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CING OF SMALL MANUFACTURING ESTABLISHMENTS IN BURMA

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C O N T E N T S

CHAPTER I

INTRODUCTION

A. The Objectives of the Study

As a contribution to the study of Burmese industries, the subject of financing manufacturing concerns is extremely important in view of the Government's declared policy of promoting industrialization as the major objective of its economic programme. In furtherance of this policy the Government has on the one hand undertaken direct industrial investment on a fairly large scale and on the other, given full recognition to the important role of the private sector in the whole industrialization programme and promised assistance in many ways. Side by side with the growth of government's investment in industry there has been a considerable development of industries in Burma after the Second World War and especially after attainment of independence. The present study is confined mainly to development in the private sector.

Small manufacturing businesses hold a strategic position in the whole of the private industrial sector. Industrialists in the private sector have to face many problems one of which is financial. The present study shows that the capital for industrial ventures comes largely from the personal savings of individuals. Further, technical knowledge for running large enterprises is also very limited, as a result the typical business in the private sector of Burmese industry tends to be small to begin with and it is to be expected that the growth of such businesses to a larger scale depends very much on the success attending their operations on a small scale.

Of the problems faced by small manufacturing industries at the present time the most pressing are the problems of financing. It may be said that the financial problem is one of the important bottlenecks at present preventing further development of many of these businesses. It is of course probable that when these businesses develop further, a number of technical, administrative and organizational problems would also arise. But at present it is perhaps safe to say that finance is a more important problem. Hence, this thesis is specially devoted to a study of the financing problems of small manufacturing businesses. A study of the pattern of development, structure and the financial and other problems of these small concerns will, it is hoped be found useful in order:-

1. to trace their growth so as to project the future trend of industrial development in Burma;

2. to determine the feasibility of expansion or contraction of small manufacturing concerns;

3. to classify their common problems for analysis and possible practical application,

4. to furnish information for use by interested organizations or by the Union Government in formulating policies regarding the choice of industries, the kind of aid to be given, the protection to be provided, etc.;

5. to provide information to prospective entrants into the various manufacturing fields,

6. to suggest remedies for certain areas where these may be needed.

B. Method of Study and Collection of Information

Information for this study has been gathered from:

1. The Industrial Censuses of 1953 and 1954.

2. The Directorate of Industries and the Industrial Development Corporation.

3. Independent case studies of a number of small manufacturing concerns.

4. The Union Bank of Burma and some commercial banks.

In 1953 a population census was taken covering the urban area in Burma. This consisted of 252 towns and the population amounted to about 15% of the total estimated population of the country. In 1954 another population census was taken covering some parts of the rural areas of Burma. Only about 2,000 village tracts in the most accessible parts of the country were included and these villages had 14% of the total estimated population of the country. As the total rural population is estimated to be about 85%, the population enumerated in 1954 covered approximately one-sixth of the total rural population.

In these population censuses every household was asked a trigger question as to whether that household carried on any manufacturing business. Every household which reported such industrial activity was given another set of questions relating to various aspects of the industrial work. Industrial establishments were classified into two main groups viz (1) establishments with 10 or more employees as industry and (2) those with less than 10 employees as cottage industry.

Some information about the manufacturing enterprises seeking State aid was available from the Directorate of Industries and the Industrial Loans Board of the Industrial Development Corporation, the two main government agencies providing State aid to industry. A study of the loan applications was made so as to analyse the nature of the manufacturing concerns seeking State aid.

Independent case studies of firms were made to determine the problems that are encountered by the small manufacturing concerns.[1/] About 20 concerns were studied but only the cases of 10 establishments are used in this study. The majority of these concerns were establishments that have been organized since independence. These ten firms can not be said to be representative, nevertheless they do suggest some of the common problems encountered by small concerns. A special study was made of an establishment over thirty years old in order to determine the effects of changing conditions on the operations of the small manufacturing concerns and the reasons why they have remained small. Information was gathered from interviews with the managers, who in all cases were found to be the owners. Almost all the financial and cost data on the operation of the firms were organized from the verbal information obtained from these interviews. Although it is not at all satisfactory it is the best that can be done under the circumstances.

A number of commercial bank officers were interviewed in order to find out the role of commercial banks in financing small manufacturing concerns.

C. Limiting Factors to the Study

There were many obstacles in the preparation of this paper, some of which are discussed below.

The industry censuses provided a great deal of interesting information which have been very useful. Among them we have information about commodities produced, their values, raw materials used and their cost, age of establishment, ownership, volume of sales, stock position, employment, wages and salary bills, value of plant, form of business organization, sources of finance, amount of loans, sources and terms of such loans. Although these are extremely valuable it must be noted that the information is provided by the members of the establishments and may involve some inaccuracies.

1/ These studies were conducted by the members of the Staff of the Department of Commerce, University of Rangoon. The author wishes to acknowledge with thanks the kind permission given to her to use the materials of the cases. A comprehensive report of these studies will be published separately.

Another limitation is that the industry census does not cover the whole country but only the urban areas and about one-sixth (by population) of the rural areas. Estimates for the whole country may be made by taking the urban figures together with six times the rural figures obtained in 1954. But it is not quite safe to assume that the area covered by the 1954 census is quite representative of the entire rural area, or that the industries are distributed proportionately with the population. Particularly, while it may be assumed that cottage industries are distributed more or less according to the population, it cannot be assumed that the larger industrial establishments are distributed in the same way. It is more likely that there is a greater concentration of the larger industries in the villages nearer to towns, such as those areas covered by the 1954 census. Subject to these limitations estimates for the whole country may be used by combining the 1953 and 1954 data.

The information on loan applications of manufacturing enterprises for state aid also has its limitations. All the applications did not provide adequate information required for the study and thus only some applications were selected for this study. Also the information contained in the applications are those provided by the private investors from their point of view and cannot be taken on their face value. It is therefore necessary to note that the results of the study cannot be claimed to be conclusive. However, even with these limitations the study does give us some idea about the nature of the manufacturing concerns asking for financial help from the State.

The case study was limited to a few firms, and no selection could be made from all parts of the country. It has been confined only to the Rangoon-Insein and Kamayut industrial areas, which is the most highly industrialized section of Burma. With regard to the line of products, not all industry groups have been studied, but only of those manufacturers who were willing to co-operate and to give information.

Small concerns are frequently poor record keepers, and because they do not publish reports, it becomes difficult to get accurate and reliable information. The owner managers of small concerns are often reluctant to release information, therefore there were gaps which were filled in through assumptions. Since business concerns in general are always associated with innumerable variables, it has been found rather difficult at times to state the specific causes for all the problems. The problems stated in this paper are more of a generalization of the overall situation found in the case studies.

D. Definition of Terms

The word manufacturing means the making of useful articles out of raw materials either by hand or by machinery. In adopting this meaning, a manufacturing concern can be defined as "a concern which, usually through the use of labour or machinery, makes a useful product out of raw materials." But the act of making the product may be carried out by hired employees in a separate work place known as a factory or by the members of a family at home. Therefore the full definition of a manufacturing concern would be a "concern which, usually through the use of labour or machinery, makes a useful product out of raw materials, either in a factory or at home." The Census Department defines manufacturing as the mechanical or chemical transformation of inorganic or organic substances into new products whether the work is performed by power-driven machines or by hand, and whether it is done in a factory or in the worker's home.

For the industrial censuses of 1953 and 1954, the Census Department has defined manufacturing establishments employing nine or less than nine employees as "Cottage Industries", while establishments employing ten or more are termed "industries". But no definition has yet been established to clearly differentiate small from large manufacturing establishments in Burma. Thus it becomes necessary for this study on small businesses to make such a distinction.

In defining smallness or bigness, the number of employees on the payroll is the most commonly used indicator of size for the industrial or manufacturing group. Yet in some fields of manufacturing, a large concern may require only a moderate number of employees, and therefore provisions must be made for the marked contrast that exists between one industry category and another.

The amount of capital invested is another yardstick for determining the size, though of a business in Burma it is often difficult to find accounting records to show the capital employed in small concerns. Other measures of size, such as the volume of sales, the value of assets, the net worth, and the net income or net profit are also used to distinguish small from large or medium concerns. Wide variations exist when income is the determining factor, since in poor years even large concerns may not be able to reach a certain figure, while in good years small firms may exceed it. Whatever the criterion used in the determination of size, the nature and type of industry and the methods of measurement must be given due consideration.

In addition to size, other characteristics also exist to differentiate small from large concerns. A simple organization structure is a recognized feature of smallness. Management is independent, and the manager is often also the owner. The owner managers usually have a close relationship with their employees. The initial investment generally comes from the owner managers, and the small concerns do not resort to public financing but usually fall back on retained earnings. For temporary funds they depend to a great extent on private money lenders, banks, and their suppliers through credit purchases.

Information and statistics from the Industrial Censuses of 1953 and 1954 have been found to be the only data available to measure and determine the size of the manufacturing concerns in Burma. The number of persons engaged, the plant and machinery used, the value of product and receipts, and the value added by manufacture are some of the important data available in the Census reports.

From the point of view of the importance of a certain field of industry, the value added by manufacture would be a good criterion. However, in certain cases the correlation between the value added and the size is not strong. Likewise, the value of products and sale receipts, another measure to determine size, cannot be used effectively by itself unless due consideration is given to the nature and type of industry. The value of plant, machinery, and equipment used by the concern is also a good indicator of size, but this measure would exclude the many manufacturing concerns which are in operation by using rented plants, machinery and equipment.

With the available data and information, the total number of persons engaged in the business remains the only satisfactory means of size determination. This is because, although the nature of industry cannot be taken into account, the number of persons engaged in a concern can easily and accurately be determined, while the other measures depend to a large extent on the methods and time of valuation. Adopting the total number of persons engaged as the size determining factor, the table on page 7 shows the distribution of industrial establishments by employee size classification.

Distribution of Industrial Establishments by
Employee Size Classification[1]

No. of Employees	No. of Establishments	Percentage
10 - 24	1,386	56.1
25 - 49	543	22.0
50 - 74	214	8.6
75 - 99	80	3.2
100 - 249	177	7.5
250 - 499	47	1.9
500 & over	20	.8

For the purpose of this study I would tentatively define small manufacturing concerns as those employing from 10 to 50 workers for two reasons.

1. Almost 80% of a total of 2,467[2] industrial establishments are found to be within this group, showing that this is the most important group in the industrial structure of Burma.

2. Out of these 1,929 establishments employing ten to forty-nine employees, almost 98% are either sole proprietorship or partnership concerns and therefore possess the small firm characteristic of a simple and independent organizational set up.

The above definition is, of course, not precise and to a certain extent arbitrary. Nevertheless this gives us a workable definition and wherever possible other charateristics of the concerns will be taken into account in the analysis of their problems.

1/ Compiled from the Special Tables tabulated from 1953 and 1954 census data.

2/ The total number of manufacturing establishments enumerated in 1953 and 1954 censuses was 2,468, but data on one establishment was not available for special tabulation.

CHAPTER II

THE PLACE OF SMALL MANUFACTURING ESTABLISHMENTS IN THE INDUSTRIAL STRUCTURE OF BURMA

It is a well-known fact that Burma is predominantly an agricultural country, and her industrial activities and growth in the past have been closely linked with agriculture.

Non-agriculturally based industries of any significance are extractive industries - forestry and mining. These industries need considerable amount of capital and since the prospects were good, a substantial amount of foreign capital was attracted. Almost all such enterprises were under European and Indian ownership. A few large-scale industries were in existence and as examples we may include the sugar refinery at Zeyawaddy in Toungoo, a weaving mill in Myingyan, some oil mills owned by Steel Brothers and the Burma Cement Company at Thayetmyo.

Even up to the beginning of the Second World War, manufacture of consumption goods were very little developed. These were chiefly found in the Rangoon area and consisted of a few match factories, rope works, aluminium plants, soap factories, and hosiery mills, which were mainly owned by the Chinese and Indians.

The scarcity of consumer goods, due to the stoppage of imports into the country during the Japanese occupation, was responsible for the emergence of manufacturing concerns during the war period. The indigenous people began to take interest in manufactnring, and with little capital and whatever materials were available, they ventured into the manufacturing field, producing a limited variety of products.

Only since the Second World War, especially after independence, there has been increasing industrial activity. In this chapter information collected by the 1953 and 1954 Industrial Censuses is used to describe the basic structure of industries in Burma in the post war period.

Distribution of Industrial Establishments in the Country

The Industry Census of Burma taken in 1953 and 1954 enumerated a total of 2,468 industrial establishments. Covering 252 towns and cities,[1/] the 1953 census accounted for

1/ The general basis of classifying a town is the extent a place is urbanised. Some of them are very small. The smallest town enumerated has 274 people only.

1982 establishments, while in the 1954 stage 486 establishments were enumerated in 2,131 village tracts. The 1953 and 1954 census roughly covered about a total population of three millions each but still the 1953 census of towns enumerated four times as many industrial establishments as the 1954 census indicating the degree of the urban concentration of industries. However, if we assume that industries in the rural areas not covered by the 1954 census are distributed more or less according to their population as in the areas covered by the 1954 census, it may be inferred that there are about 3,000 industrial establishments in total rural area, corresponding to 2,000 in the urban areas. However, this assumption is not quite realistic because the majority of the rural areas covered in the 1954 censuses are those close to urban areas and many of these industries may be situated just outside the town boundaries. These facts should be noted in any consideration of industrial policy.

Of the total establishments, 80% were in the urban area and of these 50% were located in the ten leading cities of the Union, that is, Rangoon, Mandalay, Moulmein, Mudon, Bassein, Myingyan, Pegu, Kamayut, Akyab, and Prome. The remaining twenty percent were located in the rural areas of Burma. Rangoon and Mandalay, Burma's two metropolitan centres, showed heavy concentrations, containing seventeen percent and eight percent respectively of the total number of establishments. It is however, interesting to see the relation between the population and number of establishments in the leading towns according to their size. The following table summarises the basic facts.

Relation Between the Population and Number of Industrial Establishments in Ten Leading Towns of the Country

	Population	% of Urban Population 1/	No. of Industrial Establishments	% of Urban Establishments
Rangoon	727,079	25.1	411	20.8
Mandalay	185,867	6.3	168	9.5
Moulmein	102,777	3.5	86	4.3
Bassein	77,905	2.6	51	2.6
Pegu	47,378	1.6	47	2.4
Akyab	42,329	1.4	44	2.2
Prome	36,997	1.3	35	1.8
Myingyan	36,536	1.2	48	2.4
Kamayut	23,032	.8	46	2.3
Mudon	20,123	.7	60	3.0

1/ Total Urban Population is 2,940,704.

It can be seen that the smaller towns have larger number of establishments compared with population than the larger towns. But if we look into the size of establishments, the smaller towns have relatively smaller establishments than the larger towns. Especially in Mudon the smallest town with only .7% of urban population, and having as high as four times this percentage of urban establishments, it is found that 59 out of the 60 establishments employ less than 50 workers. However, in the case of Kamayut which is near Rangoon and in fact a suburban area of Rangoon, nearly a quarter of the establishments have more than 50 workers. On the whole although smaller towns have a larger number of establishments there is more industrial activity and more larger industrial undertakings in the larger towns.

Major Industry Groups and Their Importance

The industries of Burma have been classified into eighteen major categories by the Census Department. The following table shows the distribution of total manufacturing establishments1/ and their importance by major industry groups with regard to the Value added by Manufacture.2/

DISTRIBUTION OF TOTAL MANUFACTURING ESTABLISHMENTS AND THEIR IMPORTANCE BY MAJOR INDUSTRY GROUPS WITH REGARD TO VALUE ADDED3/

Industry	No. of Establishments	%	Value Added (Kyats '000)	%
1. Food and Beverage	839	34.0	85,280	49.5
2. Tobacco	550	22.3	16,743	9.6
3. Textiles	302	12.2	27,266	15.6
4. Footwear and Apparel	199	8.	6,761	3.8
5. Wood Products	211	8.5	9,873	5.6
6. Furniture	25	1.0	575	.3
7. Paper	8	.3	87	-
8. Printing	42	1.7	4,978	2.8
9. Leather	14	.6	839	.4
10. Rubber	10	.4	626	.3
11. Chemicals	79	3.2	9,758	5.6
12. Petroleum	5	.2	382	.2
13. Non-metallic Products	67	2.9	3,392	1.9
14. Basic Metals	4	.2	109	.6
15. Metal Products	56	2.3	2,255	1.3
16. Machinery Repairs	6	.2	110	.6
17. Transport Equipment	14	.6	3,153	1.8
18. Miscellaneous	37	1.5	829	.4

1/ In subsequent discussions the number of establishments of 1953 and 1954 censuses have been combined except where it is particularly important to separate them.

2/)
3/) Please see the footnotes on the next page.

Eighty eight percent of the total establishments enumerated in the urban and rural censuses of 1953 and 1954 are engaged in the manufacturing of food and beverage, tobacco, textiles, footwear and apparel, wood products, and chemicals. These industries are the most important because they also contribute about eighty-nine percent of the total value added by manufacture.

Among these six groups, food and beverage, tobacco, and textiles are found to be the most important, since they account for nearly seventy-five percent of the total value added. Of these three, the food industries lead with the highest average figure per establishment for the value added, the plant, machinery and equipment used, the wages and salaries paid, and the number of persons employed. Textiles comes next with the same pattern, while in the tobacco industry, average figures per establishment were considerably lower. The tobacco industry was also found to be the least mechanized among the big six, whereas the chemical industry is the most mechanised industry not only of the big six but of all industry groups. Among the remaining industry groups, the printing and publishing, followed by petroleum and rubber, had the highest average figure for value added per establishment. The same ratio existed with the average value of plant machinery and equipment per establishment in these industries.

The average wages and salaries paid per establishment in printing and publishing were the second to transport and equipment among all industry categories, since a high ratio of skilled workers required for the industry would command relatively high pay scales. Average wages and salaries per establishments were generally higher in the groups outside the big six.

About 100 persons per establishment were engaged in the rubber industry, and a somewhat higher average was seen in the non-metallic industry. Except in food and beverage, chemicals and petroleum with an average of 55 to 70 persons per establishment, all other industries have their average less than 50 employees. A total of twenty establishments employing over 500 employees was found in the food and beverage, tobacco, textiles, rubber, chemicals, non-metallic and transport and equipment industries. The transport and equipment industry, although only fourteenth in these of establishments, was found to be quite distinct among all industry groups, engaging the highest number of persons, with the highest wages and salaries paid and the highest value added for each establishment.

Footnotes for page 10

2/ Value added - used as a measure of the contribution of the whole manufacturing sector. Calculated at by subtracting the sum total of cost of raw materials, fuel and energy and costs of work by others from total value of product plus receipt from services of a given industry.

3/ Compiled from Table III Industrial Census Advance Release 5 of 1953 and from Table III Series A of 1954.

The following table shows the distribution of manufacturing establishments by three size characteristics - the value of sales, the value of assets, and the value of product and receipts.

DISTRIBUTION OF MANUFACTURING ESTABLISHMENTS BY SIZE CLASSIFICATION OF VALUE OF SALES, VALUE OF ASSETS AND VALUE OF PRODUCT AND RECEIPT[1]

Kyats	Number of Establishments with Value of Sales	Value of Assets	Value of Product & Receipts
Nil	322	309	-
Below - 5000	136	443	151
5 - 9999	189	356	216
10 49999	863	525	1402
50 99999	307	257	353
100 999999	566	555	619
1,000,000 and over	84	22	86

One interesting point to note is that there were 309 establishments with nil assets and 322 with no sales. This is because a great part of assets were not of their own. As to the sales figures, these concerns manufactured things on contract for other firms and therefore they did not have direct sales to consumers or others. It has been found that almost all these establishments employ less than 50 employees and can be regarded as small manufacturing concerns. If a cumulative frequency were made, it can be seen that more than half of the total establishments have less than 50,000 Kyats of Sales, Assets and Value of Products and Receipts.

Turning to the number of employees, which has been adopted as the size determining factor for this study, 78% of the establishments fell within the group of 10-49 employees; nearly twelve percent employ from 50-99 workers; about nine percent have workers from 100-499; and only .8% have 500 or more employees.

1/ Compiled from the special table tabulated from 1953 and 1954 census data.

With regard to the place of these small manufacturing concerns in specific industry groups, they are as follows:-

THE PLACE OF SMALL MANUFACTURING ESTABLISHMENT IN MAJOR INDUSTRY GROUPS1/

Industry	Total Establishments	Small Concerns With 10-49 employees	% of total Establishments
Paper	8	8	100
Basic Metals	4	4	100
Machinery Repairs	6	6	100
Footwear and Apparel	199	189	95
Leather	14	13	93
Miscellaneous	37	34	92
Metal	56	51	91
Tobacco	650	485	88
Furniture	25	22	88
Textiles	302	248	82
Wood Products	211	163	77
Chemicals	79	56	72
Rubber	10	7	70
Printing and Publishing	42	29	69
Food and Beverage	839	574	68
Petroleum	5	3	60
Transport and Equipment	14	8	57
Non-metallic Products	67	29	42

A sharp contrast to the general picture can be seen in two of the above industry groups viz (1) the transport and equipment group and (2) the non-metallic products, where a greater number of larger establishments exist. In the paper, basic metals, and machinery repair industries, all the establishments employ less than 50 employees, while small manufacturing concerns make up from 50 to almost 95% of the establishments in the remaining industry groups. Although the small manufacturing establishments predominate in number their contribution to the total Value Added by manufacture is comparatively small. The total value added by manufacture of all industrial establishments was K 174 millions of which K 59 million was that of the small manufacturing concerns.

The Age Structure

Of the total number of establishments enumerated only twenty-five percent were in operation in the pre-war days.

1/ Compiled from the special tables tabulated from 1953 and 1954 census data.

Twelve percent were 12-20 years of age, and thirteen percent were more than 20 years old. During the Japanese occupation, four percent of the total was started, while the greater portion, seventy-one percent, were organized in the postwar period. Of this postwar total, fifty-five percent were under five years of age and sixteen percent were between 6 and 8 years old. Of the value added by manufacture, establishments over twenty years of age showed greater importance than their number indicates. While they constituted only thirteen percent of the total, they contributed about one-fourth of the total value added. The following table shows the age structure of industry in Burma.

AGE STRUCTURE AND THEIR IMPORTANCE IN TERMS OF VALUE ADDED

Age	No. of Establishments	%	Value Added Lakhs	%
0 - 5	1,349	55	837	48
6 - 8	386	16	220	13
9 - 11	112	4	49	3
12 - 20	305	12	238	13
Over 21	316	13	397	23

If we look into the age structure by industry groups, we find that prewar establishments existed in thirteen of the major industry groups, while in basic metals there were no establishments before the war. Of the 112 establishments that were started during the Japanese regime, 100 were engaged in the six important industries, with tobacco in the lead, followed by food and beverage, and wood products. In almost all industry groups about seventy percent of the number of establishments are under eight years of age, indicating that new establishments have developed proportionately in each group.

Studying the age structure by number of employee, the average number of years increases as the establishments get larger. This means that the Burmese manufacturing establishments are gradually growing larger through the years. Of the establishments that have over 500 employees, three-fourths are found to be less than five years old, but no information is available as to the type of industry these large but young establishments are engaged in.

AGE STRUCTURE OF MANUFACTURING ESTABLISHMENTS BY NUMBER OF EMPLOYEES1/

No. of Employees	0-5 Years	6-8 Years	9-11 Years	12-20 Years	21 & over Years	Average Years
10 - 24	785	234	64	157	146	7.6
25 - 49	284	77	34	72	76	8.7
50 - 74	123	21	7	30	33	8.6
75 - 99	39	12	4	9	16	9.7
100 - 249	84	33	1	28	31	9.6
250 - 499	22	8	1	5	11	10.2
500 & over	12	1	-	4	3	8.9
	1349	386	111	305	316	
Average No. of Employees	47.6	47.8	34.7	55.4	62.9	

The above table shows fairly strong correlation between the age and size of the establishments.

Form of Organization

All the three main types of business organization, sole proprietorship, partnership, or limited company forms of organization are found in Burma with a heavy concentration of 71.6% of sole proprietorships and 23.8% of partnerships. This fact has some restraining effect on the industrial growth, since sole proprietorships and partnerships usually lack continuity. Limited companies accounted for 3.2% of the total number of establishments. Government-owned concerns constituted .9%, and the lowest, .5%, were of the co-operative type. By employee size classification, the forms of organization adopted may be seen as follows:-

DISTRIBUTION OF MANUFACTURING ESTABLISHMENTS BY FORM OF ORGANIZATION AND EMPLOYEE SIZE CLASSIFICATION2/

No. of Employees	Sole Proprietorship	Partnership	Limited Company	Government	Cooperatives
10 - 24	1,130	237	13	2	4
24 - 49	377	140	16	7	3
50 - 74	120	77	13	2	2
75 - 99	37	35	4	3	1
100 - 249	78	68	27	2	2
250 - 499	19	22	3	2	1
500 & over	6	8	3	3	-
	1,767	587	79	21	13
Percentage	71.6	23.8	3.2	.9	.5

1/ Compiled from the special table tabulated from 1953 and 1954 census data.

2/ Compiled from the special table tabulated from 1953 and 1954 census data.

If we focus our attention on the 1929 small establishments with less than 50 employees, seventy-eight percent are found to be sole proprietorship and nineteen percent partnerships, showing that these are the forms of organization prevalent among small manufacturing establishments.

Ownership by Nationality

Burmese citizens or nationals owned eighty-six percent of the total establishments, foreigners owned about 9.5%, while the remainder of 4.5% are under the joint ownership of Burmans and foreigners. Ownership by industry groups reveals that except in the leather industry, where there is least Burmese participation, more than 60% of each industry are Burmese owned. In several cases the ownership was almost exclusively Burmese, e.g. in tobacco, textile, footwear and apparel, and furniture, Burmese owned concerns were well over 90%. Data to show the ownership pattern of small concerns by employee groups is not available. But by using the value of product and receipts the following table will clearly show that Burmese ownership is well over 90% among the establishments that fall in the lower classes of value of product and receipt.

DISTRIBUTION OF MANUFACTURING ESTABLISHMENTS BY SIZE CLASSIFICATION OF VALUE OF PRODUCTS AND RECEIPTS AND BY CITIZENSHIP 1/

Value of Product and Receipt	Burmese	Foreign	Mixed	Total	% of Burmese Total
Below - 5000	146	3	2	151	97
5,000 - 9999	197	12	7	216	91
10,000 - 49999	947	81	15	1043	91
50,000 - 99999	309	31	13	353	86
100,000 - 999999	478	87	54	619	77
1,000,000 and over	52	17	17	86	60
Total	2129	231	108	2468	
Percentage	86	9.5	4.5	100	

Since the establishments that fall in the lower classes of value of product and receipts can be regarded as small concerns we can conclude that Burmese citizen own most of the small manufacturing concerns.

The above analysis shows the predominant importance of small and young industrial establishments, which occupy an important place in the whole industrial structure especially among the many industries which will not be covered by the government's programme of industrialization.

1/ Compiled from the Industrial Census Advance Release 5 of 1953 and Table II Series A of 1954.

CHAPTER III

THE NATURE AND PROBLEMS OF FINANCING SMALL MANUFACTURING ESTABLISHMENTS

In order to get a complete picture of the financing of small manufacturing establishments it requires a study of the small concerns on the one hand and the financial institutions that provide the funds on the other. The nature and characteristic features of small concerns will help us to understand their financial difficulties and problems. We shall first make an analysis of the census data with regard to the sources and use of outside funds by manufacturing establishments in Burma. Next we shall look into the financial structure of small manufacturing concerns so as to get some idea of the funds they employ and the nature and extent of outside funds available to them. Finally we shall study from the cases the problems and means of financing used by small concerns.

A. Statistical Study of the General Pattern of Financing Manufacturing Establishments

In Burma there are no professional business promoters, and industrial establishments are developed by existing business firms or sometimes by persons not actually engaged in business but possessing business inclination. Big concerns are almost invariably promoted by business firms, while smaller ones are promoted by people who are not business men but endowed with special business inclination.

There are a few methods by which these manufacturing concerns raise their capital. In a country like Burma, where money market is not fully developed, the task of obtaining capital, especially for initial financing is generally very great. Raising funds through public offerings of equity securities is not common in Burma, and this is partly due to the lack of confidence by the prospective investors in the organizers of industrial enterprises. Thus the corporation form of organizing industrial concerns is seldom found. As mentioned earlier census data shows that almost 72% of the total manufacturing establishments in the country are sole proprietorships and nearly 24% are organized as partnerships. This clearly shows that public subscription is very little used to raise initial capital requirements, and almost all manufacturing concerns are organized either by a single family or a few of them on partnership basis.

In the case of additional capital to meet current operation and to finance growth and expansion, new equity capital, retained earnings and borrowed funds are the principal sources. No statistical data are available as to how far new equity capital and retained earnings are used for industrial financing. However, with regard to borrowed funds, the census data reveals that in the years 1953 and 1954, 33% of the total, manufacturing establishments used outside financing. The following table shows the establishments using outside financing by employee size classification.

DISTRIBUTION OF MANUFACTURING ESTABLISHMENTS BY EMPLOYEE SIZE CLASSIFICATION USING OUTSIDE FINANCING 1/

Employees	Total Establishments 2/	No. of Establishments Using Outside Financing	No. of firms using outside financing as % of total establishments
10 - 24	1396	448	32
25 - 49	546	185	34
50 - 74	216	86	40
75 - 99	81	28	35
100 - 249	178	63	35
250 - 499	47	18	38
500 & over	20	1	5

Excepting firms with more than 500 employees, the variation in the percentage of outside funds is rather small. Generally larger concerns used outside funds to a greater extent. It may probably be due to the fact that with their credit worthiness the access to credit is easier for them.

1/ Compiled from the special tables tabulated from the 1953 and 1954 census data.

2/ Including 17 establishments enumerated in the urban area in 1954.

The following table shows the establishments using various source of outside financing by employee size classification.

DISTRIBUTION OF MANUFACTURING ESTABLISHMENTS BY EMPLOYEE SIZE CLASSIFICATION THE SOURCE OF OUTSIDE FINANCING 1/

Employees	Total Establishments Us- Using Outside Funds	Percentage of establishments using the following sources of Funds: Government %	Bank %	Private %	Mixed %
10 - 24	448	12	3	79	6
25 - 49	185	19	6	66	9
50 - 74	86	20	17	57	6
75 - 99	28	21	29	43	7
100 - 249	63	24	27	33	16
250 - 499	18	6	72	16	6
500 & over	1	-	100	-	-
Percentage	100	15	10	68	7

Except in the large concerns employing from 250 to over 500 employees per establishment, where more bank financing is used, the principal type of funds used by establishments in all size classes is from private sources, constituting 68% of the total using outside financing. Taking the urban and rural censuses separately, the sources of funds used are as follows:

DISTRIBUTION OF URBAN AND RURAL MANUFACTURING ESTABLISHMENTS BY SOURCE OF OUTSIDE FINANCING 2/

	Establishments Using Outside Financing	Government	Bank	Private	Mixed
Urban	634	12%	11%	71%	6%
Rural	195	20%	6%	57%	11%

Private sources still form the chief source of funds, while government funds and mixed sources are used more by establishments in the rural areas. Loans from the banks, however, are little used because the rural establishments have less access to banks which are situated only in the larger towns.

1/ Compiled from the special tables tabulated from the 1953 and 1954 census data.

2/ Compiled from the special tables tabulated from 1953 and 1954 census.

On the whole, it can be seen that the smaller concerns use more private borrowing, and as concerns get larger bank financing increases. The use of mixed sources is comparatively few, while government loans are used by all size classes but more by establishments employing from 50 to 249 workers. This indicates the emphasis put by the Government in giving financial assistance. We should also study the sources of outside funds used by taking into consideration the type and nature of industry. The following table shows the sources of outside funds used by major industry groups.

DISTRIBUTION OF SMALL MANUFACTURING CONCERNS IN THE MAJOR INDUSTRY GROUPS AND THE SOURCES OF OUTSIDE FINANCING 1/

Industry	No. of Small Concerns as % of Total Number of Establishments	% of Establishments Using Outside Funds from the following sources			
		Government	Bank	Private	Mixed
Basic Metals	100	-	-	100	-
Paper	100	-	-	100	-
Machinery Repairs	100	-	-	100	-
Footwear and Apparel	95	3	6	91	-
Leather Products	93	-	33	67	-
Miscellaneous	92	-	7	86	7
Metal	90	4	18	74	4
Tobacco	88	3	6	95	-
Furniture	88	-	9	82	9
Textiles	82	33	1	55	11
Wood Products	77	3	9	88	-
Rubber	73	-	-	50	50
Chemicals	72	13	25	54	8
Printing	69	-	25	50	25
Food & Beverages	68	24	17	46	13
Petroleum	60	50	-	50	-
Transport Equipment	57	25	-	75	-
Non-metallic Products	42	14	3	83	-

Government loans are used by all sizes in the case of textiles, food, transport, and chemicals industries which are given priority in granting loans. It has been stated earlier

1/ Compiled from the special tables tabulated from 1953 and 1954 census.

that the larger industrial establishments use more bank loans. However, banks in general extend loans only to financially sound concerns irrespective of size. Therefore for some industries with smaller establishments bank finances are also important. These industries are leather and metal products manufacturing industries. Private outside funds are used by all industries large or small but comparatively more by smaller industries. Larger industries seem to have more access to the various sources, since the data reveals that mixed sources are mostly used by them.

Of the 18 major industry groups, the biggest industry, that is, the food and beverage, with 36% of the total establishments using outside financing, is found to have greater access to all the source of funds. Also, in the metal industry va- various sources of funds are used. Only one concern was found to use bank loans in the textile industry, while government and private sources form the principal ones. The petroleum industry has the highest percentage of firms using government loans and there is no bank financing.

The above statistical studies suggests that the size of a firm is a more important factor than the type of industry in influencing the type of financing. But in the case of state credit, the Government is more interested in the type of industry for which it wants to promote.

B. Financial Structure of Small Manufacturing Establishments

So far we have been using census data for our analysis. We next proceed to look at these matters in the light of our findings with case studies. The table on the next page gives some information on the manufacturing concerns that have been studied.

LIST OF INDUSTRIAL ESTABLISHMENTS STUDIED[1/]

	Age	Product	Form of Organization
Case I	1 yr.	Playing Cards	Partnership
" II	2 yrs.	Vermicelli-pickles Canned Fruits and Pengapi	"
" III	3 "	Plastic Goods	"
" IV	3 "	Children's Vest	"
" V	3 "	Textile Printing and Dyeing	Sole Proprietorship
" VI	3 "	Tin Containers	Partnership
" VII	3 "	Auto & Diesel Reconditioning Service	Sole Proprietorship
" VIII	5 "	Textiles	" "
" IX	8 "	Noodles - Biscuits, Sauce and Soap	Partnership
" X	10 "	Aluminium Buckets	Sole Proprietorship
" XI	Over 30 yrs.	Foundary	Hindu Undivided Family

As mentioned earlier in this paper, small manufacturers are frequently poor record keepers, making it difficult to get the required financial information. In the case of a few concerns, where proper records have been maintained, the owner managers are often reluctant to give the statements. Attempts were made to construct the balance sheets to show the financial structure of small manufacturing concerns by using the verbal information. Since many of the owners mentioned the fact that they were in need of current funds, the cash in hand were considered small, and in cases where it was difficult, no pressure was used to get this figure. As the accuracy of each item could not be checked, these balance sheets are intended to give broad general features only.

1/ The Case Studies will be published separately.

The balance sheets of the cases studied revealed that the ownership funds representing the equity capital supplied by the owners claim the bulk of the assets. The ratio of equity capital to total assets is found to be very great in each concern. Of the ten cases, only one concern has received financial help in the form of a long term hire purchase loan from the government. The short term liabilities of the concerns at the time the balance sheets were prepared were found to be comparatively small. But there was one concern where ownership funds represented 59% of the total funds employed, and the remaining 41% was financed through short term debt.

Looking into the asset structure, fixed assets generally claim a very high percentage of the total assets. Among the current assets, high investments were seen in stock of finished goods and raw materials. Three concerns had some accounts receivable, the amounts being quite large. The working capital as compared with total assets of each concern was very low, and except in one case the fixed assets were many times greater than the working capital. The majority of the concerns were found to have no banking accounts or established relations with banks.

In order to view the general situation, a consolidated balance sheet of the ten cases was made for an overall analysis. Although this consolidated balance sheet does not show the individual features of each concern, it will present the general picture. The consolidated balance sheet and a statement of the important result of the analysis are as follows:

Consolidated Balance Sheet of Ten Small Manufacturing Concerns

Liabilities and Capital			Assets		K
Sundry Creditors			Cash		32,000
Accounts payable	23,000		Accounts Receivable		73,000
			Sundry Debtors		149,780
Short-term loans	287,200	3,10,200	Stock		
			Finished goods	233,781	
			Raw Materials	276,670	510 451
Bank Overdraft					
Current Liabilities		3,20,200	Current Assets		765,231
Hire-Purchase Loan		1,05,000	Fixed Assets		1,519,850
Capital of proprietorship and subcribed partnership		18,99,881	Preliminary Expenses		40,000
K		23,25,081			K 2,325,081

Continued on next page

Continuation of Consolidated Balance Sheet of Ten Small Manufacturing Concerns

Equity or Proprietor Funds to Total Assets*	= 86%
Fixed Assets to Total Assets*	= 68%
Working Capital to Total Assets*	= 18%
Working Capital to Fixed Assets	= 27%
Credit to Working Capital	= 75%

As already mentioned, the equity funds provided by proprietors and partners claim the bulk of the assets accounting for 86% of the total. The fact that fixed assets claimed a high percentage, or about 68% of the total funds employed, shows that current assets and working capital are small. The very low proportion of working capital to total assets, only 18%, also indicates that there is shortage for working capital. The heavy dependence on short term credit to finance working capital is also revealed by the ratio of credit to working capital, being as high as 75%.

The most striking item disclosed by the analysis is that the ratio of working capital to fixed assets is only 27%. This fact clearly shows that the small manufacturing concerns are really in need of working capital and short term funds.

C. <u>Problems and Methods of Financing Small Manufacturing Establishments Securing Initial Capital</u>

As mentioned earlier the size of a concern is a major determinant of the relative use of debt or equity financing. Small concerns in general have a factor in common that the funds they employ usually come from the owners at the initial stage, and they rely heavily on short-term credit for business operations and on retained earnings for business expansion. Additional capital investment of small concerns is usually secured from ploughed back profits.

Personal savings, either in cash or in the form of property, are found to be the main source from which the initial capital of small manufacturing concern has been procured. This initial capital constitutes the equity funds provided by the owners who organized the business, often supplemented by the contribution from interested relatives and friends. The initial capital of manufacturing concerns employing from 10 to 50 employees ranges from a very small figure of about K 2,000 to a very high investment of K 200,000. Thus even among the small manufacturing concerns, there seem to be two classes: those that start with very small initial capital and those organised with bigger initial funds.

* Total Assets excluding Preliminary Expenses

The nature and type of industry determines to a large extent whether a manufacturing concern starts with a small or a large amount of initial capital. Proprietors with limited resources usually enter fields where small initial outlay is required, although the field may be already overcrowded. Sometimes these new firms entered the fields with government aid and protection. Such protection allows them a chance to survive even under keen competition with the better financed and organized large concerns. Also the small concerns are more flexible, and the unrestricted entry into the manufacturing field enables them easy conversion from one line of industry to another.

The case studies show that small manufacturing concerns in general are organized by people who have had little formal education, but have had some experience either in the line or a related line of products they are now producing. Their educational background, technical qualifications, experience, and business contacts are the factors that account for the various financial arrangements by which small manufacturing concerns secure their initial funds.

In concerns where technical knowledge is important, the owners usually regard their skill and experience as the most important asset and are very proud of it. For instance, in the cases VII and XI, Auto and Diesel Reconditioning Service and Foundry, it is found that such concerns are usually of sole proprietorships, where the skilled mechanist provides the initial capital from his own personal resources and has complete control of the business.

It is interesting to note that with the partnership concerns, contributions from close friends are more common than contributions from relatives.

Two of the friends that joined as partners in Case II, a food manufacturing concern producing four lines of products, had had previous business contacts with the organizer and were partners with him in an earlier venture that failed. The other three partners were his personal friends, who contributed to the initial capital but remained as sleeping partners.

In case IX, another food manufacturing concern, the partners were business men acquainted through business relations. Being well established in their own fields, they were able to contribute a rather large amount to the initial capital of the new venture.

Three friends who were partners in an importing firm went into a new venture to produce plastic products (Case III). The initial capital for the new concern was secured from the importing firm which was also jointly owned by the same partners.

One interesting instance is Case VI, where the need to use tin containers in the manufacturing of fish sauce made a group of tin users get together to finance the initial capital of a tin container manufacturing plant. The new venture supplied them with tins at a relatively low price. Moreover, the owners also enjoyed the profits which would otherwise have gone to their suppliers of tin containers.

Of the cases, none mentioned any difficulty in securing the initial funds they required, whether the amount was large or small. This is because small manufactures usually do not have elaborate planning but get started with whatever funds they can readily obtain. However, the fact that some concerns begin with very small initial capital may be due not only to their inability to raise more funds, but also to their lack of knowledge and experience to determine the initial amount they need. Case V, a textile printing and dyeing works, is one example. The proprietor's first attempt failed because he was unable to determine his initial requirements and went into business with a very small outlay of K 3,000, which did not provide much working capital for effective business operations even on a limited and experimental scale.

Capital for Current Needs

The small manufacturing concerns are in need of equity funds or short-term credit on easy terms to finance current needs.

It has been found that a common practice of the small concerns studied is that they usually invest a very large part of their funds in fixed assets, hoping to finance working capital with the help of short-term credit, which unfortunately is often not available on favourable terms. Such was the case in a bucket manufacturing firm (Case X). The manufacturer has bought two buildings intending to expand his production. He thereby has used up a great portion of his funds. He hoped that he would be able to get short term accommodation for working capital. But contrary to his expectation it was not easy to get loans. Therefore he cannot expand his production and the two buildings remained unused with considerable amount of his capital (K 41,000) tied up in those buildings. The shortage of capital forced him to borrow at a very high rate of interest i.e. 60% per annum.

A large part of the current needs is required for the financing of raw materials.purchases. Under the government's licensing system for importation of raw materials, import licenses are issued once or twice a year, and raw materials have to be procured in bulk within the specified time. This requires heavy investment, and some funds which would otherwise be available are therefore tied up in stock piling of raw materials.

A three year old tin container manufacturing concern (Case VI) was in great need of working capital, because it has invested 87% of its equity funds in fixed assets. This firm received a license of Kyat 22,000 to import tin plates. Since the concern had established relations with a bank, the imports were financed by the bank. The tin plates were placed in the bank's custody as pledge against the bank's credit, and as such no other loans could be raised against it. The bank also did not allow a further loan without the old loan being repaid. As there was no other source from which short term funds could be secured, the concern was forced to borrow unsecured loans from private money lenders at the interest rate of 2.50% per month, that is 30% per annum.

The fact that raw materials have to be procured at the time available also causes shortage of working capital and sometimes they lose on that account. Raw materials distributed by Civil Supplies Management Board on a quota system, are usually not sufficient. The gaps in their needs have to be filled by storing raw materials purchased whenever available from the black market.

Such was the problem of Case V, the textile printing and dyeing works. In order to fill the gap of cloth requirements, the firm had bought a large stock of cloth at a price of K 4.50 per yard from the black market. Funds were thus tied up, causing not only a shortage but also capital losses when the black market price later fell to K 3 per yard.

For some concerns even if they can get import licenses to import raw materials they will not be able to import them directly because of relatively small amount for their own requirements and shortage of capital. Furthermore, the proprietors or managers frequently lack the business experience and contacts for direct import. All the small manufacturers interviewed stated that their biggest problem was to get sufficient raw materials. They said that the provisions they have to make in order to get a steady flow of raw materials usually cause financial difficulties.

The shortage of working capital has also become more pressing at the present time because sales are usually made on credit, while the materials have to be bought in cash, a common practice is to sell on credit for a day or two. Sometimes it may be for a few months - one to five months is rather common. The majority of the managers mentioned that bad debts were small. However, none of the concerns studied have a definite system of extending credit to all of their customers. The period and terms usually depend on the amount purchased and the customer's previous relations with the concern. The trade custom of settling the old accounts before receiving a new shipment is a method of sales most commonly used by small manufacturers.

Sales are usually made through wholesalers and selling agents (borkers), and small manufacturers frequently have to assume the risk and they normally get money only after the goods have been sold by the selling agents. Except in the machinery repairs and servicing concerns, no instances were found where the buyers pay advances before delivery of the goods. This would at least have provided some working capital to the concerns. Moreover small manufacturers could not undertake contracts under which advances might be obtained, due to the uncertainty of raw materials supply.

Another burden on the working capital of small manufacturing concerns adding to the need of more current funds is the cash advances that have to be given to workers. Moreover lack of proper incentives and low level of salaries frequently results in high labour turnover or a high rate of absenteeism. In order to mitigate these effects small manufacturers have to establish good labour relations and often attend to personal troubles of the workers. Workers frequently demand cash advances and take small loans from their employers which are later to be deducted from their pay. Many a time workers do not turn up after taking the advances thus causing losses to the manufacturers.

The need of funds to finance the purchase of raw materials, to extend credit to customers and frequently to make advances to workers all call for a high proportion of working capital. Especially for the small concerns whose funds are mainly invested in fixed assets and who are more vulnerable to seasonal fluctuations in the market, the need to maintain a high proportion of working capital is all the more great. Yet the sources from which they can secure short-term funds is so limited that they have to borrow from private sources paying high rates of interest.

Financing Growth and Expansion

In spite of the keen competition from larger firms all the small concerns studied were found to be doing very well. Profitable concerns are typically growing concerns and therefore they need additional funds to finance business expansion. However the amount of funds required and the extent of availability varies from concern to concern.

The case studies show that expansion takes various forms. It has been found that though there is fairly keen competition some concerns expanded the scale of business operations in one particular line of production. As in Case IV the managing partner of the ho .ery works found that he could stand competition from larger concerns by specializing only in the production of children's vest. He thus plans expansion to produce better quality and more variety in the same line of product.

Expansion may also take the form of a diversification of products. Concerns extend their scope of business and diversify their product lines in some cases because the existing line was not profitable enough. Such was the expansion plan of Case 1. The managing partner, finding that due to keen competition the sales of playing cards is decreasing and realizing that the returns on investment is not very satisfactory, expands the business by going into plastic product manufacturing.

Expansion to diversify product lines on the other hand is also planned by some concerns in order to be able to stand against competition or unfavourable market conditions which may result from producing only one line of product. Such is the plan of Case VI. By purchasing a set of tin printing machines which can be used to produce printed tins and other tin products the manager intends to diversify his product line if competition in ordinary tin can manufacturing becomes very strong.

A somewhat mixed type of expansion for larger business operations, improvement and a diversification of product is also seen among the small manufacturing concerns studied. Case VI is one example. The manager's plan of extending business to tin printing covers a programme of expansion both for larger business operations and an improvement on the quality of tin containers. However since the tin printing machines can also be used in making toys for children and many other useful articles he could thus diversify his product line whenever he thinks fit. A similar type of mixed expansion is the plan of Case X. Larger business operations and greater sales due to better quality is aimed at by mechanizing the method of production of aluminium buckets, and further, to also diversify the product line by adding in the manufacturing of aluminium tubs.

Expansion in the manufacturing field usually calls for more machinery and equipment, the amounts of additional capital required were fairly large in some cases. With the introduction of a hire purchase scheme by the I.D.C. private industries can now obtain machinery and equipment from abroad on a deferred payment basis. The extent to which the small manufacturing concerns have access to such government assistance will be discussed in the next chapter. However, it may be briefly mentioned here that the proprietor of Case VIII has already received a hire purchase loan to purchase weaving looms to the value of over one lakh kyats, while the applications for assistance of manufacturers of Cases VII and IX have been approved and orders for the equipment placed. As for Case VI the firm's application was still under consideration.

The need for land and buildings to house the expansion is also a common problem among the growing small manufacturing concerns. This is because small concerns usually start operations without proper planning and their small initial outlay usually does not permit them to get a place where there is some room for expansion. However, when sales increase and production has to be expanded they need funds not only to finance the purchase of additional machinery and equipment but also to acquire land and buildings. The manager of the plant producing children's vests Case IV, located his factory at the present site of a small piece of land since it was the one available within his means. Then when he wanted to expand his production he has to look for additional space to house the new equipments.

Similarly in Case V the proprietor purchased the place initially for residential purpose but when he started the business he puts extension to the sides and back of the house. However, further extension cannot be made and the manager is now greatly in need of a bigger work place to increase production.

The same problem of the need for new land and building is faced by the manufacturer of Vermicelli i.e. Case II, whose plant is located in a rented place which was the only place available at the time the concern was organized. It is not a good location and the smallness of the working place is greatly felt as production increased. Because of shortage of space for storage the firm was sometimes forced to sell its products at very low margins of profit. However the construction of a new godown will solve the storage problem but when the firm's mechanization plan takes affect the factory space will become a major problem.

An item frequently overlooked by small manufacturing concerns in their programme of expansion is the funds needed for working capital. As in Cases I and VI a considerable amount of funds have been used to buy fixed assets resulting in acute shortage of working capital. Adding to the other needs for expansion is the funds required for expenses that will be incurred in securing markets for the increased production. Such requirements will be large if the industry is competitive or if the expansion is for a new line of product as in Case I. The plastic line is not only competitive but also a new product for this firm.

Fresh equity capital and retained earnings are the principal sources for financing growth and expansion although sometimes borrowed capital is used. Equity capital may be obtained from present owners as additional investment or by calling in new outside contributions. To what extent these sources are available and how expansion is financed depends to a large extent on the type of industry and the general character of the firms.

The form of organization is the most important factor determining the source of funds. Small concerns are mostly formed on proprietory and partnership basis and additional funds cannot be raised by offering shares to the public as in the case of corporated firms. Because these firms are usually owned by close relatives and/or friends, very little information is available concerning their business activities, financial position and earning. It is therefore difficult to induce outside funds to invest even if attempts are made. On the other hand, the owners are reluctant to share the ownership and fruits of their work. They are unwilling to seek new outside contributions. In case V the proprietor definitely mentioned that he would like to expand only as far as his personal resources permit. The legal requirements such as the need to make a partnership deed when a proprietory concern calls in partners is also an obstacle for them to bring in more partners because the majority of these people know very little of the legal side of business.

The economic and social standing of the owners is a second factor accounting for how funds can be obtained for expansion. In concerns where owners have come into business investing all their savings there is very little chance to get added investment. Such owners are usually dependent very greatly upon the income of the firm and also cannot afford to retain a large proportion of the profits to finance expansion.

In this connection Case I is a typical example. The firm has in its employment partners who have no other sources of income and who depend only on the earnings of the firm in which all their savings have been invested. All these partners are Chinese and they were not well known in the business circle and therefore they have practically no access to any financial facilities. The problem of securing funds for expansion in such types of concern is therefore great. On the other hand more sources of funds are open to concerns whose owners have a better economic and social standing. Such concerns however are usually organized by people who are also engaged in other lines of business and do not depend entirely on the income of the firm. They could therefore retain a large proportion of profits and sometimes they may even make additions to their investments. Many of such investors are found to have some educational background, experience and business contacts. Their social status also enables them to have easy access to outside sources of funds. Cases IV, VI and IX are examples of such firms.

Retained earnings are the main sources of finance for expansion for small businesses. This is partly due to inaccessibility to outside sources and partly due to owner's preference for this type of financing. In any case it will be useful to study the extent to which these earnings are sufficient. The rapidity of growth and the rate of return earned upon investment are the determining factors. Rapid growth is usually seen in the early years of business operations and under keen competition the small young concerns often find it rather difficult to finance any considerable growth from retained earnings. But in older concerns a substantial part of expansion can be financed through retained earnings. Their rate of growth is generally lower and usually less funds are required while at the same time funds are available from the reserves and provisions which are generally maintained as firms gradually get established. Case X is an illustrative example. Being a pioneer in bucket manufacturing the concern has been able to reap the good profits in the early years of operation. It has however established itself and accumulated earnings which can be used for expansion. Based on the foregoing analysis we may again divide the small concerns into two subgroups viz - the smaller concerns and the larger firms.

The former type is organised mainly on proprietory basis. These concerns are heavily dependent on the owner's capital and since the funds available are very much limited to the personal resources of the owners they usually start small. With their resources mainly invested in the concern, the owners, are also dependent on the income and earnings of the business. Most of the owners are found to have had little formal education and in many instances they are not well known in business circles. Often they are craftsman who have the technical knowledge and skill but lack business knowledge and contacts. Therefore when some of them are able to accumulate some profits they are not quite sure which line of manufacturing they should go into to invest these profits. For instance in Case VII the proprietor, a skilled mechanist, wanted to expand his plant but has no idea of what new product he should manufacture or what will be a profitable line.

For such type of concerns where owners themselves are dependent on the income of the firm, it becomes difficult to get additional investment for growth and expansion. Retained earnings being rather small also does not provide sufficiently for the requirements of the business especially when the concerns were still in the process of getting properly established. However for the older concerns because of their long years of business operations, retained earnings do play an important role in financing their requirements.

The owners often find it difficult to persuade prospective investors to become partners because they do not have business experience to convince others of the profitability of the investment. On the other hand they do not seem to trust outside individuals to come in and control the business. The fact that owners are not well known in business circles, and their ignorance of the existence of loan opportunities make it difficult to get outside financial help. This is seen in Case I where the manager did not know that financial assistance is given by the government through its agencies.

The growth of these concerns are hempered not only by the financial needs but also by the managerial factor. Owner managers frequently lack managerial ability and in many cases will not be able to assume the heavier responsibilities that come together with expansion. Many are reluctant to bring in outside managerial personnel, while some cannot provide the salaries and incentives to attract good management.

We thus find that these smaller concerns can hardly grow or compete effectively with larger firms especially in areas where craftsmanship is not important. However they do survive and operate in fields where there is some kind of government protection and where the technical skill and experience is more important.

The larger concerns, the latter type, are mostly of partnership form and often start with fairly large capital pooled from the resources of individual partners. Though personal savings still form the principal source of initial capital, sometimes the capital comes from the profits[1/] of another concern where the organizers are often also joint owners. Being reasonably well off, compared to the owners of the smaller concerns the partners are not totally dependent upon the income of the firm, They can thus afford to plough back most of the profits and put in more investments, if necessary. Though less skilled than the craftsman, they have more experience, business knowledge, and contacts, and are not only more known in the business fields, but also can provide better leadership and management than the smaller concerns.

With a larger initial capital base and being supported by the ability to retain all earnings especially in the first few years of business operations the larger concerns have greater financial strength.. Though the retained earnings do not provide sufficient funds for the requirements of the rapidly growing concerns there are possibilities for added investments from existing owner partners. On the other hand larger concerns qualify more easily for loans either from the banks or from the government, and have more access to the financial help provided through other channels.

1/ There is a tendency that profits are used to set up new concerns and not used to finance growth and expansion of the existing concern.

CHAPTER IV

THE ROLE OF FINANCIAL INSTITUTIONS IN FINANCING SMALL MANUFACTURING ESTABLISHMENTS

We have so far dealt with the general nature of financing manufacturing establishments and with the financial problems of small manufacturing concerns pointing out that they experience great difficulty in securing the necessary funds. Therefore an appraisal of the existing financial institutions is necessary to find out how far they provide facilities for encouraging the organization of new enterprises as well as enabling established small manufacturing concerns to operate effectively.

In Burma money markets have not yet developed, and in the absence of institutions like Investment Banks, Issue Houses, Finance Companies etc. very few financial institutions and credit agencies exist to provide either long term or short term requirements of industry. We have already seen from the census data that the banks, the government and private funds are the various sources of outside financing for manufacturers. In this chapter we will consider the methods of financing and how effectively the banks and the Government has been meeting their requirements.

A. Private Financing

According to the census data 68 percent of the manufacturing establishments were found to be using funds from private sources to meet their requirements. Firms in all industries and of all sizes have access to this source of funds. This is not strange especially for the small manufacturers. Many of these were first set up by craftmen with their personal savings. Many of them have failed while the successful ones expand as time goes on. The expansion may be financed with retained earnings or with funds from relatives or close friends. When these sources cannot provide sufficient amount, they may turn to money lenders who are lending increasing amount to the manufacturers because they are attracted by the higher rates of interest they can get from industrial loans as compared to the rate of interest for agricultural or consumption loans. Many of the money lenders are not registered lenders and therefore they have to take considerable risk because they cannot suit for defaulted loans. Consequently, they lend on securities, especially gold. A large number of small manufacturing establishments is found to borrow from money lenders probably because they have very little access to other sources. However the fact that manufacturing establishments use funds from all sources at the same time suggests that they try to borrow whatever amount available from the bank and fill in their gap of requirements with funds from private sources.

B. Bank Financing

Prewar Practices

In the prewar days when Burma was an agricultural export economy, there was very little need for industrial credit. Banking in Burma, in those days, was specialized in financing trade and commerce. Foreign banks dominated the banking field, and being commercial banks of the British tradition they do not consider long term lending as part of their business and so usually confine themselves to short term self liquidating loans. Their main interest was to provide commercial credit to finance Burma's foreign trade. As their work was mainly to deal in foreign exchange they were generally known as "exchange" banks. Foreign Exchange dealing was of more importance then, and advances formed only a minor portion of the banking business. During the years 1935-42 the volume of exchange done only by the European and English exchange banks was found to be 60% of the total banking business.1/

Postwar Developments

Banking in Burma after the war followed the same prewar pattern of financing exports and imports. The need for credit was great especially in the early postwar years to finance the immediate necessity to revive Burma's export trade, and the urgent need to import both consumers and capital goods for the rehabilitation of the country. However, with the attainment of independence new developments were seen. Since the Union Government has taken measures to promote industrial development the need for industrial credit now arises. But the Transfer of Immovable Property (Restriction) Act of 1947, which prohibits the foreign banks from accepting immovable property as security for loans and advances, hampers the extension of industrial finance by foreign commercial banks. On the other their banking practices has been to concentrate on financing of export trade by lending on pledge, hypothecation of goods or by trust receipts. The importance of exchange work declined to 40% in 1946-50 from 60% in 1935-42. This is due to the fact that the major portion of exports came under the control of government and was done through its various State Boards. Further import restrictions and foreign exchange control greatly hampers the import trade of Burma, and effects the banks specializing in financing Burma's foreign trade. The establishment of the State Agricultural Bank to cater for the long and short term requirements of agriculture, the Union of Burma Cooperative Bank to provide finance to the co-operatives the State Commercial Bank to extend credit for commercial, and industrial purpose, and the emergence of other indigenous banks has some how altered the banking structure of Burma, and the credit facilities of the banks extend to the various fields.

1/ U Tun Wai Burma's Currency and Credit, p. 33.

Present Situation

As on the 31st. March, 1957 there were altogether 27 banks in operation of which 9 are indigenous banks.1/ It has been found that in spite of the increasing demand for industrial finance and government's desire to encourage foreign banks to extend credit facilities to industrialists, banks in general still favour financing of trade and commerce. The reason being that the risk involved in financing is thought to be considerable as the nature of the business is more venturesome. They are also not interested in accepting securities offered by industry which are not readily disposable as those offered in trade. Being commercial banks in nature they have a primary obligation to depositors to maintain liquidity and are more concerned with the prospects of repayment of any credit extended. Further the majority being foreign banks, lending to industrialists have become more difficult by the government's policy and regulations. We therefore find that even the long established foreign banks, with considerable amount of capital refrain from providing financial of the industry. With their experiences and contacts abroad they place emphasize on financing trade than in other fields, while the newly established indigenous bank with less contacts abroad and much smaller capital provide credit with relatively no discrimination as to the purpose. This is partly due to differences in the methods of lending. The indigenous banks lend on gold and jewellery securities and therefore they are not concerned with the risks of the industry.

The forms of credit extended by commercial banks in general are advances, loans and overdrafts which do not usually exceed a twelve month period. However such facilities can be renewed, which in practice are used in some cases for long and medium financial purposes. But some private indigenous banks do provide credit on a relatively longer basis. For instance the Burmese National Bank has extended financial facilities against gold and diamond securities up to three years. The loans, advances and overdrafts of the commercial banks are usually made against on one of the following collateral securities.

a. Stock in trade either local or imported goods. Loans against such commodities may be extended either on pledge where the bank has complete control, or under hypothecation where the bank's control is rather loose.

b. Stocks, Shares and Bonds - Owing to the absence of a stock exchange market in Burma this type of loan is not popular. Moreover the National Savings Certificate which we have in Burma cannot be transferred and therefore this type of

1/ Source - Union Bank of Burma.

lending is not actually prevelent.

c. Gold Ornaments and Precious Stones - This type of loans have come about as a recent development since the establishment of some indigenous national banks which specially engage in lending against gold and diamonds. However most of the foreign banks or exchange banks do not lend on this basis.

d. Debts or Assignment of Debts - Lending against debts is not generally practiced in Burma, except where debts are with the Government, quasi-government, and other concerns of known reputation. Loans against debts is found especially between the S.A.M.B. and the State Commercial Bank.

e. Title Deeds of Immovable Property - The Transfer of Immovable Property (Restriction) Act 1947 precludes foreign banks from accepting immovable property as security for their advances. So foreign banks do not extend advances under these terms and besides due to the inflated nature of the real estate market many of the indigenous banks are reluctant to offer such loans. At present the State Commercial Bank is about the only bank which offers loans secured by immovable property within the Rangoon area.

f. Guaranteed and Unsecured - No security in the form of property is required for such loans, but a guarantor of reliable and considerable means is necessary. Unsecured loans are offered only to clients of extremely high integrity and reputation in the business world. This is the major form in which the foreign banks extend their credit.

The rate of interest charged for loans usually vary with the borrower's credit rating, volume of loan applied for, security offered, period of loans etc. The minimum rate of interest of scheduled bank' in 1956 against all types of securities was 4% while the maximum interest rate for unsecured loans and against gold ornament, precious stones and stock in trade was 12%.1/ The average rate of interest was about 7%. It has been found that interest rates charged by long established foreign banks are nearer the minimum limit, while those of small and newly established banks tend to be higher.

An analysis of the banker's advances, loans and overdraft shows that the major categories to which credit is extended are as follows:

1. Primary Production of Food and Raw Materials
2. Processing and Manufacturing
3. Building and Engineering

1/ Union Bank of Burma Bulletin, Second Quarter 1957, p. 43.

4. Transport and Public Utility Services
5. Distributive Trade and Marketing
6. Retail Trades
7. Overseas Trades
8. Personal and Professional
9. Miscellaneous

The following table shows the share of industrial loans in the total bank credit.

Year	Percentage of loans, Advances and Overdrafts extended to Processing and Manufacture
1953	26
1954	21
1955	18
1956	20

This clearly shows that only 20% of the commercial bank's advances, loans and overdrafts go to processing and manufacturing. However looking into the commodity break up of the total processing and manufacturing category it has been found that almost 70% is extended to the Paddy, Rice and Timber industries. The following is a statement of the percentage of loans, advances and overdrafts extended by banks to major commodity groups.

Statement of the Percentage of Loans, Advances and Ocerdrafts 1/ Extended by the Commercial Bank to Major Commodity Groups

	1953 %	1954 %	1955 %	1956 %	Average of Four Years %
1. Clothing and Textile	9	8	10	4	8
2. Food, Beverage and Tobacco	3	3	7	9	5
3. Oil Milling, Distillery and Cotton Ginning	3	1	7	12	6
4. Paddy and Rice	65	57	50	57	57
5. Timber	13	13	13	6	11
6. Other manufactures	7	18	13	12	12

We can see that banks favour the type of industries such as paddy and rice and timber which are the key items of exports. However, they also cater to the clothing and textile, food, beverage and tobacco industries where the market risk is relatively smaller than others, due to the essential nature of the commodities. From the casestudies it appears

1/ Source - Union Bank of Burma.

that the bulk of loans or advances to such industries may be for importing of raw materials. For whatever purpose the facilities may be granted it can be safely said that the major portion or even almost all the loans has been given **to the** fairly large and longer established concerns who in general are found to be more credit worthy than the small manufacturers.

Small Manufacturing Establishments and Bank Credit

From the statistical study of the census data with regard to the sources of outside financing used by manufacturing establishments, we have found out that as manufacturing establishments become larger the use of bank finance increases. On the other hand as far as banks are concerned we know that banks consider the individual credit worthiness of the concern than the size itself. The reason may be that there is high correlation between the size and credit worthiness of the industrial concerns. Some of the reasons why banks do not cater to the small manufacturing concerns are given below.

a) In the first instance small manufacturing establishments commonly have inadequate accounting records and comparatively little insight into their own financial position so that it makes it very difficult for the banks to analyse their credit standing.

b) It is found that only those large firms who keep bank accounts have access to bank loans. This is not because the banks do not give loans to others but because it is the larger firms who have banking accounts and can also fulfill requirements when applying for loans.

c) The prospects of the majority of small concerns are very uncertain particularly because they have a relatively small capital. Therefore risks of lending to them are considerable. Many of them do not have fixed assets to offer as securities for the loans.

d) The credit demanded by small manufacturing concerns especially to improve plants, machinery and equipment or to increase working capital for expansion. These requirements are therefore for long term funds which the banks are reluctant to offer. Also long term loans demand continuity of business, and small concerns are very uncertain as they depend very much on the owners themselves.

e) The requirements of small manufacturing concerns are naturally small so that the cost of keeping in touch with the borrowers of small loans is high.

f) Banks are more interested in liquidity and repayment when credit is granted. They would not like to be left with the securities to be disposed off when borrower fails to repay the loans.

Financial Aid By the State

For a number of reasons industrialists have not been able to procure adequate financial backing from the banks. The Government is aware of the fact that lack of adequate finance is one of the deterrent factors in the rapid development of private industries. Therefore it has taken steps to provide financial assistance to deserving private industries and thereby encouraging their growth.

Since the prewar days the state aids to industry have been given under the State Aid to Industries Act of 1939 and the Weavers Loans Act of 1940. The Directorate of Industries grant Weavers Loans to weavers or other persons engaged in the weaving industry for the purposes of purchasing weaving appliances and accessories, raw materials and for use as working capital. The maximum amount of loan granted is K 150 per applicant, and the amount of loan available depends on the nature of the security considered suitable by the Assistant Director of Industries. The amount of loan granted is 75% of the market value of the land or 60% of the market value of a masonry or timber house. Loans are made in one lump sum and for a short duration, repayable in 12 equal monthly instalments within a period of 16 months. The number of weavers demanding state loans has been increasing and in 1955/56 the budget alloted K 10 lakhs and the total amount disbursed was K 9.4 lakhs.

Under the State Aid to Industries Act of 1939 and the State Aid to Industries Amendment Act of 1952 cash loans were issued by the Director of Industries in Rangoon and the Deputy Commissioner in the districts to (a) a new or nascent industry; (b) an industry to be newly established in an area where such industries were undeveloped; (c) a cottage industry; or (d) an industry which needed revival or development. The maximum amount of loan that may be granted to an applicant is K 4,000. Usually the amount granted is not more than two-thirds of the value of the security the applicant offered to the government. The disbursement of the loan is made in one lump sum and like the Weavers Loan it is repayable in 12 equal monthly instalments within a period of 16 months. Since 1948-49 the largest amount of loans was made in 1954-55, amounting to K 8.9 lakhs out of the budget allotment of K 10 lakhs. Of this amount only 55% has been given to industries such as the manufacture of wood products, textile, chemical and chemical products non-metallic products, footwear and weaving apparel and the food and beverage industries.

For promoting the development of the rice industry, financial aid is given to rice millers by the S.A.M.B. Loans are granted for the purposes of improvements of rice mills, for the construction of paddy storage godowns and/or advances for working capital. The first type of loan is given to Burmese national rice millers, the amount not exceeding one lakh for each applicant, repayable within three years. The amount of loan for construction of godowns vary with the storage capacity of the godowns to be built and it is repayable within five years. Both the loans are issued in instalments as and when actually needed by the business, and require a mortgage of the rice mill or other immovable properties as security. The highest volume of loans granted by the S.A.M.B. was recorded at 250 lakhs in 1953-54 but in 1955-56 the amount fell to as low as 10.4 lakhs, 92% of which were for the construction of godowns.

With the enactment of the Industrial Development Corporation Act of 1952 the Industrial Development Corporation was established. The corporation was empowered to borrow money and issue cash loans to suitable private industrialists who are in need of financial assistance.

The Industrial Development Corporation considers loan application for an amount not less than K 4,000, and there is no maximum limit set to the amount that it can grant. The loans are long term loans but ordinarily not exceeding 12 years though in very special cases the period may be extended to 20 years. Like the S.A.M.B. loans are made in part payment as and when required. As security for the loans, immovable property, buildings, plant, machinery and other appropriate securities are accepted. With regard to the distribution, the loans are granted to industries of national importance such as chemical and chemical products, textiles, food, wood products and non-metallic industries. Among these priority is given to the chemical and chemical products, textiles and food industries. Since its establishment in 1952 the total amount of cash loans issued every year has been increasing. A total of K 52.6 lakhs have already been sanctioned during the four year period between 1952-53 to 1955-56.

Government assistance to private industries was mainly in the form of granting cash loans till the introduction of the hire purchase scheme by the Industrial Development Corporation in 1955. This scheme enabled private or co-operative enterprises, already organized or being organized for manufacturing and processing, to obtain capital equipment and machinery from countries with which Burma has barter agreements as well as from Japan under the reparation agreement. It offers easy payment terms on a hire purchase system for the machinery and equipment, and offers assistance to the hiring of technicians necessary for the utilization of these equipments.

Hire purchase loan applications up to the value of K 1 lakh can be approved by the Industrial Loans Board, but applications for loans over one lakh kyats are considered by a sub-committee appointed by the Board of Directors of the Industrial Development Corporation. For such loans the hirer is required to deposit with the Board as security 25% in currency of the c.i.f. value of machinery on the day he signs the agreement. In the case of loans below one lakh the hirer is required to pledge either a general bank guarantee, cash, immovable property or general guarantee by a person up to the amount of 30% of c.i.f. value of the machinery as a guarantee that he would take delivery of the machinery after its arrival. This pledge is for the interim period between placing the order for the equipment and its installation in the plant. It is no longer binding once the machinery is properly installed and operated. The value of the machinery purchased has to be paid by the hirer in half-yearly instalments over an agreed period usually not exceeding 12 years, and until fully paid the title of machinery will be held by the government.

In 1955-56 the first year of operation nearly 600 applications from all industry groups requested for hire purchase loans. Of the total loan of K 151 lakhs sanctioned, 32% was granted to the manufacture of textiles, 22% to food and beverage, 18% to manufacturer and repair of transport equipment, 8% to chemical and chemical products, 7% to manufacture installation and repair of machinery and 4% to the non-metallic industry.

Considering the loans granted in aid of industry by the various State agencies we find that loans from S.A.M.B. cater only for the rice industry. However considerable financial help has been received in the form of medium term loans under this loan programme. Weavers loans and other loans given by the Directorate of Industry under the State Aid to Industries Act are of a short duration. The size being rather small these loans serve more for the purposes of working capital and meet the needs of small scale and cottage industries only. Industrial Development Corporation loans on the other hand are provided on a longer term basis, and the average size being large serves both capital investment and working capital.

With regard to the volume of loans a comparative study shows that during the period 1952-53 to 1955-56 the total amount sanctioned by the Industrial Development Corporation for cash loans was twice as large as the amount given by the Directorate of Industries. But we find that the hire purchase loans sanctioned for the year 1955-56 alone is almost two times the total amount of cash loans sanctioned by the Industrial Development Corporation and Directorate of Industries for the four year period 1952-53 to 1955-56. This shows the importance of the Industrial Development Corporation loans. Comparing the terms and conditions of the cash loans and hire purchase loans granted by the Industrial Development Corporation we find two main differences. With the cash loans the borrower becomes owner of the equipment for which he has asked for the loan as soon as he installed the machinery and undertakes to make regular repayments, while under the hire purchase loan the hirer does not become the legal owner until the final instalment is paid. Also in the case of cash loans there is greater freedom in utilizing the loan but requires the pledge of securities whereas for hire purchase loans the pledge for security is no longer binding once the machinery is installed and operated. Hire purchase loans has more attraction for private industrialists probably because they do not have to furnish security which they have to do when applying for a cash loan. It is therefore more difficult to get a cash loan than a loan under the hire purchase shceme.

Small Manufacturing Establishments and State Aid

Earlier in Chapter III, an analysis of the census data has shown us that government loans are used by manufacturing establishments of all sizes. This is not strange as there are various government agencies to cater for the needs of both small and large concerns, with the main object of increasing industrial production in Burma.

The loans issued by the Directorate of Industry is mainly used by the cottage industry because the maximum amount available for each applicatant is too small even for small manufacturing concerns. It is found that in 1955-56 (taking Rangoon alone) most of the establishments using this type of loans were of the cottage industry type, such as paper fan making, tailoring, robe making etc. where very little machinery or power is used and the working capital requirements are small. But for establishments manufacturing aluminum utensils, aluminum trunks or tin containers etc, a relatively larger amount of working capital is necessary and loans of the Directorate of Industries become inadequate. However it must be stated that the terms and conditions with respect to the loans are reasonable and satisfactory, and all deserving small manufacturing establishments have access to these loans.

As for the financial aid given by the Industrial Development Corporation the hire purchase loan provides for the large as well as small manufacturing establishments. The general criteria used in judging loan applications are as follows:

a. National importance of the industry
b. Experience, reputation and ability of the management
c. Whether proposed scheme is economically sound and practical
d. The nature and value of the security offered.
e. The accounting records produced and the financial position of the applicants.

With regard to criteria (a) and (c) both large and small establishments have equal chances of being granted or rejected for the loan. On the other hand we frequently find that the management ability of small industrialists are very much limited and in many cases they have very little business experience. Further, small concerns have very few if any, suitable assets to offer as security and most important of all they have no proper accounting records from which to judge their financial position in consideration for giving the loans. Failure of small concerns to provide audited accounting records was a common cause for the rejection of a request for a loan. Thus although the needs of both small and large manufacturing establishments are catered for, larger concerns have more chances of getting financial help from the State.

CHAPTER V

SUMMARY AND CONCLUSIONS

The Censuses of Industry of 1953 and 1954 show that small manufacturing industry, defined in this paper as establishments with 10 to 50 employees, formed the most important group in the industrial structure of Burma. They constitute about 80% of the total number of industrial establishments and account for about 34% of the total value added of the manufacturing industry. Moreover, a great majority of these small manufacturing concerns are very young; about 55% of them are under 5 years old. This group should be divided into two sub-groups viz (i) the relatively larger concerns which we will call sub-group A and (ii) the relatively smaller ones which we will call sub-group B. These two groups have one important difference which has significant bearing on the problems of financing. Most of the concerns in the Group A are organised on partnership or private company basis whereas almost all the concerns in the Group B are on individual proprietory basis. Firms in the former group are therefore financially in a better position not only because they have greater initial resources but also because their accessibility to outside finance is greater.

Nevertheless, we have seen from the Case Studies that one of the most important common problems of all the small manufacturing concerns is the shortage of capital, particularly of working capital. On the one hand the initial capital that could be raised was often barely sufficient to buy equipment and other fixed assets, thereby leaving very little amount for working capital. On the other hand a number of factors make it necessary for them to have a relatively large amount of working capital. Firstly, because of uncertainty of raw material supply most of them have to stock pile raw materials. Secondly, because of shortage of skilled labour it is often necessary to pay wages in advance to the workers. Thirdly, many of them have to sell their products through brokers and retailers on credit which may extend from one or two days to several months. To the extent that these conditions can be improved their problem will be less serious.

If the needs of the small industrialists for working capital are great, the supply of credit at reasonably low rate of interest is very limited. Again, we have a number of contributory factors to that situation. In the first place, partly because of their banking practices most of the commercial banks are unwilling to extend their credit facilities to small industrialists inspite of their large excess reserves. Secondly, it is rather difficult for the banks to ascertain their credit worthiness and to do it would involve considerable expenses. Therefore the costs of lending might become so high that it would not be profitable to go into this field. Thirdly, the borrowers, especially the smaller firms, do not like to expose their closely guarded secrate facts even for the purpose of borrowing money. Finally, the Immovable Property Act has prevented the foreign banks from accepting the only eligible form of security.

Consequently, most of the small manufacturers have to turn to the money lenders for short term accomodation at rather high interest rate. The Census data show that loans from the private sources accounted for 65% of the total industrial loans. It may be compared with 10% from the commercial banks and 15% from the state. With gold and jewellery security the rate of interest is about 24% but on unsecured loans it may be as high as 60%. Naturally, it has hampered the growth of these small industries.

Being aware of these facts, the Government has taken measures to provide financial assistance to the small manufacturing concerns. As mentioned earlier, the loans provided are either too small even for the firms in Sub-group B, or conditions laid down for the grant of loans are too rigid from the borrowers point of view that very few firms of this sub-group has made use of the State assistance. Consequently, private money lenders remain as the major source of outside finance for them.

Attempts to solve the financial problems of small manufacturing concerns will have to be made on a number of fronts. If the foreign commercial banks could not be persuaded to change their banking practices and if the Government does not want to modify its policy on the ownership of immovable property, there will be little hope of expansion in the lending by the commercial banks to the small industrialists. A relatively large amount of financial resources may remain untapped. Therefore means should be found to be able to make use of idle cash resources. It may take the form of creating new organizations to act as [illegible] between the commercial banks and the borrowers. At the same time attempts may be made to improve the conditions relating to the supply of raw materials and marketing of their products to releive the needs for a relatively large amount of working capital.

However, before such measures are taken, the Government should decide on her industrial policy. It must decide to what extent it would encourage the development of industry through sporadic growth of small concerns. Or would it prefer to have relatively larger firms from the very beginning so that there will be less wastages and better method of production could be utilised? Of course, there can be no single answer for all Industries because of differences in the character and technique of production. But a definite industrial policy on a number of major groups would be very useful. The answers to this and other problems would require further studies and this paper is intended only to expose some of the problems of small manufacturing concerns.