellow members at regular intervals, and are disbursed as a lump sum, interest free, to one member of the scheme at a time). Financial contributions are made weekly or monthly. Lump sums are awarded to only one member of the scheme at a time while all other members are required to wait their turn. At each round, winners are determined by use of random methods such as ballot papers. In iqqub schemes, although each member of the scheme is guaranteed to collect an interest-free lump sum, the waiting time is often too long and inconvenient. Iqqub schemes are operated among friends and close business associates based on mutual trust and a shared feeling of solidarity. The aim of the study is to identify factors that significantly affect the long-term survival and viability of small businesses and enterprises, and to demonstrate the strategic importance of iqqub schemes for ensuring sustained growth and development in small and medium-sized enterprises in Ethiopia. The study shows the prominent role played by iqqub schemes in Ethiopia in terms of providing interest-free financial loans to entrepreneurs who cannot borrow money from formal money lending institutions such as the Commercial Bank of Ethiopia. Data was gathered on a large number of socio-economic and demographic variables from each of the 407 enterprises over the study period. The variables used in this study are related to viability, profitability as well as sustainable growth and development. The Cox Proportional Hazards Model was used in order to identify key predictors of survival and failure in small and medium-sized enterprises. The study estimates the proportion of businesses that survived the 9-year long study period by utilizing finance from the informal financial sector. The first round of this study was conducted by Bekele and Worku (2008), and had found that poor access to finance was the third most influential factor in affecting long-term survival and viability in small and medium-sized enterprises in Ethiopia.

Background of study

Small and medium-sized enterprises contribute significantly to the national economy of Ethiopia by virtue of alleviating poverty and creating jobs. However, the sector has only been given limited support and recognition by the national government in terms of access to finance as well as the provision of technical and managerial skills to citizens who operate small and medium enterprises. Although the Ethiopian Ministry of Trade and Industry has issued various policies that are helpful for the sustained growth and development of small and medium-sized enterprises, the policies have not been implemented adequately due to lack of infrastructure and capacity. The top 3 obstacles to running a business in Ethiopia are lack of access to finance, difficulty in ownership of land, and difficulty in conducting business in the informal sector (World Bank, 2013). Based on a report issued by the Heritage Foundation (2013), 96.3% of loans in Ethiopia require collateral, compared to the regional average of 80.4%. Ethiopia is ranked 28th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly below the regional average.

Historically, large enterprises and state owned institutions have enjoyed much more support in terms of policy, legislation, tax break, and the supply of resources from successive governments in comparison with small enterprises (Bekele & Worku, 2008; Ageba & Amha, 2004; Gebeyehu & Assefa 2004; Enslin, 2006). The study by Quin, Khoury, Peng & Qian (2010) has shown that lack of access to finance is the most influential factor hindering the growth and development of small and medium-sized enterprises in developing nations such as Ethiopia. Historically, small and medium enterprises in Ethiopia have done relatively better during Emperor Hailesilassie’s regime that was overthrown in 1974 by Colonel Mengistu Hailemariam. The sector has performed poorly during Mengistu Hailemariam’s socialist regime (1974 to 1990). The performance of the sector is poor even today in comparison with similar sectors in other Sub-Saharan African countries such as Kenya, Uganda and Tanzania. Researchers such as Chetty & Stangl (2009), Coelho & Matias (2010) and Edwards, Sengupta and Tsai (2010) have shown that small and medium-sized enterprises in developing nations such as Ethiopia are generally characterized by an acute shortage of finance, over-regulation, lack of technical skills, poor managerial and accounting skills, lack of training opportunities, shortage of raw materials, poor infrastructure and over-tax. The macro-economic environment in most Sub-Saharan African countries including Ethiopia is not conducive for the growth and development of small businesses (Caroll & Wagar, 2010; Chen, Papazafeiropoulou & Dwivedi, 2010; Ageba & Amha, 2004; Belay, 2002). The study is motivated by the need to attract attention to the crucial role played by “iqqub” schemes in providing badly needed financial assistance to small and medium-sized enterprises in Ethiopia.

Literature review

According to Cant (2012), 40% of new business ventures in South Africa fail in their first year, 60% in their second year, and 90% in their first 10 years of existence. The study conducted by Bowler, Dawood and Page (2006) has found that, in South Africa, small businesses create about 80% of all new job opportunities, and that more than 70% of all South Africans are employed in the small business sector. The study by Murphy (2006) has found that poor marketing skills are often a leading cause of failure in the majority of Sub-Saharan African countries.

According to the National Bureau of Statistics of China (2012), there are at least 10 million private business owners in China. Small and medium-sized enterprises account for 99.6% of all Chinese enterprises, creating about 60 percent of the nation's output and 75 percent of the urban and new jobs. Small businesses are supported by the Chinese Communist Party with regards to finance, and import and export functions. In the United States, over 50% of small businesses fail in the first five years. Globally, the top ten causes of failure in small businesses are: lack of skills and experience in operating businesses, insufficient capital, poor physical location, poor inventory management, over-investment in fixed assets, poor credit arrangements, personal use of business funds, unexpected growth, still competition, and low sales (Asiedu, Freeman and Nti-Addae, 2012).

A review of the global literature clearly shows that no national economy can grow on a sustainable basis in environments where small and medium-sized enterprises are not supported adequately. Ethiopia is one of the poorest and least developed nations of the world (Ethiopian Ministry of Trade and Industry, 2010). In order to achieve sustained economic growth and development, the country needs to empower small and medium-sized enterprises (Ethiopian Central Statistics Authority, 2010). Lessons learned from the world's most advanced economies such as Japan, Taiwan, the United States, Germany, China and South Korea show that there can be no sustained growth and development in a nation unless otherwise adequate support is provided to small and medium-sized enterprises (Dasanayaka & Sardana, 2010; Doom, Milis, Poelmans & Bloemen, 2010; Hadaya & Pellerin, 2010; Harris & Rae, 2010; Jagoda, Maheshwari & Lonseth, 2010). Extensive research has shown that it is virtually impossible for national governments in poorly developed nations such as Ethiopia to alleviate massive unemployment and abject poverty without utilizing small and medium enterprises as a vehicle for realizing sustained economic growth and development (Jack, Moult, Anderson & Dodd, 2010; Ingstrup (2010), Estebanez, Grande & Colomina, 2010; Hicks, Culley, McMahon and Powell, 2010; Jones, 2010; Kozovska, 2010). Small and medium-sized enterprises in Ethiopia suffer from poor infrastructural development, lack of foreign direct investment, shortage of foreign currency, and over-regulation. Based on progress achieved by countries in the Far East and South East Asia, the national government has to introduce innovative schemes of lending easy money to small and medium-sized enterprises along with an enabling economic environment (Lee, Lee, Olson & Chung, 2010; Lopez-Nicholas & Soto-Acosta, 2010; Malhotra & Temponi, 2010; Maine, Shapiro & Vining, 2010). According to the Ethiopian Ministry of Trade and Industry (2010) and the Ethiopian Central Statistics Authority (2010), small and medium-sized enterprises in Ethiopia are defined based on their capital and the number of employees they have. Small enterprises have a capital of 2, 250 to 56, 000 American Dollars, and have fewer than 10 employees who use motor-operated equipment. By contrast, medium enterprises have a capital of between 56, 000 and 100, 000 American Dollars, and have between 10 and 20 employees who use motor-operated equipment.

Alemayehu (2006) had reported that the Commercial Bank of Ethiopia had an excess liquidity of 165% in 2008. However, the extent of excess liquidity in the Commercial Bank of Ethiopia has gradually decreased significantly in the years between 2009 and 2011 according to the 2011 annual report issued by the Commercial Bank of Ethiopia (2011). As such, there is no basis for assuming that reserves accumulated in the Commercial Bank of Ethiopia are underutilized. In the past few years, the Ethiopian Government has encouraged foreign money lending institutions to participate in the local financial services sector, but this effort has to be promoted vigorously in order to achieve a meaningful result. The policy discourages foreign enterprises from entering the local market, thereby eliminating potential competitors to the state-owned Commercial Bank of Ethiopia. It is impossible to meet the growing financial demands of small and medium-sized enterprises without attracting foreign financial institutions into the local market. The study conducted by Bekele and Worku (2008) has shown that attracting foreign service providers and competitors into the local financial market has the potential for alleviating the acute shortage of finance experienced by small and medium-sized businesses and enterprises. A similar recommendation has been made by Dougherty (2009) as a means of alleviating abject poverty in the world's least developed nations. Research findings reported by Marks and Huzzard (2010), Martinez-Caro & Cegarra-Navarro (2010), Jonsson & Lindbergh (2010), and McAdam, Moffett, Hazlett & Shelvlin (2010) show that there is a statistically significant relationship between the ability of nations to attract and entice global competitors in the financial sector and sustainable growth and development in locally based small and medium-sized enterprises. Researchers such as Coelho and Matias (2010) and Doom, Milis, Poelmans and Bloemen

(2010) have shown that the ability to attract foreign direct investment is directly related to willingness to allow foreign service providers and competitors into the local market. The majority of small and medium-sized enterprises in Ethiopia experience lack of access to finance on favourable terms from formal money lending institutions such as commercial banks. As a result, they routinely raise finance needed for operation from iqqub schemes (financial associations that lend interest-free money contributed by members to one member of the scheme at a time). Iqqub schemes are similar to South African Stokvels or informal clubs that serve as a rotating credit union where members contribute fixed sums of money to a central fund on a weekly or monthly basis so that the lump sum could be provided to one member of the club at a time as an interest-free loan. No collaterals are needed to collect lump sums. Winners of lump sums are decided by random means such as ballot papers. It is too difficult for small businesses to meet the demand for collateral, and pay off the rather high interest rates imposed on borrowers by the commercial banks (Bekele and Worku, 2008).

Between 2002 and 2010, loans provided by iqqub schemes have been utilized by 69% of businesses in this study. However, iqqub schemes operate on cyclic basis, satisfying the demand of only one member at a time. Other members must wait their turn. The last member receives a lump sum only at the very end of the cycle. The rather lengthy waiting period in iqqub cycles often results in the loss of a golden investment opportunity, loss of valuable time, loss of resources and money, etc. Iqqub schemes vary in size and capacity. Large iqqub schemes are often located in major towns, and generate a lump sum of about 100, 000 American Dollars per week. Small iqqub schemes are located in small towns and rural communities, and have smaller lump sums. In this particular study, 61% of businesses that survived the period of study have had to borrow money from iqqub schemes. By contrast, only 18% of non-survivors raised money from iqqub schemes. This evidence shows that it is worthwhile to support and improve the capacity of indigenous iqqub schemes in Ethiopia so that they can lend more money to more small businesses at the same time. Doing so however, requires a favourable macro-economic policy that enables foreign competitors to come into the local financial market and provide badly needed assistance to small businesses and enterprises based on recommendations made by Sun and Liu (2010), Wennberg & Lindqvist (2010) and Zhang (2010). Drastic measures should be taken in order to alleviate the acute shortage of finance experienced by small and medium-sized enterprises in Ethiopia.

Objective of study

The key objective of study is to find out whether or not social capital, in the form of participation in iqqub schemes, is influential over the long-term survival and viability of small and medium-sized enterprises in Ethiopia.

Research questions of study

The study has the following two research questions:

- What factors significantly influence the long-term survival and viability of small and medium-sized enterprises in Ethiopia?

- Is social capital, in the form of participation in iqqub schemes, an influential predictor of long-term survival and viability in small and medium-sized enterprises in Ethiopia?

Methods and materials of study

Data were gathered from each of the 407 enterprises selected for the study on socioeconomic variables such as duration of operation, amount of startup capital, level of education of business operators, level of skills of business operators, suitability of business premises, level of support provided by the Ethiopian Ministry of Trade and Industry to business operators, source of finance, amount of loan borrowed by business operators, profit made, total revenue, operational cost, access to training opportunities on business operations, supervisory assistance, tax amount, method used for tax assessment, access to supplies needed by businesses, demand for goods and services in the local market, perception on level of assistance provided by the government, etc. Data collection was made on a monthly basis during the period of study. Supervisory assistance was provided by the Ethiopian Ministry of Trade and Industry in Addis Ababa as well as its five regional offices at the geographical regions of study. Data collection was done with funding from the Christian Relief Development Agency (CRDA) and the Ethiopian Micro Finance Association in Addis Ababa, Ethiopia. Analysis was done using the Cox proportional hazards model (Cleves, Gould & Gutierrez, 2004) in view of the fact that some of the 407 businesses in the study were right censored. Hazard ratios were obtained for key influential predictors of survival. Kaplan-Meier survival probability curves were used for comparing viable and non-viable businesses in terms of survival probabilities. Descriptive and summary statistics were also obtained. The adequacy of the fitted Cox regression model was assessed using the likelihood ratio test and Akaike's information criterion (AIC) statistic. The fulfillment of the proportional hazards assumption was tested by use of log-minus-log plots. Data analysis was done using the statistical package STATA version 12 (STATA Corporation, 2011).

In each of the 407 businesses that took part in the study, the duration of survival was measured by using 01 January 2002 as the starting point. Enterprises that were still operational at the end of the study period (31 December 2010) were considered right-censored observations as their exact durations of survival could not be measured due to administrative censoring (inability to measure the survival times of businesses beyond the date at which the study came to an end) at the end of the study period. For enterprises that ceased operation prior to 31 December 2010, survival time was defined as the number of days of operation between 01 January 2002 and the date of closure.

The Cox Proportional Hazards Model takes censored observations into account, and this property of the model makes it quite attractive in comparison with other models used for survival analysis in economic studies (Cleves, Gould & Gutierrez, 2004; Kleinbaum, 1996). In Cox regression, hazard ratios are used as an econometric measure of effect. Key predictors of survival are identified and estimated based on hazard ratios. Kaplan-Meier survival probability curves were used for comparing businesses that survived the 9-year study period (survivors) with businesses that did not survive the study period (non-survivors) with regards to key predictors of survival. Kaplan-Meier survival probability curves were used for comparing survivors with non-survivors graphically. At the 5% level of significance, influential predictors of survival are characterized by hazard ratios that differ from 1 significantly, 95% confidence intervals of hazard ratios that do not contain 1, and P-values that are smaller than 0.05.

Results of data analysis

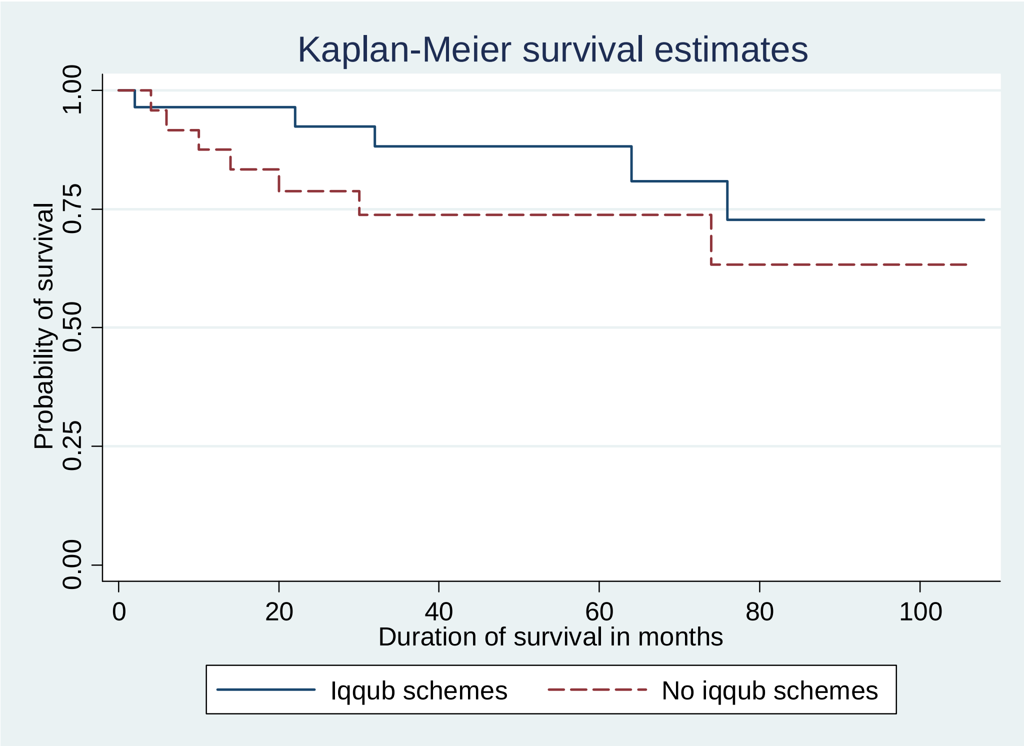
Table 1 shows the distribution of factors that affect the long-term survival of enterprises. The table shows frequency proportions of 6 key predictors for survivors and non-survivors. In the 9-year study period, 86 of the 407 businesses in the study (21.13%) have failed while the other 321 businesses (78.87%) have managed to survive. The table shows that 61% of survivors used iqqub schemes for raising finance needed for conducting business whereas only 18% of non-survivors did the same. Managerial skills were inadequate in 37% of survivors and 79% of non-survivors. The table also shows that managers of the 86 businesses that failed during the 9-year period of study are characterized by poor technical skills, low level of training in basic entrepreneurial skills, poor formal education, and past experience of bankruptcy.

Table 1: Group proportions with regards to long-term survival

Predictor variable	Survivors (n=321)	Non-survivors (n=86)
Participation in iqqub schemes for raising finance	No: 39% Yes: 61%	No: 82% Yes: 18%
Level of managerial skills of business manager	Inadequate: 37% Adequate: 63%	Inadequate: 79% Adequate: 24%
Level of technical skills of business manager	Inadequate: 35% Adequate: 65%	Inadequate: 76% Adequate: 24%
Regular training on basic entrepreneurial skills	No: 34% Yes: 66%	No: 74% Yes: 26%
Formal education of business manager	Primary or less: 33% Above primary: 67%	Primary or less: 71% Above primary: 29%
Experience of prior bankruptcy	Yes: 28% No: 72%	Yes: 64% No: 36%

Kaplan-Meier survival probability plots were used for comparing the survival probabilities of businesses with regards to participation in iqqub schemes. The plot shows that businesses that participated in iqqub schemes have a larger probability of survival in comparison with businesses that did not participate in iqqub schemes.

Figure 1: Kaplan-Meier survival probabilities by participation in iqqub schemes



Hazard ratios estimated from Cox regression are presented in Table 2. The table shows that the survival of businesses is most strongly influenced by 6 of the 19 predictor variables used for survival analysis. These 6 influential variables are poor access to finance, poor managerial skills, poor technical skills, poor regular training opportunities, poor formal education, and past bankruptcy, in a decreasing order of strength. The most influential predictor variable affecting the survival of businesses is access to finance.

Table 2: Adjusted hazard ratios from the Cox Proportional Hazards Model

Variable	*Adjusted Hazard Ratio	P-value	95% C.I.
Poor access to finance	5.24	0.000	(3.59, 9.77)
Poor managerial skills	4.68	0.000	(3.22, 8.99)
Poor technical skills	3.58	0.000	(2.63, 7.66)
Poor regular training	3.47	0.001	(2.45, 7.55)
Poor formal education	3.46	0.002	(2.44, 7.54)
Prior bankruptcy	2.88	0.004	(1.08, 6.36)

* Adjustment was done for geographical region, age of owner and gender.

Hazard ratios estimated from the Cox Proportional Hazards Model are interpreted as follows: The hazard ratio of the variable poor access to finance is 5.24. This shows that businesses that do not have access to finance are 5.24 times more likely to fail in comparison with businesses that have adequate access to finance. As high as 61% of the 321 survivors raised finance required for routine operation from iqqub schemes, whereas only 18% of non-survivors did the same. The hazard ratio of the variable poor managerial skills is 4.68. This shows that businesses that are managed by operators with poor managerial skills are 4.68 times as likely to fail in comparison with businesses managed by operators with adequate managerial skills. The hazard ratio of the variable poor technical skills is 3.58. This shows that businesses that are operated by managers with poor technical skills are 3.58 times more likely to fail in comparison with businesses that are operated by owners with adequate technical skills. Adjustment was done for three potential confounding variables: geographic region, age of owner and gender of owner. Unadjusted and adjusted hazard ratios did not differ much. This shows that none of the three variables used for adjustment was a confounding or effect modifying variable. The adequacy of the fitted Cox model was assessed using log-minus-log plots, the likelihood ratio test and the AIC (Akaike's Information Criterion) as diagnostic procedures. All log-minus-log plots were parallel, showing that the assumption of proportional hazards was satisfied.

The P-value from the likelihood ratio test was small ($0.0001 < 0.01$), thereby showing that the 6 variables constituting the fitted Cox model were jointly efficient in explaining variability in long term survival at the 1% level of significance. The estimated value of the AIC statistic was also small (10.32), thereby showing that the discrepancy between the fitted and true models was insignificant (Verbeek, 2000).

Discussion of results

The results clearly show that businesses that utilized finance from iqqub schemes on a regular basis have survived much better than those who did not do the same. The majority of small and medium-sized enterprises in Ethiopia are denied access to credit from formal financial institutions such as commercial banks. Iqqub schemes could be viewed as a form of social capital in which participants generate financial and non-financial benefits such as interest-free loans, savings, the exchange of productive information and vital knowledge, skills and innovative ideas. As a result, members of iqqub schemes empower themselves in areas that are relevant to their basic needs. Economic output is improved, and challenges are overcome collectively. Money obtained from iqqub schemes is much cheaper than money borrowed from commercial banks, and comes with fewer stringent conditions. Businesses that have participated in iqqub schemes have generally survived much better than those that did not do the same. While iqqub schemes have managed to fill the gap left open by formal money lending institutions at least partially, they lack the capacity to provide assistance to all members of the scheme at the same time. This limitation of iqqub schemes could be addressed by the national government. This course of action has already been taken by the Grameen Bank of Bangladesh, and has yielded tangible success in terms of the alleviation of abject poverty among the poor, the unskilled and the uneducated (Daley-Harris, 2011) and Zhang (2010). The key findings of this study are in agreement with results reported by Jiang & Mike (2011), Globerman, Peng & Shapiro (2011), Zoogah, Vora, Richard & Peng (2011), and Peng, Rabi & Sea-Jin (2010) as well as Murphy (2006). As was found in the first round of study, the second round of study has also shown that technical skills and formal education are both crucial for the long-term survival of small and medium-sized enterprises. The microfinance industry and donor-supported low interest loans are also available as alternative forms of finance to small, micro and medium-sized enterprises in Ethiopia. However, the stringent conditions imposed by microfinance institutions and donors make these alternative forms less appealing to entrepreneurs in the SMME sector of Ethiopia (Degefe, 2009).

The Ethiopian curriculum of education does not prepare potential entrepreneurs adequately for the task. The content of the curriculum for vocational training at the high school and undergraduate level is vastly inadequate and irrelevant to the specific needs of young graduates who aspire to thrive in business. This failure constitutes a major obstacle to the growth and development in small and medium-sized businesses and enterprises in Ethiopia. The managerial skill of owners of enterprises has been shown to have a significant influence over long term survival. This finding is in agreement with the findings of

(Alemayehu, 2006) in which it was reported that successful businesses and enterprises are characterized by owners and operators with well demonstrated managerial skills. Managerial ability was assessed in terms of the ability of owners or operators to produce sound business plans, perform standard bookkeeping, auditing and record-keeping duties, introducing appropriate technologies and expertise, acquiring innovative business skills from rival enterprises, degree of motivation and commitment in sharing useful experience with employees, commitment in terms of empowering employees, investing in skills related training opportunities for employees, ability in resolving business related disputes amicably, etc. Successful businesses and enterprises were associated with managers who enjoyed what they were doing, whereas unsuccessful businesses and enterprises were associated with mangers with little or no motivation and commitment. Maine, Shapiro and Vining (2010) have shown that small and medium-sized enterprises need to be supported so that they can cut down their operational cost by utilizing modern technology and entrepreneurial techniques. It would be prudent to follow the example set out by the Gramen Bank of Bangladesh (Dowla, 2005) in providing small businesses and enterprises with the finance they need for sustained growth. Providing small businesses with adequate finance has been shown to be critically important for the growth of national economies in Asia (Globerman, Mike and Daniel, 2011).

Conclusion

This study has found that 61% of businesses that survived the 9-year long study period have borrowed finance from iqqub schemes (social capital), and that only 18% of non-survivors did the same. The study also shows that the long-term survival and viability of enterprises is significantly influenced by the possession of adequate managerial and technical skills, and regular training opportunities. As is the case in any part of the world, entrepreneurs working in small businesses and enterprises in Ethiopia require access to finance in order to succeed. Although the small and medium enterprises sector contributes significantly to the national economy by creating jobs and alleviating abject poverty among the masses, the sector has so far not been given due recognition that is commensurate with its level of contribution. Based on findings of this particular study, lack of access to finance from formal money lending institutions such as commercial banks and micro finance institutions is one of the leading causes of failure in small businesses and enterprises in Ethiopia. Commercial banks demand exorbitant collaterals that cannot be easily produced by small businesses and enterprises. Interest rates of micro finance institutions are not affordable to small and medium businesses and enterprises. Formal money lending institutions have so far failed to produce innovative, affordable and user-friendly financial products and services with a particular view to assist the struggling sector in Ethiopia. Although it has been extensively reported in the literature that formal money lending institutions such as commercial banks are reluctant to lend money to small businesses and enterprises or to bend the stringent rules they have imposed on the sector, not enough has been done by the national government of Ethiopia to intervene in favour of the struggling sector. The gap left wide open by formal money lending institutions has been partially filled in by iqqub schemes. However, iqqub schemes are vastly under resourced, and can only provide finance to one member at a time. The other problem with iqqub schemes is that they are not regulated, and members are often abused in a number of ways. There is a dire need to have iqqub schemes regulated, monitored and evaluated on a sustainable basis. Unless iqqub schemes are regulated, they can be easily abused. Pyramid schemes show what could happen in cases where governments fail to regulate financial schemes that are based on social capital. For this reason, integrating iqqub schemes with the Commercial Bank of Ethiopia and having them regulated, monitored and evaluated on a sustainable basis has the potential for contributing for the pool of finance available for small, micro and medium-sized enterprises in Ethiopia.

It is worth noting that iqqub schemes are not free of problems. In fact, the schemes are associated with numerous operational challenges, and often lead to unforeseen problems. For example, money obtained from iqqub schemes does not necessarily reflect the exact cost of borrowing capital in the local market in Ethiopia. When members of iqqub schemes borrow money, members who do not get lump sums spend valuable time while waiting their turn. Furthermore, memberships of iqqub schemes are regularly bought and sold at a discount premium. As such, iqqub schemes are not strictly interest free. Relatively low interest rates charged by the Commercial Bank of Ethiopia continue to attract a large number of applicants, and this often inflates the cost of borrowing finance higher and more difficult than it has to be. Furthermore, there is a link between the level of trust among members of iqqub schemes the cost of capital. High level of trust is associated with low cost of borrowing capital, whereas low level of trust is associated with high cost of borrowing capital.

Regardless of the difficulties and shortcomings listed above, there is benefit in linking up iqqub schemes with the formal economy and having the schemes regulated, monitored and evaluated by an independent and suitably equipped body. There is an ideal opportunity for a fruitful strategic collaboration between iqqub schemes and formal money lending institutions such as commercial banks and micro finance institutions. This can be achieved by making more money available to iqqub schemes and by integrating iqqub schemes with formal money lending institutions so that commercial banks and micro-finance institutions have access to the millions of clientele belonging to iqqub schemes. This remedial action is informed by the dramatic success achieved by the Grameen Bank of Bangladesh. By integrating the two sectors, it is possible to broaden the market base of banks while increasing the capacity of iqqub associations to satisfy demands for finance from all members of iqqub associations, or at least to shorten the usually long waiting period needed to be awarded a lump sum of money. Such a partnership creates a win-win situation for both parties as the collective collateral guarantee of iqqub schemes minimizes the risk of default and high costs of advancing a series of small credits to several borrowers at the same time (Dowla, 2005; Dougherty, 2009).

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