ARTICLES

Small-Scale Enterprise Livelihoods and Social Capital in Eastern Indonesia: Ethnic Embeddedness and Exclusion*

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This article explores the importance of specific forms of social capital for small-scale enterprises while highlighting that such analyses must incorporate local sociocultural complexities. In Eastern Indonesia, small-scale entrepreneurs in Makassar city rely heavily on informal networks, linkages, and trust relationships for their livelihoods. This dependence reflects different social capital forms, embedded in local ethnic and social relations that are inclusionary for some, yet exclusionary for others. Findings show that although bonding social capital is prevalent, albeit with diverse implications, bridging social capital is less so, and linking social capital is virtually absent. A lack of the latter, combined with widespread corruption in the city, hinders livelihood progress for many local entrepreneurs. **Key Words: Indonesia, livelihoods, Makassar, small-scale enterprises, social capital.**

Small-scale entrepreneurs in Makassar, a port city of more than 1.1 million people on the island of Sulawesi, Eastern Indonesia, operate in a climate of economic disparity and political uncertainty (see Figure 1; Badan Pusat Statistik 2004).[1] Despite rapid economic growth prior to the 1997 economic-political crisis, Indonesia continues to experience sharp regional inequalities, Eastern Indonesia being amongst the poorest. This poverty is largely due to an Inner/Outer Island dichotomy broadly dividing manufacturing from resource extraction (Forbes 1986; Drake 1989; Manning 1998). Clustering of medium and large scale firms on Java, primarily in the Jakarta vicinity, has entrenched this trend. Indeed, while Java, Bali, and Sumatra have benefited from manufacturing by way of infrastructure development and private investment, Eastern Indonesia has languished (Schwarz 1994).

Makassar is the capital and administrative centre for the province of South Sulawesi, and home to four main ethnic groups, the Makassar (40 percent), Bugis (30 percent), Mandar (5 percent), and Toraja (5 percent). Chinese (3 percent) and a combination of Javanese and those from the Outer Islands (17 percent) represent the remainder of the population according to local government estimates (key informant interviews 1997, 2003). These cultural demarcations are fundamental to comprehending life in Makassar where *adat* (customs or traditions) is an integral feature of local cultures, with a unique *adat* pertaining to each group (Kahn 1980). By governing relationships among people in networks of social relations and providing a model of acceptable behavior within local cultural boundaries, *adat* is a key influence on the everyday socioeconomic circumstances of entrepreneurs in the city (Kahn 1980; Turner 2003, 2005).

Within this context, small enterprises have emerged as a critical source of livelihoods for thousands of people in Makassar.[2] Indeed, such enterprises have been increasingly endorsed as a means by which peripheral areas of developing countries may improve production output and general development (Schmitz 1989; Hill 1997). A range of plausible reasons support this optimistic appraisal. Small enterprises represent seedbeds for indigenous entrepreneurship mobilizing otherwise unstimulated capital. They are labor intensive, employing more labor per unit of capital than large enterprises,

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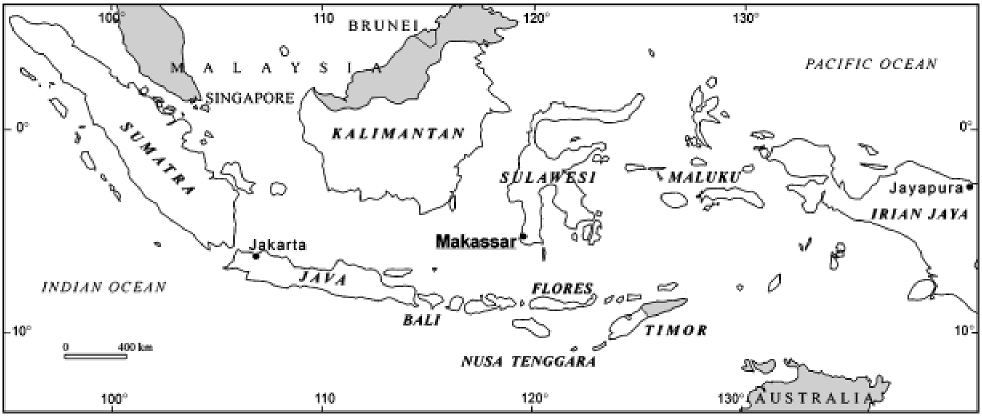

Figure 1 *Makassar city in the Indonesian context. (Source: Adapted from De Koninck 1994, 3.)*

and they can enhance indigenous technological learning while contributing to the decentralization of industry. Additionally, by utilizing predominantly local resources, small-scale enterprises have low foreign exchange requirements, and contribute to a more equitable distribution of income and wealth (Schmitz 1989; Alexander and Alexander 2000; Turner 2003).

Given such positive rationales for promoting small enterprises, coupled with the cultural specificities and ongoing economic challenges faced in South Sulawesi, this article aims to expand understandings of small-scale enterprise livelihoods in Makassar by drawing explicit attention to the role of social capital in the daily functioning and growth of these enterprises. A social capital framework allow us to consider how nonmonetary forms of support via networks, linkages, and trust help shape the course of enterprise outcomes. As such, this article highlights the importance of ethnicity in social capital formation in the Indonesian context. It also addresses the negative as well as positive sides of social capital—dynamics often overlooked in social capital studies (Portes and Landolt 2000; Woolcock and Narayan 2000; Radcliffe 2004). Furthermore, it scrutinizes the links between social capital and the local political economy, "a theme only weakly elaborated in both livelihood and social capital discussions" (Bebbington et al. 2006, 1963).

Fieldwork for this study was undertaken in Makassar in 1996–1997 and 2003. Questionnaires were completed with 100 small-scale entrepreneurs in 1996, selected using a stratified sampling procedure that covered handicrafts, food and drink, building materials and chemicals, clothing and leather, and metals, the official categories of the Indonesian Department of Industry and Trade (see Table 1).[3] These questionnaires were broad in scope, covering topics ranging from business history, organization, and labor structure, to capital sources and investment, and future goals. A further 200 entrepreneurs were then interviewed using a snowball sample. Again using a priori themes, these interviews focused more specifically on the networks, linkages, and trust relationships used by entrepreneurs, the impacts of ethnicity, gender, and religion on small enterprise livelihoods, and the constraints they faced. Following the economic crisis and during the presidency of

Table 1 *Product categories of small-scale entrepreneurs interviewed in Makassar, Sulawesi*

Official product categories:	Handicrafts	Food and drink	Building materials and chemicals	Clothing and leather	Metals	Other	Total
1996 questionnaires	19	20	21	20	20		100
1996–1997 interviews	40	40	40	40	40		200
2003 questionnaires	34	15	24	15	9	3	100

Megawati Sukartoputri, in 2003 an additional 100 questionnaires were undertaken. Again a snowball sample procedure was used, the questions reflecting the interview themes above.[4] Conversational key informant interviews with relevant nongovernmental organization spokespeople, government officials, and academics were undertaken during both time periods.

I explore the issues at stake for these small-scale enterprises in three sections. First, a conceptual framework for this study is outlined that incorporates and critiques social capital literature. Second, an analysis of the different forms of social capital found among the 400 enterprises studied is detailed. How different social capital forms helped or hindered specific enterprises is examined, with particular attention paid to the role of ethnicity in these dynamics. In conclusion, I critically consider the ramifications of the composition of social capital for the future of these livelihoods, noting also the crucial need for local environmental elements to be incorporated into such analyses.

Livelihoods, Social Capital, and Small Enterprises

An appreciation of the means by which livelihoods are formed and sustained offers insights into how household members construct a living within the distinctive contexts in which they operate. While access to financial capital is essential, natural, physical, human, and social capital, along with the strategies necessary to amalgamate these, are altogether vital to the constitution of livelihoods (Chambers and Conway 1991; Ellis 1998).[5] For many poor in developing countries, invoking a range of capital types helps to uphold and even diversify their livelihoods, thus improving their standard of living. It is one such core nonmaterial asset, social capital, that forms the focus of this study because of its central role in supporting small-scale enterprises at times when other forms of capital—often those more tangible—are limited or beyond the reach of individuals (cf. Grootaert 1999).

The Fundamentals of Social Capital

As a concept for considering the resources available to individuals and groups through social connections and relations, social capital has been popularized in recent years in much development literature. Consensus has emerged that seminal contributions to the initial conceptualizing of social capital evolved from three figures, namely Pierre Bourdieu (1986) on forms of capital, James Coleman (1987, 1988, 1990) on education, and Robert Putnam (1993, 1995) on civic participation. A broad conceptualization thus depicts social capital as incorporating key aspects of social organization such as "trust, norms, and networks" resulting in enhanced economic performance and the ability to adapt positively to a specific environment (Putnam 1993, 167). More specifically, as defined by Lin (2001, 55), "social capital focuses on the resources embedded in one's social network and how access to and use of such resources benefit the individual's actions."

Endeavoring to clarify the multiple interpretations of social capital, Woolcock and Narayan (2000) have offered four conceptual categories. First, the communitarian view, equating social capital with local organizations such as clubs and associations, puts a positive spin on social capital, tending to ignore its negative effects. Second, the networks view examines both the positive and negatives sides of social capital through different combinations such as bonding and bridging social capital (a perspective revisited below). Third, the institutional view envisions the political, legal, and institutional environment as creating a certain vitality within community networks and civil society. Finally, the synergy view brings together ideas from both the networks and institutional categories (Woolcock and Narayan 2000). Contending that these concepts tend to operate at specific scales, Beugelsdijk and Smulders (2003) suggest that the networks an individual belongs to function at the micro- or meso-level, while the differential social capital endowments of nations or regions affect levels of democracy and economic growth at the macroscale (see also Grootaert 1999; Adler and Kwon 2002).

At the microscale, of interest for this study, Portes (1998) has identified two broad rationales behind why people become involved in social capital formation. First, altruistic motives include value introjection, such as giving goods because of, for example, how one was socialized as a child, and bounded solidarity, when resources are granted due to solidarity with members of the same territorial, ethnic, or religious community. Second, instrumental motives encompass simple reciprocity—the full expectation of similar returns by an individual—and enforceable trust—the belief that community control will guarantee repayment (Portes 1998; see also Fukuyama 1996; Peng 2004). Such motives will come to light in this study of Makassar small-scale enterprises.

Debates regarding the applicability of social capital and its inherent inconsistencies are ongoing (Foley and Edwards 1999). A criticism of the original works of Putnam and Coleman is that they both focused on positive outcomes, without adequate attention to the "dark side" of social capital (Portes and Landolt 2000; Woolcock and Narayan 2000). Portes and Landolt (2000, 532) have identified four such negative consequences, namely "exclusion of outsiders, excess claims on group members, restrictions on individual freedoms, and downward levelling norms" (see also Harriss and De Renzio 1997).[6] Social networks can isolate nonmembers, while members benefit at their expense. Additionally, some individuals within social networks can undoubtedly place significant demands on the time, commitment, and loyalty of other members (Durlauf 1999; Woolcock and Narayan 2000). As such, issues of power and inequality must be examined more carefully than has often been the case in past social capital work (Harriss and De Renzio 1997; Silvey and Elmhirst 2003).[7]

Notwithstanding the tensions surrounding the concept, three classifications have gained support, namely bonding, bridging, and linking social capitals, all bringing with them positive and negative outcomes (Policy Research Initiative 2003). Bonding social capital includes networks built upon relations within homogeneous groups, frequently kin and friends, or within certain business organizations or ethnic enclaves. Such social capital is often tightly connected and closed to outsiders. With exclusive group loyalties, it is this type of social capital that often helps people to "get by" on a day-to-day basis (Putnam 2000). Bridging social capital refers to more open, heterogeneous networks that may intersect different communities and can afford opportunities to connect to more diverse sources beyond the insular kin and friendship circles of bonding capital. Finally, linking social capital refers to ties and networks traversing social and economic differences, which proponents argue unmasks the vertical dimensions of such capital, as distinct from the more horizontal relationships of bonding and bridging social capital (Woolcock 2001). This linking form can facilitate the acquisition of resources, ideas, and information from more formal institutions beyond the immediate community (Policy Research Initiative 2003; Turner and Nguyen 2005). Although these classifications are not always precise nor clear to discern in reality, with networks often having "fuzzy boundaries" (Anderson and Jack 2002, 194), they do provide us with conceptual tools with which to understand more about the specificities and nuances of the norms, trust relationships, and linkages at play and their differential outcomes.

Applying Social Capital to Small Enterprises

So how can social capital be applied to small-scale enterprise livelihoods in Indonesia? Much has been written on the relationships between social capital and small-scale entrepreneurs in developing countries. Work in Africa (including Barr 1998, 2000; Reinke 1998; Lyon 2000; Fafchamps and Minten 2001; Mayoux 2001; Meagher 2006), Latin America (e.g., Huber and Steinhauf 1997; Neace 2004), and Southeast Asia (e.g., Weijland 1999; Norlund 2005; Turner and Nguyen 2005) points to the importance of understanding not only the local political and socioeconomic contexts, but also power relations and inequality with regard to the effectiveness of this capital form.

In the Indonesian context, social capital has been used as a framework to examine other important elements including local community associations, local participation, and capacity building (Grootaert 1999; Isham and Kähkönen 2002; Wetterberg 2002; Beard 2005; Bebbington et al. 2006), women's employment migration (Silvey and Elmhirst 2003), physical and mental health (Gertler, Levine, and Moretti 2006; Miller et al. 2006), and industrial manufacturing (Miguel, Gertler, and Levine 2005, 2006). Yet, literature focusing on small-scale enterprises and social capital in the country is slim, a notable exception being Weijland's (1999) research of rural clusters of microenterprises, predominantly on Java. Weijland (1999, 1518) found that in rural village communities, social relations were commonly subject to "patronage relationships corresponding with socio-political hierarchy, land ownership and traditional family bonds." When wishing to establish their own cottage industries, laborers who had previously worked for another had to "disengage themselves" (Weijland 1999, 1518) from associated obligations before developing their own social capital, with family networks being vital, as will be reflected in Makassar too.

Together, key factors from this review shape a framework for embarking on a microlevel analysis of the character and effectiveness of social capital deployed by small-scale entrepreneurs in Makassar city. This draws attention to the importance of dynamics such as local politics, social structures, and cultural norms in determining the reliance of enterprises on different social capital forms. By focusing on the contextual embeddedness of these enterprises, the quality, attributes, and substance of ties and relations, and how these closely intertwine with features of trust, norms, and attitudes, we stand to gain a fuller appreciation of how social capital is composed and produces specific livelihood outcomes. Bonding social capital directs our attention to the importance of family, close friends, and members of the same ethnic group or occupation. In comparison, bridging social capital allows us to explore whether networks exist that cut across broader ties, whereas linking social capital permits us to question the supportive capacity of those occupying different economic and social positions, as well as more formal institutions in the city.[8]

Makassar Small Enterprise Livelihoods

In Makassar, survivalism is the name of the game for the majority of small-scale entrepreneurs.[9] Whether before or after the Southeast Asian economic crisis, the prevailing sense from interviews is one of entrepreneurs trying to get by rather than manage progressive and expanding businesses. Small enterprises are concentrated in market sectors with significant overrepresentation, due chiefly to ease of entry and operation. This brings stiff competition. Entrepreneurs in clothing, chair making, and gold and silver jewelery sectors especially, face these difficult circumstances (questionnaire data 1996, 2003).

The principal factors identified by small-scale entrepreneurs as preventing them from achieving their goals include difficulties gaining capital, strong competition, and concerns regarding future uncertainties. They are also caught in a cost-price squeeze between the costs of inputs and the price of finished products, at the same time juggling limited worker skills, technology, and equipment. Adding to such concerns are undependable supplies of raw materials and inconsistent markets for final products (questionnaire data 1996). Interestingly, stacked up against these concerns, in questionnaires completed in 2003, *krismon* (monetary crisis) never outranked them.

Bonding Social Capital

Small-scale enterprises display a high degree of ethnic specialization regarding the production of goods considered "traditional" among city residents. The Bugis are heavily involved in gold jewelery production[10] and tailoring; the Javanese make tofu, *tempe* (deep-fried fermented soya beans), and *bakso* (meatball soup). In turn the Makassar mix ice cream, and the Torajan are shoemakers and repairers. These patterns reflect a strong correlation between the time-honored nature of the product and the ethnic specialization apparent. Alternatively, less traditional production is dominated by greater ethnic heterogeneity. The manufacture of metal window frames, metal car parts, and drinks, for example, is inclined to be undertaken by those most recently established in Makassar regardless of ethnicity. For individuals lacking historical, ethnic, or family connections in the city, such specialities afford greater ease of entry. The manner by which certain occupations remain closed to newcomers will become even more obvious in the following discussion when we delve into the labor recruitment processes and financial capital channels for these enterprises.

Labor The importance of family labor varies by type of small enterprise in the city. Gold and silver handicraft producers rely heavily on family labor, a function of the expensive raw materials necessitating great trust between operator and worker (interviews 21 January and 6 February 1997). Other enterprises, however, such as food producers and tailors, employ a more even distribution of family and nonfamily workers.

Close family and friendship networks are frequently used to access additional labor in attempts to temporarily overcome labor shortages on terms favorable to entrepreneurs. For example, Agus,[11] a scrap-iron recycling entrepreneur, employs a core group of five workers, but when larger demolition jobs are available he hires friends on a daily basis to help. Agus therefore mobilizes bonding social capital to acquire more labor with the flexibility he desires. Yet such capital simultaneously loads obligations upon entrepreneurs like him as well. Prior to *Idul Fitri*[12] friends and family members seek employment from Agus to earn extra cash, which he feels obliged to provide, even if there is no actual work for them to do (interview 3 February 1997). These friends and family are thus also able to utilize bonding social capital to expand their employment opportunities and income at specific times, to the detriment of Agus's profits.[13]

In many enterprises using nonfamily labor, accommodation and food are commonly provided, along with loans and social contributions, so that entrepreneurs effectively cultivate patron-client relationships. Employees frequently lack the means to return favors in kind and therefore offer their labor, loyalty, and dependability instead. The development of such loyal ties within an unequal power relationship benefits the enterprise by engendering stable relationships, reducing the costs of training new workers, and protecting trade secrets by curbing the risk of laborers moving to competing enterprises or establishing their own.

Regional social networks are also significant for many small-scale entrepreneurs. Chain migration through family and friendship networks is highly influential in drawing people to the city, with new migrants often relying on already settled relatives and friends to gain employment. For a number of enterprises, new worker recruitment is based on bonding social capital with employees enlisted from the entrepreneur's original rural *kampung* (village). These networks are so strong that positions are frequently filled by eliciting kin and friends from remote locations—even on other islands—rather than tapping into local labor pools. In the case of food production this tendency is especially pronounced, reflecting the ethnic specializations noted above. It is often expressed that only Javanese with the same *kampung* origins as the enterprise operator can produce certain foods such as *bakso* (meatball soup), *jamu* (traditional herbal medicine), and tofu to the correct standards, reflecting a deeply felt sense of cultural embeddedness surrounding specific enterprise types. One Javanese entrepreneur, Purwanto, claimed he would continue to recruit additional workers from his *kampung* on Java to make *bakso* despite having lived in Makassar for seventeen years (interview 4 February 1997). By excluding outsiders, these regional and "ethnic niches" illustrate one of the downsides of social capital, since locals of different ethnicities available for work, with skills on par or superior to those recruited from afar, remain ineligible for employment (Portes 1998, 13; Portes and Landolt 2000).

Once established in the city, strong networks are sustained among such laborers to entice more individuals from elsewhere. Entrepreneurs call on workers to gather information about potential employees, a common way that *trishaw* riders obtain work. A *trishaw* enterprise most often consists of an entrepreneur who owns and rents out eight to ten *trishaw*, while also providing riders with accommodation and food. To solicit new workers, the entrepreneur approaches current employees, inquiring if they know of family or friends wanting such a job. The current worker then often acts as a guarantor for the new arrival. While allowing migrant workers to access otherwise potentially unavailable employment opportunities, this also acts as a form of social control. So as not to jeopardize their own employment, an informal code of conduct self-regulates the workforce whereby misbehavior by newcomers is quickly reprimanded or unruly recruits are forced to leave by established workers. This use of social capital exemplifies Portes's (1998) concept of enforceable trust. Entrepreneurs benefit because employee behavior is enforceable through the power of the community (Portes and Landolt 2000; see also Coleman 1988).

Financial Capital Networks among immediate and extended family members are an important means to access financial capital for Makassar entrepreneurs. Few interviewed were able to borrow from banks or other institutional sources because of collateral requirements and the complicated procedures involved. They therefore depend overwhelmingly on informal channels with their advantages of flexible repayment schedules and little or no interest. Entrepreneurs have other clear reasons for preferring an informal loan too. Entrepreneurs feel mistrusted by bank workers and are doubtful that they can meet loan repayment deadlines.[14] Tunru, a chair-maker maintained

> I'd have to borrow from family members. If I go to the bank I have to take all my certificates and it takes too long, there are too many rules. No one trusts us to borrow capital so it's difficult. (interview 28 January 1997)

Aco, a *bakso* entrepreneur, offered a similar assessment:

> I have to go to family or friends because it's easier to borrow and I can return it when it's possible. (interview 5 February 1997)

Likewise, Udi, an entrepreneur making small oil stoves noted that in his case

> the basic materials I need aren't always ready so my sales aren't constant. I'd go to family. It's easier and there aren't lots of procedures, it's quicker. (interview 26 February 1997)

Concurrently, many entrepreneurs are afraid to approach lending institutions because sources outside the family want bribes and tips (numerous interviews 1996–1997; questionnaires 1996, 2003). Not surprisingly then, entrepreneurs speak of borrowing money from family and friends as "safer" due to the lack of complicated procedures and bureaucracy, detailed below.[15]

Such high-trust networks positively support entrepreneurs lacking access to formal financial capital sources, but they also bring limitations. Indeed Bourdieu (1986, 249, emphasis added) has argued that "the volume of social capital possessed by a given agent . . . depends on the size of the network connections he can effectively mobilise and on the volume of capital (economic, cultural or symbolic) possessed in his own right *by each of those to whom he is connected*." Consequently, due to the finite resources of friends and family, entrepreneurs often commented that their enterprise's growth was constrained.

Bridging Social Capital

Small enterprises in Makassar display little evidence of relying on bridging social capital, with only three groups among the 400 entrepreneurs consulted clearly utilizing this form that knits together broader communities. Instead, all other relationships that straddle ethnic or social boundaries are based on monetary transactions. Yet bridging social capital does exist for Bugis goldsmiths who frequently draw on ethnic-specific linkages with Chinese shopkeepers for their gold. A small number of Chinese retailers with greater financial means purchase raw gold and lend supplies to Bugis goldsmiths for the production of jewelery in an outlier-style relationship. While the Chinese trust Bugis goldsmiths with their raw materials—although often only after several generations of such relationships, passed down from father to son—goldsmiths from other ethnicities do not have such historically based trust relationships and rarely ever source raw materials from Chinese retailers (cf. Humphrey and Schmitz 1998).[16]

In certain instances Bugis goldsmiths nevertheless supplement their reliance on bridging social capital with bonding social capital. First, in the rare case that Bugis goldsmiths employ nonfamily workers, they only hire other Bugis, sustaining an almost ethnically homogeneous goldsmith community. Second, some Bugis goldsmiths, before having gained the much-needed trust of Chinese retailers, work in an outlier arrangement for other, more established Bugis goldsmiths (questionnaires 1996; interviews 16 September 1996, 21 January, 6 February, and 7 May 1997). These links to members of the same ethnic group allow enterprise subcontractors to acquire—through bonding social capital—raw materials otherwise inaccessible due to lack of trust. A complex layering of bonding and bridging social capitals, relying heavily on ethnicity and trust, is thus utilized by Bugis goldsmiths to access expensive raw materials and find dependable workers. Yet while inclusionary for some, these linkages are plainly exclusionary to ethnic outsiders who might want to join this trade.

In addition, a number of Bugis and Makassar furniture and tailor subcontractors employ bridging social capital with Chinese retailers to access work contracts, raw materials, and informal loan channels. Furniture makers frequently obtain orders from Chinese retailers and work to their specific requirements, with cash advances if necessary to purchase particular raw materials (interviews 29 January and 18 February 1997). Similar arrangements also exist for Bugis and Makassar tailors who supply Chinese retailers with bulk orders, such as bedspreads and pillowcases. These furniture and tailor subcontractors then turn to their Chinese supplier/retailers for loans toward working capital or for cash in a family emergency (questionnaires 1996; interviews 30 January and 28 April 1997).

Notably in these cases, Bugis and Makassar entrepreneurs frequently commented on the time it takes to establish these connections and trusting relationships with their Chinese retailers, reflecting the statement that "the sources of social capital lie in the structure of social relations developed *over time*, within which an actor is embedded or which are embedded in a community" (Policy Research Initiative 2003, 16, emphasis added). These linkages also commonly involve expected reciprocity and future obligations such as gifts during cultural and religious festivals,[17] supporting the assertion that social capital is "a potentially long-lived asset that is not costless to produce or acquire, but rather may be invested with the expectation of a future flow of benefits" (Policy Research Initiative 2003, 16).

Linking Social Capital

Strikingly apparent is the overwhelming lack of linking social capital utilized by small-scale entrepreneurs involved in this research. No informal linkages across noteworthy class boundaries were ever discussed by small-scale entrepreneurs or key informants. In addition, the local environment effectively constrains them from forming linking social capital in their efforts to access alternative sources of credit and financial capital—elements critical to enterprise growth. Corruption makes the institutional environment a barrier for small enterprises in Makassar. Hidden extra costs in the forms of bribes, under-the-table payments, "enforced" promises of services that must be upheld at a later date, and so on are expected at all levels within a number of government and nongovernment institutions alike.[18] These practices effectively form a maze of complex, forever changing, expensive, and time-consuming registration and taxation procedures, such that obtaining formal financial capital and credit is beyond the capabilities of most small-scale entrepreneurs. Therefore, although public and private sector institutional arrangements for loan attainment, marketing scheme development, and training do exist, the intended recipients are usually thwarted in their attempts to access them by an impeding bureaucratic context. Despite the presence of potential avenues for linking social capital, the reality of the local political economy prevents its formation.

To take one example, Tommy, a successful small-scale entrepreneur producing bottled drinks, reported that many Government Department officials visit his enterprise throughout the year requesting money, more so before *Idul Fitri* and Christmas, the entrepreneur being a Christian from Manado (key informant interview 6 May 1997).[19] Other entrepreneurs reported similar requests, calling such corruption "*penyakit*" (a disease); one silversmith asserting "it's a disease, the whole country's got it" (interview 26 February 1997). Interestingly, such requests appear strongly correlated with enterprise size—the larger and more "visible" enterprises being targeted most frequently. Such visibility may therefore be a deterrent for small enterprises to innovate and expand due to increased "operating costs."

The absence of linking social capital is further illustrated by the lack of entrepreneur awareness of the different types of assistance theoretically available to them. Not only are the roles of relevant government departments poorly understood among entrepreneurs, but offices are geographically distant from enterprise-dense areas of the city, physically hindering entrepreneurs wanting to acquire information and training. In a circular fashion, reports of negative experiences attempting to access such channels feed a general reluctance to do so, reinforcing the dearth of linking social capital.[20]

Undoubtedly, the political economy creates a range of hurdles for small enterprises in Makassar. Formal resources designed to assist small enterprises with economic development are present, but the reality for the entrepreneurs is one of giving paybacks and bribes when dealing with an impenetrable bureaucracy. As Bebbington et al. (2006, 1963) have noted "the ability of an individual or collective actor to transform assets into the successful resolution of a problem depends on the actor's relative power vis-à-vis other actors." For small-scale entrepreneurs in Makassar, their position vis-à-vis the local bureaucracy is weak.

Future Prospects

So what does this analysis tell us? First, strong ethnic embeddedness in Makassar's local communities sustains an important range of linkages and networks upon which the majority of small-scale entrepreneurs intimately rely (cf. Curry 1999; Taylor 2002). The benefits accrued from these are unmistakable. Entrepreneurs gain access to informal credit and capital loans with little or no interest, borrow workers from each other when they have large production orders, and share tools and product information. Additionally, they reduce the chance of workers shifting enterprises with trade secrets via strong trust or patron-client relationships. Such networks also help entrepreneurs to obtain raw material supplies and to sell their goods farther afield utilizing family and extended kinship connections.

Second, this embeddedness through ethnicity and shared cultural values strongly dictates the operations of many enterprises, and while this is clearly beneficial for some, at the same time it reinforces social and cultural stratifications in the city. Without the necessary social relations, individuals excluded due to ethnicity, migrant status, or social standing are prevented mobility, employment, and raw material supplies. They find it highly problematic, if not impossible, to enter specific occupations. Unquestionably, the situation in Makassar reflects de Haan and Zoomers's (2005, 34) argument that "livelihood activities are not neutral, but engender processes of inclusion and exclusion."

Third, although the situation in Makassar reveals the existence of a prominent degree of bonding social capital, involving the close cooperation of networks of family and friends and affording mainly intra-ethnic group economic and employment opportunities, and although the strong local embeddedness of skills and social networks helps form a climate of trust among specific groups of local entrepreneurs and elevates levels of enterprise cooperation, ultimately such relationships are engaged primarily as coping mechanisms. These occur in part because of the many barriers erected by formal institutions that make it difficult, if not impossible, for entrepreneurs to contemplate using formal financial capital and credit facilities. Bonding and bridging social capitals do function to support the day-to-day survival of an enterprise, but the more substantial support necessary for enterprise advancement—namely, linking social capital—is missing. In fact, the political environment and its associated bureaucracy is such an obstacle that other forms of social capital develop directly as reflexive coping strategies.

Are these sustainable livelihoods? To think about livelihoods in this manner makes us question whether such livelihood strategies can increase the standards of living of a population in a sustainable manner. Chambers and Conway (1991, 6) suggest that a sustainable livelihood is one that can "cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels and in the short and long-term." Utilizing a sustainable livelihoods framework therefore extends the notion of access to different types of capital over time to focus on "long-term flexibility" (de Haan and Zoomers 2005, 31). One can certainly argue that the bonding social capital utilized among many small-scale enterprises in the city renders the entrepreneurs less vulnerable to livelihood stresses and external shocks due to the social safety networks they form, nevertheless their sustainability is questionable. Family and close friends can only offer so much in the way of financial capital and credit support. These constraints limit many of the entrepreneurs' goals of enlarging their enterprises in numerous ways, including not being able to purchase improved equipment and technology, not being able to expand their premises, being unable to provide more training to workers, and being incapable of purchasing higher quality raw material inputs (questionnaires 1996, 2003). Such constraints clearly point to the potential downsides of an overreliance on specific social capital forms (Portes and Landolt 2000).

It is true that bonding social capital remains an essential element in the day-to-day survival of the majority of small-scale entrepreneurs in Makassar. But it is also equally apparent that the livelihoods of these entrepreneurs could be enhanced considerably by a number of initiatives designed, for example, to build stronger trust relationships among members of different ethnic backgrounds (who might be better skilled and demand fewer informal benefits), and to establish better community relations with the local government, in turn providing an adequate legal framework for formal enterprise loans without hidden costs.[21] Indeed, as persuasively argued by Neace (2004, 703), "change is possible when entrepreneurs are given opportunities, when cultural-political repressions are lessened and removed . . . and when governance is stable, transparent, and equitable. Social capital can be created where none existed."

In sum, if effective change *is* to be achieved for small-scale entrepreneurs in Makassar and their livelihoods made more sustainable, a number of fundamental issues must be addressed. A more transparent legal system is needed, as well as a crackdown on government corruption and nepotism and on widespread bureaucratic incompetence so that linking social capital will be able to form. In addition, more efforts to reduce ethnic and social tensions will need to be instigated. Only when these highly localized—but also nationwide—factors are resolved will it be possible to implement the reforms required to create a more supportive environment for small-scale enterprises like those run by Agus, Purwanto, and Tunru whom we have met here, and thousands of others like them. Whether this will occur in the context of a country still undergoing significant economic and political upheavals (see Hainsworth, Turner, and Webster 2007) of course remains another question.

Finally, this study has shown that if one is to undertake an analysis of small-scale enterprises in developing countries from the perspective of a social capital framework it is imperative to incorporate a survey of the influences of important axes such as ethnicity, as well as gender and age. Strikingly, in the case of Makassar small-scale entrepreneurs, it was apparent when comparing these three elements that ethnicity stood out as the most decisive for decision making by both men and women, young and old.[22] Yet in other locations there will obviously be very specific, relative differences in the importance of such elements, and interpretations of these must be included. For social capital analyses to be able to help in the formation of worthy studies and policy recommendations, such aspects have to be incorporated to a far greater degree than has often been the case in the past. As noted earlier, social capital has been popularized in much development literature, and yet it is still the case that institutional and donor discourses often ignore the specificities of local context (Porter and Lyon 2006). What this study has shown categorically is the vital importance of recognizing local cultural and social complexities, and the importance of place. Only with such context-sensitive conceptualizations will we improve our understandings of how small-scale entrepreneurs get by or get ahead, and how outsiders might help enhance their entrepreneurial possibilities. ■

Notes

[1] Makassar was named Ujung Pandang from 1971 until October 1999, when the name reverted back to Makassar. This reversion was granted by Habibie, President at the time, in an effort to marshal support for himself and his troubled political life in Parliament, a few days before his "Statement of Responsibility," which parliament rejected.

[2] Small enterprises are defined here as those having fewer than twenty workers, with labor being either family, a mix of family and nonfamily, or all wage workers with flexible working conditions—that is, no contracts. In addition, the owners of the enterprises usually work directly in the production process. Profits are low (less than Rp 1,000 million) and operations are frequently unlicensed by the government. See Turner (2003) for a comprehensive discussion of small enterprise definitions in the Indonesian context.

[3] Researchers from *Universitas Hasanuddin* assisted with these questionnaires.

[4] Researchers from the State Institute of Islamic Studies, Makassar, assisted with these interviews that also included questions about the impacts of *krismon* (monetary crisis) on the enterprises.

[5] These five assets are foundational to livelihood studies, referred to by some as the "asset pentagon" (Carney 1998; Bebbington 1999). Financial capital encompasses accessible monetary reserves, spanning earned income, pensions, and transfers from the state (Ellis 1998). Natural capital consists of two forms categorized as nonrenewable resources—for example minerals and soils—and renewable resources—including nutrient cycling and ecosystem services (Bury 2004). Infrastructure, like buildings, transportation, and electrical services, comprise physical capital. Finally, human competencies, including skills, education, capacity to labor, and health, form the basis of human capital (Ellis 1998). Social capital is defined in detail later in this article.

[6] At a macrolevel, concerns have also been raised regarding how social capital can be utilized to support neoliberal government structures in developing countries (Harriss 2002; Schuurman 2003).

[7] For comprehensive overviews of the debates regarding social capital in development studies, see, amongst others, Portes and Landolt (2000), Foley and Edwards (1999), Fine (2001), Mohan and Mohan (2002), Narayan (2002), Bebbington (2004), and Porter and Lyon (2006).

[8] The concept of trust and how it emerges remains somewhat undertheorized in economic geography (Murphy 2006). Indeed, "trust's specific role in inter-, intra-, and extrafirm networks is an especially important consideration but one that has received surprisingly limited attention despite increasing interest in the relational, discursive, and communicative dimensions of economic geographies" (Murphy 2006, 429). While acknowledging a growing diversity of conceptualizations of this socially constructed phenomenon, I would argue, based on fieldwork in Makassar, that the bonding social capital found there among small-scale entrepreneurs is often supported by a form of trust that is not necessarily based on rational choice per se, but is instead a "moral and subjective construct" reflecting emotional bonds between individuals derived from kinship ties, shared experiences, empathy, and friendship (Murphy 2006, 434). In a somewhat different fashion, trust associated with bridging social capital could be considered a more rationally constructed mechanism to govern interfirm transactions and interactions; while at the macroscale, relevant to linking social capital, formal structures of governance come into play to shape (or inhibit) trust when there is little or no substantive knowledge of the other individual in a business transaction. These could be considered to reflect Humphrey and Schmitz's (1998) typology of microscale, mesoscale, and macroscale forms of trust (see also Fukuyama 1996, as well as Schmitz 1999 and his concepts of "ascribed trust" that I would associate with bonding social capital and "earned trust" that I would associate more with bridging and linking social capital).

[9] I define "survivalism" as people's preoccupation with immediate economic and social survival. Survivalism is characterized more by "treading water" than by socioeconomic advancement (Turner 2003).

[10] An observation also made by Pelras (1996).

[11] All names are pseudonyms.

[12] *Idul Fitri* is the celebratory period ending the Muslim fasting month.

[13] An interesting contrast to these ties is provided by Hassler (2005) in his study of the Balinese clothing industry. He found that in Bali the employment of family members is unusual, with owners of these larger operations explaining that family would expect "too many privileges within the company" (Hassler 2005, 535).

[14] Responses to the 100 questionnaires in 1996–1997 showed that more than half (55 percent) used "personal" family and informal channels to gain financial capital. The 200 semistructured interviews revealed that 32 percent borrowed from these sources, with a further 61 percent stating that they never borrowed.

[15] Bureaucracy is understood as "any administration in which action is impeded by unnecessary official procedures" (*Collins Concise Dictionary* 1988, 145), a definition that includes privately owned banks and credit lending agencies as well as government operated institutions. Corruption is the act of being "open to or involving bribery or other dishonest practices" (*Collins Concise Dictionary* 1988, 252); the definition "the misuse of entrusted power for private gain" (*Transparency International* online) is also applicable here.

[16] There were only a handful of Makassar goldsmiths in the city, and those few did not have these outlier style links with Chinese retailers. Instead, Makassar craftspeople tended to work with silver.

[17] It is expected that entrepreneurs will give Chinese retailers gifts for Chinese New Year, and that the Chinese will provide gifts, money, and time off from completing orders for *Idul Fitri*.

[18] Many small-scale entrepreneurs in Makassar operate their enterprises without a *Surat Izin Tempat Usaha-SITU* (license for a business or work site) or a *Surat Izin Untuk Perusahaan-SIUP* (license for a business or enterprise to operate). One has to have the SITU before applying for the SIUP, and these are obtained from different government locations in the city and deemed a considerable expense by entrepreneurs. One entrepreneur explained: "there's lots of corruption if you want a SITU. You have to pay at the office an amount depending on what the official there decides for that day" (interview 11 March 1997). To gain formal loans one has to have these documents.

[19] Berry, Rodriguez, and Sandee (1999, 21) similarly reported that in Central Java small-scale entrepreneurs make legal and illegal payments to various government officials of as much as 10–20 percent of an enterprise's profits. The payments are "frequently an ever larger burden for small enterprises than these figures suggest because payments . . . tend to come together at specific points in time, such as the end of the fasting month and Christmas."

[20] This was also found to be the case among small enterprises in Java, with many producers being unaware that assistance was available (Joseph 1987).

[21] Such discussions bring to mind the work of Hernando de Soto (1989) asserting that informal activities are a consequence of excessive state regulation. Such neoliberal/legalists argue that what is needed is a reduction in state interference in the market and the elimination of the maze of regulations commonly associated with establishing an enterprise. Alternatively, critics of this approach state that an unregulated economy would not be the best solution, as the approach ignores the structural subordination of small enterprises and traders (see Rakowski 1994). The case in Makassar is made somewhat more complex by the fact that it is often

formal licensed enterprises that are being hindered by the nature of the bureaucracy, not just those that de Soto would consider informal.

[22] Ethnicity has been the focus here because, compared to gender and age, it was found to be the more central decision-making element with regard to labor recruitment, capital formation, product specialization, and networking. For more details on the gendered aspects of small-scale enterprise operations in Makassar, see Turner (2003).

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