

**DEPARTMENT OF COMMERCE
YANGON INSTITUTE OF ECONOMICS**

**LINKAGES BETWEEN SMALL SCALE ENTERPRISES
AND OTHER BUSINESS SEGMENTS IN MYANMAR
(INFORMALITY RECONSIDERED)**

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**LINKAGES BETWEEN SMALL SCALE ENTERPRISES AND
OTHER BUSINESS SEGMENTS IN MYANMAR
(INFORMALITY RECONSIDERED)**

Partial fulfilment of the requirement for the Degree of
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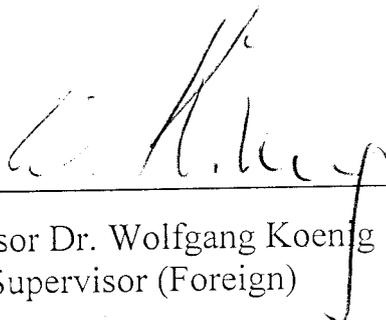
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**Linkages between small scale enterprises and other business segments
in Myanmar – informality reconsidered**

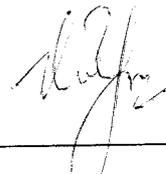
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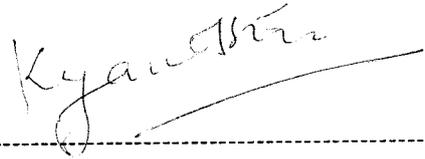
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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BSCO	Burma Standard Classification of Occupation
BSIC	Burma Standard Industrial Classification
CPI	Consumer Price Index
EPRs	Effective Protection Rates
GDP	Gross Domestic Product
ICLS	International Conference of Labour Statisticians
ILO	International Labour Organization
IMPD	Immigration and Manpower Planning Department
I-O	Input-output table
IS	Informal sector
ISIC	International Standard Industrial Classification
JASPA	Jobs and skills programme for Africa
LDC	Least developed countries
MAS	Management and administrative skill
MSE	Micro and small enterprise
NGO	Non-governmental organization
NIE	New Institutional Economic
OECD	Organization for Economic Co-operation and Development
RSO	Rotating saving organization
SAP	Structural adjustment program
SEEs	State economic enterprises
SIDA	Swedish International Development and Cooperation Agency
SLORC	State Law and Order Restoration Council
SME	Small and medium-sized enterprise
SPDC	State Peace and Development Council
TCS	Technical and craft skill
UN	United Nations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
US\$	United States Dollar
UMFCCI	Union of Myanmar Federation of Chamber of Commerce and Industry
YCDC	Yangon City Development Committee
WIEGO	Women in Informal Employment Global Organizing
WWW	World Wide Web

CHAPTER (1) INTRODUCTION

1.1 Background

Virtually all Third World nations have been urbanizing rapidly over the last few decades. More than a third of its population already live in cities. The UN has suggested that 80% of the growth in population in 2000s will be urban areas so that by the year 2001, over two-thirds of its population will live in cities of developing countries. Associated with this growth has been a steady increase in the ratio of workers in the low-income sector of Third World cities. Nowadays these workers account for 45 to 85 per cent of non-agricultural employment and 40 to 60 per cent of urban employment in Asia¹. A vast majority of these workers with no skill and no capital turn to small-scale sector for their survival and livelihood making it the predominant activity. This made possible by the very nature of the activity. The informal sector, thus, provides opportunities for income earning for those that have no other means to survive.

The economic importance of this activity was first noted when the burgeoning number of low-income urban workers aroused serious concern in the 1970's. The growing interest shown to these sectors in development studies is associated with the identification of several social and economic problems currently facing these countries, e.g., a continuing imbalance in the labour market leading to high unemployment rates, especially for low qualified people. On the other side, it is viewed that the persistence of intra- and inter-regional socio-economic inequalities and the combination of remarkably concentrated patterns of urbanization increase sharply. Moreover, it is generally suggested in the literature that the small enterprises are of considerable importance for the development of the urban economy, and this is due to their characteristics. Firstly, their number is large and they are widely distributed throughout the urban area and therefore may have a special 'local' significance for the urban economy. Secondly, these enterprises are highly labour-intensive. Thirdly, not only the majority of the informal sector is located in the urban areas, but they are also mainly based on indigenous resources.

In addition, their low start-up cost, basic technologies, reliance on family labour and informal nature make such enterprises flexible 'vehicle' not only for facilitating wide economic participation of the population, but also for reaching diverse geographic regions. Thus, spreading the possible benefit of economic gains to segments of the population that may otherwise be left out of the development process. Moreover most observers subscribed that the small

Charmes. J. (2002): Estimations and survey methods for the Informal Sector, University of Versailles, 2002.

enterprises was not linked to the formal sector. It is now accepted in most developing countries that low income, self-employed workers of an urban economy should be encouraged in order to assist in the alleviation of poverty and unemployment. Furthermore, the small enterprise plays as a training ground, a seed-bed for entrepreneurship as well as an efficient user of existing indigenous entrepreneurial and management skills which would otherwise remain unused. Therefore, in order to intervene in the best way to stimulate sustainable economic growth and job creation, the informal economy needs to be better understood both by academicians and policy makers.

1.2 Statement of the Problem

Small enterprise is considered a topic of marginal importance for industrialization in developing countries. Analysts and policy makers have become increasingly aware of the importance of this sector, not only as a means of survival for poor people, but also as a starting-point for industrial growth. In addition, one can say that the small enterprises are one of the means for combating poverty as mentioned by McNamara in his speech². However, there is a considerable lack of knowledge regarding the structure, functions, and requirements of the informal sector enterprises.

Myanmar's population was estimated to be 51 million in 2001 and its average annual growth rate is about 2%³. The majority of the people live in rural areas of Myanmar and the estimated share of urban population was 27 per cent in 1998. At the same time there has been a decline of the agricultural sector's contribution to GDP and severe shortage of foreign exchange earnings in Myanmar. The decline of this sector has had a number of negative effects within the economy, one of which is the persistent high levels of unemployment. In an effort to address the twin problems of decreasing foreign exchange earnings and unemployment, the government and all successive governments have attempted to diversify the economy and there is a strong ethos of privatization. Against this background, the government of Myanmar in 1990 identified the promotion of small-scale enterprises to play a major role within the economy in terms of employment creation, diversification of the national economy and income re-distribution. However, Myanmar is faced with difficulties in the establishment of a formal legitimate activities, a radical transformation from socialism toward a market economy. Casual observation reveals that markets are flooded with goods smuggled in from neighbouring countries, workers are unregistered, employees

² McNamara was the president of the World Bank. 1973 is considered to be a milestone in the process of change in the international way of thinking. The alleviation of poverty was stated as the primordial development goal.

³ Department of Labour (2002): Handbook on Human Resources Development Indicators, Ministry of Labour, Union of Myanmar, p.1.

are not paying contributions or taxes, and politically well connected individuals and firms suddenly appeared to be displaying new found wealth. Given the large proportion of the labour force that is still engaged in low-productivity activities, a high rate of labour absorption into the modern sector will not solve the problems of underemployment and poverty fast enough. In short, there appeared to be flourishing informal economy comprising a variety of informal activities.

Within the context of limited employment opportunities and high unemployment, the small enterprise is critical as a means of creating employment and some contributing to the Myanmar's overall socio-economic development. Small enterprises which support a high proportion of low-income workers has consequently remained under-researched, unaided and in most instances illegal. A recognition of the problems faced by these workers is long overdue. In Myanmar, there have been some ad-hoc proposals and no sectoral study has been undertaken at the city level of these workers. If at a practical level one is hoping to promote policies to help low-income workers in productive sector then it is essential to know something about these workers. The small enterprise consists of trade, services and production. However, enterprises engaged in production are usually considered more important than enterprises engaged in trade or services. Moreover, the policies to support small-scale enterprises in many cases are concerned with production sector only. Their activities represent the missing engine of growth in Myanmar and hence need to provide a means of surviving in the cities for those outside the formal system. ILO (2001) stated the notion that "the fundamental challenge posed by the informal economy is how to integrate it into the formal economy. It is a matter of equity and social solidarity. Policies must encourage movement away from the informal economy. Support for exposed groups in the informal economy should be financed by society as a whole"⁴. Notwithstanding the important role of this sector within the Myanmar economy, little information is available on their behaviour and overall operations. Therefore, a study needs to be conducted to find out more about the small enterprises and how it links up with other sector in the economy.

1.3 Objectives of the Study

The focus of attention is the 'informal activities' of the economy, in which many of the poor find employment. The objective is not only to increase employment and income generating opportunities in the small enterprises with the aim of stabilising the living conditions of the poor and improving the performance of their informal economic activities in order to bring them into the formal sector.

⁴ ILO (2001): Decent Work and the Informal Economy, International Labour Conference 89th session, 2001.

This study has the following core objectives:

- (1) To evaluate the nature and characteristics of the small enterprises in Myanmar;
- (2) To know the business performance of the small enterprises including strengths and weaknesses;
- (3) To identify the nature and extent of forward and backward linkages of the small enterprises and other sector in the economy;
- (4) To determine whether the small enterprise has growth potential in Myanmar or not; and
- (5) To find out the distinct segments within the small enterprises, which can be promoted as the formal one.

The findings on these research themes will be compared with the literature of informal sector and also discussed with respect to their policy implication.

1.4 Structure of the Dissertation

This thesis is organised into six main chapters; chapter one is the introduction. The importance and relevance of this study is explained in the background and statement of the problems, and consists of the objectives of the study. Chapter two is fundamentally the theoretical framework for informal sector within micro-and small enterprises. It focuses on the issues of informal sector theory; linkages between the informal sector and other business sector, and also some relevant special aspects of New Institutional Economics (NIEs) concepts. Chapter three gives overview of the structure of urban informal economic activities in Myanmar. Chapter four details the procedure of collecting secondary and primary data together with limitations of the study. Qualitative analysis was mainly used and that comes from empirical survey. It presents the findings and analysis of the field research which was mainly undertaken in city Yangon together with Monywa (Sagaing Division) and Yegyi (Ayeyarwaddy Division) during 2003. The objective of this research is to contribute more systematic attempts to promote the informal sector enterprises for productive sectors in Myanmar as well as in general. Following this, chapter five outlines certain recommendations and policy considerations for the informal sector in Myanmar. The recommendations and policies are based on the specific research findings and are also informed by the wider socio-economic realities of Myanmar and the lessons that have been learnt from attempts to develop the informal sector enterprise in other countries. Then finally chapter six basically concludes the thesis by summarizing the study and highlighting some key points and findings.

CHAPTER (2) THE THEORETICAL ISSUES OF INFORMAL ENTERPRISES

2.1 THEORETICAL FOUNDATION OF INFORMAL SECTOR ENTERPRISES

2.1.1 Introduction

The informal sector⁵, which presently harbours many of the workers in the developing countries, has grown substantially during the last decades. "Since it was first devised, the concept of the informal sector has frequently been associated with poverty, under employment and unemployment; this confusion is regrettable for, whilst these phenomena may overlap, they do so only in part and there is some empirical evidence, which admittedly cannot be generalised, to indicate that their intersection is not always, or even often known as the informal sector"⁶. Earlier studies on the informal sector tried to analyse the informal sector in terms of marginality and poverty thereby using the household as the measure of analysis. Due to this, terms such as the parallel economy, black market and the underground market have been used to explain this concept⁷. The informal sector has also been used interchangeably with small-scale businesses in the case of home-work and micro enterprises⁸. Therefore, the early misunderstanding of the informal sector lay in that it was measured and reflected against the formal sector.

Mazumdar (1975) introduced the informal sector into a model in which rural depopulation consisted of two elements: temporary migrants on the one hand, who come to seek employment in the informal sector since they have lower demands and are in greater need of money; and definitive migrants, on the other hand, who are seeking jobs in the modern sector and temporarily accept an open unemployment situation⁹. The traditional sector was assumed to supply unlimited amounts of human capital which the modern sector had the capacity to absorb. Nevertheless, the incapacity of the modern sector to absorb increasing surplus labour led Mazumdar to define the informal sector in this perspective. Thus the strategies proposed for economic growth, under the assumption that this could be achieved only in the modern sector through industrialization, saw the informal sector group as poverty driven and needing to be integrated into the modern sector

⁵ Term informal sector and informal economy are, here, used as synonyms. The idea behind is the fact that informality is not confined to a specific sector of the economic activity but rather cuts cross many sectors.

⁶ Charmes, J. (1990): A Critical Review of concepts, definitions, and studies in the Informal Sector, In: Turnham, D., Salome, B., and Schwarz, A. (eds.) *The Informal Sector Revisited*, OECD, Paris, France, p.11.

⁷ Shayo-Temu, S. (1998): Financing and investment of small and medium scale manufacturing industries in Tanzania, Unpublished dissertation, University of Bremen, Germany, p.26.

⁸ Bagachwa, M.S.D. (1996): Impact of adjustment policies on the small-scale enterprise sector in Tanzania, In: Helmsing, A.H.J. and Kolstee, Th. (eds.): *Small Enterprises and Changing Policies*, IT Publications, U.K, p.26.

⁹ See (Lubell: 1991, p.18).

gradually. The general attitude towards this sector in 2000 was that through proper organization and management of this sector, it would eventually “graduate to be modernized” and this was a temporary problem and not a result of economic incapacity. However, it is difficult to provide a strict definition of the informal sector, different analysts have used the term to mean different things¹⁰. The concept of informal sector is quite elusive and variable, as some researchers have said, due to the changing country environments. However, it is intended for the purpose of this study that these changing variables will be identified to reflect the informal sector in Myanmar.

2.1.2 Characteristics of the Formal and Informal Sectors

Basically, the formal sector includes government activity itself and those enterprises in the private sector which are officially recognized, nurtured and regulated by the State. However, operations in the informal sector are characterized by an absence of such benefits. Feige (1990) proposes that economic agents are regarded as members of the ‘formal’ sector of any economy when their actions adhere to, or are protected by, the established institutional rules of the game¹¹. Conversely, when their actions fail to adhere to the established rules, or are denied their protection, the agents are regarded as members of the ‘informal’ sector of the economy. Therefore, the state plays an important role in this context, since it direct toward activities that are regulated, controlled, and coordinated by the state. The state is a principal, conspicuous or inconspicuous, participant in the formation and functioning of that system¹². Enterprises in the informal sector do not comply with certain official laws and regulations imposed by public authority. This is due to the facts that regulations impose prohibitively high costs on formality; informal entrepreneurs lack the skills and the knowledge to comply even with simple regulations; and the state and its organs are too weak to protect to private contracts and property right efficiently. The two aspects of the economy always mutually co-exist in the same community and at times so blend together that one does not know where one ends and where the other begins.

Since the term ‘informal (or ‘non-structured’) sector’¹³ was first used in a study on Ghana¹⁴ and then taken up in the report of the ILO/UNDP employment

¹⁰ (ILO: 1972; Hart: 1973; Rakowski: 1994)

The ‘established rules of the game’ are understood as the official laws and regulations of the state and its subordinated regional administrative bodies. Moreover, tax legislation is added to the list of laws and regulations.

¹¹ (See. Pichon, 1992, 1996).

¹² The term informal sector has been variously described in the literature – the ‘underground sector’, ‘unregistered economy’, ‘unorganised sector’, ‘third economy’, ‘parallel economy’, ‘non-institutional’, ‘bazaar economy’, ‘lower circuit’, ‘black economy’, ‘shadow economy’, ‘peasant form of production’, ‘peddlers’, ‘the unremunerated’.

¹³ (Hart, 1973)

mission to Kenya (ILO, 1972)¹⁵, it has gained considerable currency in the literature of development policies. The reasons for the interest have been the inability of Third World countries to generate employment and the rapid and distorted growth of their cities¹⁶. Despite the continuous interest in the subject, a good deal of confusion has arisen as to what the concept really means. In the 1970s and early 1980s, much of the literature expressed a need to clarify the terms used and criticized the static character of dividing the economy into an 'informal' and a 'formal' sector'. They, however, failed to elaborate on the nature and extent of relationship between the informal and the formal sectors. This criticism maintained that from the content which was given to the informal sector concept it was to be regarded as only a new variant of the dualism theories¹⁷ which earlier gained popularity¹⁸. It has been pointed out that the Kenya Mission's conception of the informal sector contained two elements: i.e., marginality and productive activity¹⁹.

The ILO report on Kenya already contained the double concept of the informal sector, lower-tier which is associated with marginal activities (on the streets or in makeshift establishments and piecework) and upper-tier which is concerned with the production and service crafts and petty commerce. A number of studies²⁰ following one or other of these paths have been made, thus preventing the emergence of a clear and simple definition of the phenomenon, while the inappropriateness of the concepts and restricted samples limited the conclusion of the findings. There is no universally agreed criterion which could help to identify the many and varied informal sector activities. The best well known of these

¹⁵ In 1953-1955 the East Africa Royal Commission paved the way for the debate on the informal sector. The Commission, notably, asserted that, taking the East African economy as whole, there was no evidence of 'unemployment as that is commonly understood'. It is also criticized strongly the restrictions and regulations affecting many areas of colonial African life, such as marketing, provision of credit and licences and the use and sale of land. In the same vein, the Commission noted that the clusters of settlements outside of the main towns constituted so far the only developments of African commercial enterprises (King: 1990a, p.133).

¹⁶ Heyzer, N. (1981): *Women, Subsistence and the Informal Sector: Towards a Framework of Analysis*, IDS Dissertation Paper, No.163, Sussex, University of Sussex, p.3.

¹⁷ In Boeke's (1953) classical explanation the phenomenon of dualism refers on the one hand to an urban market economy, usually of a capitalistic nature, and, on the other, to a rural subsistence economy mainly characterized by a static agricultural system of production. Boeke's writings refer to an Indonesian setting in about 1910. Boeke's reasoning for this type of a segmented society, which originated in a colonial situation, has been dismissed as untenable by many critics (See e.g., Higgins: 1959; Breman, 1976: p.1871).

¹⁸ (See e.g., Breman, 1976:1871-1872, Moser, 1978: 1952).

¹⁹ Lubell, H. (1990): *The Informal sector in the 1980s and 1990s*, Development Centre Studies, Paris: OECD, p.18.

²⁰ A literature about the "informal", "underground", "second", "cash", "parallel", economy is increasing. See for example, survey type publications by Frey and Pommerehne (1984), Thomas (1992); Loayza (1996); Pozo (1996); Lippert and Walker (1997); Schneider (1994a, 1994b, 1997, 1998a); Johnson, Kaufmann, and Shleifer (1997), and Johnson, Kaufmann, and Zoido-Lobato'n (1998a) and for an overall survey of the global evidence of its size in terms of value added Schneider and Enste (2000).

definitions is the publication of the already classic Kenya Report²¹ which highlighted the fact that the formal and informal sectors characterized by seven criteria (see Table 2.1).

Table (2.1) Characteristics of the informal and formal sectors

Sr.	Criteria	Informal Sector	Formal Sector
1.	Entry	Easy	Difficult
2.	Resources	Indigenous	Overseas resources
3.	Ownership	Family	Corporate
4.	Scale of operation	Small	Large
5.	Nature of production	Labour-intensive	Capital-intensive
6.	Skills	Acquired outside formal school system	Formally acquired, often expatriate
7.	Nature of markets	Unregulated & competitive	Protected (tariffs, quotas and trade licenses)

Source: ILO (1972)

Whilst all these criteria come together to define a formal and informal sector, some of them are relatively complex and cannot be reduced to simple observation. Sethuraman (1976) forwarded a definition which has meant to be simpler and more specific: "employment of no more than ten persons, non-application of legal and administrative regulations, employment of family members, no fixed working hours or days, no institutional loans, production intended for the final consumer, less than six years of schooling for workers, and, for certain activities, no use of mechanical and electrical energy, and the peripatetic or semi-permanent character of the activity"²². Sethuraman's definition is a mere specification of each criteria forwarded by ILO and today the informal sector has been known to be heterogeneous, and simplification and specification of any informal sector criteria will limit the understanding of this sector as a whole. Today the early identification of the informal sector by the ILO and Sethuraman has come under a lot of scrutiny and debate.

2.1.3 Definition of the Informal Sector

Several types of definitions have been given for the informal sector, which may be linked with specific views or identifiable schools of thought. However, many

²¹ ILO. (1972): Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya, Geneva: ILO.
²² Sethuraman, S. V. (1976): The Urban Informal Sector: Concept, Measurement and Policy, International Labour Review, No.1, p.69-81.

observers subscribed to the notion that the informal sector was marginal and peripheral and thus not linked to the formal sector or to modern capitalist development at all. There are three main schools of thought regarding the relationship between the formal and informal economies²³.

- (1) The dualists: the informal economy is a separate marginal economy not directly linked to the formal economy, providing income or a safety net for the poor (ILO, 1972).
- (2) The structuralists: the informal economy is subordinated to the formal economy: In order to reduce costs, privileged capitalists seek to subordinate petty producers and traders (Castells and Portes, 1989).
- (3) The legalists: informal work arrangements are a rational response by micro-entrepreneurs to over-regulation by government bureaucracies (de Soto).

Lubell (1991) maintains that two characteristics have emerged as operational criteria for identifying the informal sector enterprises: small size (micro-scale) and the extent to which an enterprise avoids official regulations and taxes interpreted as the characteristic illegality which in many Latin American studies has come to be synonymous with the informal sector²⁴. Bromley (1979) argued that the criterion of non-registered/illegal is very narrow. He points to the distinction made in national accounting between 'regular registration' indicating permanent activities and 'separate registration' possibly including temporary informal sector activities, which in data collection methods and censuses are not recorded. Moreover, Charmes (1990) argues that the non-registration of a business is a characteristic which points to the state of the economic system²⁵. As de Soto (1989) found in one of his surveys, it took an average of 283 days to register a business in one of the Latin American countries²⁶.

Maldonado (1996) concluded from his empirical analysis that the extremely high costs and time involved in registration act as deterrents to legalising the micro-enterprise. Thus the argument made here is that the informal sector business are not illegal because it serves their activities in any specific way or that being illegal will enhance their economic activities. The obstacles lie in the state bureaucratic structures and complicated channels which the informal sector actor will see as unnecessary for his work since he does not use any state facilities for his business. Nevertheless, this does not mean that absolutely no registration or legalization is

²³ Chen, M. et al (2002): *Globalization and the Informal Economy: How global trade and investment impact on the working poor*, Harvard University; ILO.

²⁴ See de Soto (1989) and Tokman (1989).

²⁵ (Charmes: 1990, p.12).

²⁶ de Soto, H. (1989a): *The Other Path*, Harper and Row, New York, p.11.

practised, because if this were the measures to remove the 'illegal' activity would actually make informal sector work very profitable because of the high risk involved in it.

"Empirical evidence shows that most informal sector activities are in fact regulated: their owners are obliged to pay taxes, and have licences, particularly those operating in public or government controlled markets"²⁷. This goes back to Bromley's observation of registration which implies that the concept has to be broadened to include interaction with legal institutions at different times and at different levels of state structures, not necessarily categorized in the national accounts. This means that there are different degrees of legality and that no one economic activity is absolutely illegal and no market is absolutely unregulated²⁸. Moreover, definition of the informal economy has also been influenced by the De Sotro concept based on Peruvian conditions²⁹. The informal economy, on this definition, consists of enterprises which are "outside of the law". Because under Peruvian conditions the registration of a business enterprise is enormously time consuming, costly and cumbersome, enterprises remain "outside of the law". In this definition neither the legality or otherwise of the enterprise nor its registration are criteria. Although most activities in the informal economy are not registered enterprises, there are registered small enterprises whose methods of operations are no different to unregistered informal enterprises and therefore functionally belong to the informal economy. Therefore, the definition of informal sector as enterprises "outside the law" is inappropriate, inadequate, too restrictive and does not focus on the nature and functioning of the informal economy.

The "informal economy" emphasizes the existence of a continuum from the informal to the formal ends of the economy and thus the interdependence between the two sides. In fact, it has increasingly become clear that there are many interdependencies between the informal and the formal economies. Supply-side links exist through the purchase of³⁰ goods, raw materials, tools and equipment and acquisitions of skills and know-how. On the demand-side, informal sector actors services to formal sector actors on a sub-contracting basis. In addition, individuals can participate both in the formal and the informal sectors. Moreover in the current debate, the informal economy's role is to stimulate the growth of the market economy, promoting a flexible labour market and absorbing retrenched labour from the formal sector. On the other hand, others claim that informal labour has become a convenient means of pursuing the global agenda of

²⁷ Ngwira: 1995, p.50).

²⁸ Midamba (1995, p.84) argues that income earning activities such as prostitution, theft and pick-pocketing are also economic activities in the formal sector if the criteria of illegality as avoiding taxes and other state charges is used. Nevertheless, this is beyond the scope of this study and needs further, probably, philosophical discussion on what is moral and what is immoral.

²⁹ Sullivan, J. D. (1988): Building Constituencies for Economic Change: Report on the International Conference on the Informal Sector, Washington D.C., October 26-27, 1987.

³⁰ Amin, N. (2002): The Informal Sector in Asia from Decent Work Perspective, ILO, p.41.

privatization and liberalization³¹. The old and new views of the informal economy³² are presented in table (2.2).

Table (2.2) The old and new views of the informal economy	
The Old View	The New View
The informal sector is the traditional economy that will wither away and die with modern, industrial growth.	The informal economy is increasing with modern, industrial growth – accounting for more than half of the new jobs in Latin America and 80 percent of new jobs in Africa. In India, more than 90 percent of the labour force is in it. It is a feature of economic transaction as well as capitalist industrialization.
It is only marginally productive.	It is made up of a wide range of informal arrangements- both “resilient old forms” and “emerging new ones” (temporary and part-time jobs plus home-based work for high tech industries). It is two basic segments are informal enterprises and informal jobs.
It exists separately from the formal economy.	It is linked to the formal economy - it produces for, trade with, distributes for, and provides services to the formal economy.
It represents a reserve pool of surplus labour.	Much of the recent rise in informality reflects the decline in formal employment associated with structural adjustment and global competition. It reflects not only the incapacity of formal firms to absorb labour, but also their unwillingness to do so.
Work in the informal economy is comprised mostly of survival activities and thus is not a subject for economic policy.	Virtually everywhere the informal economy is efficient and resilient, creating jobs. It is a major provider of employment, goods and services for lower-income groups. It contributes significantly to GDP.
Street traders are to blame for crime in the inner sites.	Criminals are a threat to business interests of both formal and informal enterprises.
It does not contribute to economic growth.	It contributes substantially to the economy and needs to be encouraged and facilitated.
It is comprised mostly of street traders and very small-scale producers.	Informal enterprises include not only survival activities but also stable enterprises and dynamic growing businesses. All informal enterprises are affected by economic policies.

³¹ Ibid. (Amin, 2002).

³² WIEGO (2002): Women in Informal Employment: Globalizing and Organizing, Second Annual Meeting, Cambridge, Massachusetts, May, p.22-24.

It is unregulated.	Some informal enterprises such as street vendors are highly regulated, so much so that regulations are impossible to enforce or comply with and are often not clear either to local authorities or to vendors. Regulations become a tool of harassment and control, not a way to encourage economic contributions of street vendors. On the other hand, the employers of most informal workers often seek to avoid complying with labour legislation.
Because it is unregulated and untaxed, many working in the informal sector are wealthy.	Average incomes are lower in the informal economy than in the formal economy. A higher percentage of people working in the informal economy are micro entrepreneurs who hire others. The poorest are, typically, informal waged workers, especially industrial outworkers.
It is comprised mainly of unregistered business.	It is comprised not only of informal enterprises but also informal jobs, including employees of informal firms, casual day labourers, and domestic workers as well as industrial outworkers and other non-standard workers in both informal and formal firms.
Most of those in the sector are entrepreneurs of illegal and unregistered enterprises seeking to avoid regulation and taxation.	It should not be equated with the criminal or illegal economy. It is made up of non-standard waged workers as well as entrepreneurs and self-employed persons producing legal goods and services, albeit through irregular or unregulated means. Most entrepreneurs and the self-employed are amenable to, and would welcome, efforts to reduce barriers to registration and related transaction costs and to increase benefits from regulation. Most non-standard workers would also welcome more stable jobs and workers' rights.
To regulate the informal economy is unnecessary interference with its working.	In today's globalised economy, the active role of government is needed in the regulation of economic activities, including the informal economy. Clear rules and appropriate legislation are needed to regulate the relationship between governments, foreign investors, local enterprises, and the workforce.

Source: WIEGO, A Policy Response to the Informal Economy, 2001.

Due to the heterogeneous character of the informal sector, numerous definitions have been elaborated. This study cannot cover all the existing definitions of the

informal sector. However, some of the main definitions in use will be explained in order to illustrate the multitude of perspectives from which the informal sector can be viewed³³. The international concept also distinguishes between the two sub-categories of informal sector enterprises³⁴, such as (1) family enterprises comprised of independent and own-account workers, family workers, apprentices and workers, and with no permanent employees, and (2) micro-enterprises comprised of units with less than 5 to 10 employees (or jobs), and which are not registered as enterprises. Therefore informal enterprises are not only units that employ hired labour but also those that are owned and operated by single individuals working as self-employed.

In order to be consistent with the framework of the System of National Accounts and provide for a separate accounting of Gross Domestic Product (GDP) in the informal economy, the International Conference of Labour Statisticians (ICLS) of 1993 elaborated a definition based on production units rather than on employment relations: "Units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons involved. These units typically operate at a low level of organization, with little or no division between labour and capital as factors of production and on a small scale. Labour relations – where they exist- are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees". Therefore a country can decide what size of unregistered units should be included in the informal sector and whether the agriculture sector and domestic workers should be included³⁵. The ICLS definition concentrates on enterprises, it does not capture all dimensions of informal employment and it misses out on the myriad of informal wage work arrangements. Therefore the definition was needed on the employment-based dimensions of informality.

³³ Example of classification of the informal economy (Amin, 2002): (1) From a labour categories/employment status perspective, (2) From an industrial classification perspective (trade, services, manufacturing, construction and transaction), (3) From a rural/urban divide (rural informal sector and urban informal sector), (4) From the standpoint of urban spatial structure: those in the Central Business District (CBD) and those in suburban areas, (5) From a location perspective: those who are location-specific and those who are not, (6) From a zoning perspective: those located in proper business locations and those in home-based enterprises, (7) According to size classification: 1 person unit (own-account workers), 2-4 persons units (micro enterprises), 5-9 persons units (small-scale enterprises), (8) From a migratory status (native, recent migrants and long-term migrants), (9) From the viewpoint of employment equality: normal jobs and misemployment (begging, prostitution and scavenging); (10) From the viewpoint of income/employment enhancing potential, which is crucial for advancement or upward mobility: enterprise/work with growing market demand that reflects high-income elasticity of demand and those with low-income elasticity of demand (rickshaw services). Alternatively denoted dynamic/modern informal sector and marginal/survivalist groups.

³⁴ www.worldbank.org (Urban Development, Program and Projects Options, What is the Informal Economy, 2003-10-10).

³⁵ Women in Informal Employment: Globalizing and Organizing (WIEGO, 2002) recommended an employment-based definition of the informal economy that would include all non-standard wage workers, whether they work for informal or formal firms, who work without minimum wage, assured work or benefits.

Therefore the informal economy can be described based on employment categories³⁶ such as (a) self-employed, i.e. own-account workers³⁷, heads of family business and unpaid family workers³⁸; (b) wage workers, i.e. employees of informal enterprises, casual workers without a fixed employer, home workers³⁹, paid domestic workers, temporary and part-time workers and unregistered workers; and (c) employers, i.e. owners and owner operators of informal enterprises. Therefore, informal employment is all remunerative work, both self-employment and wage employment which is not regulated, recognized, or protected by existing legal or regulatory frameworks as well as non-remunerative work undertaken in an income-producing enterprise.

The informal economy can be further defined based on a description of the location within which these actors operate⁴⁰. During the ICLS of 1993 in connection with the renewed efforts towards a better measurement of women's activities raised the issue of "place of work". ICLS (1993) categorizes the definition based on the location of informal economy actors.

- (1) Home-based workers:
 - (a) Dependent home-based workers which:
 - Work at home outside the establishment that buys their products;
 - Agree by prior arrangements to supply goods or services to a particular enterprise;
 - Get remunerated through what is paid for their products;
 - Do not employ workers on a regular basis.
 - (b) Independent home-based workers are those who work in their home and deliver their products or services to prospective buyers. Their characteristics are those of the self-employed and are classified as part of the "account workers".
- (2) Street traders and street vendors.
- (3) Itinerant, seasonal or temporary job workers on building sites or road workers.
- (4) Those in between the streets and home, e.g. waste collectors.

³⁶ According to the 2002 employment census in Mexico, group (a) accounted for 57%, group (b) for 37% and group (c) for 6% of the 23.9 million people employed in the informal economy (the labour force in the formal economy amounts to 15.1 million).

³⁷ According to the report "Informal Sector in Asia", Amin 2002, the own-account workers are the most common labour group in the informal group.

³⁸ According to the report "Informal Sector in Asia", Amin 2002, unpaid family labour often includes the use of child labour.

³⁹ ILO (2002): Women and men in the Informal Economy: A statistical picture.

⁴⁰ www.worldbank.org (Urban Development, Program and Project Options, What is the Informal Economy, 2003-10-10).

As the informal sector is quite heterogeneous in terms of capital invested⁴¹, technology in use, adopted management practices, productivity levels and net earning, a heterogeneous group with different reasons for joining the informal economy is constituted in its players. For example, at one of the spectrum of the informal economy are small-scale modern manufacturing and service enterprises. At the other end are street vendors, shoe shiners, junk collectors and domestic servants. In between there is a whole range of primary service activities such as informal transport services, small trading commercial establishments⁴². These main segments are:

- (1) Enterprise with the potential of becoming a significant contributor to the national economy and that take up informal economic activities because of their potential for generating growth or wealth. What attracts some is the fact that informal activities are thought to be unregulated and untaxed and, therefore, to have the potential for autonomy and profits⁴³. These enterprises can be linked to organized and emerging national or international markets.
- (2) Individual or households who take up informal activities for survival purposes. The factors that may attract them are the relative ease of entry, reliance on local resources and a minimum of capital investments. Informal activities also allow disadvantaged individuals or households to maximize their only asset: labour. This group operates informally either because the costs of formalizing the activities are too high or because the procedures for registration are too complicated and time-consuming.
- (3) Individuals that devote part-time to informal activities while working elsewhere. For instance, civil servants in both Asia and Africa, because of low and irregular salaries, have alternative incomes to secure their living.

This type of segmentation describes the informal sector from the standpoint of its income and employment enhancing potential. This potential is crucial for determining the scope for advancement or upward mobility of various enterprises. From this perspective, the informal economy is comprised of enterprises/work with a growing market demand that reflects a high-income elasticity of demand (e.g., tourism service) and those with low-income elasticity of demand (e.g., rickshaw services). Alternatively, these two groups can be denoted as the dynamic/modern informal sector and marginal/survivalist groups respectively. In addition, conditions of work and the level of earnings differ markedly among

⁴¹ Pitamber (1999) presents that the definition and demarcation of 'small' amount of capital is a very subjective issue and it would be very difficult to state a cutting-off point amount as being the identifying ceiling.

⁴² Chadaw, G.; Oberay, A. (2002): Urban Informal Sector in India, Issues and Policy Options.

⁴³ ILO (2002): Supporting workers in the IE: a Policy Framework.

those who scavenge on the street for rags and papers, those who produce garments on a sub-contract from their homes, those who sell goods on the streets and those who work as temporary data processors⁴⁴. For example, female street hawkers face a high risk of being exposed to violence and physical abuse.

Charmes (1990) argues that the ILO definition in itself defines a competitive market for the informal sector. The detailed specification of criteria for this will neglect the heterogeneity of this sector and apply only to a specific segment of the sector. It follows that competition is the result of the characteristic, ease of entry, and thus a certain level of competition is limited to a specific segment of this sector. The existence of competition can be measured by the prices and wages in this sector. If competition is high then the products offered by this sector will be priced equally and the wages earned will be similar in what Meagher identified as survival activities⁴⁵. This, however, cannot be applied across the informal sector but rather to the respective segments, as Charmes (1990) argued, that there exists a modern and a traditional informal sector implying price and wage differentiation. Thus, competition is segmented and the workers of this sector would continue to operate in this competitive environment due to both or either of the following: their lack of access to entry into other segments, or an exogenous factor such as social values and norms which label some segments as 'unacceptable' for a specific entrant.

Informality consists of small-scale firms, workshops, and micro-enterprises with low capital inputs where production levels depend on intensive use of labor, nonprofessional self-employed, subcontracted put-out workers, disguised wage workers, domestic service, casual trade, street vendors, and market sellers. However, informality is not an all-or-nothing state, there are degrees of informality and formality. Small-scale entrepreneurs make an economic calculation along the lines of a cost-benefit analysis, which determines a minimum threshold of participation in formal arrangements for which the cost remain lower than the benefits. Some firms will therefore choose to participate in only a subset of institutions at any point in time. In addition, benefits and costs of participating in a formal context vary for firms of different size and expected lifetime. It would, for instance, seem that young, inefficient and small firms are disproportionately informal⁴⁶.

⁴⁴ LO (2002): Women and Men in the Informal Economy, A Statistical Picture.

⁴⁵ (Meagher: 1995, p.261).

⁴⁶ Levenson and Maloney (1998): The Informal Sector, Firm Dynamics and Institutional Participation, World Bank.

	INFORMAL SECTOR			FORMAL
	Subsistence enterprises	Unofficial enterprises	Unofficial enterprises	Official enterprises
Degree of Informality	100%	High. Proportion of sales undeclared and workers not registered.	Some proportion of sales undeclared and workers unregistered. May use outside the official purview (e.g. Internet to deliver software).	
Type of Activity	Single street traders, cottage/micro enterprises, subsistence farmers	Small manufacturers, service providers, distributors, contractors.	Small and medium manufacturers, service providers, software firms	
Technology	Labour intensive	Mostly labour intensive	Knowledge and capital intensive	
Owner Profile	Poor, low education, low level of skills	Poor and non-poor, well educated, high level of skills	Non-poor, highly educated, sophisticated level of skills	
Markets	Low barriers to entry, highly competitive, high product homogeneity	Low barriers to entry, highly competitive, some product differentiation.	Significant barriers to entry, established market/product niche	
Finance needs	Working capital	Working capital, some investment capital, supplier credit.	Investment capital and working capital, letters of credit, supplier credit	
	Least dynamic Completely informal		Highly dynamic Partially formal	
Other needs	Personal insurance, social protection	Personal and perhaps business insurance	Personal and business insurance, business development services	

Source: Djankov, S.; Lieberman, I.; Mukherjee, J. and Nenova, T. (2002): Going Informal: Benefits and Costs, The Informal Economy Round Table, Sofia, April 18-20, 2002.

The above table (2.3) illustrates the degrees of informality of informal sector enterprises. The table (2.3) illustrates that the transition from an informal to a formal status is gradual and that it is important to initiate the relevant processes that could assist enterprises to reach a more formal existence. However, it has been observed that many informal enterprises choose to expand horizontally and diversify their lines of businesses instead of expanding vertically and formalizing themselves.

Moreover, between these two poles exists a 'semi-formal' economy comprising activities that are partly regulated, often because state officials have recognised and sanctioned a certain degree of informality in exchange for a degree of control over them⁴⁷. Thus, collective taxis, land invaders, street vendors and garbage collectors have, in many cases, been given either tacit or explicit permission to carry out their activity, at times in exchange for support of the current regime, but without fully bringing them within the formal sector. Often, this may lead to a continual process of conflict and renegotiation between the administration and informal sector actors that politicises the sector. Another form of 'semi-formality' exists in the case of partly formal firms that may use the ability to bribe officials in order to escape particular aspects of the regulatory system.

The discussion has brought out the complexity of the concept and its characteristic diversity and heterogeneity. Therefore, the characteristics of the informal sector are synonymous with the characteristics of traditional or small-scale enterprises. However, their relation to government is also an important aspect. The informal sector enterprises are mostly not registered and thus evade legal regulations regarding, for example, taxes or minimum wages. At the same time, they obtain no support from the government and tend to be discriminated by government policy. Schneider-Barthold⁴⁸ (1984) described the characteristics of small enterprises in developing countries generally (see Table 2.4).

⁴⁷ Cross, J. C. (1998): The Informal Sector, Published in the Encyclopedia of Political Economy, Phillip O' Hara (ed.). Routledge, London & New York. <http://www.openair.org/cross/infdef2.html>.

⁴⁸ Schneider-Barthold, W. (1984): Entwicklung und Förderung des Kleingewerbes in der Dritten Welt: Bestandsaufnahme-Perspektiven- Vorschläge, Köln: Weltforum Verlag.

Characteristics	Production	
	Handicraft	Industrial
Owner of enterprise	Local natural person	Foreign and local natural person
Liability	Unlimited	Limited by risk distribution, legislation and government guarantees
Co-workers	Family members, apprentices	Trained or semi-skilled employees
Training	Apprenticeship in small enterprise	Formal vocational training or instruction
Abilities and skills	Polytechnical	Specialized
Division of work	Very poor	Very great
Degree of self-determination	Relative high/autonomous	Low/Speed of work is determined by assembly line or other machines
Locality of enterprise	Decentralized: in towns and in rural areas, in villages, spread over the urban area	Centralized: in the industrial area of towns, especially the capital
Workshop	Dwelling or simple shed	Modern factory building
Means of production	Multipurpose tools and machines	Special machines and production lanes
Products	Single items, small series	Large series
Costs per place of work	Low	As high as industrial countries
Nature of technique applied	Labour-intensive	Capital-intensive (labour-saving)
Origin of raw materials, source of energy and intermediate products	Local (when from abroad, recycling materials)	Mostly from abroad
Effect of production method on energy and currency	Energy and currency saving	Energy and currency intensive
Access to capital	Mobilization of private capital (family and friends), moneylenders	Commercial and development banks (local and foreign)
Access to infrastructure (land, water, electricity, transport)	No access (not available or too expensive to be used)	Gratuitous or strongly subsidized access

Market	Production on order, direct sale of small series on the local market, contact with customers, no national or eventually local monopoly	Wholesale or retail trade, sale on the enterprise often has a national monopoly because of import protection
Formalization (bureaucratic integration), statistics, bookkeeping, trade supervision, payment of taxes	Minimal (part of the informal sector)	Extreme (part of the formal sector)
Competitiveness	In the case of factor costs at market prices	Very often only in the case of subsidized, i.e., distorted factor prices and import protection.

Source: Schneider-Barthold (1984, p.26).

This study employed an appropriate definition⁴⁹ applicable to the formulation and implementation of the informal sector enterprise development in order to promote income and employment generation and quality of living standard of urban area in Myanmar. The limited extent to which consensus has been reached on classification of the informal sector enterprises based on size, that is, 'number of employees'. The use of number of employees has a distinct advantage in that it can be easily established and verified; and it is a very convenient criterion for research because it can also be readily compared across countries. Another reason why number of employees is often used is that the informal sector itself is felt to be labour intensive. Many analysts choose to define it in terms of the number of people employed.

Since there is a high degree of consensus on these characteristics, and the factors that effectively distinguish the informal sector enterprises are essentially qualitative and comparative it is more useful to adopt a definition based on qualitative criteria for this study. A definition based on number of employees will be refined by taking into consideration differences in the levels of technology applied. There can be traditional technology (such as is still used in handicraft and cottage activities) and modernizing technology where changes have been introduced in the production process. These are often related to a change in sources of energy and with a resulting increase in sale. There is also modern technology where the only major difference from modern large-scale manufacturing is one of plant size. Each of these three levels of technology can occur in micro as well as small enterprises. The general trend is, however, for

⁴⁹ Mead and Morrison (1996) studied 2,200 enterprises in seven countries and concluded that the term may be appropriated for examination of individual countries (only), specifically if defined precisely.

modernization of technology to go hand in hand with enterprise size and as such modern technology is seldom found in micro enterprises.

Given the theoretical background Myanmar's informal economic activities consist of a wide range of individuals and small production units producing goods and providing services mainly by the use of their own labour resources, and often employing very little capital. They are characterized by following very few formal procedures, seldom do they keep formal accounts and even when they employ others these are non-contractual informal engagements terminable will. Their activities cover the whole range of economic activities and most sectors of the economy. Although the informal sector enterprise is difficult to define, it is a widespread phenomenon in Myanmar. Informals are generally small enterprises, often self-employed but not exclusively so. This would include the output of craftsmen, small manufacturing units, itinerant traders, street vendors, multiplicity of services in trade and transport and the financial services provided by informal lenders.

For practical purposes and to incorporate the three criteria, that is, size of the enterprise, level of technology applied and type of ownership. However, the definition of small-scale enterprise as enterprises "outside of the law" is inappropriate, inadequate, too restrictive and does not focus on the nature and functioning of the informal sector in Myanmar. Although most activities in the small enterprise sector are not registered enterprises, there are registered small enterprises whose methods of operations are no different to unregistered small enterprises and therefore functionally belong to the informal sector. It is, therefore, inappropriate for Myanmar as the registration of a business is fairly simple, neither costly nor time consuming. Therefore the contention advanced here is that small enterprise must be defined in terms of its nature and character rather than legal status in Myanmar, although the definition is by no means comprehensive and leaves out much more but so long as data limitations exist. Therefore, the following definition will be employed in this study and would seem appropriate for Myanmar. In this definition neither the legality or otherwise of the enterprises nor its registration are criteria.

"Small-scale enterprise in Myanmar is defined as all the private economic activities, which uses traditional technology employing up to ten hired and/or unpaid family workers and all the major decisions are in the hands of one or two persons who also involved in its day to day operation, engaged in production and distribution of goods and services regardless of the lack of sufficient initial capital, skill, and know-how".

2.1.4 Stages of Small Industry Development over time

The relationship between the size of manufacturing and the process of economic development has recently been explored by some authors through the analysis of historical stages of development. However, the theoretical literature on the issue of how small-scale enterprises are influenced by increasing per capita real income (as a proxy of economic development) or by increasing population growth in the size of regions is still rather limited. Anderson⁵⁰ (1982) has developed a general growth phase typology based on the experience of the industrialized countries, using data from various countries, to explain changes in industrial structure by region and over time in developing countries. According to his approach, in the course of economic development, the size structure of manufacturing enterprises passes through three broad phases as follows:

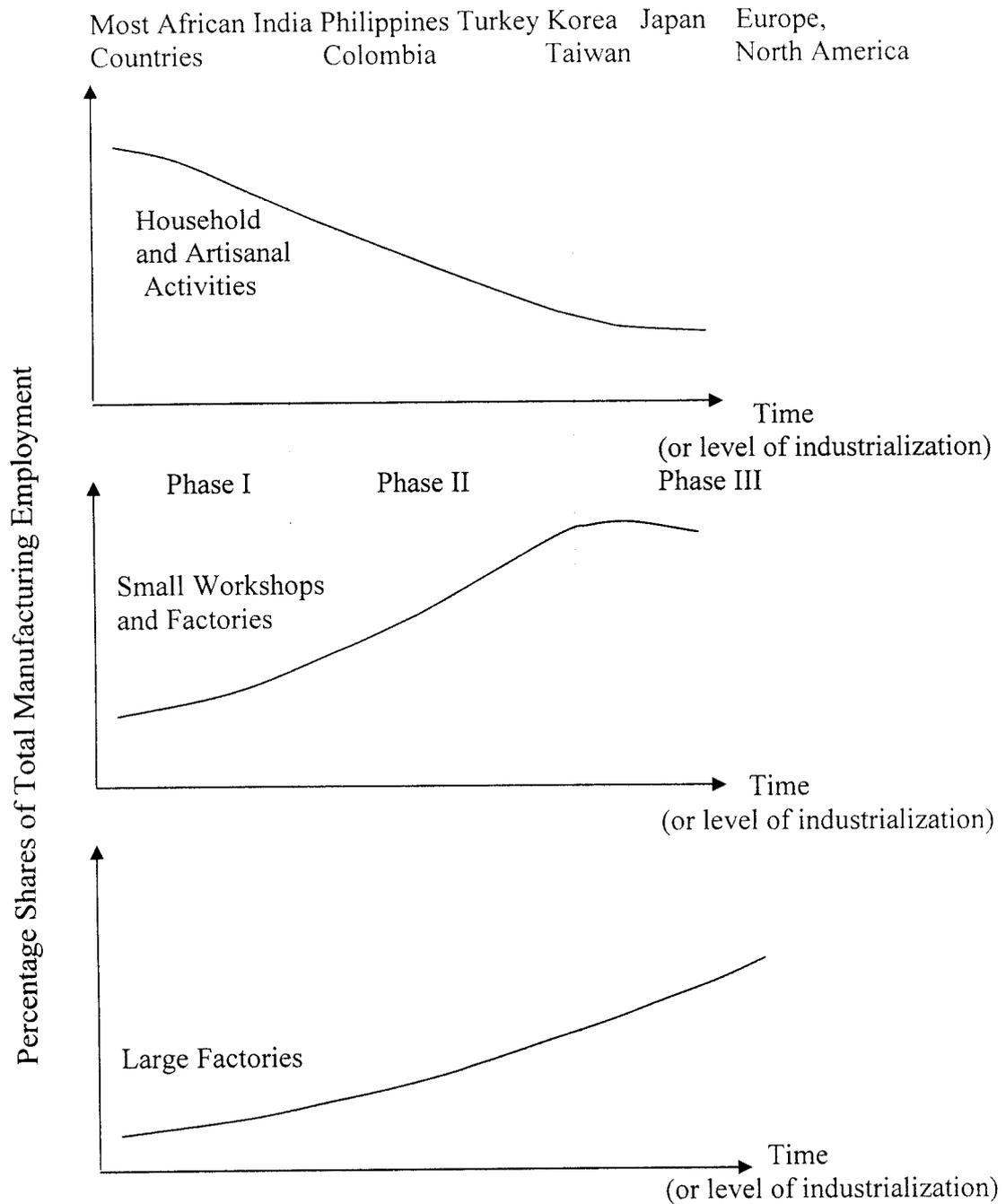
- (i) The first phase in which household manufacturing is predominant, accounting for most of manufacturing employment;
- (ii) The second phase in which small workshops and factories increase at a comparatively rapid rate and displaces household manufacturing; and
- (iii) The third phase in which large-scale production becomes predominant, displacing the remaining household manufacturing.

It will appear that none of these three phases are entirely distinct but in reality there is considerable overlap between them. The changes also vary greatly between sectors and regions. However the categorization is useful for analytical purposes. The structural change of industry over time is shown in Figure (2.1).

Phase one occurs at the early stage of industrial development which may be characteristic of predominantly agrarian economies. Small enterprises (marked as non-formal or household enterprises) are predominant in terms of their share in total manufacturing employment. This is a stage of industrialization in which a large number of small enterprises mainly in rural areas coexist with quite a limited number of large-scale, mainly foreign or state-owned firms located in urban areas or large cities. The predominantly rural and agricultural character of the economy leads to forward and backward linkages of processing and input supplies in rural and semi-urban household enterprises.

⁵⁰ Anderson, D. (1982): Small Scale Industry in Developing Countries, A Discussion on these Issues, World Development, 10(11).

Figure (2.1) Changes in the Size Structure of Industry Over Time



(Source: Anderson, 1982: p.15)

At this phase the fragmented markets, insufficient infrastructure and low technology encourage labour-intensive manufacturing in cottage enterprises. The demand for the products increases with growth in agricultural income. Evidence that increases in agricultural incomes promoted small-scale enterprises⁵¹.

⁵¹ See World Bank, World Development Report 1986, Washington, D.C. Also He (1994) indicated that the importance of growth within the agricultural sector as a means of stimulating the small enterprises. He stated, "the good health of agriculture is perhaps one of the most important factors of Asian industrial success in the past, while the difficulties in African agriculture constitute a further handicap for its industries".

Therefore, the small enterprises' growth at this phase is externally driven by increases in demand for its products and change in size of the enterprise will be as a result of increases in output. At this phase the activities are quite varied using simple production, producing relatively simple products; however capable of some elementary modernization with the introduction of changes of inputs and techniques which are used. Making this change is basically making a transition from the informal to the formal sector.

In many developing countries, these sub-sectors are characterized by substantial ease of access, especially to clothing, food and handicrafts industries. Initial capital requirements are very low and, for the producers involved, no high skills and no special separate workshops are actually needed to carry out those activities. This is perhaps the reason why these activities are undertaken mostly by women and children as part-time job or secondary source of family income; self employment or one person units in which the owner undertakes all activities characterize most of the enterprises engaged in these activities. In the first phase the small enterprise depended on increasing output for growth whereas in the second phase it has to improve other productive factors such as skills and operational techniques within its operations so as to grow and develop.

Phase two takes place in more developed regions with a higher per capita income than in regions in the phase one, more small and medium enterprises (often marked as modern or factory type) have been found to emerge and increase at a comparatively rapid rate and displace small enterprises in several sub-sectors of manufacturing. The growth in income and improved infrastructure broadens the market and permits an increasing degree of entry by larger enterprises. However, since small enterprises operate within a specific product, labour and technological environment which greatly influences their operations they will seek growth within the confines of such existing technological and financial constraints. Household production may be possible at a certain low level of operation, but with increasing of output more formalized production become necessary. As the enterprise expands its output it will reach a point at which, for a number of reasons, its unit cost begins to rise. For example, one possible reason is the administrative organization becomes increasingly inappropriate to size of enterprise. With increasing manpower the manager will find it more difficult to manage with the same level of efficiency. Thus the expansion of household (informal) enterprises operating with the same technology and producing the same product beyond a certain scale encounters increasing unit overheads. The unit labour cost will also begin to rise at some point, thereby increasing overall unit production costs⁵².

⁵² As an enterprise grows and makes its transition into the formal sector its labour cost usually approaches that of formal sector wages.

Therefore as the enterprise reaches a certain size it begins to lose some of the advantages it enjoys by virtue of small size. At this point its unit cost exceeds those of smaller enterprises while at the same time the enterprise remains subjected to the competitive environment imposed by its smaller rivals who have access to the same technology as that used by the enterprise thereby increasing its scale of operation. At that scale further increase in output is unprofitable and the enterprise reaches the limit of its expansion. To expand beyond this level the enterprise needs to acquire certain advantages that will more than offset increases in cost associated with expansion. Therefore, further expansion requires improvements in technology, management and overall entrepreneurial skills.

In the informal sector skills are generally learnt through traditional types of activities, thus imposing a serious constraint on the acquisition of new techniques that require education and training normally gained through formal channel. At the same time the highly competitive nature of the product market environment in which the informal enterprises operates leaves very little room for capital accumulation. Thus the enterprise is unable to generate sufficient resources from within its operations to upgrade its production base beyond a certain limiting point. In terms of development patterns, thus, the issue at stake is what limits the ability of the informal sector to obtain the needed resources to transform itself into the modern formal sector. The answer lies in the artisanal base of the sector. The technological and managerial capabilities of the sector's human resources limit the quality and quantity of resources it can absorb from outside. The lack of ability to absorb and attract new resources, that sets the limits to improved technology, managerial practices and expansion of the informal sector. Therefore the limiting factors to the sector's development are inherently its internal constraints. Expansion beyond a certain limit requires incorporation into the enterprise of qualitatively new techniques which cannot be built upon the foundation provided by the artisanal knowledge and skills. The entrepreneurs within the informal sector who incorporate these features into their operations will be the ones to make the transition and develop into the modern small enterprise sector.

If the improved technology is used to produce the same product currently produced, it must be superior to the older method in the sense that the unit cost associated with it is lower. Generally, the improved technology must enable the firm to diversify into technically superior products for which entry requirements are of such that the informal enterprise are unable to exert significant influence on their prices. In a sense there should be some initial barriers to entry for the smaller firms in terms of, for example, cost of equipment and the skills needed to operate the enterprise. The key point which is made here is that in the second phase in the growth process the shift from the household enterprise into the modern sector will be dependent on innovation. This innovation can be in any single one or a

combination of these areas namely: a change in the production process, change in product line, opening up of a new market, establishing new sources of supply and creating a new organization of its operations which gives the enterprise some competitive edge.

The situation of transition from household manufacturing to the modern small enterprise sector will be relatively more technologically advanced enterprises demanding higher levels of knowledge and skills. Thus the limit to further growth and development within the household manufacturing sector lies in the inability of the enterprise to upgrade its technological base sufficiently to cross the frontier into the modern small enterprise sector. In the case of the household firms making the transition, their growth is no longer simply dependent on expansion of output as demand increases as was the case in the earlier stage, because the market has increased and the producers have also increased in terms of quality and quantity. The market environment, therefore, becomes much more competitive, in this situation to ensure growth the small enterprise has to change its levels of output, improve its technology, and attempt at product diversification. This is necessary to prevent the decline of the enterprise and to fit into the new industrial structure that will be emerging within the economy. This competitive pressure, rate of growth and industrial change varies within sub-sectors and regions, in terms of, for example, urban and rural districts in the same country.

Phase three occurs at the later stage of development where large-scale enterprises become predominant and supplanting the remaining small enterprises in some activities. According to Anderson (1982), this phase is partly a product of phase two since the recorded growth of output and employment in large-scale enterprises can be divided into⁵³ (i) the growth of once small firms through the size structure, and (ii) the expansion of already large domestic and foreign concerns.

However, new large-scale entrants might also cause the expansion of large-scale enterprises at this particular stage of development to an extent which is not explicitly taken into account by Anderson. In this final phase, some factors are powerful causes and incentives for firms to grow rapidly. These factors are greater use of economies of scale with respect to plant management, marketing and distribution, superior technical and management efficiency, better productive coordination and access to supporting infrastructure services and external finance, and concessionaires finance along with investment incentives, tariff structures, and government subsidies. In practice, it is often found that these factors are more favourable for large or modern industries than for traditional or small ones.

⁵³ Anderson (1982, p.914).

Therefore, they may explain the eventually better performance of middle-scale enterprises than small-scale enterprises in advanced stages of industrialization⁵⁴.

In the 1980s, there was a new emergence of so-called flexible specialization, and since then many papers and some books on this have been published⁵⁵. Their main argument, based on experience in some developing countries, is that small- and medium-scale enterprises can grow fast or even faster than large-scale ones in the process of development. In many countries like Japan, Italy, Sweden and Germany, small- and medium-scale enterprises in some sub-sectors such as electronics have been found to be very significant as sources of invention, innovation and efficiency. They have been found to be capable to stand the competition with large-scale enterprises and even to improve their relative position these days in several instances. In the literature on flexible specialization, it is cited that new technologies (numerically controlled tools and computers) promote the relative viability of small firms, reduce scale economies and lead to smaller efficient plants and firms. Also the need to increase the ability of industry to meet rapid changes in demand (especially in the world market) promptly, cheaply and efficiently has created a new role for small industries in advanced nations. Thus, this 'new role' of small industries in the economy can be used as an argument against the position of Anderson, among others, that in the long-run the economy will be dominated by large-scale enterprises in terms of employment and output⁵⁶. While this flexible specialization certainly has increased the interest in and the role of small enterprises in general, it should be noted its impact on rural industrialization in developing countries with income levels similar to those in Myanmar is not yet clearly visible.

In the early studies of small-scale enterprises in developing countries, non-formal (household) enterprises were commonly treated and in a way dismissed as tradition bound, low income and economically backward activities, offering few and probably decreasing opportunities for raising an income. However, Norcliffe and Freeman (1980), for instance, have found in Kenya that non-formal enterprises were actively engaged in a much wider range of activities, including various resources based on agro-processing activities than only in traditional activities producing 'inferior goods'⁵⁷. This evidence may suggest that with economic development not all small enterprises (including non-formal enterprises) will disappear. Indeed, in many developing countries, a sizable number of these industries are still surviving nowadays. Some of them remain

⁵⁴ Schmitz (1982) states that for small-scale industries only those which can take advantages of some or all of these factors can grow or at least survive against strong competition from middle-scale industries.

⁵⁵ See also Brusco (1986), Carlsson (1984), Goodman (1989) and Schmitz (1990).

⁵⁶ The literature on development and the new role of small industries in advanced countries such as in West European countries can be found in the works of some authors.

⁵⁷ Norcliffe, G. B. and Freeman, D. B. (1980): Non-Farm Activities in Market Center of Central Province, Kenya, *Canadian Journal of African Studies*, 14 (3).

small and traditional while others develop into larger factories⁵⁸. An important factor that might explain why in many "more developed" developing countries many small enterprises did survive and even grew larger despite heavy competition from larger industries and policies biased against them is a specific skill or specialization owned traditionally by the producers⁵⁹.

Empirical evidence on the systematic pattern of structural change in small-scale enterprises, though still limited, is richer than the corresponding theoretical literature. Tambunan (1994) showed in his study that used cross-sectional data from different countries, the relation between income (as development indicator) and employment in small-scale enterprises. It revealed that in higher income countries the employment share of small-scale enterprises tends to be lower than in lower income countries⁶⁰. In summary, the existence of small and large enterprises benefits an economy as a whole from the linkages which are established, diffusion of technology and skills, economical use of capital and labour and balanced growth. Owing to the dualistic nature of most developing economies the stages of growth usually overlap- household informal manufacturing dominating in the rural areas or in subcontracting activities, and large scale manufacturing in urban areas taking place in certain sectors of industry. Therefore demand and supply factors such as sector and location, influence growth and structural change since they influence the product and input prices.

2.1.5 The Economic Growth Alternative Sector

More recently, self-employment has become a goal for many even in the more developed countries, where setting up one's own business forms part of the free market ethos. At the same time, during the 1980s many large companies have sought to reduce overheads by slimming down their workforces, retaining only the most essential workers and sub-contracting peripheral activities previously done in-house. This has led to the often substantial growth in new small business providing services to larger firms⁶¹. More significantly, high unemployment in many Asian countries appears continuing for a very long time. Much of

⁵⁸ See also Beesley/Hamilton (1984), Calloway (1973) and Page (1979).

⁵⁹ This is also indicated by Hoselitz's study (1959) on early industrialists in Germany who started out as artisans or craftsmen and later established large-scale industries.

⁶⁰ In addition, see other countries' studies by Banerji (1978) and Liedholm and Parker (1989). Banerji's study indicated that at a higher level of economic development the larger sized enterprises become more important than the smaller ones. Liedholm and Parker's study showed that in some African countries total employment in small-scale industries, especially in the one-person size category has been increased overtime. Meanwhile, the increase was less rapid than that in middle-scale industries, which tended to shift the relative balance of manufacturing employment from small-scale industries towards middle-scale ones.

⁶¹ The Economist (1990): Book of Vital World Statistics, London, p.198.

“traditional” manufacturing is shifting to East European countries and emerging economies in South East Asia. As a continuation of the new realisation of the informal sector’s dynamism, later studies⁶² discovered in the informal sector indigenous entrepreneurial dynamism suggesting a potential for employment creation and growth. “Rather than being treated as a product of incomplete state intervention, the informal sector was recast as a victim of excessive intervention which monopolised resources in favour of an inefficient formal sector”⁶³. House (1984) and World Bank (1989) argued that the informal sector constitutes a seed-bed for African entrepreneurial talent and “possessed the necessary organisational structures for economic take-off”⁶⁴. This was seen in the ability of the informal sector to flourish even in the most hostile environment of state restrictions.

House (1984) and Dawson (1992) argue that degrees of the informal sector differentiation have been noted both in Latin America and in Africa and that under the pressures of economic crisis and SAPs, the informal sector differentiation increased in some African countries. Portes et. al. (1986) warned against the misleading tendency to treat the informal sector as an essentially undifferentiated pool of entrepreneurs. They argued that the informal sector contains two different strata: a stratum of employers and middlemen, and a stratum of employees, apprentices, unpaid family labour, and marginal owner-operators. The differentiation in the informal sector explained by Portes et. al. indicates to a big group of small owner-operators who are engaged in survival activities and whose incomes are roughly equivalent to the informal sector wage labour with virtually no possibility of accumulation⁶⁵.

Meagher (1995) argues “this reassessment of the economic role of survival-oriented owner-operators suggests a much gloomier picture of the potential of the informal sector for some sort of (economic) take off”⁶⁶. Using income level of informal sector actors, African informal sectors become distinctly bottom-heavy with an average of 80 per cent being in the category “survival-oriented owner-operators”. The other 20 per cent, in the African context, Meagher and Yunusa (1993) argue, belong to a middle class who have greater access to capital and skills and exploit the more profitable opportunities which have been created by crisis and deregulation. Hugon (1990) views that international organizations have shifted their focus somewhat from poverty and employment to the emergence of micro-enterprises and the complementary role these can play in relation to the public sector and large industry⁶⁷. According to the ILO (1995)⁶⁸, the informal

⁶² (de Soto, 1989: 243; World Bank, 1981: p.135).

⁶³ (Meagher, 1995: p.262).

⁶⁴ (House, 1984: p.280; World Bank, 1989: p.135).

⁶⁵ See also House (1984) and ILO (1985).

⁶⁶ (Meagher, 1995: p.267)

⁶⁷ (Hugon, 1990: p.71).

⁶⁸ ILO. (1995): World Employment, Geneva: ILO, p.92-93.

sector typically consists of both dead-end survival activities and small-scale activities with the potential for growth and technical upgrading. The main aim of the policies should therefore be to increase the modernizing element of the sector.

According to König (1992), "modernization is supposed to lead inter alia to dynamic structural changes, enhanced efficiency of the market system, satisfaction of material needs and international competitiveness. Modernization entails physical growth, human capital formation, participation in decision-making processes and access to resources"⁶⁹. Modernization for informal sector, if achieved, will improve their ability to operate within the changing environment. This recognizes the facts that the informal enterprise needs to be modernized not only within the context of the domestic economy but also within the context of the international environment within which it has to operate. This requires both better supply conditions (capital, technology, skills, etc.) and improved demand conditions, which, naturally, depend not so much on the sector itself but on developments in the rest of the economy. In general, a prosperous and dynamic formal sector is a necessary but not sufficient condition for the development of a modernizing informal sector. On the contrary, a depressed formal sector may increase the numbers in the informal sector, but likely to be in the "sponge" sub-sector and not the modernizing one.

Discussions turned around to the importance of the informal sector in economic growth, which argued that the promotion of the informal sector would be better served by strengthening forward linkages with the formal sector by increased patronage of the informal sector firms⁷⁰. It was argued that this would expand markets, would improve the transfer the modern techniques, and eventually break the low-productivity trap constraining the informal sector. Ninsin (1988), however, concluded that the problems of the informal sector are closely related to the formal sector. Thus in order to solve these problems, the problem of disarticulation of the formal sector must first be solved. It is assumed here that Ninsin means the linkages that exist between the formal and informal sectors, where people who work in the formal sector have an informal activity, parallel, to support their low wages and increasing family needs. These linkages between the two sectors, one can assume, does not allow the development of the informal sector in that they are allocated jobs that are secondary to the formal sector. For example, sub-contracting which serves to benefit the enterprise in the formal sector. It is presumed that because of the direct attachment of the informal sector jobs to serve the formal sector production activities, the informal sector will not have the opportunity to be entrepreneurial (read innovation). Thus, the problems of low income, marginalisation, and low market share, as characterized in

⁶⁹ (König, 1992: p.35).

⁷⁰ (ILO, 1985; World Bank, 1989; Meagher, 1995: p.275).

informal sector activities are created. These perceivable qualities of the informal sector led to further analysis categorizing it as a marginal sector.

According to Portes and Saasen-Koob (1987), the marginalist view of the informal sector rested on three assumptions⁷¹: (i) that the informal sector is transitory and its economic mode of organization will be transformed with the development of modern capitalism; (ii) that the informal sector generates only subsistence level activities and incomes; and (iii) the informal sector is primarily a feature of peripheral economies. In other words, this view related the existence of informal sector to the poor and that the phenomena was temporary and will go away once economic growth comes in. Meagher (1995) states that “the model of state-led development failed to generate an expanding and efficient modern sector, and on the other hand the informal sector increased not only in LDCs but in many industrialised countries as well and thus suggested a potential (in the informal sector) for economic dynamism in an environment of formal sector integration”⁷². Thus, the “marginal sector” proved to be not a temporary phenomena which only policy level changes can integrate it into the formal sector. In addition, the necessity of integrating it into the formal sector was intensively debated and criticised since the formal sector itself in some LDC economies was deteriorating on a rapid pace. Thus the understanding of the informal sector composition was an important step towards identifying the mechanics of this phenomena and what role, if any, should it play in economic development.

2.2 LINKAGES BETWEEN INFORMAL AND OTHER BUSINESS ENTERPRISES

2.2.1 Introduction

The informal sector is not an independent and autonomous circuit. It has considerable linkages with the formal sector, the State, institutions and the wider economy⁷³. In fact, the informal sector does not appear to have a meaning independent of other business sector, as it derives its meaning when contrasted with the formal sector. There are a number of reasons why it is important to analyse the linkages between the informal and other business sectors in a developing country. First, the informal sector accounts for a sizable proportion of the urban labour force. For instance, in some of the largest Asian cities such as Jakarta, Calcutta, and urban area in Pakistan, the informal sector has been found to account for about 45, 50, 69 per cent respectively of the entire labour force⁷⁴.

⁷¹ (Portes and Saasen-Koob, 1987: p.32).

⁷² (Meagher, 1995: p. 261).

⁷³ (Gerry, 1978; Singh, 1994; Barwa, 1995; Sethuraman, 1997).

⁷⁴ Todaro, M. P. and Smith, S. C. (2003): Economic Development, 8th edition, p.326.

These are conservative estimates, given that informal sector activities are hardly entered into official records. Second, the informal sector plays a key role in the provision of urban-based services. For instance in Lima, it accounts for 47 per cent of construction and 95 per cent of public transport⁷⁵. Third, the informal sector contributes significantly to the GDP of developing countries. In Thailand, evidence presented by Schneider⁷⁶ (2002) shows that the informal sector accounts for about 60 per cent of the GDP. Finally, the development and continuous growth of the informal sector depend on the nature and type of linkages between the two sectors. Indeed, the World Bank (1989) is of the view that a key strategy for the promotion of the informal sector should be the strengthening of its links with the formal sector. This thinking is based on the assumption that orders from the formal sector will break the low productivity trap currently ensnaring the informal sector, by expanding the scope of its market and improving the transfer of modern technology and managerial expertise.

An increase in linkages between the informal and formal sectors in African countries became evident in the early 1980s. Meagher (1995) notes that this can in part be attributed to the pressures of import strangulation arising from the adoption of structural adjustment programmes (SAP)⁷⁷. Abumere⁷⁸ (1996) observed that in Nigeria it is perhaps reinforced by the fact that a casual visit to department stores and supermarkets will reveal that a sizeable proportion of items now sold come from the informal sector since it became unprofitable to import following the excessive devaluation of the naira⁷⁹. On the other hand, a sizeable number of goods marketed by the informal sector come from the formal sector, as the latter uses informal sector entrepreneurs to increase the frontiers of its market⁸⁰. While previous studies have focused on different facets of the informal sector such as its macroeconomic implications⁸¹; employment and income potentials⁸²; the extent of unionisation of informal sector activities⁸³; occupational mobility within the informal sector⁸⁴; and the impact of adjustment programmes

⁷⁵ (de Soto, 1998).

⁷⁶ Schneider, F. (2002): *Size and Measurement of the Informal Economy in 110 Countries around the world*, World Bank.

(Source: http://www.rru.worldbank/Documents/Paperslinks/Informal_economy.pdf)

⁷⁷ Meagher, K. (1995): *Crisis, Informalization and the Urban Informal Sector in Sub-Saharan Africa*, *Development and Change*, Vol.26, p.259-84.

⁷⁸ Abumere, S. I. (1996): *Nigeria's Informal Sector and Policy Response*, Paper presented at the development Policy Centre (DPC) Staff Seminar.

⁷⁹ Naira is Nigerian currency.

⁸⁰ (Meagher: 1995).

⁸¹ Kelly, B. (1994): *The Informal Sector and the Macroeconomy: A Computable General Equilibrium Approach for Peru*, *World Development*, Vol.22, p.1393-1411.

⁸² (Hart: 1973, Amin: 1987; Harriss: 1978; Roberts: 1991).

⁸³ (Bromley: 1978).

⁸⁴ Moir, H. (1981): *Occupational Mobility and the Informal Sector in Jakarta*, in: Standing, G. and Tokman, V. (eds.): *The Informal Sector in Developing Countries*, ILO, Geneva.

on the informal sector⁸⁵ among others, few studies have rigorously investigated the nature of the linkages and interaction on informal-formal sector linkages⁸⁶ are highly descriptive and do not relate the type of linkages to characteristics of the informal sector. Consequently, it cannot be able to tell precisely how the various attributes of informal sector will affect the nature of its linkages with the formal sector.

2.2.2 Informal and Formal Sector Enterprises Linkages

Some of the early critics of the formal/informal dichotomy argued that the "urban dualism", apparent in many developing economies, was not due to any gradual disappearing contrast between a modern-dynamic growth-pole and a traditional-static sector which has tenaciously survived in an urban environment. Urban dualism was seen rather as a consequence of structural disturbances within the entire economy and society⁸⁷. Some of the critical approaches questioned the wisdom of trying to "define" the two sectors of the urban economy at all⁸⁸. It was argued that there is a continuum of production activities. Consequently, a division of economy into two parts could only be arbitrary. If there was any dichotomy at all, it was due to the fact that the so-called informal sector enterprises were still in the process of transition. According to some theorists it was thus only a matter of time before the discontinuities would disappear⁸⁹.

At the same time, within Marxist influenced studies different approaches were evolved to study the "uneven development" and the social structures of "peripheral capitalism"⁹⁰. These were linked with Wallerstein's⁹¹ theory of a world economic system. Some neo-Marxist approaches discussed "petty commodity production" and "articulation"⁹² (inter-linkage) of the "pre-capitalist" and "capitalist" modes (or forms) of production⁹³. These were seen as characteristics of Third World economies and scholars looked at how they were

⁸⁵ Barwa, S. D. (1995): Structural Adjustment Programmes and the Informal Sector in Ghana, Discussion Paper No.3, ILO, Geneva.

⁸⁶ (ILO: 1985, Gerry: 1987, Tokman: 1978a, 1978b; Hemmer and Mannel: 1989; Singh: 1994).

⁸⁷ Breman, J. (1976): A Dualistic Labour System? A Critique of the Informal Sector Concept, *Economic and Political Weekly*, Nov 27: 1870-1876.

⁸⁸ (Sethuraman, 1976: p.72).

⁸⁹ (See e.g., Emmerij: 1974, p.202-204).

⁹⁰ (e.g., Amin: 1972, p.203-223, p.503-524), Arrighi & Sual, 1973, Rweyemamu, 1973).

⁹¹ Wallerstein, I. (1976): The Three Stages of African Involvement in the World-Economy. pp30-57, in: Gutkind, P. C. W. and Wallerstein (eds.): *The Political Economy of Contemporary Africa*, Beverly Hills: Sage.

⁹² The theory of "articulations" had its intellectual background in the French structuralist tradition of Marxism, foremost proponents of which were anthropologists like Meillassoux (1972, p. 93-105) and Rey (1971). It has been described as "a, but, not necessarily the, Marxist answer to the challenge of the theory of dependence" (Blomström & Hettne: 1984, p.180).

⁹³ Taylor, J. G. (1979): An Exploration into the Nature of Informal-formal Sector Relationship, *World Development*, No.9/10, p.1065-1075.

reflected in contemporary social structures. An intermediate conceptual framework was attempted by Tokman⁹⁴, who suggested "heterogeneous subordination" of the informal sector. It was meant by this that the informal sector, as a whole, was subordinate to the formal sector. Yet subordination was a consequence of different processes occurring within the informal sector. Given such a theoretical framework, one should, according to Tokman, expect a declining trend in the share of income for the informal sector as a whole, but this would not imply that the sector would disappear. This, together with the anticipated expansion of labour supply for the sector, allowed that if no measures were taken, developments within the sector would be of increasingly negative character.

The upper-tier informal sector and the easy-entry informal sector are linked to the formal sector in very different ways. Formal sector was found to provide training for workers to move into upper-tier small-scale employment. Examples are food industry workers who leave jobs in the formal sector to set up their own small food processing activities, office-workers who leave to work in small family stores, and repairmen who learn their trades in large work places and then leave to set up their own shops. In Costa Rica, a study by the Ministry of Planning found that more than 70 per cent of those self-employed in the informal sector had previously held wage or salary jobs in the formal sector⁹⁵.

Currently, research looking at the linkages between formal and informal sectors has taken a more pragmatic outlook, and is mainly focusing on South East and East Asia. As for research on Africa, the ILO-JASPA⁹⁶ study offers a somewhat disillusioned view of the potentials of such linkages in promoting the IS. The report states, first of all, that prospects for sub-contracting between formal and informal firms are bleak, as the share of the formal sector's firms in the demand for products from the informal sector are negligible. Secondly, the low bargaining power of informal operators seems to border on exploitation rather than being conducive to the development of the sector. Moreover, the demand from the formal sector firm is mainly for finished products for which they advance the IS the working capital. Value generated for the informal entrepreneurs is through commensurate to the productivity of the entrepreneurs.

The informal and formal sectors are complementary in their subcontracting inter-relationships in a number of countries, more frequently in Latin America and in Asia than in Africa. In addition, the formal sector is usually the supplier of inputs to the informal sector producers and traders, either directly or through

⁹⁴ Tokman (1978: p.1065-1075).

⁹⁵ Turnham, D.; Salome, B. and Schwarz, A. (ed.) (1990): *The Informal Sector Revisited*, Development Centre of the Organization for Economic Co-operation and Development, p.67.

⁹⁶ ILO-JASPA (1978, p.1065-1075).

intermediary formal sector traders. Even in street-vending, which is normally keenly competitive with formal sector retailers, it has been shown in Santiago (Chile)⁹⁷ and elsewhere that the street vendors often obtain their input supplies from friendly retailers and other distributors who see the street vendors as a means of increasing their own turnover rather than as competitors. For many years, the Japanese experience with subcontracting from larger to smaller enterprises has been proposed as a model for the developing economies. In fact, subcontracting by formal sector enterprises to informal sector enterprises is, in some Latin America and Asian developing countries, already a major source of demand for informal sector outputs; in other countries, particularly in Africa, that kind of subcontracting is much less prevalent. However, it is often difficult to identify the networks of subcontracting through the labyrinth of semi-clandestinity that characterizes much of informal sector activity.

Indeed, a network within and across the realms of marketing and production links the formal and informal sectors. Example might be informal collectors sourcing garbage dumps for scrap paper or metal to supply to formal-sector manufactures for recycling and reuse, or informal street vendors selling clothing, toys, or small appliances made by large companies. What is clear in each case is the path through which labour mobilized at the lowest levels support accumulation of capital at the top, in the formal sector. As such, "the existence of an informal market represents a vast subsidy for capitalist enterprises, insofar as it makes labour cost lower"⁹⁸.

2.2.3 Sub-contracting Linkages

Subcontracting has recently become one of the most important features in enterprise linkages. A brief overview of the nature of various enterprise linkages that are particularly relevant to small-scale enterprises will be discussed. Four major types of business linkages can be found in the existing literature⁹⁹. (i) Production linkages include forward and backward linkages. Forward linkages are created as a consequence of the supply of products of small-scale sector to other sectors, and backward linkages are created due to the demand from the small-scale sector for intermediate or capital goods. (ii) Macro-micro policy linkages relate to the multitude of effects that government policies (macro level policies such as fiscal policy, monetary policy and exchange rate policy) have on small enterprises' operations. (iii) International linkages deal with the

⁹⁷ Tokman, V. E. (1978a): Competition between the Formal and Informal Sectors in Retailing: The Case of Santiago, in *The Urban Sector: Critical Perspectives*, special issue of *World Development*, Vol.6, No.9.

⁹⁸ Potes and Schaufler (1986): *Competing Perspectives*, p.49; See also Swasti Mittlere: *Common Fate, Common Bond: Women in the Global Economy*, London.

⁹⁹ In addition, some argue that there is another type of linkage which is called 'consumption linkage', emanating from the expenditure of income from the marketed surplus (Harris, 1987).

'interdependencies' of national and international markets in which the small enterprises function. (iv) Institutional linkages involve the relationships among the different types of individuals and organizations that operate and interact with small enterprises.

However, different authors have described enterprise linkages in different ways. For example, Hirschman (1958) highlights two categories of production linkages¹⁰⁰, backward linkages and forward linkages¹⁰¹. These linkages reflect production interdependence. The interesting area is sub-contracting. Amsden (1991) identifies three types of linkages between big and small enterprise¹⁰²: namely, (1) capital, (2) technology and labour, and (3) intermediate. Firstly, financial institutions (government-controlled or private) prefer to give loans to large enterprises to minimize the uncertainties of default and the cost of handling a large number of small loans. Accordingly, large enterprise appears to have been an important source of finance for small enterprise for trade credit, equipment, and working capital loans. According to Amsden (1991), since the formal banking sector is reluctant to lend to small-scale enterprises for reasons related to transaction costs and risk aversion, the presence of large enterprise, in its capacity as financial intermediary, may be helpful to small-scale enterprises. Thus linkages between formal and informal enterprises include capital flows.

Secondly, technology transfer between large and small enterprises has been facilitated by the movement of people¹⁰³ who leave large enterprise to set up their own business or work for other firms. Another step in the technology transfer process is a movement of skilled personnel from large to small enterprises, for example, sub-contracting. Finally, intermediate inputs create other types of enterprise linkages between large and small firms through sub-contracting. Linkages constitute the functional environment of firms¹⁰⁴. Functionally means that one firm fulfils a task, which is part of the business process of another firm. Visser (1996) has classified linkages according to their direction in the supply chain: upstream linkages, downstream linkages, trans-industry linkages, and lateral and diagonal linkages¹⁰⁵. These linkages are depicted in figure (2.2).

¹⁰⁰ Weiss (1988) stated that linkages are closely related to externalities and Little (1982) argues that linkages can only be logically distinct from pecuniary externalities. Externalities and linkages-effects are very interrelated concepts.

¹⁰¹ Hirschman (1958) further defines *backward linkage* per productive branch as the ratio of the total value of purchases from other branches to the value of total production, and *forward linkages* as the ratio of the value of sales to other branches to the value of total demand (namely interdependence ratios).

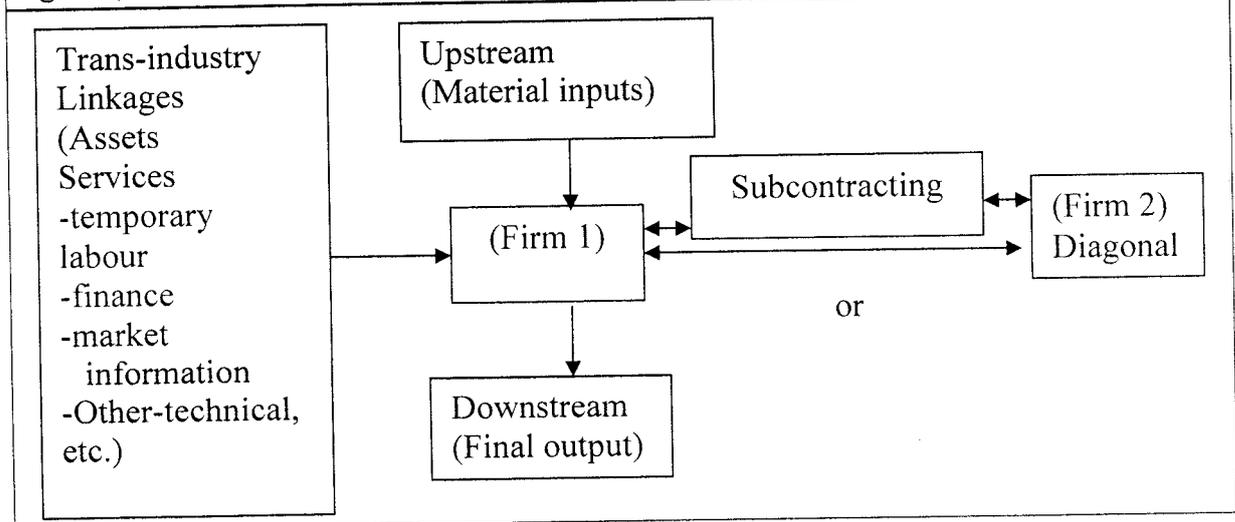
¹⁰² Amsden, A. H. (1991): *Big Business and Urban Congestion in Taiwan, The Origins of Small enterprises and Regionally Decentralized Industry*, World Development, Vol. 9(9), pp.1121-1135.

¹⁰³ "A migration of people is evident from state enterprise, to provide big business, to small and medium-size firms (or directly from state enterprises to small and medium-size firms) and then are recycling among the lower firm size distribution". (Amsden :1991, p.1127).

¹⁰⁴ Visser, E. (1996): *Local Sources of Competitiveness Spatial Clustering and Organization Dynamics in Small-Scale Clothing in Lima, Peru*, Tinbergen Institute Research Series, University of Amsterdam.

¹⁰⁵ (Visser:1996, p.49).

Figure (2.2) Overview of Firm-level Linkages



Source: Visser, 1996: p.49.

Upstream linkages refer to the supply channel of material inputs. Downstream linkages connect producers with consumer markets either directly or through traders or other industry branches. Trans-industry linkages relate to the supply of supplementary goods and services such as repair services, equipment, training, financing, bookkeeping, legal advising, market research and design services. Lateral linkages incorporate producers who sell to the same market segment (e.g. competitors). By contrast, diagonal linkages include producers who do not compete directly due to product differentiation and/or market segmentation. Producers link either directly or through sub-contracting (see figure 2.1). Sub-contracting linkages emerge when a producer decides to outsource part of the transformation process to other firms.

Studying of subcontracting linkages among small enterprises is still at the early stages of development¹⁰⁶. It has been viewed by many as a necessary component of industrial development, particularly in small-scale enterprises. Sub-contracting means to enter into, to make or to let out a subordinate contract under which the supply of materials, services, or labour is let out to or accepted by someone other than a party to the main contract¹⁰⁷. In sub-contracting system parts and components, or sometimes, completed products are made by sub-contractors in accordance with others placed by contracting firms. Although some writers prefer to use the term subcontracting in a more narrow sense to denote a specialized form of backward linkage, whereby the subcontractors largely provide labour services in processing raw materials given out by the buyer firm. The term is used in a broader sense to encompass a wide range of forms of backward linkages.

¹⁰⁶ (Dicken: 1992, Monsted: 1994, Perrow: 1992, Supratikno: 1998, Voeten: 1993, Wong: 1991, 1992).

¹⁰⁷ Sit, V. F. S.; Cremer, R. D.; Wong, S. L. (1991): *Entrepreneurs and Enterprises in Macau: A Study of Industrial Development*; Hong Kong University Press.

However, a more accurate definition cannot be used here since most subcontracting relations among the small-scale enterprises, especially in developing countries like Myanmar, are informal and unwritten agreements. Therefore the accurate concept of subcontracting was not defined in the questionnaire. Instead of trying to adopt an accurate definition, researcher discussed with respondents about their product-sale links. Nevertheless, this does not imply that subcontracting means simply a market transaction. Market transaction can be taken place at any time and anywhere without pre-arrangements or without pre-order. But subcontracting arrangements (transactions) always take place according to pre-orders and pre-arrangements¹⁰⁸. Both formal and informal subcontracting contacts are taken into consideration in this study. It does not matter whether the prime contractor is either a wholesaler or retailer on the one hand or a producer on the other hand. The former is defined as commercial subcontracting and the latter as industrial subcontracting¹⁰⁹. Therefore the broad distinction can be made between industrial subcontracting and commercial subcontracting. Industrial subcontracting can be further subdivided into three types, such as speciality subcontracting, cost-saving subcontracting and complementary or intermittent subcontracting, according to the motivation of the principal firm¹¹⁰.

Commercial subcontracting involves the manufacturing of a finished product by a subcontractor to the principal's specifications. The subcontractor does not play a part in marketing. The product is sold under the principal's brand name. Sit et. al (1991) mentions that this kind of subcontracting is efficient as it leads to a better use of resources¹¹¹. As noted above, according to the motivation of the principal firm, industrial subcontracting can further be divided into three types¹¹²: speciality, cost-saving and complementary subcontracting. Speciality subcontracting involves the carrying out, often on a long-term or even a permanent basis, of specialized functions which the principal chooses not to perform itself but for which the subcontractor has special skills and equipment. This is a type of monopolistic or oligopolistic subcontracting. However, the primary reason for resorting to this type of subcontracting is that subcontractors specialize more in a given type of production than the contractor (the principal). This type of subcontracting most probably takes place among the small enterprises because of their lack of skilled staff for various fields. For example, they cannot recruit a person for a specific field, which is a very important part of

¹⁰⁸ Wong, P. K. (1991): *Technological Development Through Subcontracting Linkages, A Case Study*, Asian Productivity Organization, Faculty of Business Administration National University of Singapore.

¹⁰⁹ Dicken, P. (1992): *Global Shift: The Internationalization of Economic Activity*, 2nd Edition, Harper and Row Publisher, London.

¹¹⁰ The principal firm refers to the firm that offers subcontracts.

¹¹¹ Sit, V. F. S., Cremer, R. D., and Wong, S. L. (1991): *Entrepreneurs and Enterprises in Macau: A Study of Industrial Development*, Hong Kong University Press.

¹¹² op cit. (Dicken: 1992).

the production line but the production cost of it is less than the unit labour cost¹¹³. This is speciality subcontracting, on the other hand and cost saving subcontracting as well. Cost saving subcontracting is self-explanatory¹¹⁴. It is based upon differences in production costs between principal and subcontractor for certain processes or products. If the long-run cost function of the principal firm greater than the long-run cost function of the subcontracting firm, this type of subcontracting exists. Complementary or intermittent subcontracting is a means adopted by principal firms to cope with occasional surges in demand without expanding their own production capacity¹¹⁵.

Table (2.5) Elements of Subcontracting Relationship

- 1 Technical aspects of productions:
 - (a) Industrial subcontracting
 - (i) Subcontracting processes.
 - (ii) Subcontracting components.
 - (b) Commercial subcontracting
 - (i) Subcontracting whole products.
- 2 Nature of the principal firm:
 - (a) Producer firms (both industrial and commercial subcontracting)
 - (b) Retailing/wholesaling (commercial subcontracting)
- 3 Type of subcontracting (motivation of principal firm)
 - (a) Speciality subcontracting
 - (b) Cost-saving subcontracting
 - (c) Complementary or intermittent subcontracting.
- 4 Types of relationship between principal and subcontractor.
 - (a) Long-term, short-term, or single batch.
 - (b) Principal providing some or all material or components.
 - (c) Principal providing detailed design or specification.
 - (d) Principal providing finance (e.g., loans, grants).
 - (e) Principal providing machinery and equipment.
 - (f) Principal providing technical, general assistance and advice.
 - (g) Principal providing invariably responsible for all marketing arrangements.
- 5 Geography scale involved:
 - (a) Within border (domestic) subcontracting.
 - (b) Cross-border (international) subcontracting.

Source: Dicken, P. (1992): *Global Shift: The Internationalization of Economic Activity*, 2nd Edition, Harper and Row Publisher, London, p.216.

¹¹³ $S(AC)x$ Less than $P(W/Q)x$. $S(AC)$ stands for Average Cost when X is produced by the subcontractor. $P(W/Q)$ is Unit Labour Cost when X is produced by the principal company.

¹¹⁴because the word 'cost saving' defines itself. op.cit. (Dicken: 1992, p.216).

¹¹⁵ op.cit. (Dicken: 1992, p.216).

Michalet (1980) divided the international subcontracting into (i) direct international subcontracting, and (ii) indirect international subcontracting. However, previous research¹¹⁶ found that very few small subcontractors were directly involved in international subcontracting due to some internal as well as external barriers such as government policies, high transaction costs, lack of information, lack of suitable product, lack of foreign market connections, higher risks, etc.

The elements of the subcontracting relationship is shown in table (2.5). However, most of the small entrepreneurs in developing countries like Myanmar are engaged in so-called 'slave-trade' subcontracts. In such cases, subcontractors offer low prices by taking unfair advantage of their workers. The term of payment of these types of business is obviously not standardized. Cash is the most common form of payment. In addition, the mode of transaction is unsophisticated. Formal and written contracts can be rarely found among the transactions. Neither do contractor nor subcontractors worry about high standards of production or work hazards. Much of their work is unreported in an attempt to escape from paying taxes. Without in-depth interviews, these types of subcontract linkages cannot be identified.

2.2.4 Backward and Forward Linkages

Linkage analysis has been used in industrial location to characterize the nature of the interdependence among firms and its effects on locational choice¹¹⁷. Johnston (1994) defines linkages as contacts and flows of information and/or materials between two or more individuals¹¹⁸. Recently, development economists and planners have used the term to describe the nature of the relationship between the informal and formal sectors¹¹⁹. Various types of linkages have been identified in the literature. These include direct and indirect linkages, credit financing linkages, subcontracting linkages, technological linkages as well as backward and forward linkages. All these can be brought under the ambit of backward and forward linkages without any loss of meaning or substance as they display a considerable degree of overlap in their different definitions.

Backward linkages involve the supply of the necessary inputs for production from the formal sector to the informal sector. Such inputs include raw materials, equipment/machinery, finance, consumer goods, information and expertise, as well as the training of informal sector workers. Forward linkages, on the other

¹¹⁶ Hovi, N. (1994): International Subcontractors: Is Co-operation an Alternative?, in: Veciana, J. M (ed.), SMEs: Internationalization, Networks and Strategy, Publisher Aveburg, Singapore.

¹¹⁷ (Taylor: 1978).

¹¹⁸ Johnston, R. J. (1994): The Dictionary of Human Geography, Black Well Publishers, Oxford.

¹¹⁹ (Gerry: 1978; Tokman: 1978a, 1978b; Hemmer and Mannel: 1989; Singh: 1994; Meagher: 1995).

hand, entail the use of the informal sector's products and services as inputs into the formal sector's latter production process. Subcontracting which also plays a key role in linking both sectors can be regarded as a subset or appendage of forward linkages. It involves formal sector enterprises contracting entrepreneurs from the informal sector as suppliers of intermediate or final products¹²⁰. At the same time, it may involve contracting the informal sector to perform a specific or series of intermediate functions in the line of production.

A key issue that arises from the complexities of the informal-formal sector relationship pertains to whether the linkages are benign (favourable) or exploitative (i.e., whether the informal sector is subservient to the formal sector). Studies conducted by the ILO (1985) and House (1984) indicate that with respect to forward linkages, the informal sector is not subjected to exploitation by the formal sector since a sizable amount of the surplus produced by the informal sector is appropriated by the formal sector. Findings presented by House (1984) further reveal that informal sector entrepreneurs who have forward linkages with the formal sector tend to have higher incomes¹²¹. These studies see the relationship between these two sectors as one of structural inequality. In this respect, the advantages of the informal sector in terms of its flexibility, entrepreneurial spirit and adapted technology are hamstrung by the more favourable market conditions often available to the formal sector¹²². Given these conditions, the problem of the informal sector is not exploitation via forward linkages, but the inability to fulfil the requirements for such linkages from the onset. Consequently, entrepreneurs in the informal sector face increasing concentration in saturated low-income markets, thereby further inhibiting their capacity for quality improvements.

Given this scenario, formal sector enterprises will be hesitant in entering into substantive productive linkages with the informal sector. Rather, they will make use of distributive links at the level of trade and services in order to extend their market coverage. According to Hemmer and Mannel (1989), these distributive/subcontracting linkages may occur when certain lines of production prove unprofitable for formal sector production. Formal sector enterprises are particularly attracted by the lower overhead costs in the informal sector, which in turn reduces their operating cost. Hemmer and Mannel (1989) further observe that in certain cases, subcontracting allows formal enterprises to reduce the size of their businesses to the extent that they are able to by-pass existing regulations concerning minimum wages and workers' protection. Alternatively, situations exist where the formal sector seeks to capture the market previously served by the

¹²⁰ Hemmer, H. and C. Mannel (1989): On the Economic Analysis of the Informal Sector, *World Development*, Vol. 17, p.1543-1152.

¹²¹ House, W. J. (1984): Nairobi's Informal Sector: Dynamic Entrepreneurs or Surplus Labour?, *Economic Development and Cultural Change*, Vol.32, p.277-302.

¹²² Singh, S. (1994): Some Facets of Informal Sector in Developing Economies, *Anvesak*, Vol. 24, p.1-35.

informal sector. The formal sector achieves this by deliberately reducing the quality and/or price of its products in order to make them affordable to low-income groups¹²³. The overall effect of this would be to reduce the level of linkage between both sectors.

In the case of backward linkages with the informal sector, a more clearly exploitative relationship emerges. This is because backward linkages entail the procurement of inputs, spares and producer goods by the informal sector from the formal sector. A formal sector producer may in certain cases be the sole supplier of the input in question. In such a situation, informal entrepreneurs and producers may come under the domination of a sole formal sector producer. In the case of informal shoemaking in Dakar, Senegal, Gerry (1978) notes that the denial of access to indigenous raw materials can force informal sector enterprises into a subordinate relationship with their formal sector suppliers¹²⁴. While the foregoing reveals that informal-formal sector linkages can be exploitative, there is the need for further investigation before definitive statements can be made.

When talking about linkages, one cannot exclude a definition of marketing. Marketing and distribution connect all other sectors with each other and with the consumers and consist of wholesale, retail and storage¹²⁵. Generally, it is defined as how and where products are sold. For example, industrial marketing comprises the performance of all activities involved in the flow of industrial products and services from the point of initial production until they are in the hands of consumer. In accordance with current academic practice, marketing is defined as the business activities associated with the flow of goods and services from production to consumption. The marketing of products of processing sectors begins in the enterprise, with the planning of production to meet specific demands and market prospects. It is completed with the sale of the processed products to consumers or to manufacturers in the case of input for industry, e.g., milled rice for the bakery industry. Principally, marketing should serve equally the poor, the intermediate well-off and the already rich. Even the small enterprises that work for their subsistence must sell some produce if they are to have the cash to pay for inputs and services that will raise their level of living. The tasks and responsibilities of marketing may generally be summarized as (i) finding a buyer and transferring ownership; (ii) assembling, transporting and storing; (iii) sorting, packing and processing; (iv) providing the finance for marketing and risk-taking; and (v) assorting and presenting to consumers.

¹²³ (Sethuraman: 1997).

¹²⁴ Gerry, C. (1978): Petty Production and Capitalist Production in Dakar: The Crisis of Self-Employed, *World Development*, Vol.6, p.1147-1160.

¹²⁵ Manig, W. (1991): Rural social and Economic Structures and Social Development, in: Manig, W. (ed.): *Stability and Change in Rural Institutions in North Pakistan*, Socioeconomic Studies on Rural Development, Achan, Alano, p.35.

Accordingly, the above theoretical view will serve as a starting point to analyze the marketing performance of the enterprises in the research regions. Enterprises can sell their products on the working site or at the local market or at the national market and also on their own account or through traders or cooperatives. Enterprises working under good conditions, this being indicated by their total output and number of workers, already have a marketing channel and market diversification. Generally, the marketing possibilities for the enterprises may be summarized as (i) marketing by producers themselves; (ii) sale at the local market, either by the producers themselves or through traders; and (iii) sale at a market outside region, either by the producers themselves or through traders.

The United Nations Research Institute for Social Development (UNRISD) differentiated between two types of linkages, namely: facilitative and regulative. Facilitative linkages provide the local organization with material inputs, organizational and managerial services, technical knowledge, and facilities for storage, transportation and marketing. Regulative linkages are a subset of control ones and provide registration of cooperative, price structures, legal provisions governing savings and lending levels¹²⁶. Another author showed clearly the difference between linkages and transaction. Linkages and relationships are used as synonymous concepts in this study. Relationships or linkages are distinguished from transactions. A transaction is a separate exchange of, for example, a product or of know how (information). A relation or linkage is understood to mean the framework within which recurrent transactions occur and which influences and is influenced by individual transactions¹²⁷.

Various types of inter-firm or inter-sector linkages can be distinguished. Linkages affect the vertical production chain and are referred to as backward or forward linkages. Forward linkages occur in industries which produce goods that then become inputs into other industries. In contrast, backward linkages take places in industries in which input comes from the output of other industries. There are six types of linkages¹²⁸: (i) direct vertical backward linkages; (ii) direct vertical forward linkages; (iii) horizontal linkages; (iv) indirect vertical backward linkages; (v) indirect vertical forward linkages; and (vi) other indirect linkages.

This study focuses particularly on direct vertical forward linkages, facilitative linkages and direct vertical backward linkages, while other linkages (horizontal and indirect linkages) are not greatly considered in this study. Linkages effects are defined, in this study, as effects by specific firms or sectors on the production of other sectors, and these effects influence and support the economy as a whole.

¹²⁶ Leonard, D. K., Marshall, D. R. (1982): *Institutions of Rural Development for the Poor: Decentralization and Organizational Linkages*, Berkeley, L.A., California University Press, p.114.

¹²⁷ Jansson, H. (1982): *Interfirm Linkages in a Developing Economy: The Case of Swedish Firms in India*, Uppsala: Uppsala University.

¹²⁸ (Jansson: 1982, p.5).

Various different effects can be found in these categories, e.g., effects on employment, income distribution, infrastructure and localization of enterprises. One important point that has to be explained is how to explore or what kind of approaches to use to measure the existing linkages. The new institutional economics (NIE) theories will be used as approach to analyse the effects of linkages in the research regions. Especially, how is the relation between small enterprises and other enterprises or traders or even markets. The analysis will be shown graphically (see figure 4.20).

2.3 THE NEW INSTITUTIONAL ECONOMICS CONCEPTS

2.3.1 Introduction

As mention above, to measure the existing linkages in the research regions the New Institutional Economics (NIEs) approach will be applied. There are many ideas and opinion regarding these concepts, but in this study only the relevant concepts will be mentioned. NIE are a product of the neo-classical economic concept¹²⁹. For some periods, neo-classical economists have encountered much criticism regarding their rather unrealistic assumptions with Milton Friedman's (1953) famous 'as if hypothesis'¹³⁰. NIE again explained and adopted the mainstream economic concept. It is more a realistic concept of individual and also of institutional study.

Since then Ronald Coase's famous *The Nature of the Firm* (1937) has been released, in which he points out that the neo-classical ideas, i.e., substitution at the margin, could be applied to analyze the firm as an institution¹³¹. Moreover, NIE explain institutions as the result of individual contract choice. Therefore, NIE show the methodological individualism and the rational choice paradigm of neo-classical economics. Siegwart Lindenberg (1990) is also of the opinion that economic and sociological models should be combined to develop an economy. He especially suggested to consider a human being as homo socio-economicus¹³². The institution can be defined as the humanly devised constraints of structural, political, economic and social interactions. It consists of both informal constraints such as sanctions, taboos, customs, traditions and codes of conduct, and formal rules such as constitutions, laws, property rights¹³³. It is debatable whether norms

¹²⁹ The most popular neo-classical economist is Leon Walras (1873). The development of neo-classical economics has been stimulated and enhanced by imitating the casual mode of explanation used in physics.

¹³⁰ The 'as-if' hypothesis shows that economists should not care about assumptions while the predictions as to their theory are not affected by empirical evidence. Hans-Joachim/Ulrich Witt (1981) has criticized the thesis that it is virtually impossible to affect a theory which is applied to an open system such as the economy, especially to control all relevant influencing factors.

¹³¹ Coase, R. H. (1937): *The Nature of the Firm*, reprint in: Williamson, O. E., Winter, S. G. (eds) (1991): *The Nature of the Firm: Origins, Evaluation and Development*, New York, Oxford University Press, p.18-33.

¹³² Manig, W. (1991): *Rural Social and Economic Structures and Social Development*, in: Manig, W. (ed): *Stability and Change in Rural Institutions in North Pakistan*, Socioeconomic Studies on Rural Development, Achan, Alano, p.18.

¹³³ North, D. C. (1991): *Institutions*, *Journal of Economic Perspectives*, No.5 (1), p.97-112.

should also be included into the term institutions. Manig¹³⁴ points out that institutions reflect the system of values and norms in a society; however, values and norms are not institutions. He also draws the differences between institutions and organizations. Organizations and associations are indeed part of the institutional framework of a society in the sense that they put into practice and enforce institutional regulatory principles; they should not, however, be regarded as institutions themselves. Moreover, North (1991) described the differences between institutional arrangement and institutional environment¹³⁵.

The institutional environment is the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution. Rules governing elections, property rights, and the rights of contract. This type may be labeled political transaction costs¹³⁶. These costs arise for maintaining the political organization – in most case the state – that guarantees the prevailing property regime or, generally, the institutional environment. The concept of political transaction costs also include the costs borne by political groups, involving lobbyists, which intend to change the institutional environment by political option.

An institutional arrangement is an arrangement between economic units that govern the ways in which these units can cooperate and/or compete. The institutional arrangement is probably the closest counterpart of the most popular use of the term institution. This type of transaction costs expresses basically the expenses and the opportunity costs, both fixed and variable, that arise in the exchange of property rights between individuals or socio-economic units such as firms, households and co-operatives. Eggertson (1990) proposes the source activities of arising transaction costs¹³⁷: (i) the search for information¹³⁸ about potential contracting parties and the price and quality of the resources to which

¹³⁴ Manig, W. (1991): Rural Social and Economic Structures and Social Development, in: Manig, W. (ed): Stability and Change in Rural Institutions in North Pakistan, Socioeconomic Studies on Rural Development, Achan, Alano, p.18.

¹³⁵ (North: 1991, p.7).

¹³⁶ Richter (1994: p.6) distinguishes between *political* and *economic transaction costs*. *Economic transaction costs* involves the costs of 'using market' and the costs of 'using business organizations' such as a firm. Besides, Richter (1994: p.8) defines *political transaction costs* as the cost of using national and international organizations. Furthermore, he describes as examples costs arising for defence, jurisdiction, public works, the road system, the educational system, etc. The question arises as to whether it is useful to consider as transaction costs public investment in physical capital (for example, road system), or in human capital (such as education). In this study, we consider as political transaction costs only those costs that are directly related to the maintenance or change of the institutional environment.

¹³⁷ Eggertson, T. (1990): Economic Behaviour and Institutions, New York, Cambridge University Press, p.15.

¹³⁸ Transaction costs are often related to information costs. Yet, not all information costs are transaction costs. Eggertson (1990) describes the case of a lonely person on a desert island that encounters information costs when going about his/her 'home production'. These costs are certainly not transaction costs, as no transaction occurs. The vice versa question as to whether all transaction costs are information costs depends on the definition of transaction costs. For instance, if one considers the expenses for enclosing private land as transaction costs, because they arise to enforce one's property rights on the fenced land, we have an example of transaction costs that are not information costs (p.15).

they have property rights; (ii) the bargaining that is needed to find the true position of contracting parties, especially when prices (wages, interest rates, etc.) are not determined exogenously; (iii) the making of (formal or informal) contracts, defining the obligations of the contracting parties; (iv) the monitoring of contractual partners to see whether they abide by the terms of the contract; and (v) the enforcement of the contract and the collection of damages when partners fail to observe their contractual obligations¹³⁹.

One can see that the institutional environment determines which transaction costs arise from these activities. A labour contract or marriage contract under well-defined regulations which is enforced by social norms or by the government means lower transaction costs for the contracting parties. In fact, however, such regulations on contracts may favour one of the contracting parties. Therefore, they should be enforced to reduce the disadvantage of contracting parties. This enforcement can be effected by individual or socio-economic units. For example, when punishment rules are strictly enforced by the state, individuals may not have to bear high costs to protect their property, in other words, transaction costs are lower.

Some other aspects of NIE are agency theory and transaction costs economics. Williamson (1990) defines agency theory as the parties and all of the relevant contracting actions in the *ex ante* incentive arrangement¹⁴⁰. Transaction cost economics are understood as all complex contracts that are unavoidably incomplete (for reasons of bounded rationality). Therefore, much of the relevant transaction spills over into the contract execution interval and must be resolved *ex post* by whatever governance apparatus that provided it. Pejovich (1995) defines transaction costs as "the costs of all resources required to transfer property rights from one economic agent to another"¹⁴¹. They include the costs of making an exchange, e.g., discovering exchange opportunities, negotiating exchange, monitoring and enforcement, and the costs of maintaining and protecting the institutional structure, e.g., judiciary, policy, armed forces"¹⁴².

¹³⁹ Williamson, O. (1985) emphasizes the distinction between *ex ante* and *ex post* costs of contracting. The last two categories in this list are *ex post* costs. Williamson (1985), assuming bounded rationality, specifies perfect contracts as *ex ante* and therefore, *ex post* costs arise due to opportunistic behaviour.

¹⁴⁰ Williamson, O. E. (1990): A Comparison of Alternative Approaches to Economic Organization, *Journal of Theoretical and Institutional Economics*, No.146, p.61-71.

¹⁴¹ Pejovich, S. (1995): *Economic Analysis of Institutions and Systems*, Boston, Kluwer, p.84.

¹⁴² Eggertson (1990) defines transaction costs as follows: "the fundamental idea of transaction costs is that they consist of the cost of arranging contract *ex ante* and monitoring and enforcing it *ex post*, as opposed to production costs which are the costs of executing a contract". Further, Eggertson (1990) generally defines transaction costs as the costs that arise when individuals exchange ownership rights to economic assets and enforce their exclusive rights. It can be concluded that a clear-cut definition does not exist; however, the available definitions can help us to analyze the existing problems (p.14).

2.3.2 The Firm Concepts

According to neo-classical theory the firm is a black box and has a single objective. i.e., profit maximization. However, the new literature tends to emphasize two aspects: (i) a firm involves a set of long-term contracts between input owners; (ii) a firm replaces the product market with a factor market where price signals play a relatively small one (as output is not measured continuously and sold for a price) and typically, hierarchical relationships are substituted for market exchange.

Based on the objectives of this study, the second definition of a firm will be more thoroughly discussed and will be the analytical tool of the study. Different types of firms can be distinguished by the problems that occur in dealing with agencies. The type of firms can be mentioned as the owner-managed firm and the open corporation with diffused ownership. The principal agent problems are: (i) The problem of hired labour; (ii) The problem of debt; and (iii) The problem of hired management.

The owner-managed firm is disputed regarding the agency problem of hired labour and the agency problem of debt, but it avoids the agency problem of hired management. The open corporation with diffused ownership faces the agency problem of hired labour and the agency problem of hired management, but it is a superior position to increase capital for risky large-scale operations. This study considers the theme of the study to be the owner-managed firm which is used to analyse the existing problems of firms. Eggertsson (1990) distinguishes forms of firms¹⁴³, namely: (i) proprietorship; (ii) partnership; (iii) closed corporation; (iv) open corporation; (v) financial mutual organization; and (vi) non-profit organization.

Proprietorship is a small-scale enterprise form that is often founded in urban or rural areas. This is defined as a business venture where one person is both the residual applicant in production (a worker) and the firm's ultimate decision-maker (a manager). The owner-manager bears the full wealth effects of his or her decisions¹⁴⁴. Therefore, there is no common ownership problem in proprietorship. The main advantage of this form is that there is no agency problem since ownership and control are not separated. However, there can be several disadvantages. For example, a conflict can arise between the timing of net income flows from investment that the owner makes in the firm and his/her pattern of consumption.

Moreover, it is really difficult for an outside investor who invested in a proprietorship to judge whether the owner-manager seeks to bias outcomes in his

¹⁴³ (Eggertsson :1990, p.178).

¹⁴⁴ Family form is also used to show that the enterprises are obtained through inheriting, not self-established as proprietorship form. This influences the decision-making in the enterprises where family form has more complicated process one than proprietorship form.

own favour. Thus, the market value of a proprietorship often depends strongly on the owner's human capital; the firm is resold at a low price when the owner retires from the business. The diversification problem arises because proprietors often have to invest a large share of their human and physical wealth in their business and, therefore, according to portfolio theory, the costs of risk become higher compared to an investor with more diversified portfolios. The proprietors may avoid risky investments, consequently, according to market rule, this would increase the value of the firm.

There are no wide differences between proprietorship and partnership. Both forms can be subsumed as owner-managed firm. By pooling resources of several individuals, partners, it is possible to ease the financial constraints of proprietorship and take some advantage of economies of scale in production. Partnership can also entail low costs of risk bearing as each owner can now invest a smaller share of his or her wealth in the firm or diversify the commodities produced by the firm. The partners who consist of the firm's residual claimants and its major decision-makers still have the common-ownership problem. The incentive advantages of combining both functions diminish as the number of partners increase. Although the partners as a team bear the full wealth effects of their actions, each individual does not do so. Empirically, partnerships are rarely large organizations with a great number of partners, except in the case of professional partnership¹⁴⁵.

In professional partnership, human capital plays a more important role than financial capital. Non-human capital tends to be a relatively unimportant share of total assets in these firms. The advantages of a professional firm over a firm of small-and medium-size must on some economies of scale. In general, the agency costs of professional partnership are, *ceteris paribus*, directly related to the number of partners. Agency problems are alleviated in various ways. Newcomers must make an apprenticeship before they become full partners; commonly, an internal committee of partners monitors performance and renegotiates individual shares periodically.

The important actor when diversifying the form of the firm is the shareholder. The shareholders of a closed corporation are usually the firm's leading decision makers or individuals favoured by those who managed the firm such as relatives, acquaintances, etc. With owners managing the company, agency costs are lower than they are when professional managers are employed. Agency costs are reduced in partnerships and proprietorships, where usually all residual claimants are also chief decision-makers in the firm and bear the wealth consequences of their actions. But as agency costs decrease when the extent of outside ownership is reduced, other problems may appear.

¹⁴⁵ Especially in rural areas, it is difficult to find the professional partnership form. Most of the existing forms are proprietorship.

Fama and Jensen (1983) describe that investment in proprietorships, partnerships and closed corporations are not, as a general principle, based on the market rule: "The proprietorships, partnerships and closed corporations observed in small-scale production and service activities take a more direct approach to controlling agency problems in the decision process. The residual claims of these organizations are implicitly or explicitly restricted to decision agents. This restriction avoids costs of controlling agency problems between decision agents and residual claimants, but at the costs of inefficiency in residual risk bearing, and a tendency towards under investment. As a result proprietorships, partnerships and closed corporations will not generally follow the market value decision rule"¹⁴⁶.

As previously described, closed corporations usually exist in small-scale production, while open corporation are normally predominated in large-scale production in the developed and advanced industrial countries. The important difference with closed corporations is the structure of residual claims that encourage large-scale risky investment. Open corporations work towards minimizing potential conflicts between utility maximization and market value maximization. However, the problems of open corporations can also appear when the firm expands and must spend more to benefit from economies of scale, e.g., the costs of coordination between members of corporation. Moreover, Fama and Jensen argue that organizations, in which the risk-bearing function and the decision function have been separated, have a diffuse system of control at all hierarchical levels¹⁴⁷. For example, a diffuse system of control is found in all organizations where a proprietorship delegates rights to his or her agents. This means that control is applied at all levels of an organization, also at the top of the hierarchy.

One of the important aspects of financial mutual organizations is that the customers are also the residual claimants, which makes this form of organization unusual – for example, depositors in saving and loan associations and policy holders in mutual insurance companies. The residual claims of mutual organizations are usually issued in direct proportion to the amounts of deposits or policies. The residual claims are also redeemable when the customers withdraw from the business, but they cannot be bought and sold. The financial mutual organizations are not considered tools to analyze performance of small-scale enterprise and also the private non-profit organization below.

Private non-profit organizations, which finance their activities partly through donations, will survive in a laissez-faire economy if they can offer their commodity at a lower price than other organizations. Moreover, in the non-profit

¹⁴⁶ Fama, E. F. & Jensen, M. C. (1985): Organizational Forms and Investment Decisions, *Journal of Financial Economics*, No.14, p.101-119.

¹⁴⁷ Fama, E. F. & Jensen, M. C. (1983): Agency Problems and Residual Claims, *Journal of Law and Economics*, No.26, p. 327-349.

organizations there are no residual claims, as this would amount to claiming a share of the donations. The absence of residual claimants prevents agency problems between donors and residual claimants, but not between donors and decision managers.

2.3.3 Vertical Integration in the Firm

NIE theorists of industrial organization have a major concern for vertical integration¹⁴⁸. In the small business sector vertical integration plays an important role, although it faces different forms from those in the industrial sector. The NIE theorists use the term vertical integration as the process of merger where different firms are owned jointly¹⁴⁹. In the literature on agriculture, the term integration is also used for contract farming where agricultural households or farms prevail against the owners of land and fixed capital¹⁵⁰. With respect to the theme of this study, the terms 'vertical integration', 'unified ownership', 'contract farming' will be used in the same sense. In this study two types of integration can be expressed as (i) Forward integration out of production into processing and marketing; and (ii) Backward integration into input supply¹⁵¹.

Contract farming with respect to "sub-contracting" in the industrial sector become a widespread phenomenon in some economic journals¹⁵². However, the small business sector is unique in that it developed yet another form of vertical integration that is not frequently noticed in any industrial sector. Vertical integration in the co-operative form can also be called integration by co-operation. Based on this term, one can apply, in the industrial sector, a service co-operative that achieves the processing and marketing of commodities, organizes input supply and also credit. Thus, service co-operatives exemplify a type of forward and backward integration.

Richter (1994) points out that a contract is a concept of property rights, wider in scope than the legal concept of contract¹⁵³. Fundamentally, each type of exchange of property rights can be modeled as a transaction that is governed by a contract. According to Richter (1994) and Williamson (1985), there is a continuum of contract types, namely: discrete contract (market transaction) and relational

¹⁴⁸ (Williamson, 1985).

¹⁴⁹ (Williamson, 1985).

¹⁵⁰ (Williamson, 1985).

¹⁵¹ Williamson, O. (1985) distinguishes two other types: *mundane integration* of core technologies, defined as "stages that are located in a cheek-by-jowl association with one another and lateral integration" (p.103).

¹⁵² Baxter, V. & Mann, S. (1992), in their paper on "The Survival and Revival of Non-wage Labour in a Global Economy" shows that sub-contracting is prevalent in non-agricultural sectors such as the automobile industry in Japan. The authors hold that the companies, by sub-contracting the number of workers with union affiliation, reduce high wages and employment security. Baxter and Mann (1992) believe sub-contracting to be vertical disintegration into component supply.

¹⁵³ Richter, R. (1994): Institutionen ökonomisch analysiert- Zur jüngeren Entwicklung auf einem Gebiet der Wirtschaftstheorie, Tübingen, J.C.B. Mohr (Paul Siebeck), p.16.

contract (contractual relation)¹⁵⁴. Discrete contract regulates only one single transaction, while personal relationship between contracting parties is completely irrelevant. The prototype of this contract is the exchange of goods and services in a market, especially under the ideal condition of competitive market of the neo-classical model¹⁵⁵. Based on this characteristic, discrete contract could be called 'market transaction'.

Relational contract or better described as "contractual relation" arranges long-term personal relationships between contracting parties and the transactions are embedded in the social living¹⁵⁶. According to Macneil (1978), the contractual relation can be exemplified in the reality as employment relation and marriage. An example of an agency relationship is an employment contract. One of the contracting parties, in this case the employer is the principal and the other party, here, the workers are his/her agents. Other examples of agency relationship involve, for example, landlords and tenants, physician and patient, shareholders and managers, voters and elected representatives, etc. This agency relationship shows a delegation of property rights such as rights to use a resource, to an agent who is bound by a – formal and informal – contract to act in the principle's interest in return for payment of some kind¹⁵⁷. An important feature of an agency relationship is the fact that the principal does not usually observe the agency's actions directly. What (s)he observes is the result that depends not only on the agent's actions, but also on factors beyond the agent's control. The resulting situation of asymmetric information gives rise to opportunistic behaviour ("moral hazard") on part of the agent. Therefore, the problem is to define the optimal agency contract under various assumptions in which uncertainty and risk aversion play an important role. The other solution related to exchange of property rights, a solution to this optimization problem is transaction costs (see 2.3.1).

2.4 SELECTIONS FOR FIELD RESEARCH

Small enterprise is regarded as a safety net for many people, in that it can provide temporary employment. A general statement about small-scale business sector is that they are greatly significant in developing countries, especially in urban areas. It is simply because they create local employment, generate local income and utilize local raw materials and saving opportunities. In Myanmar, small-scale economic activities are extensive and pervasive, an integral part of the economy. They are extensive in towns, play a role in the cities and are indispensable in

¹⁵⁴ (Richter: 1994, p.21) and (Williamson: 1985, p.83).

¹⁵⁵ The exchange of goods and services can be interpreted as an exchange of property rights (Birner: 1996, p. 61).

¹⁵⁶ MacNeil, J. R. (1978): Contracts: Adjustment of Long-Term Economic Relations under Classical, Neo-Classical, and Relational Contract Law, *Northwestern University Law Review*, 72(6), p.691-816.

¹⁵⁷ Eggertson, T. (1990): *Economic Behaviour and Institutions*, New York, Cambridge University Press, p.40-41.

capital city Yangon. In this study the small enterprise is defined based on nature and character rather than registration which is inappropriate for Myanmar as the registration of a business is fairly simple, neither costly nor time consuming.

Over time, small enterprise has linkages, as the integration of the formal economy in which they are located into the urban economy increases. The linkage can also be seen as a catalyst in many ways. Small enterprise contributes significantly to many countries' GDP. If the linkage is apparently addressed, it may not mean that policies will continue to ignore the potential to address these issues that are prevalent in a country. The question is whether this condition is also valid for small enterprises in Myanmar in general or especially in survey areas. Therefore, this study tries to explore and show the form and strength of linkages of the small enterprises with other business segments of economy. This is precisely what is required in order to understand linkages between small enterprise and other business sectors in Myanmar.

Therefore, the conclusions for the field research were derived against the background of an understanding of the theoretical issues surrounding the small enterprise and the characteristics of economic structure in Myanmar. The approach to research in the field is critical for two reasons. Firstly, it is necessary to do so given the fact that most of the research on small enterprises in Myanmar was conducted on registered formal enterprises only. Generally, there are noticeable variations between the both types of economies, i.e., formal and informal enterprises, and their linkages were demonstrated in chapter two. Secondly, small enterprise has a significant job and income generation potential and creates economic growth. Consequently, any attempt to examine such phenomena has to be adapted to the specifics of the case at hand. In essence, the theory cannot be viewed in isolation, it has to be viewed within a particular socio-economic context.

2.4.1 Research Questions

Given the central role of indigenous and exogenous factors in enterprise operations this research addresses the following specific questions:

- (i) What are the nature and characteristics of small enterprises in Myanmar;
- (ii) What role does (a) family ownership and (b) skill background play in enterprise operation and development;
- (iii) What kind of linkages exists with regard to supply of raw material, labour, capital and distribution channels;
- (iv) Is there strong or weak subcontracting linkage between small enterprises and other business segments in Myanmar?
- (v) Is there growth potential over time within the sector; and
- (vi) Which distinct segment within the sector can be promoted as the formal sector.

CHAPTER (3) OVERVIEW OF THE STRUCTURE OF URBAN INFORMAL ECONOMIC ACTIVITIES IN MYANMAR

3.1 Introduction

One of the common features of the Third World nations is the unexpected growth of population and informal sector labour force primarily in capital cities of these nations. Consequently, the promotion of employment, income and meeting basic human needs through urban informal sector have been gaining increasing importance in those nations. As in other Third World nations one of the obvious features in Myanmar's demographic structure is over-concentration of population especially in Yangon, capital city of Myanmar. Yangon is the most urbanized region and about 27 per cent of population is accounted for as urban population¹⁵⁸. Urbanization, the finite process of transition from an agrarian to an industrial or commercial society in developing countries, is closely linked to rapid population growth¹⁵⁹. One of the rapid increases of the population of Myanmar was due to a high natural growth rate coupled with rural-urban migration, and which is the dominant cause of population increase. Rapid growth of urban areas creates social and economic problems. The rapid rise in the population of Myanmar has also led to increases in the level of unemployment in the city, as a consequence, which leads to the creation of informal economic activities. In the case of Myanmar the problem of unemployment and underemployment has led to the marginalization of significant sections of the labour force. Poor wages for those employed and limited absorption of employment have had the positive effect of reducing dependency on the state for employment and caused many people to seek ways of supplementing incomes. As a result a thriving informal sector has developed within the region.

3.2 General Economic Structure of Myanmar

Myanmar¹⁶⁰ has been one of the most cohesive and dominant socio-economic entities in South East Asia. In the development of the national economy, it is evident that Myanmar's comparative advantage lies in its natural and human resources endowments. The country was rich in natural resources and had a highly literate population (average 80% in 2001), which was obviously a good sign for its development process. From an economic point of view, the period

¹⁵⁸ ADB (2001): Country Economic Report; Myanmar, Vol.2, Statistical Appendixes, p.80.

¹⁵⁹ Lwin, M. M. (1983): A Theoretical Evaluation of Rural-Urban Migration and Problems of Urban Unemployment and Under Employment, p.130.

¹⁶⁰ Myanmar with a shape of roughly like a diamond kite has some 800 kilometres across and 2100 kilometres north to south. The total land area of Myanmar is 679,000 square kilometres. According to the constitution of the Socialist Republic of the Union of Burma (1974), Myanmar has been divided into seven (7) States and seven (7) Divisions.

between 1962-1988 has unquestionably been the most disastrous in Burma's history¹⁶¹. When the new government, on the one hand, guided the 'Burmese way to Socialism', and on the other hand economic reality in the country at that time. According to this reality, economic growth was slow under the liberal economic policies and per capita GDP in 1961/62 was still 16 per cent below that of 1938/39. Unemployment was huge and chronic, literacy percentage was one of the lowest in the world, rate of saving has been very poor and above all the socio-politico-economic conditions have been miserable. To bring about a 'Burmanization' of the country and a more equitable distribution of income, the new government nationalized both foreign and domestic businesses¹⁶². So were all industrial enterprises. Industrial enterprises were very few in number and their performance was shocking. The encouraging spurt in private manufacturing industry under the democratic government was aborted. The only positive aspect was the emergence of some very small-scale and cottage industry type activities. During the socialist regime, the industrial sector was given priority over agriculture under an import-substitution strategy.

In the early 1970s, after the failure of industrialization due to overemphasis on manufacturing sector, agriculture sector came to the majority priority attempting to increase output in order to obtain greater export earnings. The government's import substitution strategy aimed at fulfilling basic domestic needs within the framework of close-door and self-reliant economic system. Therefore, Myanmar's economy faced many obstacles and stagnant growth in not only industrial sector but also the whole economy. An obsession with maintaining control led to contact with the outside world being reduced to a bare minimum. The isolation of the country meant that access to new technology was completely lost. Between 1962 and 1988, export fell from about \$269 million to an average of \$217 million for 1985-86¹⁶³. In terms of volume, exports fell by almost 50 per cent and imports rose from about \$220 million at the start of this period to about \$250 million at the end. One important consequence of the lack of incentive for legal trade was the growth of illegal cross-border trade with Thailand, China and Bangladesh. This was a similar phenomenon to the "underground" or "parallel" economy in the Soviet Union and Eastern Europe.

¹⁶¹ Before World War II its economy was slightly larger than that of Thailand. Its exports reached \$195 million, while Thailand were only \$76 million. Most economic and development indicators show that it was not too far behind Thailand by 1950. However, economic development as well as industrialization in Myanmar was suddenly held hostage by the Burmese Way to Socialism, which was introduced in 1962.

¹⁶² Although large non-agricultural enterprises were nationalized, important parts of the economy remained in private hands even during the peak of state ownership, including retail trade, small industries, truck and buses, and some forms of river transport. Wai, T. (1995): Background and Recent Economic Development, in: Rana, B. and Hamid, N. (ed.) (1995): From Centrally Planned To Market Economies: The Asian Approach, Vol.3, p.159.

¹⁶³ The value of exports fluctuated with a high of \$472 million in 1980 and a low of \$107 million in 1970. This situation is worse than indicated by the value figures, since the unit values of exports rose substantially – by a factor of about four from the early 1960s to the late 1980s.

The military junta, between 1962-1988, was replaced by the State Law and Order Restoration Council (SLORC) (now State Peace and Development Council-SPDC) team, which proclaimed market-oriented "open door" policy towards foreign investment and trade with the outside world. Various reform measures¹⁶⁴ were taken to stimulate active participation by the private sector. At first glance, the foreign trade figures after 1988 seem to indicate that the policy of opening up was a success. Exports rose every year from \$147 million in 1988 to \$846 million in 1995¹⁶⁵. To put the increase in export earnings during the SLORC period into fuller perspective, one should note that the volume of rice exports was still only half of the two million tons achieved in 1960, and only a third of the pre-war figure. However, beans and pulses have also been a relatively successful source of foreign earnings. The volume of exports rose sharply from about 200,000 tons in 1990-91 to an average of about 450,000 tons, with earning about \$120 million. Tourism has also provided a significant increase in foreign exchange earnings, from about \$25 million in 1990-91 to about \$153 million in 1995-96¹⁶⁶. However, the opening up of the economy has had its largest effect on imports. These amounted to \$244 million, rising to more than \$800 million in 1993-94, and then to a very high \$1.3 billion in 1995¹⁶⁷.

Table (3.1) shows Myanmar's rapid structural transformation under present military government. As mentioned in table, 13-sectors are classified¹⁶⁸. Real GDP growth has been declining from 9.7 percent in 1992/93 to 6.9 percent in 1995/96, and further to 5.8 per cent in 1998/99. The decline is mainly attributable to the adverse impact of floods in 1997/98 and droughts in 1998/99 on agricultural production. But growth has been highly variable from year to year, and slower than in the early-1990s. Real growth in agriculture has declined from 12.4 percent in 1992/93 to 5.5 percent in 1995/96, and to 3.5 per cent in 1998/99. The slowdown in agriculture may also have been exacerbated by a distorted incentive

¹⁶⁴ These include the decentralization of control of economic activities, the relaxation of price controls, the deregulation of export and import restrictions, the opening of border trade, the reduction of government subsidies, the announcement of full-fledged privatisation of all state-owned economic enterprises, streamlining taxes and duties, the establishment of industrial zones, and the improvement of infrastructure.

¹⁶⁵ Rice exports averaged only about 180,000 tons in the three years from 1987 to 1989, but topped one million tons in 1994 before falling again to 353,000 tons in 1995. These results have been achieved partly by price incentives for farmers for above-quota deliveries. As a result of poor planning the level of exports could not be maintained at one million tons, and fell back to 353,000 tons in 1995.

¹⁶⁶ But recent political instability has led to a decline, and it is doubtful whether the growth will resume.

¹⁶⁷ The trade deficit of \$96 million in 1988 was followed by two years of small surpluses, but substantial deficits have returned since then, rising to \$488 million in 1995. The cumulative deficits since 1988 add up to \$1.1 billion. This is consistent with the reported increase in external indebtedness, from \$4.4 billion in 1990 to \$6.1 billion in 1995.

¹⁶⁸ The Ministry of National Planning and Economic Development classified all economic activities into 14 sectors. Until FY 1996 Review, 13 sectors were used for GDP statistics. Since FY 1997 Review, "Energy" was added to become 14 sectors in full. However, the Ministry has stopped to issue Review thereafter.

structure. While Myanmar was still characterized in 1999/2000 by a heavy dependence on the primary sectors, and today, its economy is much more diversified. In the commodity producing sector, contribution of livestock & fisheries, forestry and mining sectors contributed positively over the period. Moreover, services and trade sectors continue to be dominant in the Myanmar economy, now account for over 6 per cent and nearly 8.9 per cent in 1992/93 to 8.8 per cent and 9.6 per cent in 1999/00 respectively. Real growth in the processing and manufacturing sector has been declining from 10.8 percent in 1992/93 to 7.6 percent in 1995/96 and to 6.2 percent in 1998/99. The structure of the economy has not changed since the introduction of market-oriented reforms in 1988 and remains a largely agrarian economy.

Sectors	1988/89	1992/93	1995/96	1996/97	1998/99	1999/00
Commodity Producing Sectors	(13.3)	11.0	6.7	6.4	4.9	12.1
Agriculture	(13.2)	12.4	5.5	3.8	3.5	10.5
Livestock & Fishery	(10.5)	4.5	3.0	11.9	9.4	16.8
Forestry	(1.6)	(3.2)	(4.5)	2.2	3.2	4.6
Mining	(20.0)	19.9	16.8	9.8	12.8	36.3
Processing and Manufacturing	(15.9)	10.8	7.6	4.6	6.2	14.4
Electric Power	(5.9)	30.9	6.5	12.9	(5.4)	14.2
Construction	(23.4)	11.2	27.2	24.6	6.3	4.4
Services	(3.3)	6.1	9.3	8.3	7.8	8.8
Transportation	(17.5)	9.1	6.3	6.0	5.6	11.9
Communication	6.1	25.9	24.7	21.7	11.6	11.0
Financial Institutions	7.1	15.2	34.9	21.8	17.0	12.6
Social & Administrative Services	1.5	2.9	6.2	5.6	6.5	7.0
Rental and Other Services	(4.2)	3.6	6.2	6.0	6.6	5.7
Trade	(12.0)	8.9	5.7	4.9	6.3	9.6
Gross Domestic Product	(11.4)	9.7	6.9	6.4	5.8	10.9

Source: Asian Development Bank, Vol.2, December 2001.

Inflation has been high in recent years, largely because of increasing food prices and excess liquidity caused by financing Government deficits through Central Bank credit. CPI inflation in Yangon increased from 20 percent in 1996/97 to 34 percent in 1997/98, and to 49 percent in 1998/99. On a monthly basis, inflation

has slightly subsided since mid-1998. With the new base of 1997, annualised inflation came to 32.7 percent in 1998/99. In terms of expenditure, the share of consumption in GDP at 1985/86 constant prices has been declining in recent years, and stood at 68.8 percent in 1998/99. The share of investment has increased, and gross investment accounted for 28.9 percent of GDP in 1998/99. The saving-investment gap is relatively small. Gross capital formation in 1998/99 is about 11.1 percent of GDP. This is mostly financed by domestic savings, which amount to 10.7 percent of GDP, implying there is very little net transfer of resources from abroad. The share of tax revenues decreased from more than 50 percent in 1997/98 to 39.2 percent in 1998/99. In terms of GDP ratio, the Government's revenues declined from 7.9 percent in 1997/98 to 7.3 percent of GDP in 1998/99. The decline is attributable to decreased tax receipts. On the expenditure side, current expenditures and capital expenditures accounted for 47 percent and 53 percent, respectively, of the Government expenditure in 1998/99. At the end of March 1998, the total outstanding debt of Myanmar was \$5,647 million, of which about 90 percent is medium and long-term debt. Needless to say, the share of trade and services sectors in GDP, labour shares in private sector and shares of value of net output in GDP by ownership should be kept in mind when one examines the nature and extent of urban informal sector of Myanmar.

Table (3.2) shows the total value of industrial output by industry for ten years. It can be noted that the total value of output increases from 3 billion in 1987/88 to 49 billion in 1997/98. The production value of agricultural machinery is the largest growth rate (24.5 times) within ten years. Mineral products and industrial raw materials contributed relatively large in terms of the value of production, both of which are primary products. Between 1987/88 and 1997/98, consumer prices surged 9.3 times, but the value of total industrial output increased 16 times during the same period. However, the stage of development of Myanmar's industry is still very early, with food and beverages accounting for 82 per cent of the nation's total industrial output in 1997/98.

Industry	1987/ 88	1988/ 89	1989/ 90	1992/ 93	1995/ 96	1997/98 (prelim.)
Food & beverages	23,540	25,634	49,389	83,659	217,590	405,541
Clothing	1,216	1,092	1,521	3,721	6,855	8,500
Construction material	997	967	1,638	3,378	4,877	6,553
Personal items	310	325	796	1,325	2,930	4,800
Household item	183	224	325	431	689	995
Publishing & printing	226	155	391	545	1,064	871
Industrial raw materials	1,388	1,460	2,095	4,515	14,335	24,737
Mining & petroleum products	1,043	1,649	2,648	3,140	4,805	32,797
Agricultural machinery	96	66	75	68	962	2,362
Machinery & equipment	39	31	31	23	171	209
Transportation machinery	457	494	594	527	1,558	2,869
Electrical products	207	199	150	367	419	590
Sundries	859	675	1,047	1,262	1,775	3,050
Total	30,561	32,971	60,700	102,961	258,030	493,875
Consumer price index (Yangon) (1987=100)	100	123	152	292	581	934

Sources: (1) Review of Financial, Economic and Social Conditions, Ministry of National Planning and Economic Development, 1991/92, 1996/97, 1997/98.

(2) Statistical Yearbook 1997.

(3) Selected Monthly Economic Indicators, July-August, 1998.

Under the industrial liberalization and open-door policy, the private sector has gained momentum. For industrial promotion, the Government of Myanmar promulgated the Private Industrial Enterprises Law in 1990 and the Promotion of Cottage Industries Law in 1991. According to the Private Industrial Enterprises Law enacted in 1990, any person is allowed to establish industrial enterprise by using three horsepower and above/or employing ten wage-earning workers and above shall register with the Regional Industrial Supervision and Inspection Department of Ministry of Industry (1). Therefore, any person can apply for registration¹⁶⁹ at the respective State or Divisional officer-in-charge and then they would be allowed after making necessary scrutiny and inspection within 120 days. After that, the Industrial Supervision and Inspection Department categorizes the size of applied industrial enterprises such as small or medium or large-scale in

¹⁶⁹ Registration fees are K.2,000 for small-scale, K.3,000 for medium-scale and K.6,000 for large-scale, while renewal fees are K.2,000 for small-scale, K.3,000 for medium-scale and K.6,000 for large-scale.

accordance with the prescribed criteria¹⁷⁰. And then, the entrepreneur has to pay the registration fees and the tenure of registration prescribed by such Department to conduct the industrial activity. The application will be refused if the enterprise is not compliance with the existing laws and regulations. During twenty-eight years periods (1969/70-1997/98), the rapid growth of manufacturing sector in Myanmar can be seen in Table (3.3).

Year	Number of employees									
	1~9		10~50		51~100		100 <		Total	
1969/70	11,463	70.5%	3,975	24.6%	410	2.6%	359	2.3%	16,207	100%
1975/76	23,698	81.6%	4,347	15.0%	436	1.5%	545	1.9%	29,026	100%
1980/81	36,465	93.5%	1,498	3.8%	595	1.5%	454	1.2%	39,012	100%
1985/86	35,923	86.1%	5,130	12.3%	216	0.5%	452	1.1%	41,721	100%
1990/91	32,233	90.2%	2,084	5.8%	960	2.7%	452	1.3%	35,729	100%
1993/94	39,460	92.6%	2,381	5.6%	294	0.7%	472	1.1%	42,607	100%
1997/98	50,033	93.8%	2,456	4.6%	343	0.6%	506	1.0%	53,338	100%

Source: (a) Saito, T. and Kiong, L.K. (1999): Statistics on the Burmese Economy: The 19th and 20th Centuries, Data paper series, Sources for the Economic History of Southeast Asia, No.7, ISEAS, Singapore, p.139.

(b) Review of Financial, Economic and Social Conditions, Ministry of National Planning and Economic Development 1990/91, 1993/94, 1997/98.

Table (3.3) shows the number of private manufacturing enterprises measured by number of employees. The number of manufacturing enterprises with less than ten employees increased from 71 per cent in 1969/70 to 94 per cent in 1997/98¹⁷¹, which contributed the largest share in manufacturing employment over the period. However, manufacturing enterprises with more than 100 employees declined from 2.3 per cent to 1.0 per cent over the period. The development of large-scale enterprises is absolutely decreasing in 1990s and the share of private micro- and small-scale private enterprises is predominant over the period. Therefore, Myanmar's industry is still characterized with the extremely large share of small-scale industries and less importance of large-scale industries. Thus, the ownership structure of manufacturing sector in Myanmar is characterized as one with a smaller number of more than ten employees private enterprises and one with a large number of micro private enterprises.

¹⁷⁰ The Private Industrial Enterprises Law (1991) classifies manufacturing activities into three groups according to power capacity, amount of investment, number of employees and annual output.

¹⁷¹ A study of the number of private industries by Industrial Supervision and Inspection Department of Ministry of industry No. (1) showed that the small industries were 83.7 per cent, the medium industries 11.4 per cent and large industries 4.9 per cent respectively of the total.

If the enterprise fails to get the registration from Department of Industrial Supervision and Inspection and/or any person who desire to conduct a small-scale industrial activity only, they can get licence from Department of Cottage Industry of Ministry of Cooperatives. Therefore, the enterprise with power capacity of less than three horsepower and/or employing fewer than ten persons, after scrutiny and inspection of the application, is allowed to operate proposed industrial activity. However, many cottage industries are not registered since the registration is not obligatory. The total number of industrial activities under Department of Cottage Industry is shown in table (3.4).

Sr.	Commodity Group	Registration of Industries				Total	
		Registered		Non-registered			
1.	Food and beverages	227	4.68%	6,524	49.14%	6,751	37.25%
2.	Miscellaneous	3,208	66.20%	2,878	21.68%	6,086	33.58%
3.	Clothing & wearing Apparel	466	9.62%	1,343	10.12%	1,809	9.98%
4.	Mineral & Petroleum Products	225	4.64%	648	4.88%	873	4.82%
5.	Industrial Raw Materials	110	2.27%	627	4.72%	737	4.07%
6.	Personal Goods	270	5.57%	393	2.96%	663	3.66%
7.	Construction Materials	49	1.01%	610	4.59%	659	3.64%
8.	Electrical Goods	98	2.02%	51	0.39%	149	0.82%
9.	Printing & Publishing	42	0.87%	59	0.44%	101	0.56%
10.	Household Goods	15	0.31%	85	0.64%	100	0.55%
11.	Transport	52	1.07%	43	0.32%	95	0.53%
12.	Machinery & Equipment	73	1.51%	11	0.09%	84	0.46%
13.	Agricultural Equipment	11	0.23%	4	0.03%	15	0.08%
Total		4,846	26.74%	13,276	73.26%	18,122	100%

Source: Department of Cottage Industries, Ministry of Cooperatives.

Table (3.4) shows that the total number of industries was 18,122 in 1999/2000, of which food & beverages enterprise is the largest share 37 per cent and clothing & wearing apparel enterprise is the second largest, except miscellaneous which contributed (33.58%), about 10 per cent in total industries. Under the Department of Cottage Industry, the registered enterprises are 27 per cent only and nearly three fourth is non-registered enterprises. Among the registered enterprises, clothing & wearing apparel enterprise contributed largest share 9.62% except miscellaneous, but food & beverages which contributed the largest share 49.14% in non-registered enterprises. These figures are compiled by Ministry of Cooperative and may not include a considerable number of unregistered households and cottages industries.

3.3 Structure of the Labour Force in Myanmar

This part of the study on structure of the labour force¹⁷² analyse what usually constitute Myanmar's informal sector: micro- and small-scale enterprises that may or may not comply with the variety of legal requirements for setting up and running a business in Myanmar. The vast majority of micro enterprises consist of either one or two unpaid family workers¹⁷³. The sector includes traders, hagglers, vendors, home manufacturers and the provision of other personal services. Women and child labours also play an important role by accounting for almost all unpaid family members in this sector. Nowadays, even government and formal sector workers cannot meet the cost necessary to maintain their standard of living. Therefore, other family members try to make additional income for their families. These people mostly go into the informal sector while some people are actively seeking jobs transit in the informal economic activities to make their survival income.

Year	Male	%	Female	%	Total	%	Growth Rate (%)
1994	21.83	49.70	22.09	50.30	43.92	100	1.87
1995	22.23	49.68	22.51	50.32	44.74	100	1.84
1996	22.63	49.65	22.94	50.35	45.57	100	1.84
1997	23.04	49.66	23.36	50.34	46.40	100	1.84
1998	23.46	49.65	23.79	50.35	47.25	100	1.84
1999	24.40	49.66	24.73	50.34	49.13	100	2.02
2000	24.91	49.69	25.22	50.31	50.13	100	2.02
2001	25.42	49.70	25.72	50.30	51.14	100	2.02

Source: Department of Labour, Handbook on Human Resources Development Indicators, 2002, p.1.

The labour force includes all persons who are employed, unemployed and not in the labour force¹⁷⁴ (or the currently inactive population). The labour force in Myanmar is dynamic for various reasons. It normally displays structural and other changes over a period of time. This study of the structure of the labour force uses the 1973 and 1983 census data and 1990 labour force survey undertaken by the Department of Labour. The information and available data for those years are limited. Population information is published by the Department of Population and

¹⁷² Labour force is broadly defined to include all members of household regardless of age or sex, who are gainfully engaged in any economic and business activity during the time of survey in Myanmar.

¹⁷³ "Unpaid family worker" include the individual who works without pay of any kind in a business operated by any member of the household excluding housekeeping.

¹⁷⁴ Persons below 10 years of age are added in this labour force. Labour force, economically active population, is generally defined as the part of the population, which supplies and which is willing to supply labour for production of economic goods and services.

the projected population figures by gender and growth rate during the last eight years are presented in Table (3.5).

According to the 1973 and 1983 censuses, the population of Myanmar increased from 28.08 million to 34.12 million with the growth of population rate nearly 2 per cent per annum. In 1993, the population was estimated to be 43.13 million, the male population was 49.55 per cent and the female population was 50.45 per cent. The population of Myanmar increased from 43.92 million in 1994 to 51.14 million in 2001, but the percentage changed of both sex is not significant. The rapid increase of the population of Myanmar has been accounted for by the growth of urban areas, as migrants continue to stream into cities from rural areas and urbanization rate continued to cities. The rapid increase of the population of Myanmar was not due to immigration from other countries. It was due to a high natural growth rate coupled with rural-urban migration, and the latter factor being the dominant cause of population increase. As a result, the rapid rise in the population of Myanmar has led to increases in the level of unemployment in the city.

According to the 1990 labour force survey, the unemployment rate was 4.17 per cent of the total labour force including unpaid family workers but 6.07 per cent if these workers were to be excluded from the total labour force. It is of interest also to note from the 1983 census which was taken in April (during the slack period of the agricultural season) that seasonal unemployment of about eleven per cent (11%) constituted the largest form of unemployment. However, open unemployment has, to date, never been an important issue in Myanmar, partly because of an extended family culture which provides a form of social security safety net, and partly because of the existence of imperfect and segmented three-tiered labour market. That is, those who could not find work in the urban formal sector and those who could not find work in the urban informal sector, and those who could not find work in this latter sector, usually found some work in the rural sector. Thus, unemployment in the usual sense tends to be insignificant in Myanmar. At the same time, it also understates the extent of labour under-utilization in Myanmar. As in most developing countries, an accurate measure of labour under-utilization must also include underemployment (including seasonal unemployment) as well as disguised unemployment.

Table (3.6) Labour Force Participation Rates by Sex, Broad Age Group and Urban-Rural Type of Residence in 1973, 1983 and 1990. (Percentage)

Year	Sex	Urban				Rural				Union			
		10~14	15~59	60<	Total	10~14	15~59	60<	Total	10~14	15~59	60<	Total
1973 Census	Male	3.29	73.56	48.92	62.78	17.73	76.61	62.68	66.15	14.26	78.85	59.82	65.34
	Female	4.27	33.73	20.44	27.84	16.63	36.16	25.64	31.92	13.68	35.57	24.42	30.93
1983 Census	Male	3.43	74.45	48.45	60.66	12.53	75.47	64.46	63.40	10.25	75.20	60.83	62.66
	Female	4.35	35.72	32.15	29.56	13.82	41.58	31.45	36.07	11.47	40.06	29.10	34.40
1990 LFS	Male	6.87	84.59	39.06	69.60	23.37	49.12	49.12	78.90	19.48	91.08	46.41	76.54
	Female	4.57	44.99	14.91	36.38	23.52	18.54	18.54	49.54	18.88	55.05	17.51	46.01

Source: Report on Myanmar Labour Force Survey (LFS) 1990, Department of Labour, p.34.

Note: The unpaid family workers form an integral part of the labour force.

Table (3.6) shows the labour force participation rates by sex, broad age groups and urban-rural types of residences. Though the labour force participation rate for both sexes age between 15 and 59 increased 74 per cent from 85 per cent in urban, it decreased 77 per cent from 49 per cent in rural area over the years. It can be noted that the male labour force participation for age above 10 is about twice that of female labour force participation in urban area. The entry of large numbers of youngsters into the labour market made the workforce more useful. A significant increase is also observed in the participation of the young female.

The employed population is classified by eight types of occupation, which is presented in Table (3.7). "The Burma Standard Classification of Occupation (BSCO)" is used to classify the type of occupation. It can be seen that the vast majority of people engaged in the 'agriculture and related activities' constituted 63.3 per cent of the total labour force in 1973, and had even increased to 64.2 per cent in 1983. The number of employed persons had not actually increased in all occupational categories. Only five out of eight groups, such as the 'professional, technical & associated professionals', 'legislators', 'sales workers', 'skilled farmers, foresters, fishermen & hunters, and 'activities not adequately classified', were comparatively positive growth rate between 1973 and 1983. It is also noted that the unclassified category has a large absolute and relative share increase. A rapid growth of the informal trade sector was the main factor contributing to this increase. The decline in relative share of 'production & transport operator and labourers' was partly to be contributed to the rapid increase of the 'activities not adequately classified' group. The distribution of employed population by occupation for 1990 and thereafter is a special case because of different data sources and different classification.

Occupation	1973	1983	Annual growth rate
Professionals, Technical & Associated Professionals	2.23	2.42	3.47
Legislators, Senior Officers & Managers	0.38	0.39	2.94
Clerks and related workers	2.31	2.25	2.38
Sales workers	8.48	9.40	3.68
Services	1.72	1.69	2.51
Skilled Farmers, Foresters, Fishermen & Hunters	63.28	64.22	2.81
Production & Transport Operator and Labourers	20.68	17.93	1.23
Activities not adequately classified	0.92	1.70	8.77
Total	100.00	100.00	2.66

Source: IMPD (1976: 210; 1986: part-2: p.117, Department of Labour).

The Union of Myanmar uses a system of classification for economic activities, like for occupation, namely "Burma Standard Industrial Classification (BSIC)"¹⁷⁵ of all economic activities. Table (3.8) shows the percentage distribution of employed population by economic activity. The number employed in agricultural sector increased at the rate of about 4.94 per cent during the 1983-90 period. Agriculture is seen to have provided employment to nearly two thirds of the total employed population. The pattern of employment clearly shows the agrarian nature of Myanmar economy. The proportion of employed population in the service sector increased from 5.7 per cent to 7.7 per cent in 1990, had grown rapidly at the rate of 5.91 per cent and the proportion of construction sector had also 2.7 per cent increased. On the other hand, the sector with the largest reduction in employment share is manufacturing, its relative share in the employed population had decreased from 10.4 to 9.2 per cent during 1973-1983 and also reduced to 7.19 per cent in 1990. Employment creation in manufacturing sector has not been important. The proportion of manufacturing employment in total labour force, therefore, still remains relatively limited in Myanmar. Although only few manufacturing enterprises were established or expanded, the expansion of employment in this sector was far behind the labour-absorbent sectors such as agriculture and services sectors. Figures for 1990 were taken from Review of the Financial, Economic and Social conditions 1990-91.

¹⁷⁵ "Burma Standard Industrial Classification (BSIC)" economic activities is based on UN's International Standard for Industrial Classification (ISIC) of 1948. The BSIC categorized industrial activities into three levels, i.e., Division (1 Digit), Major Groups (2 Digits), and Groups (3 Digits). Table (3.8) presents the elements of respective digit in Division. The Ministry of Industry (1) seems to be revising the BSIC based on the ISIC of 1990. However, the new version of BSIC has not yet been utilized in any government report.

Industry	1973	1983	1990	Annual growth rate
Agriculture, Hunting, Forestry and Fishing	63.83	64.63	69.05	4.94
Mining & Quarrying	0.82	0.58	0.50	1.95
Manufacturing	10.41	9.21	7.19	0.35
Construction	1.57	1.31	1.19	2.70
Electricity, Gas and Water	0.18	0.17	0.11	-2.90
Trade, Restaurant and Hotels	11.09	11.35	8.87	0.35
Transport, Storage & Communication	3.00	2.88	2.47	1.69
Services	5.68	6.72	7.66	5.91
Activities not adequately classified	3.42	3.15	2.95	3.04
Total	100.00	100.00	100.00	3.94

Source: IMPD (1976: 216; 1986: part-2: 119); Review of the Social, Economics and Financial conditions of Myanmar FY: 1991/92, p.22.

Table (3.9) shows the employment status of the labour force, which was classified by five main categories such as 'employer'¹⁷⁶, 'own account worker', 'employee', 'unpaid-family workers', and 'partly and related organizations'. The 'employer' category is the smallest proportion in the workforce over the years, this category had doubled its share in total employed population from 0.78 per cent in 1973 to 1.45 per cent in 1990. The 'own account worker'¹⁷⁷, is the largest proportion in the labour force that did not change very much during 1973-1983; but it was in 1990 to about 35 per cent. The 'unpaid family worker' category had increased from 27.9 per cent in 1973 to 32.64 per cent in 1990. It can be safely said that the small enterprises and shops in the informal sector had played a major role in the economy for these years. Since the informal sector comprises mostly the own account worker and unpaid family members, these two categories comprised a major proportion of total labour force. During 1973-1990, these two categories account for more than half of the total employment. Although 'employee' category was 30.9 per cent in 1973, its proportion decreased to 28.4 per cent in 1983. However, it increased to 30.6 per cent in 1990 and the share's growth rate was 5.13. Among the employees, the private employees constituted nearly two thirds of the total. Although the share for private employees had decreased during

¹⁷⁶ "Employer" is the person who either operates his own business or is engaged independently in a profession or trade for profit and employs, in connection with his business, one or more workers other than unpaid family workers or apprentices.

¹⁷⁷ "Own account worker" encompasses the person who operates his business alone or is established independently in trade or profession for fees or profit and who has no employees in his business other than unpaid family workers. A worker on own account is sometime referred to as 'self-employed person'.

1973-1983, it increased after 1990 due to the economic policy changes from socialist to market-oriented system.

Employment Status	1973	1983	1990	Annual growth rate
Employer	0.78	1.58	1.45	2.76
Own Account Worker	40.34	39.75	35.29	2.29
Employee	30.93	28.42	30.56	5.13
Private	19.88	18.08	22.73	7.49
Co-operative	1.11	1.00	0.32	(11.75)
Government	9.94	9.34	7.51	0.86
Unpaid Family Workers	27.88	30.17	32.64	5.22
Others	0.07	0.08	0.06	4.07
All Employment	100	100	100	4.40

Source: IMPD (1976: 240; 1986: part-2: 129); Table 28, Report on Myanmar Labour Force Survey, 1990, Department of Labour, p.40.

3.4 Economic Activities in Urban Area of Myanmar

3.4.1 The Role of Capital city Yangon

The name of Yangon was internationally known as Rangoon (British version) especially since after the First Anglo-Burmese War in 1824¹⁷⁸. During the colonial period, together with the development of civil administration, industries, government offices, banks, hospitals, cinemas, shopping centres, railway stations, schools and universities also increased rapidly in Yangon. Moreover, Yangon held 134 out of 1027 factories and nearly 30 per cent of Burmese industrial workers in 1940. The large export-propelled industries such as rice mills and saw mills were located in Yangon and if we include the industrial suburbs of Yangon, the percentage share of industrial workers increase up to 50 per cent in the same period. The above mentioned concentration of administrative and economic activities in the capital city Yangon also brought together with the self-employed urban informal sector activities such as, small tea shops, cheap bars and restaurants, street food vendors and hawkers. Although Yangon failed to be considered as "million city" it played an important role as a primate city throughout the history of Burmese urbanization during the colonial period (1885-1948)¹⁷⁹.

¹⁷⁸ The British annexes Burma in the course of three wars, the First Anglo Burmese War in 1824, the second in 1852 and the last in 1885 when the whole of Burma came under the British. Yangon became the seat of British provincial government after Burma was annexed by the British in 1885 and ruled as part of India. Yangon, then, was transformed as the national capital after the separation of Burma from India in 1937.

¹⁷⁹ Fryer, D. W. (1953): The Million City in South East Asia, Geographical Review, Vol. XLIII.

According to 1872 census, Yangon had a population of 98,745 and about 47,904 people were added to Yangon city population in 1881. The population of Yangon exceeded 500,000 in 1941. One of the major sources of growth of Yangon population during the colonial period was international migration since British government encouraged the immigration of Indians to solve the labour shortage problem of Yangon¹⁸⁰. Myanmar regained her independence in 1948 and Yangon continued to function as the centre of economic and administrative activities. After the independence, the census was taken again 1953¹⁸¹. During 1953 and 1965 the population of Yangon increase almost doubled from 0.8 million to 1.6 million. This explosive rate of increase was mainly because of the insurgency. People mainly from neighbouring area, moved into Yangon where was a more secure place. As a result, Yangon faced with the problems of slums and squatter settlements together with the additional increase in urban informal sector economic activities during the post war period. In order to solve the urban human settlement problems, Burmese government established the satellite towns such as Thaketa, North Okkalapa and South Okkalapa after 1958¹⁸². Although Burma succeeded in solving the slum and squatter settlement problems, she did not notice the problems of self-employed urban informal sector activities since it was still in normal and infant stage.

In 1973, the population of Yangon increased to 2.01 million and the increase during the period between 1965 and 1973 was about 25%. Rural to urban migration continued to play an important role mainly because of the strong urban pull factors, such as higher formal and informal sector job opportunities, better educational and health facilities and the bright light of the city for young potential migrants. After 1962, the full strength application of 'Burmese way to Socialism' simultaneously with the self-reliance economic policy in isolation created many unsolvable economic problems for Burma which were primarily based on the deep rooted mismanagement in production and distribution of goods and services and over practising of bureaucracy in public administration. The private sector was not necessarily discouraged, but as far as government assistance was concerned, "(P)reference shall be given to co-operative and similar economic organizations¹⁸³. The plan advocated that all basic industries were to be established and developed by state enterprises and, first consideration be given to developing consumer goods industries on a state-owned basis¹⁸⁴. Consequently, failure in production and distribution of basic commodities started to aggravate the commodity shortage problems and inflation. The increase in unproductive

¹⁸⁰ Lwin, M. M. (1983): *Burmese Urbanization: An Overview*, Economic Research Centre, Faculty of Economics, Nagoya University, No.10, February, p.12.

¹⁸¹ Another census was taken 20 years later in 1973 and the last census was in 1983.

¹⁸² The area of Yangon was also expanded to 133,643 square miles in 1964. Although there were many changes boundary of Rangoon, due to the 1983 census it had the same area as in 1964.

¹⁸³ The Constitution of the Union of Burma (1947), Section. (42), Chapter IV.

¹⁸⁴ Report to the Pyithu Hluttaw on Finanacial, Economic and Social Conditions (1988-89), Ministry of Planning and Finanace, p.31-40.

expenditures on administration and establishment of socialism also speeded up the rate of inflation. Moreover, black market, smuggling and other self-employed legal and illegal informal sector economic activities also grew rapidly especially after the mid-seventies.

According to the last census taken in 1983, population of Yangon grew at a slow pace. The recorded number was 2.5 million and it was increased about 19.8% in between the two censuses years. If we look back the annual growth rates, the rate was 5.7% in 1953-65 and it declined to 2.02% in 1965-73. The rate also continued to decline to 2.0% per annum for the period between 1973-83. The probable factors for the above mentioned slow growth of Yangon population were two. The first concerns with the decentralisation of socio-economic activities of Yangon especially after 1970s. But, the share of industrial establishment of Yangon still had 32% in 1983-84. Moreover, most of the large-scale government industries are still located in Yangon. Decentralisation of education and health facilities were also applied in latter part of the 1970s. But, eleven out of fifteen large universities for professional education are still located in Yangon city. Besides that, nearly 60% of specialised hospitals and 35% of general hospitals are also still in Yangon.

Second, the most probable factor concerns with the development of urban informal sector in other secondary cities. Since after 1970s, the migration towards Yangon seemed to diverge to Mandalay, situated near China and other secondary city, Molumein, situated near Thailand, due to the rapid growth of black market activities and smuggling of durable and non-durable consumer goods in these cities. The diffusion of black market informal sector activities from divisions and states capital to small provincial towns appeared rapidly again due to the long-lasting bad economic performance of Myanmar. This long-lasting stagnant character created not only the smuggling and black market activities but also the varieties of self-employed urban economic activities and corruption especially after 1980s¹⁸⁵. Despite the above-mentioned recent slow growth of population, Yangon has not only been the centre of economy, politics, administration, transportation, education and health care but also the basic practising ground for the informal sector activities of Myanmar. Moreover, the nature and course of urbanisation of capital city Yangon has been strongly integrated with the socio-economic development of itself and the whole nation.

¹⁸⁵ Jagannathan, N.V.(1987): *Informal Market in Developing Countries*, Oxford University Press, Inc., p.108-118.

State and Division 1	Total Population (000) 2	Urban Population (000) 3	Rural Population (000) 4	Degree of Urbanization (3/2)	Degree of Urbanization (3/4)
Union	35308	8466	26845	23.98	31.54
Yangon Division	3966	2705	1261	68.20	214.50
Mandalay Division	4578	1214	3363	26.50	36.10
Pegu Division	3800	740	3060	19.50	24.20
Mon State	1680	473	1207	28.20	39.20

Source: The basic data are taken from population census of Burma 1983.

Population of Myanmar is estimated as about 35 million in 1983 and the majority of the people live in rural areas. However, the estimated share of urban population is only 28 per cent in 1983. The degree of urbanization in major regions of Myanmar is given in Table (3.10). The capital region of Myanmar, Yangon Division, is the most urbanized region and 68 per cent of population is accounted for as urban population. According to the 1983 census the population of Yangon city was 2.7 million and this figure was nine-times larger than average size of the secondary cities of Myanmar. In Myanmar, immigration has never been a significant source of population growth. The rapid increase of the population of Myanmar, therefore, was not due to immigration from other countries. The rural-urban migration into capital city Yangon was encouraged by the ending of the great public demonstration in 1988. The result of the rapid inflow of people to city Yangon was a rapid expansion of the city and led to over-crowding.

3.4.2 Taxonomy of Urban Economic Activities

As in the other Third World nations, numerous informal economic activities of production and distribution of goods and services are endlessly growing especially in Yangon. The characteristics of small-scale and highly diversified urban economic activities of Myanmar seems to create the conceptual problem as well as the problems of measurement and research methodology when one attempts to investigate into the urban informal sector of Myanmar. However, the dualistic character of urban economic activities, i.e., "formal and informal", can be differentiated in terms of 'value added', 'productivity' and 'wage'. Generally, the formal sector has high value added, productivity and wage compared with the informal sector. From the theoretical point of view these three criteria seem relevant for the measurement of differences between formal and informal sectors of Third World nations.

However, due to the labour market imperfection, rigidities in wage structure and non-wage based nature of the majority of informal sector activities, the application of the above criteria for identifying the informal sector appears somewhat difficult. Moreover, the problems such as lack of statistical information and the difficulties of determining appropriate level of value added, labour productivity and wage as the dividing line between informal and formal sectors can also pose serious bottlenecks in an empirical investigation. To overcome the above mentioned problems, legal minimum wage can be used as a cut-off point between formal and informal sectors¹⁸⁶, since it is likely to reflect the national socio-economic condition of the country concerned. However, in the case of Myanmar, the legal minimum wage does not reflect the actual daily cost of living due to the distorted price and wage structure of the economy. The daily wage or average daily income of informal sector job is actually higher than the legal minimum wage in Myanmar.

The legal minimum wage, for example, was 6.50 kyats per day (US\$ 1.0 is approximately equal to 7.0 kyats)¹⁸⁷ before 1987, and it was only one third of the informal sector daily average earning or wage. In 1989 the government of Myanmar increased the legal minimum wage from 6.50 kyats to 15 kyats¹⁸⁸. But this amount is still lower than the informal private sector wage rate or daily average income. Especially, since after 1980 all the wage and salary earners of government sector were unable to afford to buy basic necessity goods with their formal income. Therefore, some of those employed in the government public sector started to earn their living by means of corruption. Others started engaging in informal sector activities in the duty-off hours and holidays as side-jobs¹⁸⁹. In view of the above mentioned situation in Myanmar, the wage or average daily earnings of informal sector seems to be more appropriate rather than the public sector legal minimum wage for determining the dividing the between formal and informal sector in order to formulate the informal sector concept in Myanmar. Another problem encountered in formulating the informal sector concept is the choice of an appropriate economic unit¹⁹⁰. One should consider in terms of individuals, households or enterprises when defining the concept of urban informal sector. In order to integrate with the macro-level urban development policy of Myanmar, one should consider all these types of economic units.

Moreover, classifications of types of self-employed and small-scale production units according to their mode of production and scale of operation, although the

¹⁸⁶ Ibid (p.57).

¹⁸⁷ The black-market exchange rate has been moving around 50 kyats per dollar since early 1980s, and 70 kyats in 1991. It is now nearly 1000 kyats to a dollar.

¹⁸⁸ Most of the public sector legal minimum wage earners and low paid salary workers have the side-jobs to maintain their family expenditure. But the number of legal minimum wage earners is negligible.

¹⁸⁹ The urban poor of Third World nations could belong to either formal or informal sector of the economy.

¹⁹⁰ Sethuraman, S.V. (ed.) (1981): *The Urban Informal Sector in Developing Countries*, p.13, ILO.

study on racial and religious distribution of informal sector activities of Myanmar is also important, are also necessary. But, it is impossible to consider all types of informal sector activities of Myanmar simultaneously because of many limited factors. Some of the ILO studies defined informal sector as those economic activities of manufacturing, construction, transport, trade and services sectors with ten persons and less¹⁹¹. This seems to be relevant for Myanmar as well. The sectors such as mining and quarrying, electricity, banking, insurance, finance, post and telecommunication sectors should be assumed to contain none of informal sector enterprises since they are completely dominated by formal public sector establishments in Myanmar. Furthermore, long lasted socialist economic policies of Myanmar (from 1962 to 1988) which implicitly did not encourage even the small-scale private enterprises created the fragmentation of urban economic activities and pushed these highly fragmented economic activities again into informal sector. So, most of the scale of operation of the urban informal sector activities appears to be around five hired workers or less. However, to implement the wider urban development policy issue and for international comparison the scale of operations of economic activities should cover those with less than ten persons.

	Type (1)	Type (2)	Type (3)	Type (4)
Mode of production	Production and distribution of goods and services by machines and hired labours	Production and distribution of goods and services by machines, hired labours and unpaid family workers	Production and distribution of goods and services by unpaid family workers	Production and distribution of goods and services individually
Number of employees	5~9	2~9	2~5	-
Type of sector	Manufacturing and construction	Manufacturing, transport and construction	Trade and services	Trade and services

Note: Number of workers engaged in four types of economic activities is based on general situation of small-scale economic activities of Yangon during 2000s.

According to the existing general features of urban informal sector of Myanmar, the small-scale production activities under the consideration of mode of production and scale of operation can be roughly classified. Table (3.11) demonstrates the classification of urban small-scale activities of Myanmar. Type (1) informal sector economic activities mainly consists of small-scale

¹⁹¹ (Sethuraman, S.V., 1997: p.21-22)

manufacturing industries with a range of hired labour from five to nine persons. Financial source is completely personal and labour also depends on private sector labour market. Foreign made smuggled raw materials from Thailand, China & Bangladesh and recycled raw materials are rarely used. The products of type (1) informal sector are sold not only private market but also in co-operative shops and government shops. Therefore, type (1) informal sector economic activities have clear forward linkages with formal sector, although it has weak backward linkages with formal sector. Type (1) has moderate employer-employee relationship (not formal) and regular as well as irregular labour hours. Those smuggled durable and non-durable consumer goods from Thailand, which belong to type (1) informal sector products categories, have penetrated into the black market of Myanmar since the early part of the 1970s due to the gradual decline of State Economic Enterprises (SEE). Smuggled goods from China and Bangladesh also came into Myanmar especially after 1980.

Type (2) informal sector economic activities generally concern with the activities of transport, manufacturing and construction. Financial and raw material sources are purely personal and informal. The input from smuggling and recycling play an important role and relies on informal hired and/or unpaid family labour. The number of employed labour is likely to range between two to nine persons. Labour hour is irregular and employer-employee relationship is negligible. The characters of moderate forward linkage and weak backward linkage with formal sector is obvious in this type.

Type (3) informal economic activities mainly consist of producing and/or selling of food and basic consumer goods and services primarily without the help of machine and hired labour. These activities normally belong to retail trade and services sectors. Financial source completely relies on personal such as self-financing or borrowing from relatives and friends on daily, weekly and monthly basis¹⁹². Local made raw materials from informal market and recycled materials also play an important role. There is employer-employee relationship and labour hour is also very irregular. The number of unpaid family workers range from two to five persons. Type (3) informal sector activities have the moderate forward and weak backward linkages with formal sector economic activities.

Type (4) self-employed individual informal sector economic activities mainly consist of street hawkers and vendors selling cheap food and other consumer goods and services, such as the slipper and umbrella repairing, selling water, cigarettes, sweets, fresh juice, lottery tickets, nuts, fruits, etc., at busy public

¹⁹² Bank interest rate is around 8% and black market interest rates range between 36% to 120% per annum. Private moneylenders usually charge 10% per month for the loan without guarantee. The black market interest rates depends on duration, amount and types of guarantee.

places¹⁹³. Financial sources completely rely on self-financing or borrowing from small money lenders with high interest rate on daily or monthly basis. Although working hour is irregular, the place of work is normally fixed and use local raw materials only. But the sellers of cigarette, sweets, soap, tooth pastes, stationary, lighters and gas, etc., mostly deal with smuggled goods. Some self-employed labourers are engaged in buying the used bottles, papers, and some plastic materials from households and sell it again to recycle shops by some profit margin. Needless to say, the daily life of the urban people of Myanmar largely depend on the type (4) economic activities. But it is somewhat difficult to mention the relationship between formal sector and self-employed economic activities. Although many aspects should be considered in formulating the informal sector concept, most of the urban informal sector activities of Myanmar can be identified without any investigation, just by visual observation. The main characteristics of all above-mentioned types of urban informal sector activities can be summarized as in table (3.12).

¹⁹³ Type (4) informal sector jobs are labelled "Murkey sector jobs" in: Lwin, M.M. (1983): *Burmese Urbanization: An Overview*, No.10, February, Economic Research Centre, Faculty of Economics, Nagoya University, Japan.

Sr.	Characteristics	Formal Sector	Informal Sector			
			Type (1)	Type (2)	Type (3)	Type (4)
1.	Organization	Co-op/Public	Private (employer/employee)	Private (family base/employer-employee)	Private (family base)	Private (Individual)
2.	Technology	Capital/Labour-intensive	Labour-intensive	Labour-intensive	Labour-intensive	Labour-intensive
3.	Capital	Moderate	Less	Less	Scare	Scare
4.	Source of capital	Bank/Co-op loan	Personal	Personal	Personal	Personal
5.	Wage/Salary	Regular	Irregular	Irregular	Irregular	Irregular
6.	Labour hours	Regular	Irregular	Irregular	Irregular	Irregular
7.	Price	Generally fixed	Negotiable	Negotiable	Negotiable/Fixed	Negotiable/Fixed
8.	Profit	Lower per unit of sale but total is high due to the volume of profit	Moderate for per unit as well as total	Moderate for per unit as well as total	High for per unit but low for total	High for per unit but low for total
9.	Inventory	Large	Small	Small	Very small/None	Very small/None
10.	Fixed cost	Important	Less important	Less important	Negligible	Negligible
11.	Source of labour	Formal labour market	Informal labour market	Informal/Family labour	Family labour	Self-employee
12.	Division of labour	Necessary	Necessary	Less necessary	Negligible	Negligible
13.	Wage level ⁺	Low	Moderate	Moderate	Moderate/Low	Low
14.	Productivity ⁺⁺	Low	Moderate	Moderate	Moderate/Low	Low
15.	Production relation	Bureaucrat and workers	Employer-employee relationship	Employer-employee relationship	Family relationship	Personal
16.	Source of raw material	Local/Foreign (formal)	Local/Foreign (smuggling/recycling)	Local/Foreign (smuggling/recycling)	Local (informal/recycling)	Local (informal/recycling)
17.	Advertisement ⁺⁺⁺	Not important	Necessary	Necessary	Not important	Not important
18.	Foreign currency requirement ⁺⁺⁺⁺	Important	Not important	Not important	None	None
19.	Relation with clientele	Impersonal and/or through contracts	Personal and/or impersonal	Personal	Personal	Personal
20.	Relationship with formal sector	Strong relationship with formal as well as informal sector	Weak relationship with formal sector	Negligible	Negligible	Negligible

Adapted from: De Franco, Silvio D.; Employment and the urban informal sector: The Case of Managua (Ph.D Thesis), University of Wisconsin-Madison, 1979, p.80-82, (Appendix table 4.1).

⁺ Due to the abnormal wage structure in government (public) sectors.

⁺⁺ Due to the inefficiency of management in state economic enterprises.

⁺⁺⁺ Under the economics of socialism (1962-1988) formal government sector's advertisement was negligible but for future it will become important due to the introduction of market mechanism.

⁺⁺⁺⁺ Although type (1) and type (2) economic activities need foreign made materials they can obtain these things with local currency from smugglers.

CHAPTER (4) EMPIRICAL ANALYSIS OF THE FIELD SURVEY IN MYANMAR

4.1 METHODOLOGY

4.1.1 Introduction

The first step of this study is formulating a statement of the problems that become the starting point why this study should be done in Myanmar. The second stage is exploring selected theoretical and literature reviews, which are related to the study narrow or sharpen the objectives of the study. The next question is how to develop methodology to reach the objectives of the study.

In terms of methodology there are two distinct components of this study, these are: the theoretical and empirical components. For the literature studies, a review of previous studies has been carried out concerning a lot of books with small and medium enterprises (SMEs) at the Seminar für Handwerkswesen, Göttingen, and most especially from Niedersächsische Staats-und Universitätsbibliothek. The theoretical component was first undertaken so as to clearly understand the specific workings of informal sector enterprises and then to develop a theoretical framework for such enterprises. The second theoretical exercise was to study the definition of informal sector enterprise and their linkages with the formal sector with specific reference to Third World nations. The special attention was given to the New Institutional Economics framework in the development process of these enterprises. This specific exercise was aimed at examining the conditions under which such enterprises emerge, how they survive and the conditions which are conducive to their growth and development. On the basis of the findings of these two specific components of the theoretical study a questionnaire was prepared for the field research to specifically address some of the key issues which the theoretical study identified. In this study semi-structured interviewed were conducted with 75 entrepreneurs. Observation was also used to monitor their business operations.

4.1.2 Procedure for Data Collection

4.1.2.1 Secondary Data

The survey was carried out in Myanmar in two periods. The first was conducted in August 2003. In this first period, secondary data respecting to performance of small enterprises were collected in some departments in Myanmar, e.g., Ministry of National Planning and Economic Development, Department of Labour, Department of Cottage Industry, Yangon City Development Committee (YCDC), and Yangon Institute of Economics. Secondary data like government reports,

official statistics, etc., were obtained from Ministries and national headquarters of several public and semi-public institutions in Myanmar. In addition, unpublished reports, researches and conference proceedings were collected. Personal informal interviews were also conducted with not only individuals who are intimately involved with enterprise development in various ways in Myanmar but also researchers and traders in the market. These individuals are as follows: Director of Ministry of Industry (1), Director of Cottage Industry, Director of National Planning and Economic Development, responsible persons at the Yangon City Development Committee (YCDC), and officers of Township Commercial Bank, etc.,. This kind of informal interview with these relevant people was needed in order to gather more information about the issues being studied. This secondary information was very important especially in an attempt to establish the extent to which these people perceived findings from the survey. The main aim of the personal informal interviews with these individuals is to implement, substantiate and cross check some of the data and comments of the interviewed entrepreneurs from the structured questionnaire.

Secondary data are, to a limited extent, also very important to support this study. The kind of secondary data such as Gross Domestic Product (GDP), Labour Force Participation Rate, Employed Population by Economic Activity and Occupation, etc. are issued by the Department of Labour and Ministry of National Planning and Economic Development. According to the experiences, care should be taken with these different sources of data. For example, data published by a source could have a different value when published by other ones. To overcome this problem, one should be consistent in selecting and collecting data. Meanwhile, the data on the size distribution of firms, micro- and small-scale enterprises, etc., are actually relatively rare, and national data on household, micro- and small-scale enterprises are not collected very regularly.

4.1.2.2 Primary Data

The second part of the survey was carried out from September to November 2003. The respondents were picked by simple random sampling as well as convenience sample and asked to fill in a structured questionnaire (annex 1), containing questions on participating in production of respective products. The questionnaire was quite extensive. This, however, was the result of a deliberate choice based on the following considerations. Firstly, the information available regarding small enterprise as a whole was very limited; therefore this research and the questionnaire were quite explorative in character. Secondly, establishing the politico-ideological aspects requires a relatively large number of open questions. Before the survey was launched, the questionnaire prepared for this study was pre-tested with randomly selected five enterprises in August 2003. The pre-testing

revealed a number of inconsistencies and problems with the questionnaire; on the basis of these observations it was re-designed and to find the average time needed for one interview and then final survey was conducted. During the survey, a structured questionnaire was used and the owner-operators of small enterprises covered in the selected enterprises were interviewed personally. The questionnaire designed to cover most of the discussions contained 60 questions, both open and closed ended, and the language of communication was Myanmar.

The survey was conducted enterprise by enterprise. In every enterprise the same procedure was applied. Enterprises in the sample were selected by simple random sampling to obtain a general overview of the informal enterprises in the selected regions. Within the limits of this study, it is neither possible nor necessary to survey all branches of small enterprise in all large urban areas of Myanmar. Moreover, one basic problem of surveying micro- and small-scale enterprises in Myanmar is found in the absence of the readily available and reliable information that could be used as a source from which to draw a representative sample. Therefore, simple random sampling approach will be sufficient for this purpose. The main objectives of the survey were to collect qualitative information rather than quantitative data on the issues being studied as stated in the previously formulated research objectives.

In this study, four branches of small enterprises were selected to some differences in supply and demand, and they could probably link with other business sectors in Myanmar. They are blanket weaving, footwear, rattan and cane, and wood-based enterprises. Footwear production has a long tradition throughout in Myanmar. The basic raw material, leather and sole, are available in ample supply. This is different for blanket weaving enterprise which relies almost exclusively on imported fabric and waste of garment industry. Although blanket weaving enterprise has been present in Myanmar for centuries, blanket weaving achieved their overall economic importance after the introduction of imported goods from garment industries. Rattan & cane and wood-based products are handiwork and the craftsmanship is very important and the basic raw material is abundant in Myanmar. After having the market-oriented system in Myanmar, not only government enterprises but also private enterprises directly export the rattan & cane and wood-based products into international market. In contrast to other informal enterprises, the selected informal enterprises are more subject to export-orientation through central market and changes in the formal economy. By choosing footwear, rattan & cane and wood-based enterprises this study excludes repairs and services. For blanket weaving, footwear, rattan & cane and wood-based enterprises alike, emphasis was put on production only; and not on distribution, retail and service industries.

It is expected that the performance of the selected enterprises is different. However, it is also expected that linkages between selected small enterprises and other business enterprises are different. The survey was carried out in three different regions in Myanmar, i.e., capital city, Yangon, as basic survey entity together with Monywa (Sagaing Division) and Yekyi (Ayeyarwaddy Division). The differences between these regions that could apparently be explained are their economic activity, structure and growth within an area. Another factor considered when selecting the research regions is the distance of the regional market from the central market. Yangon is selected for several reasons. It shows the highest concentration of 'formal sector' enterprises in Myanmar, has a large informal sector economy and most urbanized region, is nearest (in geographical and political terms) to international markets and therefore directly subjected to external economic influences. Monywa and Yekyi are indigenous areas, i.e., blanket weaving and rattan & cane enterprises are prominent in Monywa and Yekyi respectively, and the enterprises depend basic raw materials acquisition and sales of their final products on capital city Yangon mostly. Monywa and Yekyi are located 827 kilometre and 110 kilometre away from Yangon respectively.

	Yangon	Monywa	Yekyi	Total
Blanket weaving	-	15	-	15 (20%)
Footwear	30	-	-	30 (40%)
Rattan & cane	8	-	7	15 (20%)
Wood-based	15	-	-	15 (20%)
Total	53(70%)	15(20%)	7(10%)	75(100%)

Source: Own survey, 2003

During the survey, entrepreneurs for all of the seventy five (75) enterprises were interviewed by the researcher. The seventy five enterprises are distributed within the four sub-sectors and three regions as follows: 30 footwear enterprises, 8 rattan & cane and 15 wood-based enterprises in Yangon and 15 blanket weaving enterprises in Monywa and 7 rattan & cane enterprises in Yegyi. All enterprises are managed by no more than two individuals who are directly responsible for overall decision making. There was a 100% response to all questions except those related to level of sales and profits. Table (4.1) shows the matrix of survey enterprises.

Apart from a few major enterprises, no records are kept of firms, and, in their turn, entrepreneurs do not usually keep records of the numbers and types of labourers employed. Moreover, the sample could not be exactly established, because most of the enterprises surveyed were not officially registered. Consequently, it is difficult to estimate how representative the sample was for every enterprise and region concerned. The degree of representativeness of the

study was, therefore, not known. In an effort to alleviate this practical problem, discussion was not restricted exclusively to the producers in question in the interviews with the sampled producers, but an attempt was also made to establish the extent to which the findings on the sample units of production were perceived as typical by the respondents. During the interview they were also asked, e.g., whether their business is their main job or they have other jobs, or what kind of labour is employed in the enterprises, etc.

In the actual field research, it proved easy to identify small-scale enterprises. There are relatively few small-scale and medium-scale enterprises with more than 10 employees but fewer than 100 employees. For the purpose of this study, any unregistered enterprise with up to 10 hired employees, excluding apprentices and unpaid family members as a guide to define the enterprises selected for interviewed. Walking through the streets, all visible enterprises were marked on the sheets and randomly selected for interview. Because these enterprises had to be visible in order to interview, some may have been excluded, in particular small-scale activities carried out by individuals. Therefore, the completeness of the sampling frames constructed in this manner is not guaranteed. Nevertheless, this method was preferred to a sampling frames based on the statistical data available at the office of the municipality of Myanmar. A field-check of the municipality's list of enterprises revealed some serious imperfections. With regard to enterprises this list was not updated and was biased towards the larger ones, despite the fact that even the smallest enterprises appeared to have a municipal certificate of registration. Even more serious, the enterprises were not included in the list at all.

The home addresses acquired through the survey were quite often incomplete, and thus a lot of time had to be spent finding the persons involved. When an entrepreneur was found, an appointment was fixed according to his/her convenience with respect to time and place. Thus, the sample was taken from the list of names drafted, and they were in principle approached and interviewed in their home environment, i.e., the actual environment of informal sector activities. The person interviewed was free to voice his/her own concerns in a semi-structured interview. The interviewer relied on open questions to introduce topics of interest, without the interviewer imposing his/her ideas. The interview was usually lasting over an hour, while some interviewees were visited a couple of times. The survey data had to be taken with caution. Especially in answering the questions concerning income or generally financial data and employment, almost all of them showed hesitations. But these appeared to be due rather to a lack of knowledge and full insight in their financial and production process situation than to unwillingness to answer the questions. Throughout the interview period, observations were made at enterprises on customers and the social interaction

between the producers and/or sellers of products among themselves and with their customers.

Moreover, enterprises relationship, although to some extent part of the domain "enterprise linkages" is the most difficult to measure. There are several reasons for this. All enterprises surveyed are, at least to some extent, successful for their own reasons of the existence. They are survivors in an extremely difficult economy and cannot see their relationship directly. As information on termination rates among the informal enterprises is not available and most difficult to collect, the survey is naturally biased towards the more successful ventures of informal entrepreneurs. Surviving in an economy characterized by extreme ups and downs is, by itself, a virtue. Business survival in an economy of extreme scarcity and unpredictability is a fundamental indicator of entrepreneurial skills and success. Having established some of the methodology employed during the research, the limitation of the study will be discussed.

4.1.3 Limitations of the Study

This study consists of two parts of analysis: first, at the urban level and secondly at the province level. At both level, the performance of small enterprises based on production, employment absorption, and linkages marketing, capital sources, and investment will be analysed. With respect to both urban and province level, this study has a number of limitations. Firstly, a regression analysis, e.g., the effects of real income changes and population density on the transformation process of employment, cannot be used in this study because of difficulties in obtaining data at the urban and province levels, either for time series or cross-section data. Secondly, the input-output (I-O) table to explain linkages between sectors in an economy quantitatively cannot be applied, because the existing I-O data refers only to the national level and not be published every year. Therefore, the linkages will be analysed qualitatively on the basis of relations between existing the linkages between enterprises or firms at micro level. Another reason for using this method is that if the I-O data are published every year, generally, the raw data of statistics are not very reliable over time, especially when they apply to regional and district levels.

Moreover, this study has also a number of limitations. Firstly, the sample survey was not drawn on the basis of registered data. The registered data obtained at Yangon City Development Committee (YCDC) involved only the address of enterprises, products and kind of enterprises, but data on capital sources, raw material, labour and marketing had to be collected in field surveys. Thus from this study, one cannot draw quantitative conclusions on small-scale enterprises sector in Myanmar such as the relative contribution to outside orientation of rural small-

scale enterprises, but the results on the relationship between variables may be indistinct. Secondly, no data on income or value added are available, this is due to the fact that, during the survey the majority of the sample entrepreneurs could not give correct information on their incomes. Moreover, production value is obtainable from the sample survey, although the obtained data should be compared with input employed in the production process. Therefore, on the basis of data collected from the sample survey, this study cannot draw the profit margin of the enterprises by the kind of each product. Thirdly, the selected enterprises were concentrated on handiwork in nature producing blanket, footwear, rattan & cane, and wood-based. The enterprises were divided by the kind of product, not by size of enterprises, e.g. sum of capital, total sales. The division of enterprises is not comparable with the data obtained from national or provincial level that were arranged by International Standard Industrial Classification (ISIC).

Finally, there is always some problem with the reliability of information provided by respondents. This is another reason why, during the survey, many other relevant people, not only the sample producers themselves, were also interviewed informally to gather more information that was used to check the primary information obtained from the entrepreneurs in the sample. However, the information which is provided adequately addresses the objectives of the study and answers the research questions which is really what matters in the final analysis. In reality, for the investigation of social phenomenon data collection and data analysis is never really complete. Subject to all these limitations, the information obtained from the respondents concerning the issues being studied are analysed and used to make a generalization on the issues within the study regions.

The interview responses are analysed for content using frequency counts and percentages. Therefore, this study used interviews for qualitative information rather than quantitative data, thus simple frequencies and percentages were used to indicate the direction of the responses. Qualitative in-depth information was derived from the discussion and interviews with the entrepreneurs.

4.2 GENERAL ANALYSIS OF THE SAMPLE

4.2.1 A PROFILE OF ENTREPRENEURS

The entrepreneurial characteristics for analysis in this section include the male-female distinction, the age distribution of the entrepreneurs, their nationality, their family background, former income earning activities, the level of education, and their sources of technical and management skills, etc. These characteristics help to understand the nature of the people who turn themselves into small entrepreneurs.

4.2.1.1 Gender, Age, Nationality, Religion and Area

Small enterprise seems to be dominated by males. With regard to the male-female distinction, it is evident that still the majority of selected small entrepreneurs are male, accounts for ninety per cent (96%) of the total number of entrepreneurs while female entrepreneurs are only four per cent (4%) in the research regions, especially in footwear and rattan & cane sub-sectors.

A. Gender	Male	96%
	Female	4%
B. Age	Mean age	40 yrs
	Minimum	27 yrs
	Maximum	72 yrs
	< 30	2.67%
	30 ~ 39	34.66%
	40 ~ 49	50.67%
	50 ~ 59	10.67%
	60 <	1.33%
C. Nationality	Pure Myanmar	86.66%
	Chinese Myanmar	10.67%
	Indian	2.67%
D. Religion	Buddhist	97.33%
	Islam	2.67%
E. Area	Urban	12.00%
	Rural	88.00%

Source: Own survey, 2003

In terms of entrepreneurs' age, according to Hisrich and Peters (1989), most entrepreneurs start their entrepreneurial careers between the ages of 22 and 35. In this survey, it was found that 88 per cent of the surveyed entrepreneurs started their business careers between these ages. The entrepreneurs' present average age

is 40 years. The entrepreneurs' age varies from minimum age of 27 to the maximum age of 72. While, 2.67 per cent fall into the under 30s group, only 1.33 per cent belong to the over 60s group. Table (4.2) presents more details on the age distribution of the entrepreneurs.

The nationality group to which small entrepreneurs belong may be an important factor explaining the extent to which they engage in the informal economic activities in Myanmar. The majority of the nationality factor belongs to pure Myanmar that accounts for eighty seven per cent (87%) while Chinese Myanmar and Indian nationality, almost they were involved in wood-based and footwear sub-sectors, are eleven per cent (11%) and 2.67 per cent respectively. This is the fact that the immigrants of Chinese and Indian Stock has also been gently absorbed the colonial days.

The main religion of Myanmar is Buddhism; but other citizens are allowed to enjoy freedom of worship such as Hindu, Christianity, etc. According to the survey result, 97.33 per cent of the entrepreneurs are Buddhists whereas only 2.67 per cent belong to Islam in the research areas. Hindu and Christianity were not recorded. Therefore, the Christian and Hindu entrepreneurs seem to a lesser extent than Islam to be engaged in the selected small enterprises could be explained by their relatively higher craft skills and consequently wider choice of income-generating activities.

	Birth place in %		Current work area in %	
	Urban (12%)	Rural (88%)	Urban	Rural
Blanket weaving	-	22.73	-	68.19
Footwear	77.77	34.85	56.60	-
Rattan & cane	11.11	21.21	15.09	31.81
Wood-based	11.11	21.21	28.31	-
Total	100	100	100	100

Source: Own survey, 2003

Although it might be expected that most entrepreneurs would come from an urban background because of the industrial cluster, as shown in table (4.2), almost eighty eight per cent (88%) of the entrepreneurs were born in rural areas. Only twelve per cent (12%) of entrepreneurs were born in urban areas. Most of them are engaged in business such as footwear and wood-based enterprises. It is interesting to note how an entrepreneur who was born in a rural or urban area is engaged in different industrial sector. For example, if a selected entrepreneur is engaged in footwear sector, there is 77.77 per cent chance that (s) he is a person who was born in the urban area. However, when one takes into consideration rural-born entrepreneurs, the majority of them are found in footwear and blanket

weaving sectors, account for 34.85 per cent and 22.73 per cent respectively. Table (4.3) shows the detail of percentage distribution within sectors and areas. Basically, customer-oriented products are popular among urban-born entrepreneurs while skills-oriented (handiwork) products are popular among rural-born entrepreneurs.

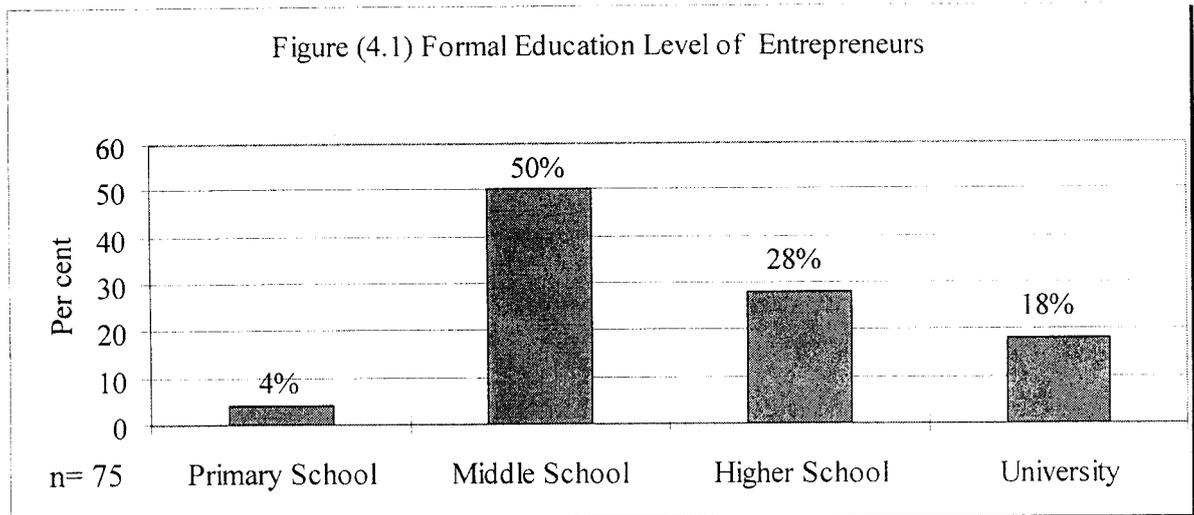
4.2.1.2 Professional Qualification

The entrepreneur may be described as the owner who perceives needs, conceives goods and services to satisfy needs, organizes the factors of production, and creates and markets the products¹⁹⁴. In this regard, it was important to identify the professional qualifications of the entrepreneurs as this has implications for performance and entrepreneurship. These qualifications are here exemplified as formal educational level and professional training. Apprenticeship training involves a young person serving a master craftsman or proprietor for a given period of time in order to learn a trade or craft. It provides a good example of pure on-the-job training through training at a regular workplace; the job becomes the core of the instruction that guarantees the acquisition of practical skills. Thus, it is a low cost way of providing better job training for more workers and the primary vehicle for training labour for the micro- and small-scale enterprises.

Observations during the field works show that many of those who are less than nine years of formal schooling were successful in their businesses. This is probably so because the workers possess high business acumen and native intelligence. They have excellent retentive memory and high organizational ability. Hence they are able to conduct their businesses successfully without keeping accounts or any records. Since having education could not have detracted from their business acumen, one can safely conclude that if the people had good education they would not have done badly. Some of them at least would probably have done better. A means of providing education for these entrepreneurs would therefore help them in their businesses.

Figure (4.1) shows the formal education level of entrepreneurs in the research regions. The formal education level could be recorded as follows: Primary school (up to five years of schooling), Middle school (up to nine years of schooling), High school (up to eleven years of schooling) and University. As shown in figure (4.1), fifty per cent (50%) of the entrepreneurs in the sample attended middle school, while four per cent (4%) were finished primary school. Twenty eight per cent (28%) of the entrepreneurs in the sample terminated high school level, and eighteen per cent of (18%) the sample had graduated from University.

¹⁹⁴ Louck, K. (1988): Training Entrepreneurs for Small- Business Creation: Lessons from Experience, Geneva; ILO.



Source: Own survey, 2003

In addition to formal education, technical and craft skills (TCSs) are more important in particular for small entrepreneurs. Amazingly, as the information says, the major source of acquiring TCSs is the self-study/on-the-job training for all of the respondents. As shown in table (4.4), about forty six per cent (46%) of the respondents reported that they have obtained their TCSs on the basis of self-study or on-the-job training. Apart from that, the other important sources are family tradition and former job. Nearly fifty one per cent (51%) of the selected entrepreneurs have acquired their TCSs through family tradition (35%) and the previous jobs (16%). The other sources are friends and their relatives, accounting for two per cent (2%) and one per cent (1%) respectively.

Table (4.4) Sources of Technical and Craft Skills (TCSs) and Management and Administrative Skills (MASs) n = 75

Sources	TCSs	MASs
Self-study/On-the-job	46	93
Former job	16	-
Family tradition	35	7
Friends	2	-
Relatives	1	-
Total (%)	100	100

Source: Own survey, 2003

Apart from the TCSs, management and administrative skills (MASs) are also very important for the entrepreneurs. The sources of these skills are reported at the third column in table (4.4). It is also interesting to note that almost ninety three per cent (93%) of the respondents have acquired their MASs on a self-study/on-the job basis. Seven per cent (7%) of the entrepreneurs obtained MASs skills from

family tradition/inheritance. A critical point is that the impact of the formal training sources (school and technical colleges) on these two types of skills (TCSs and MASs) is significantly very weak. Although there are some universities, technical colleges and vocational training centres in Myanmar, the informal entrepreneurs obtain their TCSs and MASs skills on self-study.

In many developing countries in small-scale activities, government-sponsored vocational training remains minimal and is geared almost exclusively towards the modern sector of the economy. In a number of countries where school leavers may be numbered in hundreds of thousand¹⁹⁵. Under these circumstances, access to training can be particularly problematic for informal entrepreneurs. Traditionally, the entrepreneurs learn the skills they need in life from parents, usually transmitted from one generation to another. In traditional societies crafts were often transferred in the families from one generation to another. The 'modernization' approach to developing societies would seem to imply that this would be of minor importance in contemporary society. A remarkably high number of entrepreneurs in this study indicated that they were self-taught. This is more obvious in areas where the entrepreneurs have only recently entered small business activities.

It is well known that apprenticeship especially in Myanmar constitutes the major means of transmitting and acquiring skills for self-employment. Within the apprenticeship system both boys and girls were attracted to various 'master' for a period of up to 1 or 2 years. During this time they did not receive a salary, although they were sometimes given pocket money, but were raised as part of the family participating also in various household tasks. A survey of the informal sector carried out in Dakar revealed that 67 per cent had been apprentices to artisans, small self-employed jobbing sub-contractors, 21 per cent had worked as employees or apprentices in small enterprises, and only 12 per cent had received their training in a formal technical school, in the army or in a state organization¹⁹⁶. In spite of its continued importance, it appears that the apprenticeship system in the current situation is, nevertheless, faced with certain serious problems. As Hugon (1990) points out, in its attempts to survive, the craft industry is paving the way for its own destruction. To meet competition from high-productivity units, craft workshops are cutting their costs, lengthening the period of apprenticeship and taking on apprentices in increasing numbers. Since the latter are unable to find employment, underground workshops are proliferating and competing with the craft workshops. Another problem with the apprenticeship system is, according to Giri (1990), that as apprentices are generally not given theoretical training, it is virtually impossible for them to progress beyond the level of their

¹⁹⁵ King, K. (1990b): *Emerging Trends in Africa: A Brief Note for New Studies*, in Turnhan, D.; Salome' and Schwartz, A. (eds.): *The Informal Sector Revisited*, pp. 187-201.

¹⁹⁶ (Lubell: 1990, p.28).

masters¹⁹⁷. The results of this study clearly show that the dominant way of acquiring professional skills was training of an informal character.

The weaknesses of small enterprises are limited management and continuity. Financial management problems arise when entrepreneur's personal expenses cannot be differentiated from those of the enterprises. One of the reasons of this was that they had no bookkeeping to control financial transactions. This was sometimes worse when they had obtained loans from the bank or from other credit sources. Continuity is a factor that plays an important for the expansion of enterprises in the future. In fact, when the owner or manager dies, there is no one to assume the further management of the enterprises; in other words, the enterprises also die. Moreover, one can see in how far the entrepreneurs are willing to enhance their knowledge or entrepreneurship. Some departments in Myanmar, e.g., Institute of Economics, Department of Cottage Industry, and some respective associations offer a packet program in which the entrepreneurs can participate to acquire adequate knowledge. After graduating from this program, most of them can work at the same places or in other industries. This shows that small enterprises, in general, play an important role as workshops, though apprenticeship programs are offered. Moreover, Department of Cottage Industry frequently promotes and organizes some extension programs. However, the participation of entrepreneurs taking courses offered by such departments was not recorded. The reason may be the entrepreneurs have no initiative or high motivation to enhance their knowledge or they are not aware of the importance of these courses for their business.

Moreover within the sector there is no evidence of the use of professional management. This low level of training and use of professional management services implies that a low capacity to assimilate complex technical and managerial information and techniques. It also reflects the lack of emphasis which most entrepreneurs place on the role of management in the operation of their enterprise. This lack of emphasis is clearly reflected at a number of levels. Firstly, only nine per cent (9%) of the respondents indicated poor or lack of management as a constraint to growth and development. Secondly, only thirteen per cent (13%) indicated improved management as a proposed solution to their existing problems. Finally, only four per cent (4%) reported that management among the existing needs of their enterprise. These responses are low, but within the context of the level of managerial skills and training within the overall sector; it also indicates that few of the entrepreneurs view management as a key internal constraints to enterprise growth and development.

¹⁹⁷ Giri, J. (1990): Skills Training for Informal Sector, in: Turnham, D., Salome', B. and Schwartz, A. (eds.): *The Informal Sector Revisited*, OECD, pp.115-117.

4.2.1.3 Prior Occupation

In addition to management and technical training of the entrepreneurs, the analysis of previous occupation is also important factor of entrepreneurship. However, for sixty per cent (60%) of the entrepreneurs, the existing enterprise has been the first ever income earning activity. The others had engaged in some form of income earning activities before they started or inherited the existing businesses. These activities are shown in table (4.5).

Sr.	Prior Occupation	Percent
1.	Student	15
2.	Government staff	13
3.	Company staff	8
4.	Apprentice in small enterprise	40
5.	Unemployment	15
6.	Others	9
	Total	100

Source: Own survey, 2003

The figure indicates that almost forty per cent (40%) had trained as an apprentice in the small enterprise before starting their own business. Twenty one per cent (21%) of the entrepreneurs had worked for either government servant (13 per cent) or company staff (8 per cent). It can be said that the selected entrepreneurs had obtained prior occupation in the formal sector (21%) before entering into the business. This indicates that both the public and private sectors are important breeding grounds for entrepreneurship in Myanmar. Although each fifteen per cent (15%) of respondents were student and unemployment, they also have had some kinds of work experience from family tradition, relatives and friends before they started or inherited their business ventures. Only nine per cent (9%) of the entrepreneurs were involved in other types of occupation such as private retail shop owner, sailors, traders and merchants.

Prior occupation	SUB SECTORS			
	Blanket weaving	Footwear	Rattan & cane	Wood-based
Student	9.1	36.3	45.5	9.1
Government staff	40	30	10	20
Company staff	-	100	-	-
Apprenticeship in small enterprise	10	56.7	20	13.3
Unemployment	36.3	-	27.3	36.4
Others	42.9	-	-	57.1

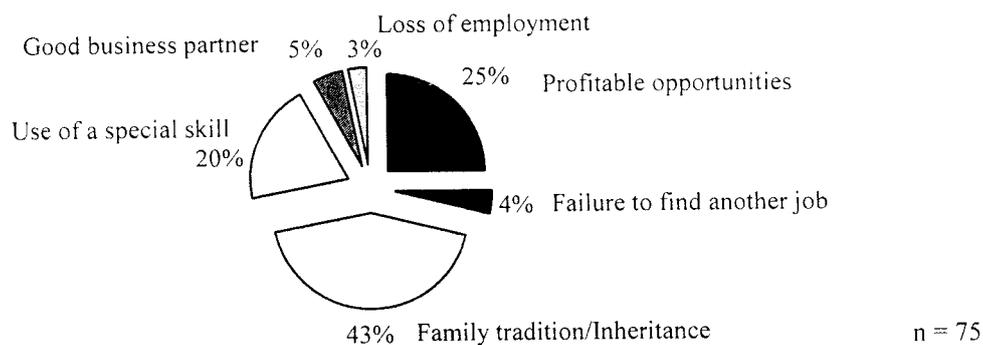
Source: Own survey, 2003

Also the prior occupation is linked to the initial motive of the entrepreneurs for establishing the informal sector enterprises. Table (4.6) shows the prior occupation of entrepreneurs by sector. Of those who had informal education whether exclusively or in addition to formal education, fifty seven per cent (57%) of footwear sub-sector entrepreneurs and twenty per cent (20%) of the entrepreneurs within the rattan & cane sub-sector had job-oriented informal training in small enterprise. Forty per cent (40%) of entrepreneurs within the blanket weaving sub-sector and 30% of entrepreneurs within the footwear sub-sector were mostly involved in the government sector, while eight per cent (8%) of the selected entrepreneurs (footwear sub-sector) learned the skills as company staff. This means that small enterprise training is mainly technical and it is directed to satisfying the needs of a specific job. However, the entrepreneurs who were involved in the formal sector are not related to their present business. Most of them were sailor, government servant and departmental store, etc.

4.2.1.4 Reasons for starting the present business

The findings of the field research indicated that entrepreneurs had varied motives for starting their present enterprises. The main motives were the identification of a family tradition and profitable opportunity. Figure (4.2) shows the 'pull' factors, that is, the pull of a profitable opportunity motivated twenty five per cent (25%) of all the interviewed entrepreneurs; whereas 'push' factors – loss of employment, family tradition/inheritance and perceiving failure to find alternative employment opportunity, together motivated fifty per cent (50%) of the total interviewed entrepreneurs. The other twenty five per cent (25%) were motivated by a mixture of push and pull factors. This combination is possible for logically it may be impossible for an individual to isolate a single motive for starting an enterprise, especially in an environment of high unemployment and limited opportunities, as exist in Myanmar. However, 'push factors' were the major motivating factors for the starting of enterprises within the sector.

Figure (4.2) Start Up Motives



Source: Own Survey, 2003

These motives varied within sub-sectors and among the sexes. Table (4.7) shows that there was a greater tendency among women to be motivated by family tradition and profit; in fact identification of family tradition (66.67%) was the main motive among women. Nearly forty two per cent (42%) of male entrepreneurs and sixty seven per cent (67%) of female entrepreneurs had practical work experience in their family tradition as inheritance immediately before starting their own enterprise. On the other hand, there were greater tendency among men to be motivated by profitable opportunities (25%) and the desire to use their special skill (20.8%); in fact it was also the main motive among men.

MOTIVES	SEX	
	MALE	FEMALE
To use special skills	15 (20.8%)	-
Failure to find alternative jobs	3 (4.1%)	-
Loss of employment	2 (2.8%)	-
Profitable opportunities identified	18 (25%)	1 (33.33%)
Family tradition/Inheritance	30 (41.7%)	2 (66.67%)
Good business partner	4 (5.6%)	-
Total	72 (100%)	3 (100%)

Source: Own survey, 2003

In terms of specific sub-sectors, table (4.8) indicates that the dominant motive for starting small enterprise within the rattan & cane sub-sector was profit orientation (42%), whereas within the wood-based and footwear sub-sectors the use of special skill was the dominant factor, account for fifty six per cent (56%) and fifty one per cent (51%) respectively. However, the majority of motive within the blanket weaving (53%) sub-sector was family tradition. Therefore, there are three dominant factors which account for the starting of small enterprises among entrepreneurs within the sector. There is a group of entrepreneurs who are motivated by profitable opportunities; these entrepreneurs are dominant within the rattan & cane sub-sector. The other group whom are motivated by their special skills; these are dominant within the wood-based and footwear sub-sectors. The other group is motivated by family tradition within the blanket weaving sub-sector. Moreover, there is another group who are motivated by unfavourable economic circumstances such as loss of employment and failure to find job.

MOTIVES	SUB-SECTORS			
	Blanket weaving	Footwear	Rattan & cane	Wood-based
To use special skill	29	51	31	56
Failure to find alternative job	-	5	-	6
Loss of employment	-	8	4	-
Family tradition	53	15	12	11
Profitable opportunity	18	21	42	16
Good business partner	-	-	11	11
Total (%)	100	100	100	100

Source: Own survey, 2003

LEVEL OF EDUCATION	SEX	
	MALE	FEMALE
Primary	4	-
Middle school	50	33.33
High school	28	66.67
University Graduate	18	-
Total (%)	100	100

Source: Own survey, 2003

There are several possible explanations for the observable differences in motives for starting small enterprises within the various sub-sectors and between the genders. In terms of the gender these variations are related to the difference in the educational background of the entrepreneurs. Table (4.9) indicates most female entrepreneurs attained a higher level of education than their male counterparts. However, eighteen per cent (18%) of male entrepreneurs had graduated from University whereas for female entrepreneurs this was not obtained.

Up until the late 1970's given existing social customs and labour market practices most job requiring technical-vocational skills are male oriented; this bias is also reflected in student choice of subjects whereby such subjects have been, and still are, done mainly by male students. In essence wider sociological factors dictate that there is always a wider choice of technical and vocational subjects for male students and more employment possibilities. Therefore, *ceteris paribus*, there will be more male studying technical-vocational subjects at institutions and

consequently having practical working experience in enterprises where such skills are used. Therefore, given the combined influences of the structure of the educational system, labour market practices and social norms, male entrepreneurs are more likely than female entrepreneurs to be motivated by the desire to use specially acquired skills when starting an enterprise. In such an environment male would be heavily motivated by their ability to perform the skills of their trade.

On the other hand, the 'desire for profit' being the dominant motive among male entrepreneurs (25%), and among female entrepreneurs (33.33 %) is due to their generally higher levels of education as reflected in a greater percentage having attained higher school level and university education. Such individuals tend to have higher level motives. Individuals who have attained a higher level of education, particularly those with university education are more likely to be motivated by profit as opposed to using a special skill. Within a capitalist system and on a comparative basis, the desire to use a special practical skill will be interpreted as a lower level entrepreneurial motive, whereas the desire for profit will be interpreted as a higher level entrepreneurial motive. Within the capitalist system, generation of profit is not only necessary but also essential for the survival and growth of an enterprise.

The existing labour market practices which presents less employment opportunities for female is also likely to affect female motivation in such a way that they will be less motivated by the desire to use a special skill when starting an enterprise¹⁹⁸. For motives are formulated in relation to purpose and expectations of the individual; and this formulation takes place within an interpretive framework. Therefore female's technical-vocational skills will generally cause them to rely less on such skills and more on the desire for profit when starting an enterprise. The variation in the motives within the sub-sectors can be explained by the difference in the range and depth of managerial techniques and practical skills which are required by the enterprise- particularly in the start-up phase. Therefore this situation is directly related to the education level of entrepreneurs. Some entrepreneurs are more dependent on managerial techniques and technical skills whereas some will be more dependent on practical skills and know-how during the start-up phase. In the case of enterprises which are dependent on practical skills and know-how the desire to use special skills, practically acquired, is likely to be a key motive for starting such enterprises. The dominant role the use of a special skill plays in motivating enterprise start-up within the wood-based and footwear sub-sectors. Their production is heavily dependent on the entrepreneur applying practical skills and know-how from their trade. The products are also

³⁵ Lewis (1983) concluded "Senior comprehensive female graduates appear to reap decidedly less labour market benefits than their male counterparts regardless of their stream. They trail on all important criteria, including salary, time taken to find employment, and the percentage of time employed. Specialized craft education in its present form is a definite hindrance to the labour market success of female graduates" (p.263).

highly personalized and given the level of operation in the start-up phase the selected entrepreneur is usually direct contact with most of the customers and therefore requires less marketing skills.

HIGHEST LEVEL OF EDUCATION	SUB SECTORS			
	Blanket weaving	Footwear	Rattan & cane	Wood-based
Primary	-	-	-	19
Middle school	80	47	33.33	31
High school	13	43	33.33	31
University Graduate	7	10	33.34	19
Total (%)	100	100	100	100

Source: Own survey, 2003

The situation in the blanket weaving and rattan & cane sub-sectors is significantly different. In these enterprises production is dependent on application of specific processing knowledge which is better acquired by way of training. Also given that its products are less personalised the sub-sectors require more knowledge in marketing in the start-up phase. As a result given the skill and knowledge requirements of the rattan & cane sub-sector it has the highest percentage of entrepreneurs who are motivated by profit. Table (4.10) shows the sub-sector has the lowest level of entrepreneurs whose highest level of education is at the middle school level.

4.2.2 A PROFILE OF ENTERPRISES

4.2.2.1 Types of economic activity

Another dimension of entrepreneurial characteristics that was examined was the type of economic activity in which entrepreneurs engaged. This was necessary as it has implications for income generation and the growth of small enterprises. All of the interviewed entrepreneurs showed that the activity of small enterprises is their major source of income¹⁹⁹. However thirty per cent (30%) of the selected entrepreneurs have other activities as secondary source of income such as operating traditional restaurant, petty trading and civil servant²⁰⁰. The entrepreneurs in Yekyi region showed that their activities are the major source of

¹⁹⁹ The majority, here, is categorized by the percentage of earned income.

²⁰⁰ Some entrepreneurs are civil servant working as teachers at the elementary school. The salary they earn for this job are low, therefore they try to earn an additional income.

income, while the entrepreneurs in Yangon and in Monywa have secondary source of income.

A salient feature of the production process within all of the sub-sectors is one whereby most enterprises started their operation by producing a single product line. Ninety seven per cent (97%) of the selected enterprises started their production process within a single product line, whereas only three per cent (3%) began with two and/or three product lines. There is also great similarity among the products which are produced within each sub-sector. Given the size of the local market, this production mix reflects a situation of intense 'cut-throat' competition²⁰¹. It is also reflective of the low technical and managerial skills among the entrepreneurs who initiate small enterprises in Myanmar. The production mix is also very consistent with the marketing focus of the entrepreneurs when initiating their enterprises for the very small size of Myanmar market in itself places severe limits on the possible number of product lines and the extent of product differentiation within an enterprise production process.

However the absence of economies of large scale production does not imply that small enterprises are unprofitable; in such a situation their activities have their own advantage. Enterprises producing in such an environment, much of which is subsistence, need a small market share for their existence. Subsistence enterprises are common in Myanmar economy where many households perform the dual role of household firms and also engage in wage labour. The very knowledge of this market and production dynamics influences the entrepreneur's initial choice of capital outlay, production techniques and even moreso the scale of operation to the extent that such knowledge exists among the entrepreneurs within the sector in Myanmar. It is also another explanation for small scale capital outlay and the low scale of operation at the startup of these enterprises. Evidence of this knowledge seems to exist for all of the selected entrepreneurs indicated the enterprise is 'very important' to them when compared to the other source of income. However, thirty per cent (30%) of the said group identified 'insufficient income from the enterprise' as the reason for operating the enterprise on a part time basis. Combining different trades was depicted as another possibility for surviving – and even thriving – within the petty business sector²⁰². In this environment the entrepreneur is combining enterprise production possibilities and labour market earnings to maximize returns to the factors of production; so small-scale low level of production could be profitable and indeed advantageous to the entrepreneur.

²⁰¹ Gerry (1987) indicates that such a situation is due to firms concentrating on a relatively small number of quasi-standardized products which require relatively low-skill levels.

²⁰² (Jules- Rosette: 1982, p.37-42).

Urban opportunism, as defined by Little (1974), is one of the predominant patterns of career development within the MSE sector²⁰³. Seventy per cent (70%) of the selected entrepreneurs having small enterprises, except those entrepreneurs from Monywa, as their major occupation indicates a sense of performance and close attachment to these enterprises as most of them are not engaged in secondary activities outside their present activities. Typical single activity, i.e. activities that were mostly the sole source of income for the respondent was producing blanket, footwear, rattan and wood products which in this study was done uniquely by men. All of these activities are time-consuming and turned out to be the most lucrative ones in monetary terms of all activities pursued by the interviewees. In these cases, it would thus seem possible to distinguish a pattern of successful specialization in one activity²⁰⁴. Some of enterprises, particularly in blanket weaving sub-sector, are experienced ones that have been founded in the 1950s and 1960s and are already mostly managed by the second generation. Their characteristics are specialization (non-product diversification), access to bank, market diversification and the establishment of more marketing channels. However, the importance of the secondary activity lies in the additional income and its ability to extend the potential business. The kind of secondary activity is mostly service activities. One can conclude that most of their activities, in this case, are survival activities and not activities to earn an additional income. Diversification, either chronological or parallel, thus appears to be a key issue in understanding the functioning of the informal sector in Myanmar.

Downing (1991) indicated that specialization rather than diversification seemed to bode for success. In this study, the small entrepreneurs had been requested to name their three principal products. There were some differences in the activities pursued by entrepreneurs included in the study population. It should be noted that two out of three female and 50 of the 72 male respondents were pursuing simply one income-generating activity. As to the remainder, a combination of two or more activities, not all of them related to similar activity, were undertaken. Four men had two different economic activities whereas one man pursued three distinct activities to various extents. Thus, two of the men estimated earning some sixty per cent (60%) of their income derived from present activity while remaining forty per cent (40%) of their income derived from other diversified activity. They relied on combinations of such separate activities such as small tea-shop, traditional retail, and food-processing to earn their livelihood.

The concept of "combined trades" can thus be used to characterize the pattern of production among many respondents. The nature of this data does not,

²⁰³ Little, K. (1974): *Urbanization as a Social Process: An Essay on Movement and Change in Contemporary Africa*, London, Routledge & Kegan Paul, p.32-39.

²⁰⁴ Downing, J. (1991): *Gender and Growth of Microenterprises*, Small Enterprise Development, Vol. 2, No.1. p.4-12.

unfortunately, allow analyzing it from the point of view of “urban opportunism”. Urban opportunism as mentioned above was a key to understanding job seeking patterns, especially many young and middle-aged individuals in Myanmar. Jobs were taken and given up in order to improve the household’s financial situation. However, many interviewees mentioned in the interviews having had earlier entrepreneurial activities in the course of their careers which at any rate were rather lengthy. On the surface it would thus appear that men were more inclined than women - in this admittedly very small sample - to use the method of combining different activities. In sum, the results of this study confirm that one income-generating activity is rarely sufficient to make one’s living in Myanmar and that diversification is used as a conscious strategy. The pattern of seasonal combination of trades was described especially by the entrepreneurs in this study. Likewise, all of the female entrepreneurs, their activities were combined with household duties which also included small-scale activities. Most of entrepreneurs stated that the secondary sources of income from either waged employment or petty business were used to support the household. Again, diversification should thus be seen basically as a household-based strategy.

4.2.2.2 Enterprise Location and Age

Here, the location factor will be used as control variable to indicate whether location affects the economic activities of small enterprises. Based on the responses four factors were identified as affecting the location of small enterprises in the research regions. There were personal reasons and home site, availability of raw materials, proximity to markets and availability of technical infrastructure and services. Land as a production factor will be minimized in the case of small enterprises. However, other production factors such as capital and labour still play an important role as well as location. When an entrepreneur wants to establish an enterprise, (s)he has to decide where this will be located geographically. Table (4.11) indicates the location factors those influence the establishment of the selected enterprises in the research regions.

Type of enterprises	Personal reasons	Availability of raw materials	Proximity of markets	Availability of technical infrastructure and services
Blanket weaving	37.33	-	-	-
Footwear	20.00	-	-	1.33
Rattan & cane	20.00	-	1.33	-
Wood-based	17.33	1.33	1.33	-
Total	94.66	1.33	2.66	1.33

Source: Own survey, 2003.

According to table (4.11), it is clear that personal reasons and home site are the dominant factors responsible for the establishment of all types of the selected enterprises in the research regions. In aggregate this constitutes 94.7 per cent of entrepreneurs interviewed. Personal reasons are an amalgam of historical, cultural and social factors including the fact that the locations are the birthplace, home town or homestead from which their spouses come. The blanket weaving sub-sector is the majority (37.33%) in personal reasons which only dominated for the establishment of the blanket weaving sub-sector.

Proximity to market was recorded as the second major locational factor (2.7 per cent) according to type of industry. The market pull was particularly felt in rattan & cane and wood-based sub-sectors in Yangon, where enterprises tend to rely on higher order from households. It was found to be particularly important for the informal enterprises, for these reasons, land is not a considered factor comparing with capital and labour. According to Von Thünen's view (1866) on locational concentration of 'heavy' and related industries, the comparison between price of raw materials and products determines the kind of industry²⁰⁵. This means that, in this study, the performance of small enterprises is quite different from that figured by Weber or even Isard. In fact, the location of the selected enterprises is mostly determined by historical, cultural and social factors. No economic feasibility study is carried out and no other economic evaluations are made before setting up an enterprise. Moreover, these conditions show that the enterprises are not planned beforehand. The entrepreneurs just do the business because they have to create income opportunities as well as provide employment.

Availability of raw materials and availability of technical infrastructure and services were the other factors that can affect the location of enterprises. Theoretically, the support of technical infrastructure and services also play a considerable role such as roads and banking, although the answers obtained during the study showed a low number (each of 1.33 per cent in wood-based and footwear sub-sectors). As mentioned by Weber (1909), when transport costs of raw materials are expensive in comparison with the transport cost of the products, these enterprises are classified as heavy industry, i.e. cement or coal. In this study, the location of blanket weaving and rattan & cane enterprises, theoretically, are affected by the availability of raw materials, contrary to footwear and wood-based enterprises for which raw materials are cheaper than the transport costs of their products²⁰⁶. However, it is too early to conclude that these factors influenced the location of the selected enterprises. Personal reasons and the fact that enterprises

²⁰⁵ See also Weber (1909), Isard (1960).

²⁰⁶ In fact, the result shows (Table 4.11) that the entrepreneur's answers covered were mostly personal reasons, although blanket weaving and rattan & cane enterprises were mostly found in Monywa and Yekyi.

were operated by accident to provide additional and alternative income are primary factors for locating the interviewed small enterprises in those regions.

Another factor that possibly influences the location of enterprises in an important way is the availability of labour, which is characterized by more job opportunities and higher education. From the explanation above that, labour availability does not play a considerable role in deciding the location of enterprises as well as the availability of raw materials or technical infrastructure and services, though the labour supply in the research regions are abundant. During the study, it was not found that labour availability is one of the pull factors. Most of the respondents said that there were no problems with labour availability. Many reasons can be ascertained for this situation. Firstly, the interviewed small enterprises are mostly owned by family and intended for providing a major source of income and employment to household members. Secondly, the scale of enterprises is mostly small (regarding labour quantity), so that they employ only limited strange labour and besides, labour comes mostly from the family circle or neighbours.

The last important question related to the location issue is: "Is there an industrial district or industrial cluster²⁰⁷, especially for small enterprises, in the regions? The industrial cluster concept is not new. Its origin is more than a century old and lies in Alfred Marshall's observation on the textile and metal-working regions in England, Germany and France during the second half of the nineteenth century²⁰⁸. Marshall argued that economic gain could be achieved when small firms within a specific industrial activity clustered in close proximity to each other. In such settings individual firms could specialize at a particular stage of the production process, this resulting in a deep inter-firm division of labour. The specialized knowledge pool available to all within the cluster and often reinforced through a common set of cultural and social values created what Marshall termed the local industrial atmosphere²⁰⁹.

The hitherto substantial body of empirical case literature on European industrial districts demonstrates that such clusters have prospered in the 1970s and 1980s. Whereas large-scale systems of industrial manufacturing have undergone severe crises during that period, the European small firm clusters have stood out for their ability to grow, innovate and compete successfully in demand elasticity and quality-conscious product markets. The basis of such success lies in production systems that reduce manufacturing rigidities and enhance the capacity to respond flexibly and quickly to shifts in demand. This also applies to the nature of inter-firm relations within the cluster, both of a horizontal and vertical kind, which

²⁰⁷ Cluster, defined as the geographical and sectoral concentration of firms, is used rather than industrial district because the definition of the latter has come to include meaning, which must be, in themselves, subjected to empirical research.

²⁰⁸ Marshall, A. (1986) (1890): *Principles of Economics*, 8th Edition, London, MacMillan.

²⁰⁹ Marshall, A. (1927) (1919): *Industry and Trade*, 3rd Edition, London, MacMillan.

through extensive process specialization spread costs and risks across the cluster and encourage a collective response to share problems. The specific socio-cultural character of the society in which such firms are located facilitates trust and strengthens inter-firm relations, and the endogenous technological capability facilitates a process of continuous innovation²¹⁰. Schmitz (1992) has coined the notion of collective efficiency to capture the competitive advantage that arises from these local processes²¹¹.

Contemporary observations on European industrial districts, particularly those emanating from Italy, have taken the original Marshallian notion further²¹². Industrial clusters are felt to be historically rooted, to have emerged spontaneously, to be socially embedded, to have an indigenous growth potential, to be resilient in the face of economic crises and to be conducive to a process of sustained innovation, particularly via the dynamics of technical learning resulting from user/producer interactions. It is recognized that the state and sectoral association can play a pivotal role in fostering and assisting an industrial cluster. This concept, according to Schmitz (1989), is argued to be especially relevant to regions that are at an early stage of industrialization.

Until now, there are only a few studies that examined industrial districts over time in developing countries. The cause of this in developing countries is, first, the caveat and unevenness of data, second, the fact that government is not interested in this problem. In Myanmar, after some economic problems had appeared and been identified as national topics, e.g., population pressure, high interregional disparity, low productivity and high cost economy, the Myanmar government began, in the 1990s, to locate some enterprises. In Myanmar, as mentioned above, personal reasons and the availability of raw materials are decisive variables for determining the location of enterprises. The Ministry of Industry (1) has tried to locate the enterprises as shown in the following table (4.12).

Region	Sector	Kind of Product
Yangon	Wearing apparel	Garment, Furniture, Footwear
Mandalay	Handicraft	Handicraft
Monywa	Handloom	Handloom, Sesame Oil
Ayeyarwaddy	Food	Rice, Groundnut Oil

Source: Ministry of Industry (1) and own research, 2003.

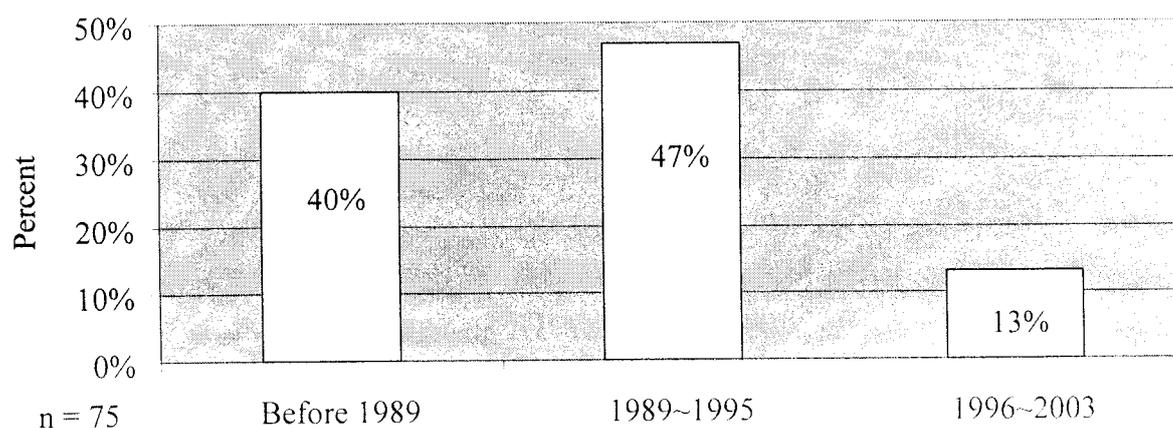
²¹⁰ Humphery, J. (1993): Introduction: Reorganizing the Firm, *IDS Bulletin*, 24(2), April.

²¹¹ Schmitz, H. (1992): Industrial Districts: Model and Reality in Baden-Wurtemberg, in: Pyke, F.; Sengenberger, W. (eds.): *Industrial District and Local Economic Regeneration*, Geneva, ILO, International Institute for Labour Studies.

²¹² (Becattini: 1990, Garofoli: 1992, Asheim: 1992, Amin: 1992, Schmitz: 1992).

Another crucial issue is the length of career. From the literature one could assume that a typical small-scale informal enterprise would not have a long life span and that they are started and closed down when new opportunities or unexpected obstacles arise. Thus, for example, the ILO-JASPA (1988) study on small enterprise sector gives 4.7 years as the weighted average age of such enterprises in 10 African countries and 5.5 years in Tanzania. This, as the study notes, has led to the conclusion that there is an inherent instability in small-scale activities as well as employment within this sector. The results of this study were, however, rather different. With regard to the age of enterprises, it is also interesting to highlight that the majority of the selected enterprises (60%) in the research regions have been established after 1989, of which thirteen per cent (13%) were established between 1996 and 2003. Forty per cent (40%) of the interviewed enterprises have been established before 1989. Hence, the average age of selected small enterprises is almost 16 years. Two oldest firms were found and are each 53 years old, and both enterprises were found in blanket weaving enterprise those were established as family tradition since 1950s. Figure (4.3) displays the age distribution of the enterprises.

Figure (4.3) Age Distribution of Small Enterprises



Source: Own survey, 2003.

Table (4.13) indicates that the footwear sub-sector has the youngest enterprises while blanket weaving and wood-based sub-sectors are the oldest enterprises within the sector. Table (4.14) indicates that sole proprietorship and partnership are the dominant organizational forms among the younger enterprises, while family business is the oldest form within the sector. These two observations indicate that the role of the traditional sectors, for example, family owned enterprises (mostly blanket weaving) within the Myanmar economy is declining and having less influence on the path of Myanmar's development. It is also indicative of a tendency among the younger entrepreneurs in Myanmar to operate with higher organizational forms whose operations are registered and linked to the

formal sector of the economy. This link to the formal sector of the economy will of necessity lead to more competitive pressure within these enterprises thereby causing them to adopt more competitive strategies for survival and growth. This augers well for future entrepreneurial patterns, particularly given that 22.67 per cent of enterprises are owned by individuals within the age range 25~30 years and 45.33 per cent are owned by individuals within the age range 15~30 years. For when taken together, the statistics indicate a relatively young entrepreneurial class. Such a group of entrepreneurs will be more adaptive to changes within the socio-economic environment and more likely to adopt new techniques and technologies, since educated workers are more achievement-oriented, more self-reliant, more adaptive to new situations and above all more trainable. Whilst noting a greater than expected permanence of the informal sector, this finding illustrates that there had not been much upward professional mobility among the group of entrepreneurs.

Sub-Sector	1~3 yr	4~6 yr	7~9 yr	10~12 yr	12 yr <	Total
Blanket weaving	-	6.67	13.33	13.33	66.67	100%
Footwear	30.00	20.00	6.67	10.00	33.33	100%
Rattan & cane	13.33	26.67	26.67	26.67	6.66	100%
Wood-based	13.33	6.67	20.00	13.33	46.67	100%

Source: Own survey, 2003.

Organization Form	1~3 yr	4~6 yr	7~9 yr	10~12 yr	12 yr <	Total
Family Business	10.00	15.00	12.50	12.50	50.00	100%
Sole Proprietorship	20.00	16.67	16.67	20.00	26.66	100%
Partnership	60.00	20.00	20.00	-	-	100%

Source: Own survey, 2003.

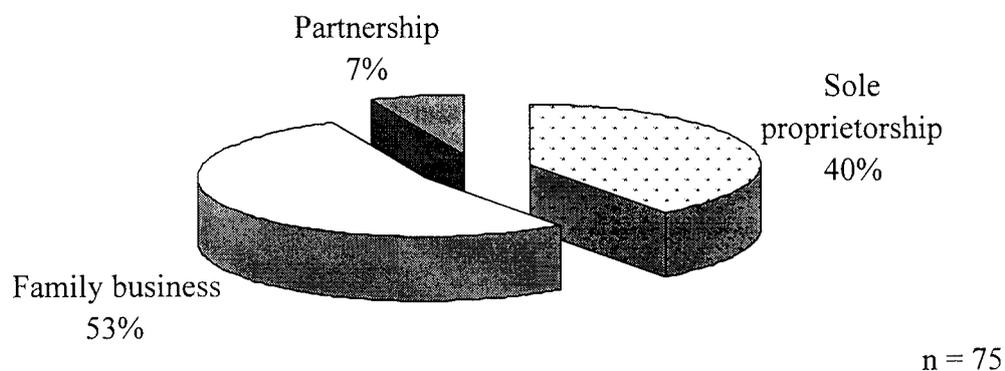
4.2.2.3 Nature of Organization

The operation of an enterprise has to take place within an organization. Three forms of ownership structure were identified by the selected enterprises in the research regions. These were family business, sole proprietorship and partnership, as shown in the following figure (4.4). These are alternative forms of organization, however choice of the specific form usually depends on the entrepreneur's availability of resources, both human and capital, and the cost of organizing the resources for production. Moreover, the basic rationale for classifying organization form is management and ownership. Management controls and governs business actions, while an owner owns a whole business without governing it. These two points determine the forms of organization.

Furthermore, these forms also affect decision-making and influence who bears the responsibility in the business.

Small enterprises in Myanmar are predominantly a family business. Based on the responses, family enterprise is the dominant organizational form and it accounts for forty, (53%) of the total number of enterprises. Family enterprise²¹³ means an industrial unit owned and managed by several family members, i.e., father, grandfather, uncle, aunt, etc. Most of these firms are within the footwear, blanket weaving and to a lesser extent the rattan & cane sub-sectors. The high incidence of the family enterprises within these sub-sectors, in particular and the sector in general, is linked to the scale of operation of the enterprise and the ease with which an individual can enter such sector. The fact that family ownership is the most common form shows that business enterprises involving only the family circle create more opportunities for earning an additional family income. Besides, these activities also lead to the creation of employment not only for family members but also for strange labour such as neighbours. The predominance of family business among small enterprises is due partly to the nature of the enterprises in the informal sector and partly due to the advantages of family business. It is easy to enter into business in small enterprise sector, most of enterprises can be started with very little capital amount and the selected enterprise depends mostly on family labour. In reality such administrative costs can effectively be zero. The enterprise can be registered under provision of the Cottage Industrial Enterprise Law 1991. The issue of an enterprise is purely optional.

Figure (4.4) Organizational Form of Small Enterprises



Source: Own survey, 2003

²¹³ There is a small difference between family and sole proprietorship. In the sole proprietorship form, the owner and manager is also the founder of the enterprise while the family form is established through inheritance. This difference becomes clear in the case of decision-making. In the family form, the influence of the founder plays an important role.

Out of the total enterprises interviewed, forty per cent (40%) were under sole proprietorship. One reservation in the case of one-man business or sole proprietorship is that its own resources, especially initial capital, and any profits it might make are ploughed back into the enterprise. This form can be understood as owner-manager firm, this means that the proprietor or proprietress bears the full wealth effects of his or her decision, so that there is no common-ownership problem. Moreover, the ease of entry as a sole proprietor relates to administrative and bureaucratic regulations and access to finance. As a sole proprietor there is no specific mandatory requirement that have to be fulfilled in order to start-up an enterprise within these sub-sectors. Most single proprietors derive satisfaction from being the sole owner of a business they like; therefore they guard jealously their being sole owner of the business. Small enterprise offers opportunity for quick profit which is also one of the attractions of sole proprietorship. Therefore, entrepreneurs would like to go into the business as single proprietors and being in it as sole proprietors, would like to remain in business as such.

Partnership as one of the forms of ownership accounts for seven per cent (7%) in the research regions, especially in rattan & cane and wood-based sub-sectors. Partnership means that several individuals (partners) who are also the major decision-makers of the enterprise and own the enterprise. However, this form cannot free from common-ownership problems. That partnerships form a small proportion of all enterprises in the survey is probably due to the mutual distrust among entrepreneurs at this level of business operation.

4.2.2.4 Registration of Enterprise

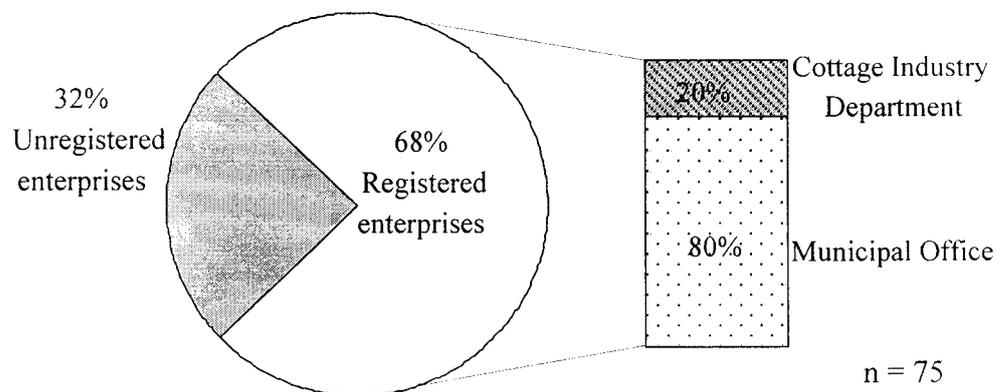
Small enterprises usually operate without licenses²¹⁴. Moreover, most of the selected small enterprises in the research regions have no business name. Figure (4.5) demonstrates the legal status of selected small enterprises in research regions. Among the seventy five (75) enterprises surveyed, sixty eight per cent (68%) of selected small enterprises were registered either at municipal authority (80%) or at cottage industry department (20%). As stated before, the registration is only meant for the municipal license. However, thirty two per cent (32%) of

²¹⁴ In Myanmar firms allow different routes of registration depending on their nature. The minimum level of registration for a small business is municipal license. The law requires registration for all persons engaged in business, as well as, sole proprietorship, partnership engaged in business activity. For the typical small industry unit, which is likely to be operated by a sole proprietor, business registration requires that a municipal license certificate and an approval from industrial inspection department. After that, each industrial enterprise is assigned a business enterprise number in respective region. This number becomes a requirement for successive stages of formalization, such as the application for an income tax compliance certificate. Other level of business registration includes registration as a company with the Ministry of Investment Commission, on the basis of which a Business Registration Certificate is obtained.

total enterprise interviewed was not registered under any authority but they had to get the permission from local authority to operate their operation in the regions.

In Myanmar, business registration for the enterprises with less than ten employees is not obligatory and some entrepreneurs did not inform local authority at all. However, all of the interviewed entrepreneurs answered that getting license was not difficult for them at the start up phase and it was not a major problem at the start of their operations²¹⁵. Seventy five per cent (75%) of the unregistered entrepreneurs presented the major reason that their enterprises are very small in nature and produce for their survival only. Among the selected enterprises, thirty two per cent (32%) of the total entrepreneurs did not register not only at municipal authority but also at the department of cottage industry at the initial stage of operation as these enterprises are not adequately covered by official statistics, belonging to informal sector. Sufficient number responded for one to come to a conclusion that in general, small enterprises do not need licenses to operate. This ensures ease of entry into the business in small-scale as there are no legal restrictions imposed by government. Not only do small enterprises obtain no licenses to operate, they usually do not do business with the government. Moreover, small enterprises usually operate without government inspection. Only 6.7 per cent or one in fifteen enterprises are subjected to any inspection or regulation of activities whether on regular or on irregular basis. Lack of regulation or inspection of small enterprises means that it will be difficult to have a product quality control scheme or maintain any standard.

Figure (4.5) Registration of Small Enterprises



Source: Own survey, 2003

²¹⁵ A study which conducted by König in Yangon and Mandalay (1999) indicates that registration does not seem to be a big problem for the enterprise surveyed. All business interviewed were registered with at least one public body, mostly all possessed municipal license. (König, W. (1999): Factors Conditioning the Growth of SME in Myanmar, Foundation for Economic Development and Vocational Training, Germany, p.20).

Table (4.15) indicates that fifty seven per cent (57%) of footwear sub-sector, forty per cent (40%) of rattan & cane sub-sector and seven per cent (7%) of wood-based sub-sector are unregistered enterprises within the sector. However, forty eight per cent (48%) and twenty per cent (20%) of the enterprises interviewed were registered at municipal office and cottage industry department respectively. Ninety three per cent (93%) of wood-based sub-sector, sixty per cent (60%) of rattan & cane sub-sector and forty three per cent (43%) of footwear sub-sector were registered at municipal authority. It is interesting that all of the blanket weaving enterprises were registered at cottage industry department only. Therefore, it can be noted that the majority of selected small enterprises are registered at municipal authority in this study.

LEGAL STATUS	SUB-SECTORS				TOTAL (%)
	Blanket weaving	Footwear	Rattan & cane	Wood-based	
Municipal office	-	43	60	93	48
Cottage industry	100	-	-	-	20
No registration	-	57	40	7	32
Total (%)	100	100	100	100	100

Source: Own survey, 2003.

Table (4.16) indicates the legal status of small enterprises by organizational form. Under the registered enterprises, the majority of them are registered at municipal authority which account for 42.5 per cent in family business, forty seven per cent (47%) in sole proprietorship and all of partnership firms. Twenty three per cent (23%) of family business and twenty per cent (20%) of sole proprietorship were registered at cottage industry. The unregistered enterprises were found in family business and sole proprietorship those account for one third of each organizational form except partnership. However, it can be noted that the informal enterprises are operating either registered or unregistered within an area. Government requires all private enterprises to pay tax on their profits at the rate of thirty per cent (30%). But informal sector enterprises rarely pay taxes²¹⁶. Only 6.7 per cent of the selected small enterprises pay taxes or pay any fees for their operations, particularly in wood-based and blanket weaving sub-sectors.

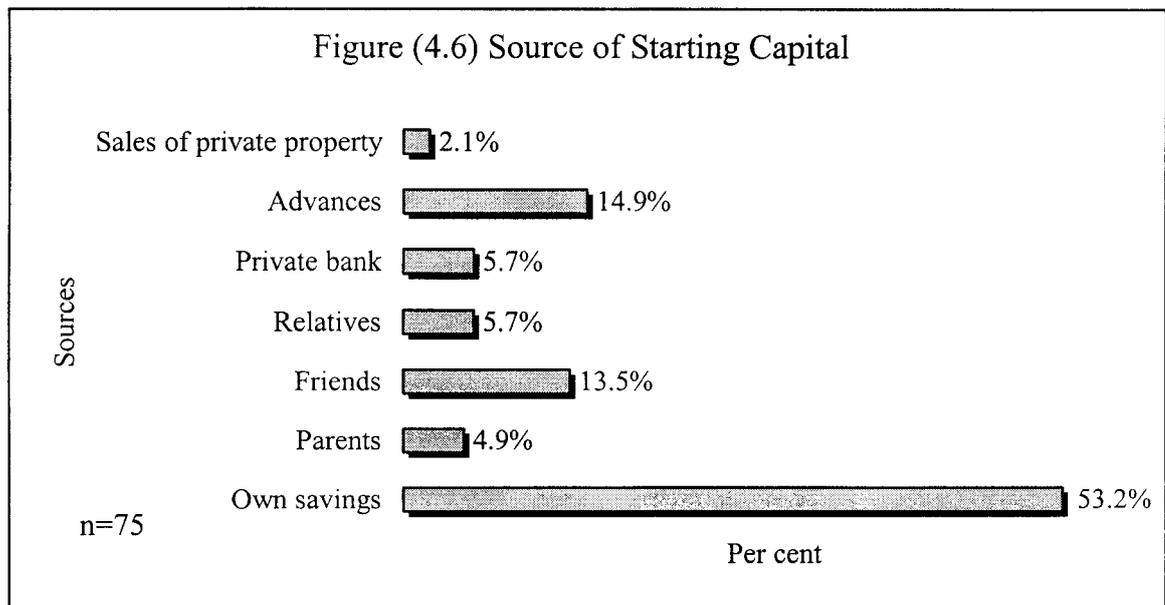
²¹⁶ There are currently 15 different kinds of taxes and duties in Myanmar (e.g. commercial/ income/ profit tax).

LEGAL STATUS	ORGANIZATIONAL FORM		
	Family business	Sole Proprietorship	Partnership
Municipal authority	42.5	46.67	100
Cottage industry	22.5	20.00	-
No registration	35.0	33.33	-
Total	100.0	100.00	100

Source: Own survey, 2003.

4.2.2.5 Sources of Starting Capital

Initial capital is the most important resource for an entrepreneur during the initial stage of business operation²¹⁷. The initial condition for the setting up of small enterprises varies given the differences among them in the capital intensities and therefore initial capital investment, required skills and inputs available to the entrepreneur. It is typical in the initial phase of a small enterprise that special emphasis be given to the use of scarce financial resources and the efficient mobilization of available labour for the productive process. The sector is characterized by small capital outlays and a relatively high rate of self-financing²¹⁸.



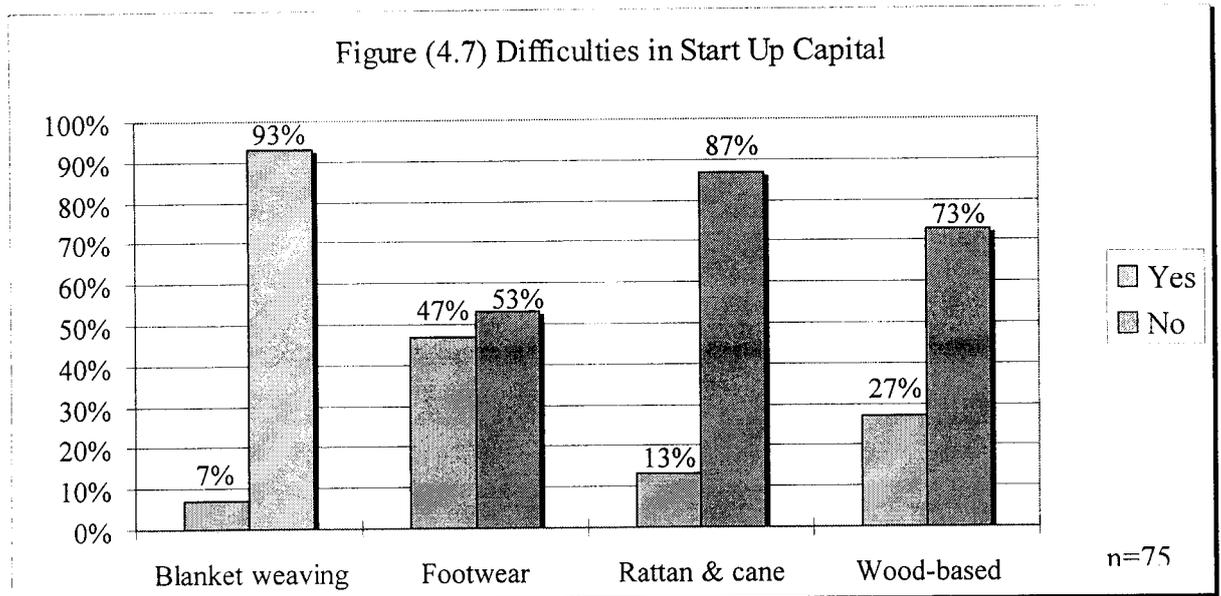
Source: Own survey, 2003.

²¹⁷ (Birley: 1985, ILO: 1995, Ozcan: 1995, Steier and Greenwood: 2000).

²¹⁸ Self-financing is, here, referred to as financing which is provided by the entrepreneur and their families.

Initial capital is, therefore, considered an essential element of a business enterprise and among the main problems of the informal entrepreneur who wants to set up a small enterprise are how to secure the necessary start-up capital as well as having access to working capital. Figure (4.6) indicates that the main source of starting capital had been the respondent's own savings, accounts for 53.2 per cent and secondly, advances from customers which accounts for fifteen per cent (15%) which was mostly found within footwear and rattan & cane sub-sectors. Sometimes several different sources of funding had been relied on. Ten out of seventy five interviewed entrepreneurs (13.33%) described during the interviews showed, after their apprenticeship, they had worked for other artisans saving money in order to start their own enterprises. 13.5 per cent of total interviewed entrepreneurs had received the initial capital from their friends as loan. Also parents turned out to be an important source of initial capital for entrepreneurs, which account for five per cent (5%). Small enterprise is thus from one generation to another. The results indicate that the entrepreneurs were rather self-reliant as regards the accumulation of their initial capital. On the other hand, the fact that 5.7 per cent of respondents had obtained a bank loan to start their business illustrates the problematic access of small and micro-enterprises to the formal sector financial institutions as well as their self-efficiency in financial terms. One can, therefore, say that the relationship with formal sectors was weak for the selected small enterprises in this study.

Among the entrepreneurs those were employed at start-up twenty one per cent (21%) were employed in the formal sector and forty per cent (40%) were employed as apprenticeship in the private small business sector. This situation is directly related to the wider issue of access to credit from the formal financial system for the undertaking of business, particularly productive activities. A key condition which generally has to be fulfilled for obtaining a loan from the formal financial system is 'the ability to repay'. Within this context, *ceteris paribus*, one who is unemployed will be considered as not having the ability to repay. For this basic reason the unemployed will generally have less access to finance from the formal financial sector. Therefore the capital outlay at the initial stage for most of the unemployed was limited to personal and family financing. This situation helps to explain the relatively high rate of self financing and corresponding, the relatively low rate of financing from the formal financial sector for the startup of these small enterprises.



Source: Own survey, 2003

Figure (4.7) shows the comparison of difficulties of start up capital at initial business operation. Seventy two per cent (72%) of interviewed entrepreneurs answered that they had no difficulties to obtain financing at the start-up stage of operation, however, it varies within the sector and in regions. Among them, the majority of entrepreneurs who faced difficulties in financing at the initial stage is the footwear sub-sector within the sector. Ninety three per cent (93%) of the enterprises in the blanket weaving sub-sector had no difficulties to obtain the fund for start up phase, while forty seven per cent (47%) of the enterprises within footwear sub-sector had difficulties to obtain initial capital.

The initial source of finance has to be viewed within the context of the employment status of the entrepreneurs at the time of starting their operations and the initial scale of the enterprise operation. For employment status gives an indication, though not a precise one, of possible availability of funds for investment and the potential to access funds from the formal financial sector. One salient feature among the entrepreneurs was the fact that all were employed on a full time basis. This situation indicates a significant relationship between employment status and the ability to secure financing for business purposes from the formal financial sector. It also reflects the distinct financing preference of the formal financial sector in Myanmar. The formal financial sector's preference has two related dimensions, one dimension relates to the customer and the other to a particular sector of the economy. In terms of the first dimension, most customers of the formal financial sector come from the public sector which accounts for approximately twelve per cent (12%) of all employment in Myanmar, and private and foreign enterprises. There is the general thinking in the society that public sector is 'safe employment', which is interpreted to mean long-term security of tenure. As a result the loan portfolio of these institutions caters mainly to this

group whom perceivably represents less risk. This preference within the formal financial sector also helps to explain the absence of the unemployed receiving finance from the formal financial sector to start their enterprise. For the unemployed the real issue is more one of access to financing as opposed to the availability of finance for enterprises within the formal financial system. In such a financial environment there will be a high rate of self-financing.

The second dimension is that financing within the formal financial sector in Myanmar is not oriented towards the productive sector. The productive sector of Myanmar is very much underdeveloped and the skill levels within it are generally low. This is another reason for the formal financial sector's risk-averse behaviour towards the sector. Given the preference within the formal financial sector, the problem of financing for the entrepreneurs would have been compounded for another main reason. The lack of entrepreneurial experience would have further lessened their probability of securing finance, particularly for startup, when their managerial skills and ability are unproven. These two dimensions relating to financial preference also explain the relatively high rate of self-financing or the low rate of financing from the formal financial sector of the startup of these informal enterprises, particularly those owned by the unemployed.

Ninety nine percent (99%) of the interviewed enterprises structured their initial operations to supply only domestic market. Given the number of enterprises within each sub-sector and the size of the domestic market, such orientation in itself necessitates small-scale production. All of the interviewed enterprises are labour intensive and a small-scale enterprise of a minimum size differentiated among scale of operation. At startup thirty three per cent (33%) of the enterprises used only full time labour and sixty seven per cent (67%) used only part time labour. Whether, part time or full time was used family labour account for sixty four per cent (64%) of all labour used. Abundant availability of family labour gave entrepreneurs an option to substitute labour for capital in the initial stage of their operations. The availability of such resources, in the form of labour, contributes to making initial capital investment within the sector relatively low. The tendency to minimize initial capital investment is reflected in the fact that ninety seven per cent (97%) of all the entrepreneurs started productive operations at their homes. The lack of entrepreneurial and managerial experience among many of the entrepreneurs would have increased the risk associated with the initial capital investment. Lack of such experience would have caused them to adopt strategies to minimize the risk; one possible strategy would have been to minimize initial capital investment. This tendency would have been even stronger given the financing constraint which confronts entrepreneurs within the sector. These factors – low scale of operation, low creditworthiness and factor substitutability explain the small capital outlay for enterprise start-up within the sector.

4.2.2.6 Problems associated with starting the enterprise

In the early stage of small enterprise certain problems usually confront the entrepreneur. Despite what seems like a good past performance by small enterprises as far as increases in sales are concerned, and what looks like a bright future judging from what is happening to the demand for the goods and services they produce, informal sector enterprises covered in the survey had many problems. Much of these problems often arise from the precarious demand and supply conditions which characterize their products in this initial stage. Given the relative lack of entrepreneurial experience these problems often pose specific challenges to the entrepreneur and for the future operations of the enterprise. Table (4.17) shows that in the initial stage of the selected small enterprises, the three most common problems cited by the entrepreneurs were sourcing of finance (31.82%), unavailability of raw material supplies (25.76%) and shortage of skilled labour (21.21%).

Problems	Frequency among Entrepreneur
Raw material supply	25.76
Finance	31.82
Labour	21.21
Licence/Approval	0.76
Demand	15.91
Location	1.51
Others	3.03

Source: Own survey, 2003.

Problems	Blanket weaving	Footwear	Rattan & cane	Wood-based
Raw material supply	32	17	27	46
Finance	44	40	12	18
Labour	18	15	31	18
License/Approval	-	2	-	-
Demand	6	24	19	9
Location	-	-	-	9
Others	-	2	11	-

Source: Own survey, 2003.

However table (4.18) indicates that the severity of these problems varied considerably within the respective sub-sectors. This sub-sector problem

identification allows for a better analysis of the issues which are relevant to each specific sub-sector during the initial startup phase of the enterprise. The problem of finance was mostly found in the blanket weaving (44%) and footwear (40%) sub-sectors. The problem associated with the sourcing of finance is related to the wider macro economic issue of financing preference among formal financial institutions within the Myanmar economy. The problem associated with raw material supplies is most severe in the wood-based (46%) and blanket weaving (32%) sub-sectors. In the case of the wood-based and blanket weaving sub-sectors this problem is related to the limited resource base of Myanmar, particularly its limitations in terms of forestry resources and a reflection of the declining state of agriculture sector in Myanmar. The problem of availability of skilled labour is most severe within the rattan & cane (31%) sub-sector. This problem is directly related to the general shortage of skilled and trained technicians and craftsmen in Myanmar. Each eighteen per cent (18%) of the entrepreneurs within the wood-based and blanket weaving sub-sectors indicated that this problem is further compounded for given the shortage of such skill, individuals possessing the skills prefer to establish their own small enterprise than to work for another small entrepreneur. This constant entry of entrepreneurs intensifies competition within the sub-sectors.

Demand-side problems associated with intense competition affect all but footwear and rattan & cane sub-sectors faced to the greatest extent, accounting for twenty four per cent (24%) and nineteen per cent (19%) respectively. Moreover, problems of location and licence/approval were faced by the wood-based and footwear sub-sectors account for nine per cent (9%) and two per cent (2%) respectively. Therefore, license and location were rarely a problem for all enterprises, but they were faced by strong competition. Other problems such as product design, business experience and technology were also caused in the rattan & cane and footwear sub-sectors, accounting for eleven per cent (11%) and two per cent (2%) respectively. Therefore for a small enterprise that wants to go into production for the first time, the main difficulties it will face would be lack of capital or accessibility to capital, lack of raw materials, and shortage of skilled labour.

4.3 Strategic decision making

The entrepreneurs' motive for starting these enterprises was induced by varying factors. The initial motive of the entrepreneur reflected present needs and as such was indicative of a static phenomenon. Entrepreneurial needs change and such changes induce new interests and correspondingly new behaviour. An attempt to assess and understand such changes is made by focusing on the entrepreneur's vision and innovation within the context of the sector's productive capacity. The

assessment also examines the entrepreneur's perception of their competitive environment for such perception influences innovative tendencies. This approach is useful since an integral part of entrepreneurial activity is marketing, more specifically the devising of strategies to counter the negative effects of the competition offered by other enterprises.

Regardless of motive all entrepreneurs started their operations by producing and marketing only within the Myanmar market. However, only 1.3% of the entrepreneurs from the beginning had intentions of marketing their products in other markets. This position has changed whereby 82.7% of the enterprises now market products in Myanmar and 17.3% in export markets. However the extent to which these changes have taken place varies within the various sub-sectors and according to startup motives. For example, there is an increased tendency for entrepreneurs in the footwear (10%), rattan & cane (66.7%) sub-sectors motivated by the 'pull factor' to market products outside of Myanmar. However, entrepreneurs in the wood-based and blanket weaving sub-sectors mostly motivated by the 'push factors' dominated the domestic market. This is related to the fact that entrepreneurs motivated by the push factors were predominantly those with lower levels of education and therefore less managerial and technical skills which were critical for the undertaking of export activities. The changes in a firm's marketing efforts are indicative of changes in entrepreneurial interests and behaviour. Even though such a shift has taken place within the sector, 77.37% of the enterprises still operate with excess capacity. Among this group of enterprises which have excess capacity, sixty per cent (60%) have identified lack of market as the cause of excess capacity. Given this high level of excess capacity one would expect increasing of output to be a major aim among entrepreneurs within the sector.

FUTURE AIMS OF ENTREPRENEURS	PERCENTAGE OF ENTREPRENEURS
To ensure business survives	12.00
To increase output	60.00
To increase employment	6.67
To be a recognized businessman	5.33
To increase output for export	9.33
Have no idea	6.67

Source: Own survey, 2003

Table (4.19) shows the future aims/visions of the selected small entrepreneurs within the research regions. The majority of the entrepreneurs aim to increase output, accounts for sixty per cent (60%). To ensure business survives (12%) and to increase output for export (9.3%) are second and third majority of their visions.

The aim to increase output and to increase employment was often stated together. With regard to the export and product diversification aim, which are indicated basically routine and non strategic. Given the low scale of operation of most of the enterprises, increased output in most cases will require additional labour input. This emphasis on increasing output indicates the dominant objective among entrepreneurs is sales maximization or the satisfying objective as opposed to the profit maximization objective. In order to pursue the profit maximization objective entrepreneurs need access to high level of information along with the necessary skills for assessing such information to inform the enterprise decision making process. Given the real limitation on these capabilities which exist among entrepreneurs within the sector, they are more likely to select an alternative which meets some criteria of acceptability and satisfaction rather than go on looking for the best profit maximization alternative. Also inherent in the 'profit maximization objective' assumption is the notion that the firm operates in a competitive environment in which the factors of production are allocated by the market mechanism. These conditions to a large extent do not exist within the entrepreneur's operational environment. Therefore the absence of the objective conditions for profit maximization make the satisfying objective even more rational in such market situations²¹⁹.

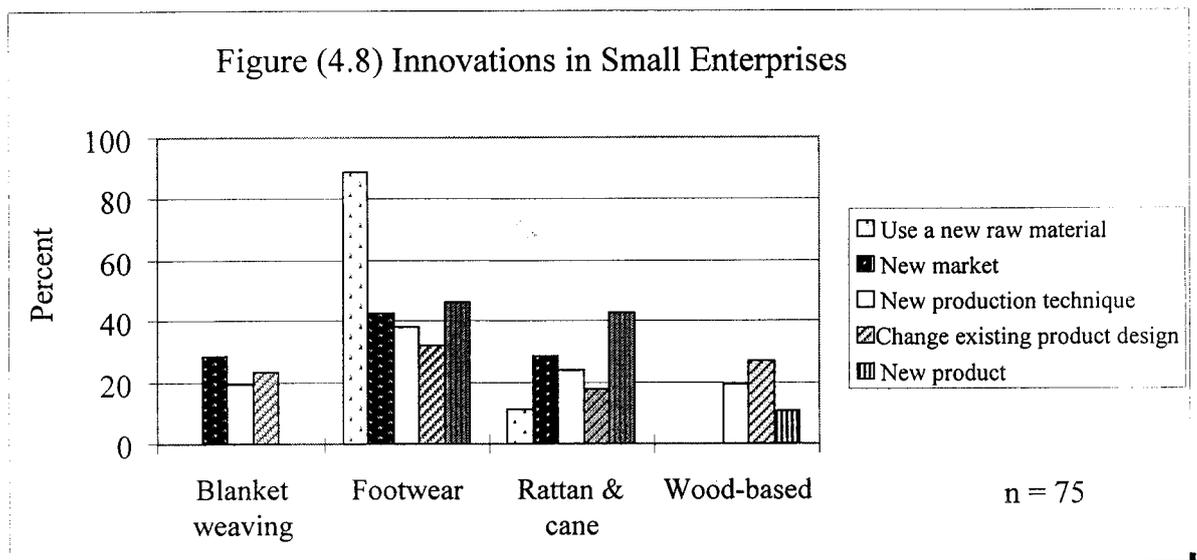
One critical aspect of a dynamic competitive process is that firms must continuously initiate technological and organizational change in order to maintain or strengthen their competitive positions. Such dynamism is seen as a process of innovation, which involves the introduction of new products or production process²²⁰. In doing so, firms transform the technological²²¹ and market environment as well as adapt to new opportunities. Innovation is not restricted to the narrow notion of technical change. It involves activities such as improvement in quality or differentiation of a product, design improvement and also modification to the wider institutional arrangements which influences the overall production and distribution process. In the process of dynamic competition, successful firms will grow while unsuccessful firms will lag behind and eventually disappear. Thus the growth and success of enterprises ultimately depend on the capacity to innovate. Therefore, innovation and technical progress are inseparable.

²¹⁹ See Simon, H. (1961) for more on the issue of satisfying behaviour as an objective of the firm.

²²⁰ Schumpeter (1961, p.66) outlined five characteristics of innovation, these are: (a) The introduction of a new good, (b) The introduction of a new method of production, (c) The opening of a new market, (d) The conquest of new resources of supply, and (e) The carrying out of the new organization of any industry.

²²¹ Technology is conceived, here, in a broad sense to include the following components: knowledge (education, training), organization management qualities, the technique in the narrow sense (the piece of equipment, the tool or a machine) and the product (the type of product and its quality; the result of the combination of knowledge, organization and a technique). This concept of technology is taken from van Dijk (1988, p.53).

Figure (4.8) shows the innovations of the selected small enterprises in the research regions. Of all the sub-sectors product innovation is most intensive within the footwear (46%) and rattan & cane (42%) sub-sectors. The most common forms involve changes in existing products by using new combinations of raw materials and entering a new market. Such changes stem from directly from and are also necessary because of intense market competition but it is also facilitated by improved access to raw material supplies. The majority of using a new raw material was found within the footwear sub-sector which accounts for 88.89%. The innovation of new products was mostly found within the footwear, rattan & cane and wood-based sub-sectors accounting for 46.43%, 42.86% and 10.71% respectively, but not found within the blanket weaving sub-sector.



Source: Own survey, 2003

Production of the new products then became possible or simply because raw material constraints were lessened, but moreso because the demand for the existing product and in some cases created. Production of the new products allows the enterprise to increase output and market share; this is a key objective within the footwear and rattan & cane sub-sectors because it was one of the main reasons indicated by entrepreneurs for undertaking new customers. The intensity of competition within the sub-sector, particularly from imported products along with many exporters and export-oriented nature of rattan & cane products, the entrepreneur make product innovation as apposed to price competition over its competitors. The footwear and rattan & cane sub-sectors also have the youngest enterprises within the sector in which case, based on Utterback and Abernathy's model, there will be a high level of product innovation. According to the model a high rate of product innovation is typical in the early stages of the firm.

In the wood-based sub-sector, product innovation is stimulated by process innovation in the sense that new technology effectively facilitates the production

of new and improved products. Product innovation is directly stimulated by process innovation and then further stimulated by market demand particularly given that all of these enterprises market their products only within Myanmar. The relatively limited new product innovation within this sector is related to three separate issues. Firstly, the limited access to major raw material supplies (timber) within Myanmar limits product innovation. Secondly, given that most of these enterprises are among the oldest within the sector the products which are produced are standardized, for as the product life cycle evolves product variety tends to be reduced and the product becomes standardized. The sector markets products mainly within Myanmar with such limited market demand changes to standardized products are also limited. Thirdly, given market demand constraints and the unavailability of skilled labour a major objective of entrepreneurs within the sector is cost minimization.

Product innovation in the blanket weaving sector is very limited. In the blanket weaving sub-sector the dominant form of innovation is limited to improvement of product quality with basic designs; there is limited fashion designing for entrepreneurs lack the necessary skills. The improvement in product quality comes from certain specific features of the handloom and raw material. The emphasis is related to existing market pressure; small blanket weavers face a high level of competitive pressure from two specific sources. Firstly, there are a large number of merchants who sell their blankets at low prices. Secondly, there is competitive pressure, particularly in terms of variety, price and quality from the large stores which import blankets from China. Within this highly competitive environment price competition is emphasized, and non-price competition is limited. This emphasis on improvement in product quality is due to the fact that only a few alternative competitive strategies will be appropriate for a given firm's environment and a given set of productive resources.

The new manufacturing technologies which have been revolutionized by the cost reduction of small-scale production relative to large-scale production. Therefore, the degree of flexibility offered by these new technologies promotes the relative viability of small-scale activities. Production based on such flexible systems does not rely on firm-based scale economies of mass production. This is an advantage for batch production becomes more viable under altered demand conditions in flexible small enterprises than in large vertically integrated ones²²². Therefore technological changes have allowed flexibility to be a central characteristic and strength in today's small enterprise. This flexibility of small-scale enterprises has given them a superior ability to cater to the special needs of customers in terms of speedy supply of orders and on time after sale services. As a result of these changes they have captured market niches where such abilities are especially important; many have actually specialized in these respective market niches.

²²² For more on flexible production systems see Pedersen et al, (1994, Chapter 1) and Alcorta (1994).

Process innovation within the sub-sectors is also common (see figure 4.8). With much similarity in their type of products and a small product market, product innovation is limited so process innovation is emphasized. A driving force behind this rapid process innovation is the lack of and poor quality of skilled labour within these sub-sectors; in this case process innovation was stimulated by the enterprises' internal labour problem²²³. Most of the selected entrepreneurs within the sub-sectors indicated acquisition of skilled labour was the main reason for undertaking after startup. Among the informal sector enterprises making the more complicated products (often requiring detailed design and technical specifications) the new production process often lead to a careful division of labour on the shop floor (e.g. cutting, polishing, assembly and packaging). This leads to reorganization in the use of labour within the enterprise. The common practice was to shift production from a 'day work' system to a 'piece rate' system. This is a cost minimization strategy and an effective means of controlling product quality and dealing with low labour productivity.

One possible explanation for the process innovation within these sub-sectors lies in the fact that the enterprises have technical personnel most of whom worked in similar enterprises before starting their own and therefore would have accumulated much practical skills and expertise from their previous working environment²²⁴. In the particular case of the wood-based sub-sector there is another explanation. The new technology combined with the limited market has two major impacts on the organization of production within the footwear (6.67%) and wood-based (20%) sub-sectors. Firstly, one of the operators the multifunctional nature of the equipment makes customization of product possible²²⁵. This is facilitated by hiring and organizing skilled labour for use only in the production of customized footwear and wooden furniture. Secondly, some simple tasks which were previously done by low skilled workers are now performed by the multifunctional equipments. This has reduced the need to employ low skilled workers on a full-time basis, so most workers are now employed on a part-time basis to perform certain specific tasks which cannot be done by the machine. The changes within the footwear and wood-based sub-sectors are consistent with Leijonhufvud views that, "By and large low-wage labour cannot produce to the standards of precision, uniformity and guaranteed quality that the new technology will deliver. Technological change will also change the organization of work, the nature of the firms, and the structure of industries. The increased versatility of computer controlled machinery should reduce the incentives for vertical integration in manufacturing and create a tendency for smaller production units"²²⁶.

²²³ It is fact that some process and product changes within enterprises are introduced or reinforced by managerial desire to solve industrial problems. For more on this issue see, Bannon and Thompson (1985) and Wilkinson (1983).

²²⁴ Fligstein (1990) found in large American firms that technical managers focused more on the product or service delivered than did executives with finance and sales background who would seek out financial and marketing sources of growth.

²²⁵ The system is common among the entrepreneurs producing footwear and cane furniture for large customers such as customized sandals and home furniture for wholesalers and hotels.

²²⁶ Leijonhufvud (1998, p.207).

4.4 Input Structure and Relations

4.4.1 Labour

4.4.1.1 Quantitative Aspects

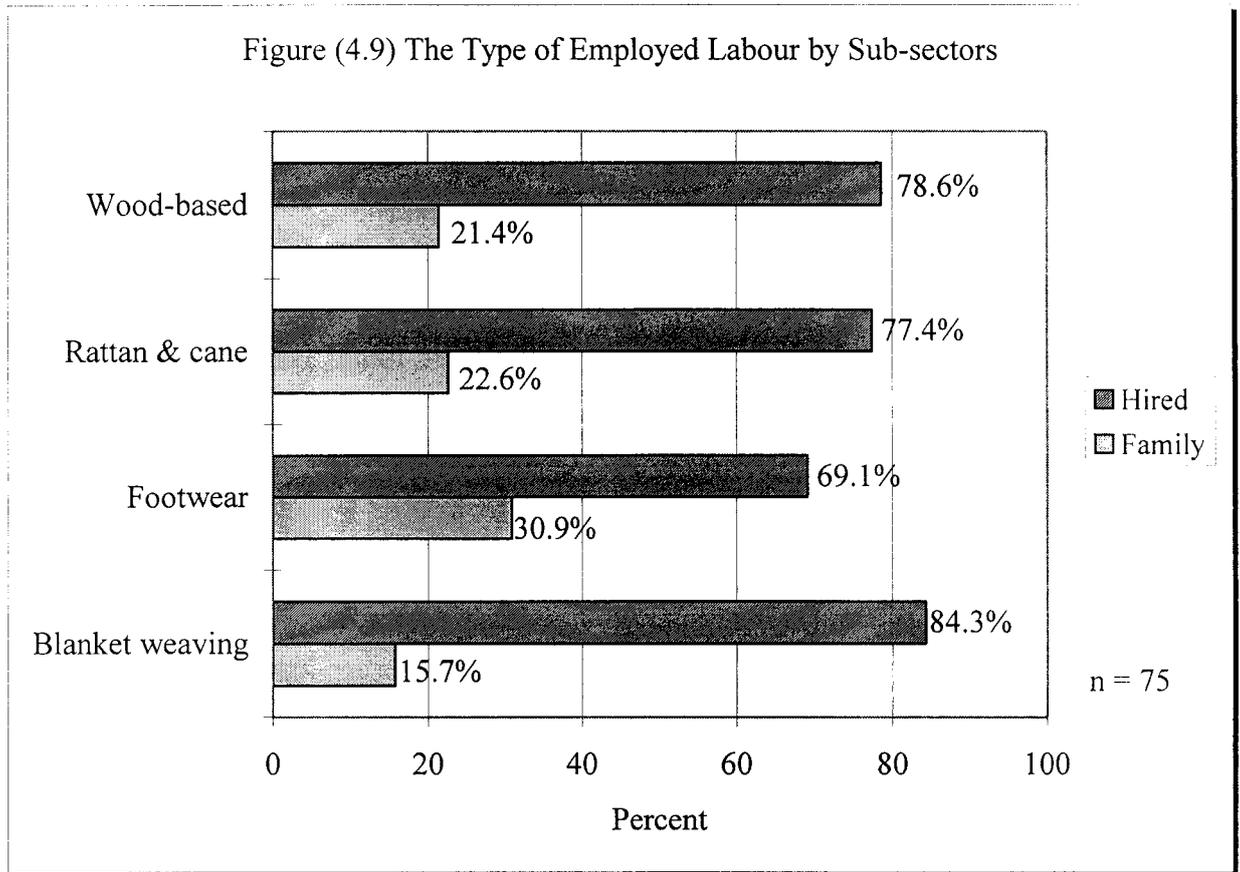
All the factors of production in an enterprise, labour occupies the most important place. Since the selected small enterprises are mostly labour-intensive, the extent to which the informal sector can be an absorber of labour can be measured by the number of people who otherwise would have been unemployed but find employment in the sector. Considering the low level of education of those who work in the sector, most of them would not have found jobs in the formal sector and would have therefore remained unemployed. The labour employed in the selected small enterprises normally comprises the proprietor's own labour, family labour, hired labour (skilled and unskilled) and apprenticed labour. The number in each category is analyzed for the four types of sub-sectors.

Number of workers	Enterprise		Total Employment	
	Number	%	Number	%
1	-	-	-	-
2	2	2.66	4	0.68
3	1	1.33	3	0.51
4	5	6.67	20	3.41
5	8	10.67	40	6.82
6	5	6.67	30	5.11
7	9	12.00	63	10.73
8	11	14.67	88	14.99
9	1	1.33	9	1.53
10	33	44.00	330	56.22
Total	75	100	587	100

Source: Own survey, 2003

Table (4.20) shows the number of hired workers (both skilled and unskilled) employed in the enterprise surveyed. A total of seventy five enterprises which had valid responses to the question on employment had 587 hired workers, that is, each enterprise employed on the average 7.8 hired workers. However, if part-time and family labour were included in the total employment, the number increased to 10.4 workers. Table (4.20) also shows that the enterprises in the informal sector have an absorptive capacity. This is so because ten percent (10%) of the selected small enterprises employ the worker. The majority of number of workers employed was ten persons whose were used in the enterprises which accounts for forty four per cent (44%) with fifty five per cent (56%) of total employment of the total enterprise surveyed. The second majority of employed workers were eight

persons whose were involved in fifteen per cent (15%) with 15% of total employment of selected small enterprises. The following figure (4.9) indicates the kind of labour employed in the selected small enterprises.

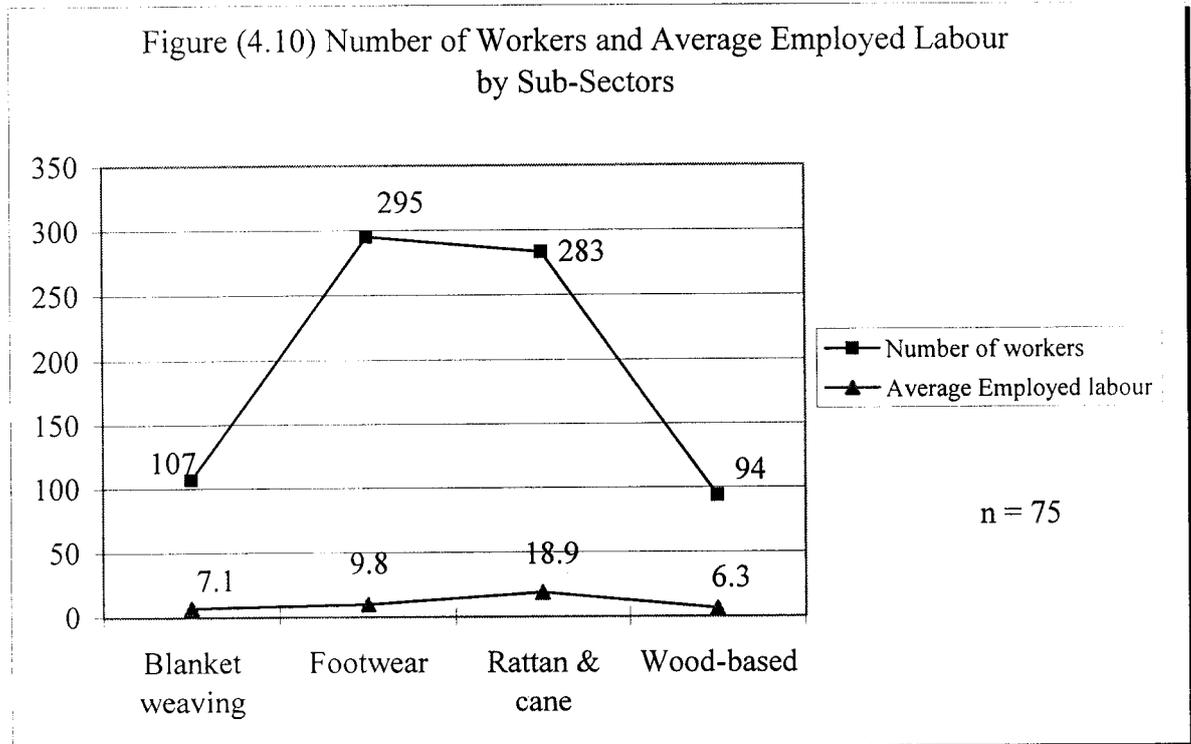


Source: Own survey, 2003

Figure (4.9) presents that the labour covered in all enterprises whose owners were interviewed is family or hired labour. Family labour here involves the owner himself. In fact, some owners of the selected small enterprises also work in the enterprises as workers; in this sense family labour means only children or relatives. Hired labour consists of neighbours or, in general, so-called strange workers. It can be noted that most of the selected small enterprises employed hired labours in their businesses, its range is only sixty nine per cent (69%) in footwear sub-sector to eighty four per cent (84%) in blanket weaving sub-sector. The most family labours employed enterprise was footwear sub-sector (30.9%) and the least was blanket weaving sub-sector (15.7%).

The differences in the enterprises' performance are due to the size of the enterprises. Figure (4.10) shows the size of enterprises by number of employees, with the average size ranging between 6.3 to 18.9 persons. Within the wood-based sub-sector the enterprise is 6.3 persons while within the rattan & cane sub-sector the average employed labour is 18.9 persons. The enterprises in the blanket

weaving and footwear sub-sectors with an average labour force consist of 7.1 and 9.8 persons respectively. Family labour including owner, family members and relatives mostly characterize these enterprises in the various sub-sectors. Some enterprises employ casual workers. Twenty per cent (20%) of the total small enterprises employ casual workers frequently but another 17.33% employ casual workers occasionally. Two main economic activities that employ casual workers most frequently are footwear and rattan & cane sub-sectors accounting for 33.33% and 46.67% respectively.



Source: Own survey, 2003

The diffusion of technology in these activities has had a traditional influence in which skills are passed on from one family unit to another within a particular lineage. Thus, family labour is employed in those sub-sectors, first, to transfer technology and, secondly, to ensure continuity in business. This, however, does not mean that the enterprises are family owned. In Yangon, the average number of employed labour in the sector is ten persons. In fact, the size of enterprises according to the number of workers is larger than in other regions. Most of the enterprises have been found since 1990s and have more experience in their business. The scale of operation of these enterprises is also relatively large and demands more hands than entrepreneurs acting alone could cope with. Family members no longer predominate in employed labour, but hired labour predominates in employed labour.

At the general level, given the financial constraints of the entrepreneurs labour is used in a way so as to minimize variable cost and maximize the utilization of

fixed capital. Within this context one of the salient features within the sector is the combined usage of full time and part time labour. Specifically, ninety six per cent (96%) of all selected enterprises within the sector use a combination of full-time and part-time labour. This labour is supplied by both family and non-family members. At the startup phase there were differences in the full-time/part-time labour ratios within the various sub-sectors being highest within the footwear sub-sector. On the other hand, as indicated in table (4.21), it was relatively low within the wood-based and rattan & cane sub-sectors.

SUB SECTORS	AT START OF ENTERPRISE	AT PRESENT (2003)
Blanket weaving	5:1	3:1
Footwear	8:1	8:1
Rattan & cane	3:1	2:1
Wood-based	2:1	1:1

Note: Figures are rounded to the closest whole number. No reference is made to the full-time/part-time labour ratios to start up for footwear and wood-based sub-sectors because most of these enterprises started with a single individual, and made no use of part-time labour.

The higher full-time/part-time ratio at the startup phase within the footwear sub-sector (8:1) is as a result of easier access to low cost family labour. In this sub-sector one reason for relatively easier access to family labour is due to the fact that forty per cent (40%) of all the enterprises in the sample are within this sector. Secondly, given the home based integrated production strategy which is used within this sub-sector there will be relatively more use of low cost family labour on a full time basis than in the other sub-sectors. This strategy, in itself, is often predicated on the assumption of an elastic supply of family labour. For these entrepreneurs the use of available family labour in the startup phase of the informal enterprise is a means of substituting labour for capital. Entrepreneurs within the footwear sub-sector take advantage of this large supply of relatively low cost labour and therefore maximize the use of the cheap factor of production. Maximum utilization of family labour on a full time basis is also a very effective means of minimizing variable production cost, which is the only cost strictly relevant to pricing. For seventeen per cent (17%) of footwear enterprises reliability of supply of raw material was a problem at the startup phase. The access to full time family labour would have given the entrepreneurs some level of flexibility to adjust production so as to coincide with the availability of raw material supplies.

The lower full-time/part-time labour ratios at the startup phase within the wood-based (2:1) and rattan & cane (3:1) sub-sectors are as a result of the entrepreneurs having access to family labour. For example, thirteen per cent (13%) and twenty

seven per cent (27%) of the enterprises within the wood-work and rattan & cane sub-sectors respectively started with inputs from family labour as opposed to forty per cent (40%) of the enterprises within the footwear sub-sector. This distinct difference in access to and the use of family labour, helps to explain the differences in the severity of the problem of access to labour during the startup phase within these sub-sectors (refer to Table 4.18). The reduced access to family labour meant that entrepreneurs within the wood-based and rattan & cane sub-sectors had less flexibility in terms of the use of labour and ultimately the minimization of variable production cost. In such a situation there will be proportionally less utilization of full-time labour and proportionally more utilization of part-time labour so as to minimize the variable cost of production. Therefore differences in access to and utilization of family labour explain the differences in the full-time/part-time labour ratios within these sub-sectors. The critical role of family labour in the operations of the informal sector in Myanmar is also illustrated by the fact that seventy five per cent (75%) of all the selected enterprises use only full-time labour and among this group of enterprises twenty per cent (25%) use only family labour.

Table (4.21) also indicates that after the startup phases the full-time/part-time labour ratios within all the sub-sectors mostly declined. Therefore the utilization of part-time labour grew faster than that of full-time labour. This change in the combination of the labour inputs is related to two separated factors. Firstly, the additional investment which was made in the major raw material after startup and secondly, existing wage rates within the Myanmar economy, particularly wage rates within the public sector. With increased investment in the major raw material there was an associated decrease in the overall use of labour and an accompanied change in its combination. For entrepreneurs to minimize variable cost and maintain competitiveness there was proportionately greater use of part-time labour and less use of full-time labour, leading to lower full-time/part-time labour utilization ratios within the sub-sectors. The condition of the labour market in Myanmar permits this level of flexibility in the utilization of labour. This level of flexibility is possible for two main reasons. Firstly, the degree of labour unionization within the business sector is extremely low, one can even say virtually nonexistent. Therefore entrepreneurs can utilize full-time and part-time labour to the maximum extent, thus giving the entrepreneur a high degree of flexibility in production organization²²⁷. Secondly, most entrepreneurs rely on social relations to elicit work from employees and employees accommodate such demands because of the social expectations of such fraternal relations and mutual

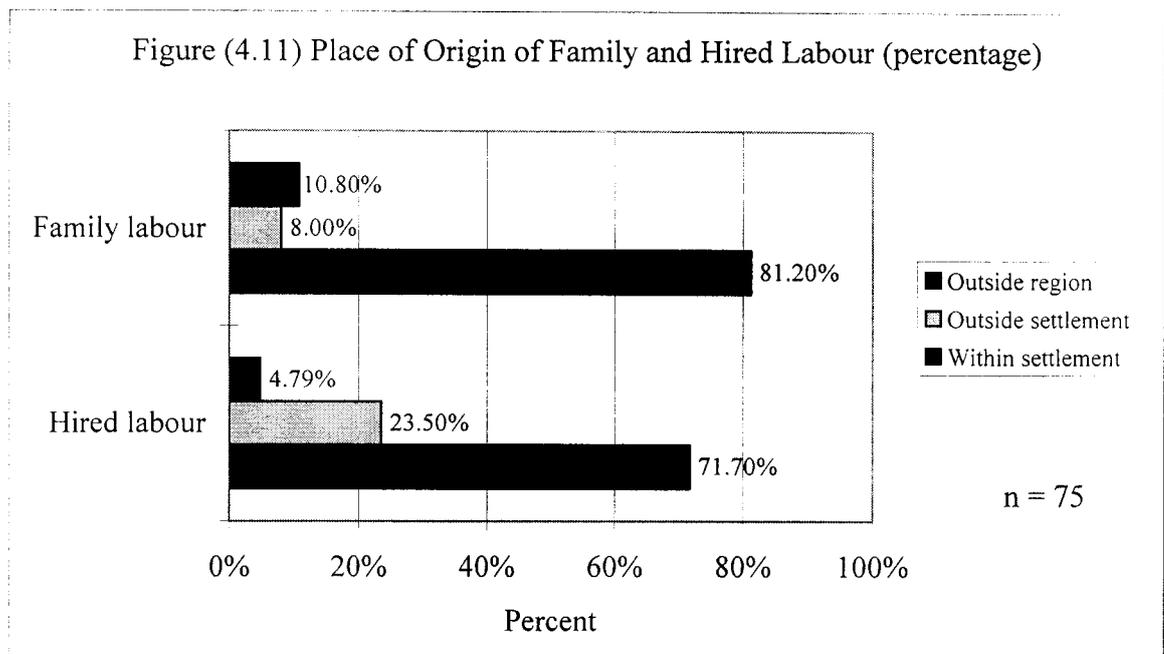
²²⁷ Patibandla, (1998) stated that with reference to India "management of labour is an important source of saving on working capital requirements. Since small firms operated mostly within unorganized labour, they had a relatively higher degree of flexibility in production organization. They could minimize the variable cost of labour by employing a few permanent skilled and temporary semi-skilled and unskilled labour.....the organization of labour markets could be one of the important factors in determining the relative technical efficiency of large and small firms" (p.423).

gains. The social relations give the entrepreneurs great flexibility with respect to the terms and conditions under which labour is employed.

The selected informal entrepreneurs answered that about nineteen per cent (19%) of the total workers have been with the enterprises for less than one year, seventy six per cent (76%) of the total employees have been with their business for more than one year but less than two years, and only five per cent (5%) had been with the enterprises for between two and five years. This means that those who have been with the enterprises for more than a year but less than two years is more than those who have been with enterprises for less than a year is probably due to more business activities in the previous than in the current year. This might mean that there is cause to suspect that economic boom in the country is declining.

4.4.1.2 Labour Mobility

As one of the spatial dimensions of the study, the place of origin of labour was examined to determine the spatial extent of interaction in relation to labour mobility. Three level of spatial mobility of labour can be identified. These are: (a) interaction within the settlement (WS), (b) interaction outside the settlement (OS), and (c) interaction outside the region. The following figure (4.11) shows the place of origin of labour for the selected small enterprises.



Source: Own survey, 2003

The movement of labour within the settlement is by far the largest and strongest for all locations. Most of the family and hired labour, which account for 81.2%

and 71.7% respectively, come from within the settlement where these enterprises are located. The second place of origin of family and hired labour is outside region (10.8%) and outside settlement (23.5%) respectively. Outside region here means within the province or from other areas such as Mandalay division, Sagaing division, or Mon state. The high constraints on labour mobility outside the settlements proper but still in the region are sharply accentuating the scare interactions taking place in order to expand the labour market. On the other hand, according to the location of the industrial activities, their availability might serve as a potential nucleus for establishing more income-generating activities on an internal level. It would serve to localize employment opportunities for people who leave agriculture and thus stimulate a degree of decentralized urban development. To realize these expectations, however, these activities will need to be strengthened in terms of spatial function interaction in order to promote economic development within the region.

The education level of these workers differed between the research regions. In general, some of them had only attended the Primary School Level (up to 5 years of schooling) and a small number had reached the Middle School Level (up to 9 years of schooling). In Yangon, most of the workers had reached the High Level (up to 11 years of schooling) and even University graduate, while in the other research regions such as Monywa and Yekyi, most of the workers had attended the Middle School Level. This indicated that the competition on the labour market in Yangon is higher than in other regions. Furthermore, the existing enterprises within the footwear sub-sector had a division of work already while this is not strongly marked in the other sub-sectors. Some of the workers who had reached the High Level revealed that they took the jobs because they expected a better job in the near future. At the moment, the main reason was to earn an income (the so-called 'escape job') and subsequently, they expected to obtain a better job. On the other side, for the other research regions, such as Monywa and Yekyi, the workers had no alternative of getting a better job, because they have become aware of their position as holders of an elementary or middle school certificate. For those workers there are no job opportunities in the regions. An interesting phenomenon that appeared in this discussion was that the descendants of farmers who attended schools (at least the middle school level) no longer want to work in the fields as farmers because according to them, a farmer has a low social status. They want to get a job in other sectors, as civil servants or in the small enterprise, which confers a higher social status upon them. The appropriate solution that can be suggested is to create a school with a workshop in the area (place of origin), although this kind of school needs high financial aid. However, through collaboration with the enterprises (the so-called dual system education) or foster-father program (apprenticeship), it is expected that the financial problem can be mitigated.

For small enterprises, the number of years of exposure to education and the skill acquired is probably more important than the certificated acquired. The number of years of schooling of the most educated persons in the sector is used as a proxy for their level of education. As mentioned above, most of the workers' level of education is middle school level. Therefore, one can assert that the level of education of the workers in small enterprise sector is low. The low level of education of the workers in small enterprise sector is impediment to the growth and development of small enterprise sector. It is partly the cause of the non-keeping of accounts and of records for small enterprises. The non-keeping of records implies inability to measure profitability of an economic concern with any degree of accuracy. Most of the accounts and activities have to depend on the memory capacity of the entrepreneur. This evidently limits the extent to which the business can expand.

The general conception about employment in Myanmar is that there is a critical and acute shortage of skilled workers and an over-supply of unskilled workers. Some previous studies in the country showed that there is a high level of unemployment in the urban centres. However, data published by department of labour showed that there is a general decline in unemployment rates, unemployment is still substantial in Myanmar and in Yangon in particular, it is high. Among the apparent high unemployment in Myanmar, small enterprises experience difficulties in recruiting the skilled labour. The acquisition of such skills and know-how entails a cost for training which can be minimized by maintaining a stable labour force. Since an unstable labour force will require constant training of new labour when it is hired by the enterprise. This makes the replacement cost of labour relatively high. Employing such skills on a full-time basis is even more important in a developing country like Myanmar where such skills are relatively scarce. By providing full-time employment the entrepreneur will be guaranteed the utilization of skills and also prevent its utilization by other competing entrepreneurs. The utilization of such skilled labour by another competing entrepreneur is highly possible given the organization of the labour market and the overall quality of labour within the sector. Firstly, given the conditions of the Myanmar's labour market, within the sub-sectors there could be a high degree of mobility to labour across enterprises. Secondly, the quality of labour within the sector is generally low. With such a high level of low quality labour combined with scarcity of high level skills, there will always be demand for highly skilled labour. The scarcity of skilled labour within the sector is also reflected in the fact that sixteen per cent (16%) of the selected small enterprises identified skilled labour as a major need and twelve per cent (12%) identified it as a constraint to growth and development. The high mobile labour market and the general scarcity of skilled labour will tend to reinforce full-time labour, particularly skilled labour as opposed to part-time labour.

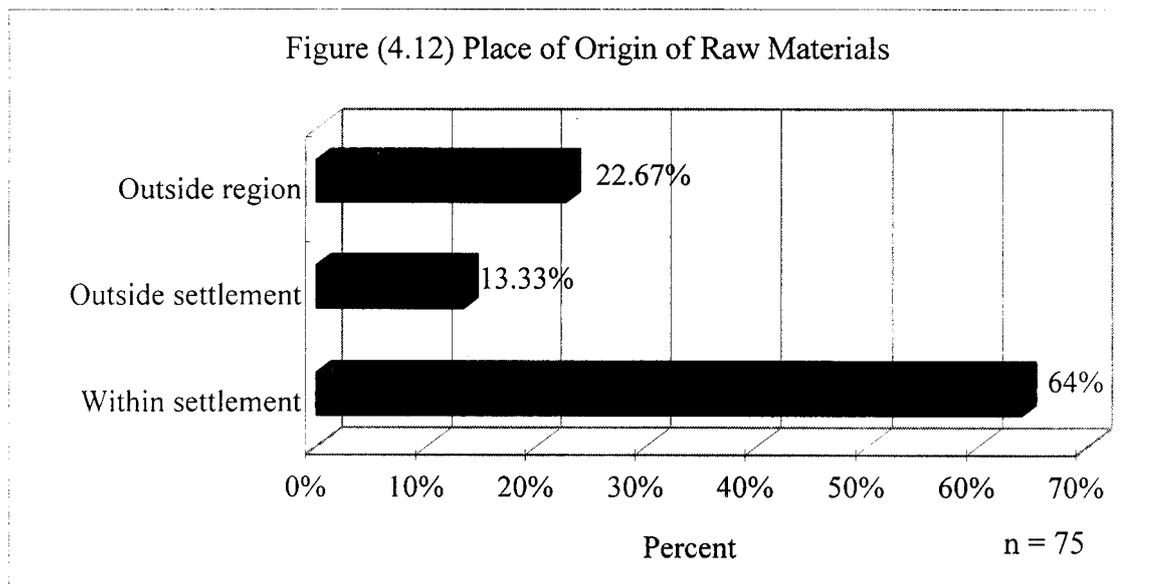
This combination of low quality labour and lack of skilled labour reinforces the dependence of entrepreneurs on the utilization of family labour for family members can easily train each other and in this way improve the level of skills and know-how within the enterprise. However, the overall labour market conditions with high levels of unemployment and easy access to family labour have led to a high use of unskilled labour by enterprises within the sector. Such unskilled labour is usually capable of performing simple routine tasks but lack the competence to undertake more complex operations. Given that the quality of labour input is a decisive for the success of small enterprises sector, such success for these enterprises is fundamentally constrained by an internal factor. Furthermore, this availability of cheap labour inhibits the sector from engaging on an innovative technological path of development which uses high technical skills for complex productive processes. This reduces the ability of consumer preferences.

4.4.2 Raw Materials

The analysis of raw material supply to small enterprises in the research regions focused on three main issues in line with the purpose of this study. First, the sources of raw materials are examined in order to determine whether these resource flows are internal or external. The second area of concern relates to backward linkages, where the sources of production inputs have also been examined to assess the extent to which resources flow within the region stimulate the development of small-scale activities. Finally, raw material availability pertaining to perennial, seasonal or occasional supply is analysed in order to isolate resource constraints inhibiting supply. The output of this exercise is a set of main raw material problems.

4.4.2.1 Source of Raw Materials

The place of origin of raw materials is illustrated in figure (4.12). Enterprises within the sector use raw material from a number of sources, some from a single source and some from a combination of sources. With regard to sources of raw materials, two main patterns emerge: one each within the area and outside the district. Within the region, the main source of raw materials is within the settlement where the industry is located. Outside settlement means that the origin of raw materials is external to the location of enterprises, while outside region shows that the origin of raw materials is external to the settlement where the enterprises are located, especially from outside the province or Yangon.

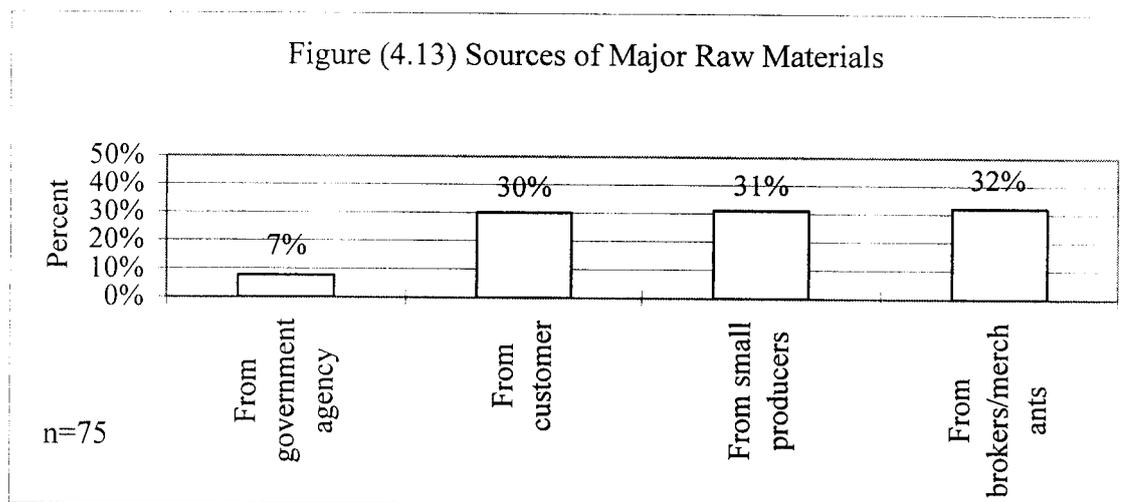


Source: Own survey, 2003

Figure (4.12) shows that sixty four per cent (64%) of raw materials are obtained within settlement, while 22.67% of raw materials are imported from outside regions. Only 13.33% of raw materials come from outside settlement. Most of small enterprises bought the raw materials for their day-to-day production from small producers, merchants/traders, as well as from government agency. The sources of major raw materials acquisition are depicted in figure (4.13). The selected small enterprises bought major raw materials for finalize production mainly from merchants/brokers (32%). Raw materials such as leather for footwear, cane for rattan, fabrious yarn for blanket, timber for wood-based products were bought from regular supplier like wholesalers within the settlement. Sometime few raw materials, e.g., dyes, velvet cloth, are mostly imported from China and also from India.

There are different amount of purchasing raw materials in each and every sub-sector, and some purchase more raw materials depending on their products are in demand but some purchase the same amount of raw materials that require for the last year's even if they are in demand. Most interesting is that blanket weaving enterprises are depending on garment factory wastes as major raw material because they grind those factory wastes to make fabric blanket. Therefore, Myanmar garment industry is concrete backing to a certain extent for blanket weaving sub-sector. Figure (4.13) shows the sources of major raw materials for small enterprises within the research areas. Thirty one (31%) per cent of raw materials were bought from small domestic producers directly, while thirty per cent (30%) were obtained major raw material from their wholesale customer. This means that fourteen out of every fifteen enterprises buy inputs from other businesses. However, only seven per cent (7%) of raw materials within the wood-based sub-sector were acquired from government agency. A few enterprises depended greatly on the formal sector. At least one out of every fifteen enterprises

in the economic groups bought inputs from the formal sector. Such economic activity was within the wood-based sub-sector only.



Source: Own survey, 2003

The main problem with regard to raw materials is the market structure. A few wholesalers/merchants have the monopoly for some imported raw materials outside settlement such as warp, leather and cane. These traders control transport and distribution and already build market channels within the region, so that they can influence the market prices and are able to provide credit sales to the entrepreneurs. Though the existing prices are higher than market prices, the entrepreneurs prefer to go to these traders for two reasons, which are (i) with regard to credit sales, the entrepreneurs pay the prices when the next transaction takes places; and (ii) the raw materials are often delivered to enterprises.

For most of the enterprises in the startup phase the raw material supplies that were used were limited to that which was obtainable in various sub-sectors. Availability of raw material supplies was a problem for 25.76% of all the selected small enterprises at the startup phase, however the severity of this problem varied considerably within the various sub-sectors (see table 4.17 and 4.18). Obviously, at the start of the enterprise raw material supplies problems would have been compounded by limited finance which was a problem for many of the entrepreneurs. Therefore availability or unavailability of finance, particularly working capital will certainly explain some of the variation in terms of severity of the problem within the various sub-sectors.

The raw material problem was most severe within the wood-based and blanket weaving sub-sectors. These sub-sectors manufacture products whose raw material contents come mainly from agricultural and forestry primary products. For small enterprises, starting on a low scale and with limited finance, the entrepreneur as

the first option, will attempt to source raw materials from nearby local source. This is the situation with these entrepreneurs for initially most of them sourced all the needed raw material within their settlement. In the case of agriculture and forestry primary products, for such an inward oriented strategy to be effective in terms of reliability of raw materials at competitiveness prices there must be a well developed agricultural and forestry sectors.

4.4.2.2 Backward Linkages

Linkages effects can be examined with reference to the locality from which the enterprises in the region acquire their inputs and the volume of resource flows (both within and outside the region). The following table (4.22) presents the flow of resources, especially the origin of the major raw materials. These raw materials are selected according to their share (quantity) in the production process. As shown in table (4.22) below, the selected small enterprises obtain their inputs from two sources mainly: within settlement where small enterprises are located, and outside regions involving other regions. There is a stronger interaction with internal sources than with external ones. 77.33 per cent and 22.67 per cent of the enterprises indicate this respectively.

	Within Settlement		Outside Settlement	
Blanket weaving	12	80.00%	3	20.00%
Footwear	28	93.33%	2	6.67%
Rattan & cane	5	33.33%	10	66.67%
Wood-based	13	86.67%	2	13.33%
Total	58	77.33%	17	22.67%

Source: Own survey, 2003

Spatially, these backward linkages are stronger in the footwear, wood-based and blanket weaving sub-sectors, while weak in rattan & cane sub-sector. The strength of backward linkages can be ascertained by observing the place of origin of raw materials imported by small enterprises. The use of raw materials obtained within settlement in Yangon and in Monywa for footwear, wood-based and blanket weaving sub-sectors was very strong, accounting for 93.33 per cent, 86.67 per cent and eighty per cent (80%) respectively, while it is not as strong in rattan & cane sub-sectors (33.33%) especially located in Yekyi. This view shows that the existence of enterprises in the three regions can provide other businesses and increase the backward relationship. The cause is that in Yangon and where has a better infrastructure such as transportation and information than other regions, has more possibilities of obtaining raw materials from other regions. The enterprises in the rattan & cane sub-sector are mostly very tiny and their operations are more

oriented towards customer order and get the raw material from large company in Yangon before producing the products. Therefore, 66.67 per cent of the raw materials (cane) are imported from other regions because the basic raw material (cane) is not produced in Yekyi and the raw material always comes from Yangon²²⁸. Therefore, it can be said that the backward linkages in Yekyi is very fragile. Moreover, one can say that the backward linkage between the selected small enterprises and the formal enterprises is weak (7.7%), while the linkage is stronger with other business sector.

SUB SECTOR	SOURCES			
	Government agency	Customer	Small producers	Traders/Merchants
Blanket weaving	-	-	36.8	100
Footwear	-	66.67	10.5	-
Rattan & cane	-	33.33	15.8	-
Wood-based	100	-	36.8	-
Total (%)	7	30	31	32

Source: Own survey, 2003

Table (4.23) shows more clearly the sources of raw materials bought by enterprises within the sub-sectors. The table indicates the extent to which certain sub-sectors depended on traders/merchants. The enterprises that mostly depended on government agency include wood-based sub-sector. The reason is the fact that the forest produce is legally prohibited to carry and trade in Myanmar. Therefore, they rely on a source that is government agency. However, 66.67 per cent and 33.33 per cent within the source of customer is the footwear and rattan & cane sub-sectors. The footwear and rattan & cane enterprises are mostly engaged in sub-contracting activity²²⁹, therefore, they obtain major raw material from customer whose is one of the main distributors in the region. Most interesting is that most of blanket weaving enterprises bought their raw material from traders/merchants. At least 10.5 per cent to 36.8 per cent of the enterprises depended on small domestic producers. Therefore, the extent of backward linkages with the formal sector (7%) appears to be weak when the sector is aggregated. However, the stronger backward linkages with the formal sector exist in the wood-based sector only.

²²⁸ There are various kinds of cane where mostly available in Myanmar are extracted in northern part of Myanmar as well as in the region of Bago mountain range, Rhakaing mountain range, Aywyarwaddy Delta, etc. After many processing stages, finished cane is transported to Yangon where there are many rattan & cane trading enterprises which sell to retailers and rattan & cane enterprises.

²²⁹ This issue is explained in Section 4.6.

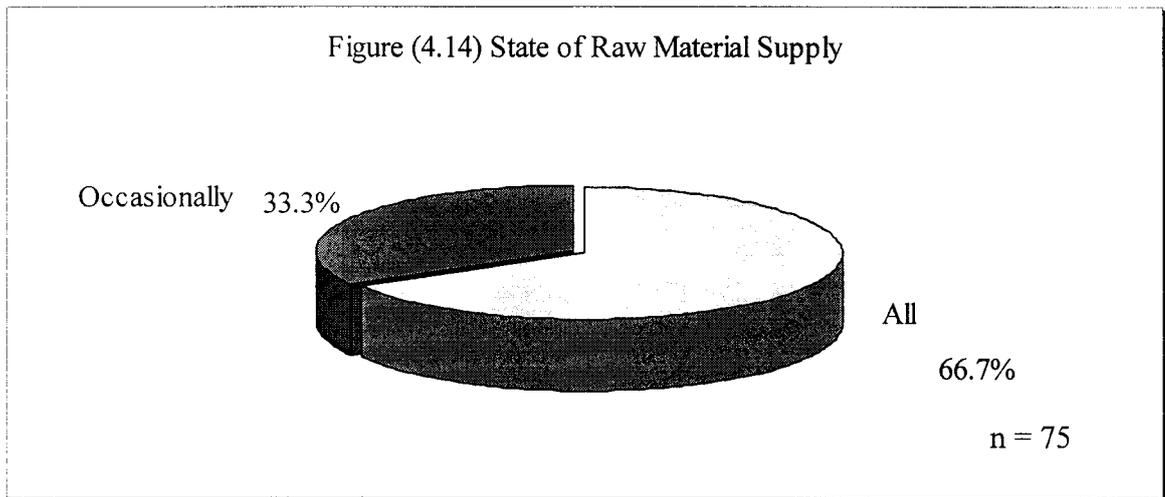
Therefore, one can conclude that the low level of backward linkages with the formal sector in this study. It can in part be attributed to the adoption of the market-oriented system in Myanmar, which in part drove up the prices of inputs from the formal sector and weakened the purchasing power of selected small entrepreneurs. Small enterprises have had to be inward looking to source raw materials, mainly from informal sources rather than the formal sector. This has been further exacerbated by the fact that industrial establishments in the formal sector are producing far below their installed capacity. This observation questions the oft-held belief that small enterprises depend mainly on local inputs, and underlines the extent to which the selected small enterprises are dependent on the global economy. Moreover, a plausible explanation for this observation might be the inability of both large domestic companies and government agencies to sufficiently meet the needs of small enterprises. This point is buttressed by the fact that government agencies are unable to supply any significant amounts of raw materials to small enterprise sector.

4.4.2.3 Raw Material Availability and Resource Constraints

The state of raw materials supply regarding their availability all year round and occasionally is depicted in figure (4.14). The availability of raw materials plays an important role in supporting the performance of enterprises. It is seen that 66.7 per cent of the selected small entrepreneurs reported that they obtain their raw materials throughout the year, while 33.3 per cent obtain their raw materials occasionally. However, availability is related to kind of enterprise activity. Thus, small enterprises which obtain their raw material inputs all year round mostly include footwear and blanket weaving sub-sectors, while enterprises producing rattan & cane and wood-based sub-sectors obtain their raw materials occasionally. In the rain season²³⁰, most raw materials become more expensive due to less production; therefore the entrepreneurs produce less rattan and wood-based products and have to earn an income from other economic activities to ensure their economic situation. The extent to which this problem still exists reflects the problem solving business behaviour, in terms of raw material supplies within the various sub-sectors. The entrepreneurs adopted various innovative behaviour to solve their raw material supplies problem.

²³⁰ There are three different seasons in Myanmar: Summer (March to May); Rainy Season (June to October); and Winter (November to February).

Figure (4.14) State of Raw Material Supply



Source: Own survey, 2003

With regard to problem solving business behaviour, in this case refers only to raw material supplies. However, such behaviour varies according to the problem and business environment. For example, a group of entrepreneurs may display passive problem solving behaviour with respect to raw material supplies problems. But the same group of entrepreneurs may display active problem solving behaviour in the case of marketing problems. With respect to this specific problem entrepreneurs within the rattan & cane sub-sectors has displayed 'passive problem solving problem' whereas some of the entrepreneurs within the wood-based sub-sector has displayed 'active problem solving problem'. Such behaviour partly patterns depend on the skills, ability and vision of the management resources within the enterprise. At the two extremes, the overall higher level of problem solving business behaviour within the rattan & cane sub-sector and the relatively low level of footwear and wood-based sub-sectors and therefore the managerial capabilities within the sub-sectors.

Although Myanmar has abundant resource-base, the underdeveloped state of its agriculture and forestry sectors restricts both market and product possibilities for enterprises which source raw material inputs within Myanmar. This is so specifically because of limitations in terms of the quantity and the range of raw material inputs which are possible. This situation indicates the extent to which the existing state of Myanmar's agricultural and forestry sectors acts as a constraint to the development of the small-scale enterprise sector particularly the blanket weaving and wood-based sub-sectors. The most obvious factor at work here is simply the decline in demand for non-farm products from this former leading sector. An equally significant factor is likely to be the constraint that is placed on the transformation of the small-scale sector into a more competitive sector by the failure of agriculture. Since the rise of competitively efficient non-farm enterprises is often led and stimulated by agricultural demand.

4.4.3 Capital, Tools and Equipment

The last production input that has not been mentioned is capital. The sources of difficulties that have emerged in capital theory may be traced back to the fact that 'capital' may be conceived of in two fundamentally different ways:

- (1) capital may be conceived of as a 'free' fund of resources which can be switched from one use to another without any significant difficulty; this is what may be called the 'financial' conception of capital;
- (2) capital may be conceived of as a set of productive factors that are embodied in the production process as it is carried out in a particular productive establishment; this is what may be called the 'technical' conception of capital.

Moreover, in this study, capital is understood as the technical conception and as embodied in the production process. Some development theories such as modernization theories (they see an important role of capital in economic development) are based on the assumption that endogenous factors are the causes responsible for underdevelopment in developing countries. They include especially a low per capita income, lack of capital, a poor infrastructural endowment, the predominance of traditional agricultural, etc. The economic approach is used here to explore the greatest influence of capital on the development of small-scale economic activities, especially in the informal sector.

In this study, employed capital is investigated on the basis of the sources of employed capital in a business. Generally, credit in the research regions is provided by formal and informal credit sources. Formal credit may be obtained from banks, cooperatives or government agents, while informal sources, that are very widespread in developing countries, are family members, friends, neighbours, traditional moneylenders, merchants, landowners, etc²³¹. According to Nisbet, informal credit sources can be divided into two groups: commercial sources, i.e., moneylenders, landowners and merchants, and non-commercial sources, i.e., family members, friends and neighbours²³². The potential sources of capital in the research regions are own savings, family, traditional moneylender and bank²³³. Some of the entrepreneurs used capital provided from own savings or by the family and, during the period when the businesses go well and they want to expand these, they can take a loan from a bank. An important point to be noticed, here, is that the bank as a source of credit is the last alternative, i.e., if there are no possibilities of having recourse to own savings or to the family.

²³¹ (Manig:1993, p.25).

²³² Nisbet, C. (1966): *Interest Rates and Imperfect Competition in the Informal Credit Market of Rural Chile*, Madison: University of Wisconsin, p.6.

²³³ In the present study, family credit sources involve family members, friends and neighbours, while traditional moneylenders include borrowers with either collateral or non-collateral.

The following table (4.24) shows the source of capital by sub-sector. One can outline as follows the structure of the source of employed capital in the research region: in the first place, own savings are the main source, then the family and lastly the bank those account for 62.5 per cent, 30.8 per cent and 6.7 per cent respectively. It can be said that, therefore, access to credit by informal enterprises is weak with the formal sector, though the selected small enterprises strengthen the linkages with family sources.

Sub-sectors	Sources		
	Own saving	Family	Bank
Blanket weaving	53.6%	32.1%	14.3%
Footwear	66.7%	33.3%	-
Rattan & cane	62.5%	29.2%	8.3%
Wood-based	65.2%	26.1%	8.7%
Total	62.5%	30.8%	6.7%

Source: Own survey, 2003

When one analyzes the source of capital by location, the situation is similar to the total performance as viewed in table (4.24). Under the circumstances of Yangon and other regions, it is surprising that the people evaded traditional moneylenders. According to previous experiences, because of the collateral problem in the regions, the people borrowing credit prefer to apply to traditional moneylenders who offer credit without collateral and bureaucracy than to formal credit sources (banks or other official credit institutions). This means that in the research regions, where this research study was carried out, capital was always available; nevertheless, this is no longer the case in the research regions. One of the reasons why the people who do not want to go to traditional moneylenders is the high interest rate²³⁴.

Backward linkages with the formal sector may also be financial since small-scale operators require finance to run their enterprises. The contribution of government banks was not found in the research regions. However, the contribution of private bank institutions in table (4.24) tells a mixed story. For informal sector activities such as blanket weaving (14.3%), rattan & cane (8.3%) and wood-based (8.7%), private bank institutions provide the financial input from the formal sector. Most of these firms are age above 15 years old, although 66.67 per cent of footwear enterprises are also age above 15 years, they did not try to get finance from formal sector. However, 93.3 per cent of the selected small enterprises, own savings (62.5 %) and family source (30.8%) provide the bulk of finance. The low pattern of financial linkage particularly as it relates to banks is hardly surprising given the

²³⁴ The interest claimed by traditional moneylenders is about 10% to 12% monthly without collateral.

stringent conditions and various collateral requirements, which may not be met by small operators. One can conclude that, therefore, backward financial linkage with the formal sector is weak (6.7%) in total.

Empirically, there is still another form of financial organization or capital source in research regions: the so-called Rotating Saving Organization (RSO)²³⁵. In some countries, the forms of financial organization vary according somewhat, but in principal, its main goal is the financial security of personnel or household is the same. In the Rotating Saving Organization, a member can obtain a sum of money according to a determined sequence, although, in some cases, it could happen that the member can be allotted the money before his turn. The reason of this flexibility is that this organization is founded on the people's own initiative and its members know each other well and, according to them, this organization is trustful and safe²³⁶. Furthermore, this activity has other side objectives such as a social meeting, an information exchange or informal market in which the members exchange or market some household goods. Therefore, it has not been designed just for getting money, but also for some other important aims. This form of organization was especially found within the regions and is embedded in a social network.

One of the factors that determine the amount of output of a business enterprise and of the productivity of the worker is the tools and equipment those small entrepreneurs use in the performance of their enterprises. For the production of the respective goods they market, most of the selected informal enterprises employ tools and hand-made equipment only. Slightly more than four-fifth of the selected enterprises covered in the survey had only one type of tool and equipment or another. Of those which had tools and equipment, 87.5 per cent bought their tools and equipment new, 5.5 per cent bought tools and equipment as second hand goods but spent a few money on them to substantially improve them and only seven per cent (7%) made the tools and equipment they use themselves.

The supply of tools and equipment is to facilitate work and increase productivity. However, the rattan & cane, footwear and wood-based operations are done manually and are highly labour-intensive in the production process. In the blanket weaving sub-sector, the enterprises uses more equipment (handloom) and tools in the production process, because of its relatively larger size and high production rate. All the selected enterprises in the small enterprise sector, manual work predominates in the main operations of the production process. All the selected enterprises show that they use only tools in their production process and all of them bought these tools and hand-made equipment from local wholesalers/traders

²³⁵ Rotating saving organization is a regular social gathering in which the members contribute to and take turns at winning an aggregate sum of money.

²³⁶ Normally, a religious or trustful person leads this organization and this background establishes the organization.

in their homestead. Therefore, the linkage with the formal sector is virtually non-existent in the sector. The reason is that some processes of all selected small enterprises can be done manually without using machinery. Moreover, cheaper costs also play another considerable role²³⁷. However, Yangon as a capital of Myanmar can meet the needs of the enterprises for tools, equipment and machine. The reasons are the good connections between them and the better infrastructure of this region as commercial centre of Myanmar. Handloom for producing blankets has a similar performance regarding the use of tools and equipment. The region such as Monywa can meet their needs for tools and equipment because the handloom can be ordered and obtained in Monywa only. Under the aspect of spatial economy, this trend affects the domestic economy positively. When this phenomenon increases and expands wider, it leads to greater economic linkages and other regions cannot benefit from this economic situation. At any rate, one should see that these problems as conditions that are not only influenced by economic reasons (cheaper price), but also by social reasons (visit to relatives who live in commercial centre). With other words, regional economic interactions is taken place more in the research area.

4.5 Forward Linkages

A variety of products of the selected small enterprises in the regions under consideration will be analyzed in order to ascertain the extent to which specialization is taking place among small enterprises. However, according to the interviewed entrepreneurs product diversification in the selected small enterprises is not too wide. Virtually, all the selected small enterprises of a particular kind produce the same type of products. Specialization is limited in the sector, and it is easy for them to change to other kinds of products. The enterprises located in Yangon specialized in specific products. Most of them produce the products according to the customer's specification, while 93.33 per cent of the selected enterprises manufactured the products according to market design (mostly in the footwear and rattan & cane sub-sectors). 42.7 per cent of total entrepreneurs manufacture the produce by own idea (mostly in the blanket weaving sub-sectors), while twenty per cent (20%) of total entrepreneurs produced by using a catalog (mostly in the wood-based sub-sector).

Forward linkages occur in industries that produce goods to become inputs into other enterprises. These could be analyzed in order to ascertain the nature and level of interaction among enterprises within the research regions. Forward linkages occur within sub-sectors, and these linkages could also be analyzed in

²³⁷ The wages of hired labour are lower than the regional standard wage and the workers have no security for their job. Furthermore, as shown in the previous section that all the selected enterprises are labour-intensive.

research regions. The best approach to study these linkages is through market performance and the relation between enterprises and consumers. Consumers, here, are understood as private consumer (infrequently), traders (small or large) and wholesalers (frequently). They consumed the products of small enterprises not only as input (processing goods), but also often as commodities or 'finished goods' (consumed directly). Therefore, the economic effects of these kinds of linkages tend towards the same direction, namely: an increase of the regional income, the creation of more additional economic activities and the support of other sectors such as services and trade. Furthermore, the integration between enterprises and consumers is shown in section 4.7.2 (Institutional Integration).

4.5.1 Product Marketing

Marketing of products or output plays an important role in the growth and development of small enterprises, since the efficient and effective marketing of products has implications for increased profit earnings and expansion in output. Within the sub-sectors there is much similarity among the individual products which are produced. These products are basically simple consumer goods and there is the absence of the production of industrial goods within the sector. The range of products which are produced within each enterprise is limited; one reason for this is the fact that most of the enterprises produce only for the domestic market. The size of this market limits an enterprise's product line and product width²³⁸ possibilities. The limited range of products within the sector is also related to the low level of technology which is used and the restricted vision of the entrepreneurs, for each productive opportunity is a distinct combination of technology and vision. Therefore, the existing technological base and entrepreneurial vision are fundamental internal constraints to the development of new product lines.

TYPE OF DIVERSIFICATION	SUB-SECTORS			
	Blanket weaving	Footwear	Rattan & cane	Wood-based
One new product line	6.67	13.33	13.33	20.00
Two and more new product lines	-	20.00	13.33	-
Diversify within same product line	86.66	60.00	66.67	73.33
No change in product line	6.67	6.67	6.67	6.67
TOTAL (%)	100	100	100	100

Source: Own survey, 2003

²³⁸ Product width measures the number of product lines in an enterprise.

Table (4.25) shows that diversification is attempted within the sector and the most common form is by deepening the product mix, which involves diversification within the same product line. The enterprises were able to benefit from synergy effect because in all the cases the enterprises' existing technology was transferable to other applications in the new process. With related diversification existing skills and know-how are used. This reduces the complexities in terms of enterprise operation and management needs that are normally associated with diversification²³⁹. Therefore since diversification increases operational complexities and related diversification reduces such complexities, the generally low levels of technical and managerial skills within the sector help to explain why related, as apposed to unrelated diversification, is the dominant form of diversification within the sector.

In terms of organizational form, sole proprietorship had the highest level of enterprises (20%) that added new product lines to their operations, and the lowest percentage of enterprises (13%) that made absolutely no changes to their product line. This is clearly related to the higher level skills and capabilities that reside within the organizational form. These skills have the ability to comprehend and integrate strategic management practices for enterprise success. Comparatively, family-owned enterprises were least innovative in terms of the diversification process, for this organizational form (33%) that made absolutely no changes to their product line and family-owned enterprises exhibited the lowest level of enterprises (11%) to add new product lines. The performance among the family-owned enterprises is likely to be seen as a result of operational rigidities within their structural set-up. While operating an existing enterprise requires a continuity of organizational behaviour, entering new areas requires changes in such behaviour. Human beings, both individually and collectively often avoid and resist change; because of such resistance, diversification is difficult to promote for it runs against organizational inertia and tends to have unexpected difficulties. For this reason, changes in behaviour which are needed so as to facilitate diversification is likely to be more difficult within family-owned enterprises which tend to operate on the basis of consensus²⁴⁰.

With specific reference to new products, the product development capabilities within the sector are limited. There were only three cases in which a new product was developed by an enterprise which was both new to the specific enterprise and

²³⁹ Loasby (1998) indicates that "where knowledge how is crucial, it is rarely an attractive proposition to try and a collection of novel skills rapidly, because it is likely to be extremely difficult to interpret and guide the learning process when many interrelated procedures are being changed simultaneously" (p.148).

²⁴⁰ Ryan and Stewart (ed.) (1994) commenting on family enterprises in Guyana indicated that, "The family business is useful and necessary and has its place even in the most advanced societies. However, the family business has an organizational structure that limits its expansion, compounds inefficiencies and restricts its capacity to contribute to the developmental transformation of a society like Guyana. Family conflicts may lead to the breaking up of such businesses or cripple their functioning" (pp.292-3).

to the entire sub-sector. In essence, the five products were produced only by eight enterprises within the entire sector, that is, each enterprise has developed one of the new products²⁴¹. This low level of new product development means that even though many enterprises are diversifying operations by adding or deepening product lines, they are doing so by producing products which are new to the individual enterprise but to the sector. Given the oligopolistic market structure of the sector, this creates excess supply and intensifies market competition because the products produced are in their mature stage. During this stage of the product life cycle sales peak and start to decline as profits continue to decrease. This stage of the product life cycle is characterized by severe competition as many new brands enter the market. Also competition emphasizes improvements and differences in their version of the product.

In terms of export intensity, table (4.26) shows that the rattan & cane sub-sector is mainly (33.33%) involved in exporting. However, their products are exported via a large company which is already connected with international markets. Within this sub-sector, there is also strong export interest and a high level of sensitivity to global competition. Sixty per cent (60%), twenty per cent (20%) and twenty seven per cent (27%) of the non-exporters within the blanket weaving, rattan & cane and footwear sub-sectors respectively have expressed interest in exporting.

SUB-SECTORS	As Percentage of Sub-sector	As Percentage of All Exporters
Blanket weaving	-	-
Footwear	6.67	28.57
Rattan & cane	33.33	71.43
Wood-based	-	-

Source: Own survey, 2003

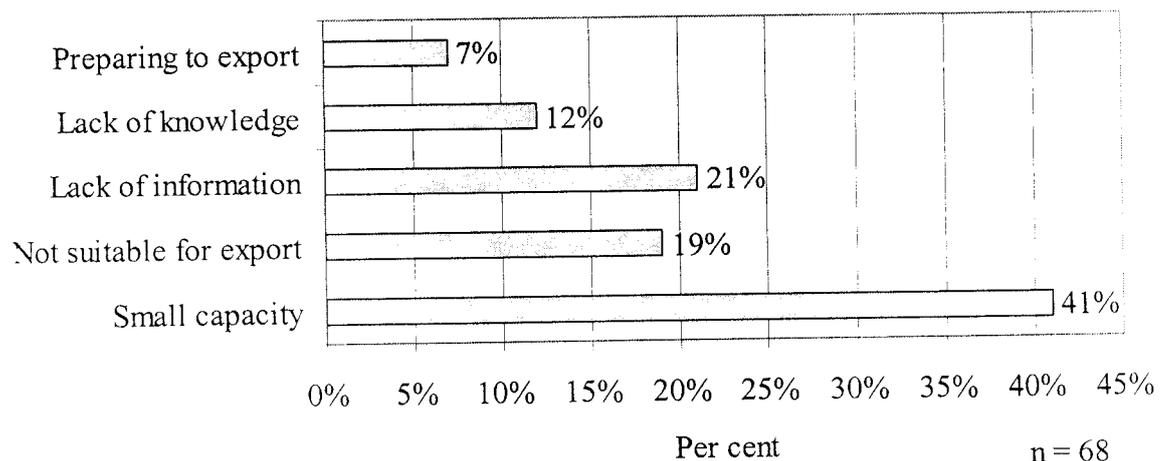
Forty per cent (40%), fifty per cent (50%) and forty seven per cent (47%) of all entrepreneurs within the rattan & cane, footwear and blanket weaving sub-sectors respectively see their competitors as both local and foreign. One possible reason

²⁴¹ These products were cane furniture and basket produced within the rattan & cane sub-sector, slipper and sandals produced within the footwear sub-sector and wooden floor tiles produced within the wood-based sub-sector. These are five interesting cases of product diversification within the informal sector enterprises. In the case of cane furniture and baskets, the entrepreneur first produced such basket and furniture for a wholesaler who negotiate, subsequently the conditions, with a foreign company in Myanmar. The wholesaler gave the design and assisted in the first production stages, since then the entrepreneur has incorporated the product as a new product line within the enterprise. The production of footwear and wood-tiles are a particular case of product diversification within an informal sector enterprise, for the entrepreneur diversified into a new product line to cope with the customer's preference and market style. However, it is a case of producing the blanket, the entrepreneur uses the waste or by-product from that production process and from garment industry as a major input into the product line. The initial reason for the diversification was to secure raw material inputs for the product line.

for this high level of sensitivity to global competition is the openness of the market within the Myanmar economy due to trade liberalization. Such high level of export interest and sensitivity to global competition when combined are likely to induce entrepreneurial behaviour which leads to higher levels of innovation. The fact that the enterprises are exporting indicates that while exporting is associated with firm size, 'smallness' itself is not a barrier to exporting²⁴². The exporters have demonstrated the ability to compete in national and international markets, as opposed to only local markets. This must be taken as a sign of distinctive competencies which are needed to satisfy the demands of more competitive markets.

Even though some of the selected enterprises are being involved in exporting, the overall potential of small enterprise sector to engage in exporting needs has to be assessed. Such potential could be determined firstly from the interest which exists for small enterprises in exporting activities and secondly by examining the firm's operational environment. In terms of interest, twenty seven per cent (27%) of non-exporting entrepreneurs have indicated interest in exporting. Figure (4.15) shows the various reasons given by some of these entrepreneurs for not exporting.

Figure (4.15) Reasons for Not Exporting



Source: Own survey, 2003

Too small capacity (41%) emerges as the major identified constraining factor to exporting among this group of entrepreneurs. Therefore, the ability of those enterprises to access export markets is limited by the fact that they possess not only a small productive capacity but also lack information and also financial resources. However, the general wisdom with respect to exporting is to first

²⁴² See Calof (1993) for more on the impact of firm size on exporting.

develop a sizable domestic market share and then consider exporting. Twenty one per cent (21%) and twelve per cent (12%) of non-export entrepreneurs identified had a lack of market information and knowledge respectively. However, nineteen per cent (19%) of those non-export entrepreneurs reported that their products are not suitable to export, while only seven per cent (7%) were preparing to export in the near future, mostly within the rattan & cane sub-sector. For the purposes of this study, aspects of marketing that are examined include the spatial pattern of the marketing system by sectors, and the marketing channels involved.

4.5.2 Pattern of Marketing system

The market of the products of selected small enterprises, showing the location of actual demand, is depicted in figure (4.16). The percentage of major products sales in total sales ranges from 80 % to 95%. However it varies from enterprise to enterprise. All small enterprises in the researched regions feature demand for their products in three main areas, namely:

- (1) The settlement where the enterprises are located. The enterprises sell their products in the areas where they are located, e.g., on the working site or at the local market.
- (2) The surrounding area within the region. The enterprises sell their products in a permanent market or retail market.
- (3) The market outside the region where the enterprises are located.

Following current academic practice, marketing is defined as the business activities associated with the flow of goods and services from production to consumption²⁴³. Marketing serves equally the poor, the intermediate and the rich. The success or failure of an enterprise ultimately depends on the provision of proper marketing arrangements for its outputs. The marketing of products of processing sectors begins within the enterprise, with the planning of production in order to meet specific demands and market prospects. It is completed by the sale of the processed products to final consumers, or to manufactures in the case of an input for industry, e.g., rattan for the rattan & cane industry. The aspects of marketing may generally be summarized as: (i) finding a buyer and transferring ownership; (ii) assembling, transporting and storing; (iii) sorting and packing; (iv) providing finance and insurance for marketing; and (v) assorting and presenting to consumers²⁴⁴.

²⁴³ Besch, M. (1995): Agricultural Marketing in Germany, in: Meulenberg, M. (ed.): Food and Agribusiness Marketing in Europe, London: Haworth Press, p.1-15.

²⁴⁴ Ibid, p.10.

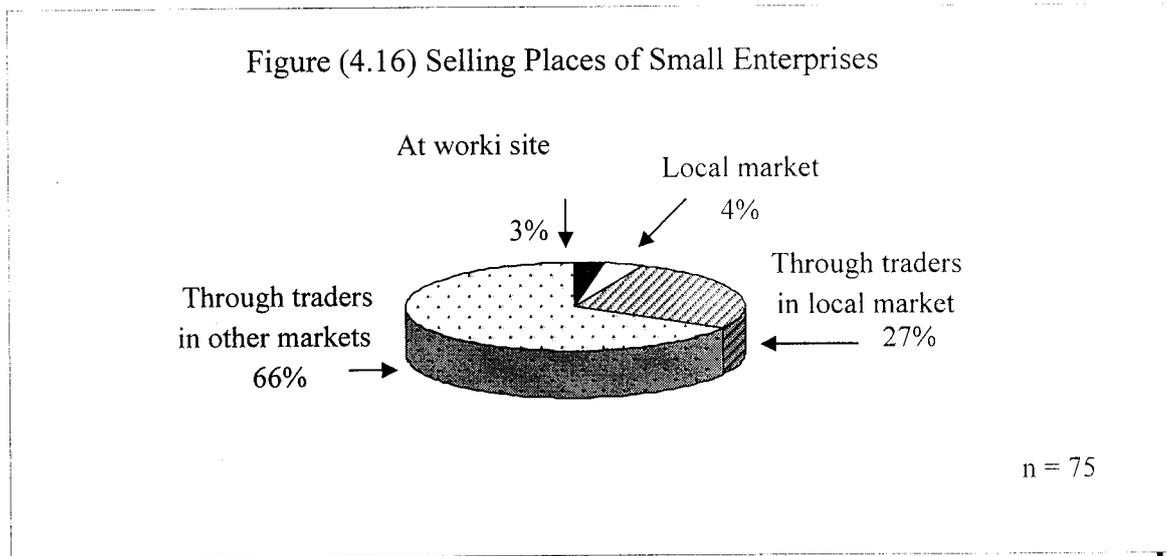
The above theoretical view will serve as a starting point to analyze the marketing performance of the enterprises in the researched regions. Only some of the five aspects of marketing such as finding a buyer, packaging, transporting and providing finance for marketing could be found in the research regions. But, the aspects of marketing such as processing, assorting and presenting to consumer could be rarely found. Small enterprises can sell their products on the working site or at the local market and also on their own account or through traders or co-operatives. Bigger enterprises working under good conditions, this being indicated by their total output and number of workers, already have a marketing channel and some market diversification. Generally, the marketing possibilities for the enterprises may be summarized as: (i) marketing by producers themselves; (ii) sales at the local market, either by the producers themselves or through traders; (iii) sales at the market outside the region; and (iv) wholesales, in this case, in Yangon.

Small enterprises that have a lesser output and a smaller number of workers consisting only of family members sell their products through traders to the national market. The products are simply packaged and are mostly transported on hired vehicles. However, the enterprises which have a greater output and more workers have more opportunities to sell their products. They could sell on site, at the local market, at the market outside the region or in the wholesale market. All these marketing activities are carried out by the small entrepreneurs themselves (on the working site) or by traders at the local and outside markets. Some traders collected the products on the working site, while for others they were to be transported to main market, especially Yangon. Therefore, to forestall this situation, prices are differentiated. Products sold on site are normally cheaper than those that have to be delivered.

The sales position of small enterprises vis-a-vis buyers could be an advantageous or disadvantageous one. It depends on the enterprises' access to the buyer. The enterprises may have a stronger bargaining position compared to traders in the local market or may have a weaker one compared to the wholesale market. The important point of this idea is actually how strong their access to the buyers is and how they can build or improve their collaboration with individual consumers, traders or wholesale markets.

In reality, it is ascertained that small enterprises have a different level of market shares. In this situation, a creative idea is required as to how to collaborate with potential buyers individually or trading agencies. Theoretically, it is easy to realize these suggestions, but, according to the above-mentioned educational level of informal entrepreneurs, it is difficult for them to realize these. An external intervention, e.g., from government institutions such as the Department of Cottage Industry or even from non-government organizations (NGOs), e.g., Union of

Myanmar Federation of Chamber of Commerce and Industry (UMFCCI), could be necessary to help the entrepreneurs in solving their problems. These external organizations can initiate meetings in which all participants, i.e. producers, individual consumers or trading agencies, can discuss and exchange information about market demand. Both sides can build and improve their collaboration at this meeting. After this meeting, a better market structure would be reached, e.g., better information on products at reasonable prices. The following figure (4.16) shows the selling pattern of the selected informal enterprises in the four different locations.



Sources: Own survey, 2003

Figure (4.16) indicates that the selected small enterprises in all regions sell their products within the settlement and other markets, especially at the local market and other markets through traders (27 per cent and 66 per cent respectively). The reason is partly due to the fact that most enterprises are involved in subcontracting activities which do not allow the enterprises to sell ordered items with their brand names outside. That shows that the enterprises' products are adequate to meet the local needs (subsistence) and some excess supply can be exported. The sale of these products is not effected by the entrepreneurs themselves or employees (mostly also family labour), because only three per cent (3%) of total entrepreneurs sell on the work site. The wholesalers did normally not accept certain items, because of sub-standard, which were not paid to the entrepreneurs. That is why, some entrepreneurs had to sell their rejected items themselves on site. This is also in line with the description above, according to which enterprises employed a limited number of workers and, therefore, may sell their products on the market themselves. They usually have limited access to transportation facilities in order to distribute the products, thus, the traders come normally early in the morning, pick up the products, and distribute them to the end-consumers. The market in Monywa and Yekyi are other markets for the enterprises that have

excess supply and already use hired transport facilities like a car or traders who distribute all products to Yangon. The enterprises that undertake this exist mostly in the researched regions, while other enterprises have fewer opportunities. Other important points are the marketing channels and market diversification in the research regions, thus will be discussed in the next section.

4.5.3 Marketing Channels

Four marketing channels can be identified as the means through which the selected small enterprises sell of their products. The four channels in the researched regions are (a) self-marketing on working site, (b) self-marketing on local market, (c) Marketing on local market through traders, and (d) Marketing on other markets through traders. The data for the analysis of marketing channels by sector is presented in table (4.27).

SUB SECTORS	Self-marketing on site	Self-marketing on local market	Marketing on local market through traders	Marketing on other markets through traders
Blanket weaving	*	-	-	**
Footwear	*	-	**	-
Rattan & cane	*	-	-	**
Wood based	**	**	-	-

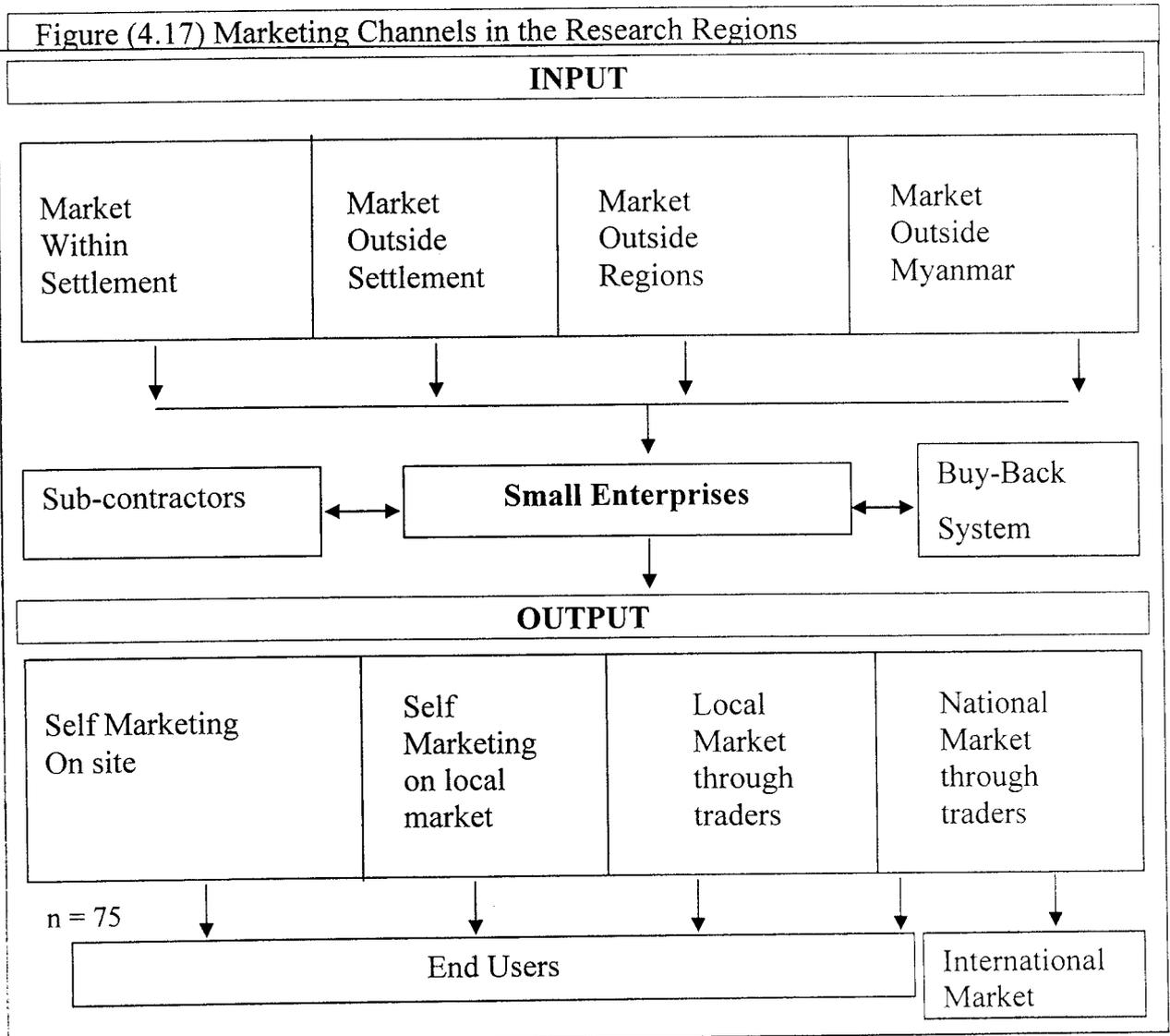
Source: Own survey, 2003

* = Minor ; ** = Major

Marketing through traders on local and other markets is the main marketing channel for footwear, blanket weaving and rattan & cane sub-sectors, while self-marketing on local market is prevalent within the wood-based sub-sector. The enterprises in the wood-based sub-sector also use mainly self-marketing on site. An interesting aspect is that marketing through co-operatives could not be found in the three researched regions. Although co-operatives are expected to be agents of development especially in the research regions, in reality, due to unfavorable co-operative's image the entrepreneurs could not accept co-operatives as partners in marketing or as input suppliers. The marketing done through traders takes the form of orders, informal contracts or the grant of commissions.

Lower prices are normally granted for self-marketing compared to marketing through traders. For self-marketing, prices charged are usually lower than that those charged at the local market. The reason of this is to save transport and marketing costs. The markup charged by traders either enables them to make up

for the transport costs or their commission. Especially for cane furniture, traders are allowed a wide margin that is caused by export risks and quality of cane product. The other products show a similar performance in which price differences are not as high. The following figure (4.17) depicts the marketing channels in the researched regions.



Source: Own survey, 2003

Figure (4.17) is a summarized situation in the research regions, although the situation in Yangon faces a different performance in Monywa and Yekyi. The role of market and traders shows a positive effect to stimulate the development of small enterprises and generally the regional economic development. Especially, all the enterprises in the research regions the relation between enterprises and market tends to be positive. From this situation above, one can conclude that good infrastructure can enhance and stimulate economic growth and, finally, the regional economy.

4.6 Subcontracting Activities

4.6.1 Subcontracting Engagement

Subcontracting has recently become one of the most important features of enterprise linkages. A linkage is defined as any transaction, which takes place between two enterprises. The term 'inter-firm linkages' is traditionally used to encompass all possible forms of economic relationships between firms operating within an economy²⁴⁵. In this respect, subcontracting is one type of inter-firm linkage. It is a necessary component of industrial development, particularly in small-scale enterprises. The small-scale informal industrial activities have been a contributor of value-added and employment in the industrial sector. With their low productivity, low level of technology and instability to adopt to changes, the sector is failed to generate the required momentum for growth.

To boost their contribution, the technological base in their activities needs to be improved. As these firms do not have necessary internal capability to raise their level of technology, the problem could be solved to a great extent through the promotion of subcontracting activities. More subcontracting linkages would also help in the development of small-scale informal sector enterprises in Myanmar. Moreover, subcontracting practices can smoothen the way for entrepreneurial development. Under the present industrial situation in Myanmar, the acceptance of subcontracting²⁴⁶ will have wider implications for the technology and both large and small enterprises development. But whatever may be the definition adopted for Myanmar, the main purpose for the promotion of international and domestic subcontracting is to facilitate linkages between small and other business segments and technology development, particularly in small enterprises.

Table (4.28) shows that out of the total sample, seventy six per cent (76%) of total informal enterprises received subcontracting from principal firms, while only twenty per cent (20%) of total small enterprises offered subcontracting to other enterprises. Among them, the enterprises within the wood-based sub-sector did not use subcontracting relations vis-a-vis other enterprises. However, twenty per cent (20%) of enterprises within the wood-based sub-sector have sales links with similar enterprises. This does not imply that subcontracting is a simple market transaction and takes place without pre-arrangements or without pre-order.

²⁴⁵ Wong, P. K. (1992): Technological Development Through Subcontracting Linkages: Evidence from Singapore, *Scandinavian International Business Review*, Vol. 1, pp.28-40.

²⁴⁶ According to UNCTAD, international subcontracting implies that "an agreement reached between two production units, whereby one of the two units (the subcontractor) supplies the other (the principal), on terms agreed between the two parties, with parts or components (or assemblies) which the principal uses to produce goods bearing its trademark or for which it assumes exclusive responsibility. The services rendered by the subcontractor can also consist of processing raw materials or processing and finishing parts and components which the principal has supplied and which are subsequently returned to the principal"(OECD (1980): *International Subcontracting: A New Form of Investment*, Paris, (ed. D. Germeides), p.40).

SUBSECTOR	Receiving Subcontract	Offering Subcontract
Blanket weaving	93.33	86.67
Footwear	93.33	6.67
Rattan & Cane	100	-
Wood-based	-	-
Total (%)	76	20

Source: Own survey, 2003

The majority of subcontractors take place the sample is within rattan & cane sub-sector, all cane furniture and accessories producers engage in subcontracting activities. This subcontracting system is similar, albeit not developed, to the Japanese-style hierarchical subcontracting system²⁴⁷. However, the producers are controlled by a large company which is a major trader in Yangon. The types as well as the amounts of the products are determined by a large company on demand by foreign buyers. Most of cane products are exported to European countries like Germany, Holland and Italy as well as Japan and Korea. The rattan & cane enterprises are not engaged in offering subcontracts to other enterprises at all, because they have enough labour, know-how and skills except raw materials and capital. The parent company usually supplies necessary raw materials and designs, and since the enterprise is labour-intensive, cheap labour of sector has become an advantage for this type of subcontracting. The enterprises, due to their shortage of capital, usually receive money in advance from the traders and they are also provided with raw materials. The finished cane products are returned to the large company in Yangon. This is the traditional practice of a putting-out household industry which enables the informal enterprises to be linked with international and home markets through traders. Eighty per cent (80%) of the subcontractors have semi-formal or written agreements between the large company and producers. However, they have mutual trust and close cooperation with the traders (trading companies in Yangon). Therefore, one can conclude that the enterprises inside the rattan & cane sub-sector are engaged in strong forward linkage with the formal sector.

It is not always necessary for subcontracting relations to take place between a large contracting enterprise and a smaller subcontractor. Subcontracting also

²⁴⁷ This type of Japanese business group is called the Keiretsu. Within this system, thousands of small and medium-sized firms supply goods and services to a few large firms, the Keiretsu firms, on a long-term non-contractual basis under conditions generally favourable to the Keiretsu firms. Taiwan's 'Satellite Assembly System' is also a similar system. The Satellite assembly systems in Taiwan consist of independently owned small, medium-sized and a few large firms joined together to manufacture products for the export market. These assembly systems typically work with local and foreign buyers, who give the specifications for the products needed. Network organizations put together the different firms to produce the goods in the amount required (see Miwa: 1994, p.45-50).

happens between large formal enterprises and between small informal enterprises, and sometimes the contractor himself may even be a small informal enterprise (and the large enterprise the subcontractor). Within each industry subcontracting activities taking place among the enterprises are generally received by traders outside their settlement and outside their regions respectively. However, the subcontracting of footwear sub-sector usually involves the manufacturing of a finished product (slippers, sandals, etc.) by a subcontractor following the trader's specifications. The finished product is sold under the trader's brand name (Yinmar, Pan Cherry, etc.) in local markets only. This type of subcontracting is called commercial subcontracting, because the prime contractor is mostly a wholesaler that provides raw materials for producing finished goods under his brand name only. The requirements of the subcontract include size, quality and design of products, delivery time and provision of replacement in case of rejections. In the footwear sub-sector, rarely a formal written agreement is found, because there is mutual understanding between most of small entrepreneurs and traders in the region. One can conclude that there are also strong forward linkages (93.33%) among the footwear sub-sector and traders.

In the blanket weaving sub-sector, subcontracting relations show also strong forward linkages (93.33%) with traders. However, the relationship between the traders and the subcontractors are usually determined by floating tenders in the market. The rates or prices for contracted products vary from enterprise to enterprise. Both traders and subcontractors maintain limited written documents specifying the terms and conditions which regulate the relationship between the two parties. This does not imply that there is a lack of trust and spirit of cooperation between the parties. Thus, it differs from the Japanese practices and is closed to the Western practices (e.g., the U.S.A.)²⁴⁸. In Japan, though there are specific terms and conditions for the subcontract, it is rarely done through the floating of tender in the market. Most of the Japanese subcontractors are closely allied with their parent companies, whereas in Myanmar they are independent and not dominated by the parent firms.

Within the blanket weaving sub-sector, 86.67 per cent of the interviewed enterprises offered also subcontracting to other enterprises (handloom weavers). In order to meet increasing demands, the blanket weaving enterprises resort to subcontracting, in addition to their own production. In this subcontracting relationship, the blanket weavers specialize certain functions, such as wrapping and binding, which the weavers choose to perform themselves but for which subcontractor has no special skills and equipment. However, the primary reason for resorting to this type of subcontracting is that small enterprises specialize more in a given type of production than subcontractor. This type of subcontracting most

²⁴⁸ Kamal, M. R. (1985): Problems of Small-scale and Cottage Industries in Bangladesh, The University of Nagoya Press, p. 162.

probably takes place among the blanket weaving sub-sector, because of the lack of skilled labour for certain activities. Within the settlement, blanket weavers face a shortage of skilled labour for a specific process, which is a very important part of the production process, but labour cost is cheaper in other regions (near by Monywa) than within the settlement. Moreover, formal and written contracts can rarely be found between blanket weaving enterprises and handloom weavers. However, the vertical grouping is introduced by selecting efficient handloom weavers and the blanket weaving enterprises put them under their direct control and patronizing them with regular orders. Although the technological level of the handloom weavers has not been satisfactory, technological assistance and information does not come from the blanket weaving enterprises or traders. One can conclude that there are also strong subcontract offering relationships between blanket weaving enterprises and handloom weavers.

4.6.2 Reasons for Receiving Subcontract

The main reasons for the selected small enterprises to enter into subcontracting activities are summarized in table (4.29). The most popular reasons are to increase sales volume (24.36%) and to stabilize their market share (24.36%) that means increasing stability of orders. Most small enterprises receive subcontracts from their counterparts, because of their special skills. All of the enterprises within the blanket weaving, footwear and rattan & cane sub-sectors entered into subcontracting in order to solve their problems of marketing. This seems to be largely due to the limitation of the domestic market and its fluctuations in Myanmar. Furthermore, the modern marketing management is not an easy task for the informal entrepreneurs in Myanmar. Therefore, the highly dependence of the small enterprises on subcontracts is largely due to generating more income. However, the poor industrial base of the country and lack of close and cordial link between parent firm and subcontractor are against the greater use of the subcontractors' skill as well as the use of the technological assistance of the parent firms to raise the technological base of the subcontractors. Nevertheless, 22.65% of small enterprises have entered into subcontracting by request of their counterparts, particularly in the blanket weaving (71.43%), rattan & cane (100%) and footwear (100%) sub-sectors. In this case, middlemen²⁴⁹ make bids or tenders on orders extended by wholesalers or foreign buyers having the work done by the informal enterprises. Middlemen mostly provide financing, especially advance payments; by procuring raw materials and design; and finding markets for informal enterprises. Although middlemen use the tender system, both the

²⁴⁹ In India and Japan, subcontracting began largely through the intervention of middlemen. Subcontractors still are, though to a diminishing extent, engaged in production for large firms through middlemen. (Mead, D. (1984): Of Contracts and Sub-contracts. Small Firms in Vertically Dis-Integrated Production/Distribution Systems in LDCs, in: World Development, Vol.12, No.11/12, p.1095-1106).

middlemen and small enterprises rarely change subcontracting orders from one contract to another. Thus, middlemen-subcontractor relationships are steady and of mutual benefit.

	Blanket weaving	Footwear	Rattan & cane	Total (%)
Ease of material requirements	-	100	100	18.38
Sales increase	100	100	100	24.36
Benefits of mutual co-operation	71.43	17.86	26.67	8.12
Request from parent company/traders	71.43	100	100	22.65
Stable market	100	100	100	24.36
Diversification of products	-	11.11	20	2.13

Source: Own survey, 2003

Another interesting reason for receiving subcontracts is the ease of materials acquisition. The argument runs that raw materials can be obtained without delay by subcontracting. 18.38 per cent of the selected informal entrepreneurs agreed on this. Although Myanmar has an exploited resource base, scarcity of raw materials commonly may occur. Prices may even rise to the point where it becomes more advantageous to sell raw materials allocated by the formal sector than to process them. When small producers, as it often happens, cannot obtain the materials they need from legitimate sources, it is a distinct advantage to receive materials from the parent firm (wholesaler/trader). It is the inefficient import and export quota system of Myanmar which makes the informal raw material markets. Enterprises within the footwear and rattan & cane sub-sectors depend on the wholesaler for securing raw materials and return to the finished or semi-finished products. Only 2.13 per cent of subcontractors were engaged in subcontracting because of diversifying products, particularly rattan & cane (20%) and footwear (11.11%) of subcontractors. Subcontracting may also enable such enterprises to take advantage of innovation by diversifying product design.

4.6.3 Pattern of Subcontract

Table (4.30) shows the pattern of subcontracting by sector. In this study, seventy six per cent (76%) of the selected small enterprises take place subcontracting activities. However, there is no subcontracting relationship between the selected informal enterprises and government agencies. Only 13.33% of selected informal enterprises, particularly the rattan & cane enterprises reported to have directly received subcontracts from large enterprise which is an exporting firm

specializing in cane products. Therefore direct forward linkage with the formal sector is limited within the sector.

Meanwhile, all of the subcontracting arrangements in Myanmar are direct orders (one-to-one relationships) and mostly ad-hoc arrangements. In addition, arrangements are informal (no written contracts) rather than formal. The business takes place among entrepreneurs who can trust each other or so-called network members. Enterprises within the blanket weaving and footwear sub-sectors received orders directly from wholesalers within national (100%) and regional markets (100%) respectively. However, enterprises within the rattan & cane sub-sector reported that about eighty seven per cent (87%) of subcontracting firms received their orders directly from wholesalers who finish the products and then export them directly to international markets. Furthermore, it is interesting to note that 85 per cent of blanket weaving enterprises, 82 per cent of footwear enterprises and all of the rattan & cane enterprises receiving subcontracts depend on one contractor only. It means that most of the entrepreneurs depend on only one wholesaler to generate income. Therefore subcontracting linkages with the formal sector is weak within the sector, while this linkage with the wholesaler & traders is strong within the sector.

The selected small producers in the researched region are dependent on subcontracting linkages. As table (4.30) shows, the category of '75-100 per cent of total sales' was recorded by 85.7 per cent of entrepreneurs in the blanket weaving, all footwear and rattan & cane sub-sectors. Most of the respondents in the regions reported that negotiation is the major price decision tool. By contrast, out of the total sample, in many cases, the parent company decides on the prices according to the market situation. These differences are, of course, due to the middlemen and wholesalers since they decide on the prices of respective products. If the price offered by an informal enterprise is not reasonable for the wholesaler they shift to order from other enterprises in the region. Therefore, the small entrepreneurs do not have power to decide on the prices due to the monopolistic power of the wholesalers/middlemen.

Pattern	Category	SUB-SECTOR		
		Blanket weaving	Footwear	Rattan & cane
A. Number of subcontracting partners (firms)	1	85.72%	82.14%	100%
	2	7.14%	17.86%	-
	3	7.14%	-	-
	4 and above	-	-	-
	Total	100%	100%	100%
B. Nature of partners (firms)	Wholesalers	100%	100%	-
	Middlemen	-	-	86.67%
	Large scale firms	-	-	13.33%
	Government agencies	-	-	-
	Total	100%	100%	100%
C. Nature of the arrangements	Direct	100%	100%	100%
	Indirect	-	-	-
D. Subcontract revenue/sales as percentage of total sales	<25	-	-	-
	25-50	-	-	-
	51-75	14.29%	-	-
	76-100	85.71%	100%	100%
	Total	100%	100%	100%
E. Geographical location of the subcontract transactions	Regional (within)	-	100	7.14
	Regional (outside)	100	-	92.86
F. Types of Assistance provided by the contractors	Marketing	85.71%	-	-
	Technical guidance	-	-	-
	Financial assistance	14.29%	7.14%	-
	Materials	-	92.86%	100%
	Training	-	-	-
	Tools & equipment	-	-	-
G. Total number of firms engaging in subcontracting		14	28	15

Source: Own survey, 2003

Direct cross-border subcontracting is based on internal and external factors of the firm such as quality of products, production capacity, labour skill, marketing experiences, personal contacts, language skills, etc. – which scarcely exists among small enterprises in Myanmar. Although there are some cross-border subcontracting activities, those are not direct contracts. The contracts come

through some intermediate organizations, which may be a large company or another firm. In most cases, these intermediaries (wholesaler/traders) are located in Yangon, Michalet (1980) defined those as indirect subcontracting²⁵⁰. Sometimes, the role is not yet played by some government institutes such as Department of Cottage Industry and semi-government agencies such as Union of Myanmar Federation Chamber of Commerce and Industry (UMFCCI).

The assistance frequently received by the subcontractors from parent firms consists of finance, marketing and raw materials (see table 4.30). 85 per cent of the enterprises within blanket weaving sub-sector received marketing assistance from wholesalers, while 14 per cent of blanket weaving subcontractors and 7 per cent of footwear subcontractors obtained financial assistance from wholesalers. 93 per cent of footwear subcontractors and all of the rattan & cane subcontractors were assisted by wholesalers and middlemen in obtaining major raw materials. Surprisingly, there is neither assistant for technology transfer nor training or tools and equipment. Although the contractors tended to long term relationships with the subcontractors, they failed to guide and assist them. Since the technological level of Myanmar's subcontractors has not been satisfactory, much of the technology did not come from the principal firms, but was mainly obtained from previous job experiences and their personal insight.

Technical assistance to subcontractors is an important aspect and this is perhaps the most essential element in developing quality products of subcontractors. The poor technological base of the principal firms in the country and relative lack of trust for closer relationships between the two, have been inhibited the development of a small-scale subcontracting structures as well as the promotion of the system as a whole in the country. In order to overcome these difficulties, an alternative would be the promotion and encouragement of international subcontracting through which technological, financial, managerial and marketing assistance could be introduced to the country. For this, it is necessary to examine the circumstances and conditions under which international subcontracting would be possible in Myanmar. However international subcontracting is unlikely to happen if there is not even national subcontracting.

4.6.4 Difficulties in Subcontracting

Table (4.31) depicts the difficulties in subcontracting activities as seen from the perspective of small entrepreneurs. More than ninety four per cent (94%) of the subcontractors are satisfied about their current business relations. However, more than three quarters is very keen on future subcontracting arrangements, even though they face some difficulties with the current arrangements.

²⁵⁰ Micahlet(1980, p.52).

Difficulties	SUBSECTOR			
	Blanket weaving	Footwear	Rattan & cane	Total (%)
Unstable ordering pattern	-	67.86	-	10.44
Strict quality requirement	100	100	100	31.32
Financial delay	100	89.29	100	29.67
Changing in design & specification	-	21.43	26.67	5.49
Unfair pricing	85.71	35.71	40	15.39
Not profitable	14.29	28.57	26.67	7.69

Source: Own survey, 2003

Their major problem is strict quality requirements (31.32%). Entrepreneurs are concerned with the quality²⁵¹, because it is an essential part of typical subcontracting relationships²⁵², and also profits. All of the subcontractors within the blanket weaving, footwear and rattan & cane sub-sectors complained about the high quality requirements by the contractors. Though this problem is common for all subcontractors, high quality standards affect to a greater extent on small subcontractors' limited capital, technical and human resources.

The development within the entire sector is closely associated with the improvements of its technological capabilities. These improvements embrace the whole system of technical, managerial and institutional arrangements within the sector. It starts with the level of skills and technical knowledge of the entrepreneurs which reside within the enterprises. The organizational design and management system of the enterprises are key elements in promoting indigenous technology and technological change.

Technological²⁵³ progress takes place as a series of continuing adjustments to the production and managerial process within the enterprise. With these adjustments, enterprises improve operational techniques and product quality within the limits of existing skills and know-how and most of it takes place

²⁵¹ Quality means, here, degree of excellence. The quality of assessment evidence is characterized primarily by the authenticity of the tasks, the reliability of the sample of evidence, and the credibility of the evidence for the intended purposes.

(Source: <http://standards.nctm.org/Previous/AssStds/Glossary.htm>)

²⁵² For example, in Zimbabwe, as small enterprises capable of delivering high quality products at reasonable prices, small producers are strong in subcontracting at retail levels (see Voeten, 1993: p.10-16).

²⁵³ The term technology is used here in the widest sense as defined in Section 4.3.

outside of the context of research and development²⁵⁴. The productive processes which are used within the various sub-sectors are similar. Enterprises are 'low tech' and highly labour intensive; this can be seen in the relatively simple products which are produced and the tools and equipment which are used. A reflection of the 'low tech' nature of the sector is the fact that only 3.3 per cent of the enterprises, particularly footwear enterprises, make use of electrical power equipment in their operations. Most of the enterprises operate solely on the basis of manual equipment. Quality testing is mostly done manually and mainly carried out by the employees of the firm.

Further, 29.67 per cent of subcontracting enterprises complained about the financial delays, particularly inside the blanket weaving and rattan & cane subcontractors and also a large share of footwear subcontractors. Most of subcontractors usually receive payments for their products half a month to three months after the delivery of ordered goods. Depending on the job, however, instalments or, for those contractors closer to (or bigger than) the customer, advance payments were made. They vary according to the degree of closeness between the parties dictated by the method of payment²⁵⁵. Insufficient working capital and irregular cash in-flows are one of the greatest problems for selected subcontractors. Most of subcontractors rely on the wholesalers/traders in terms of assistance with obtaining raw materials, cash advances and greater continuity of sales. Most subcontractors are enjoying the fact that it is not up to them to exert significant marketing effort. However, subcontractors demonstrate realistic view to the "dark side of co-operation". Although they appreciate the continuity of sales ensured through sub-contracting, they are aware of the fact that this is paid for with lower profit margin.

Only 7.69 per cent of enterprises complained about low profitability of subcontracting activities (see table 4.31). Within the sector most subcontracting was arranged by merchants/wholesalers who charged large commissions and had little interest in the technical aspects of their clients' operations. Moreover, subcontractors often engage in cutthroat competition, for example, to obtain subcontracting orders, and many themselves reduce their prices to uneconomical levels. Furthermore, most of them are not able to calculate costs correctly and, whether through overpricing or under-pricing, find themselves bypassed by contractors or confronted with acute difficulties. Most subcontractors within the sector reported that middlemen/merchants force them into a state of subordination

²⁵⁴ Bos and Cole (1994) indicate that, "it is the hallmark of the continuous improvement firm (CIF) that technological change emerges from day-to-day operations; that it is cumulative and, over time, very significant. To gain an understanding of this relatively new phenomena, one must go inside the 'black box' to study the organizational design, managerial practices, and organizational strategies that are very important sources of those day-to-day improvements that constitute technological change" (p.226).

²⁵⁵ Although the terms of payment are fully negotiated, some informal entrepreneurs (subcontractors) claimed that the practice of payments delays of sometime up to two to four months depending on their contractors.

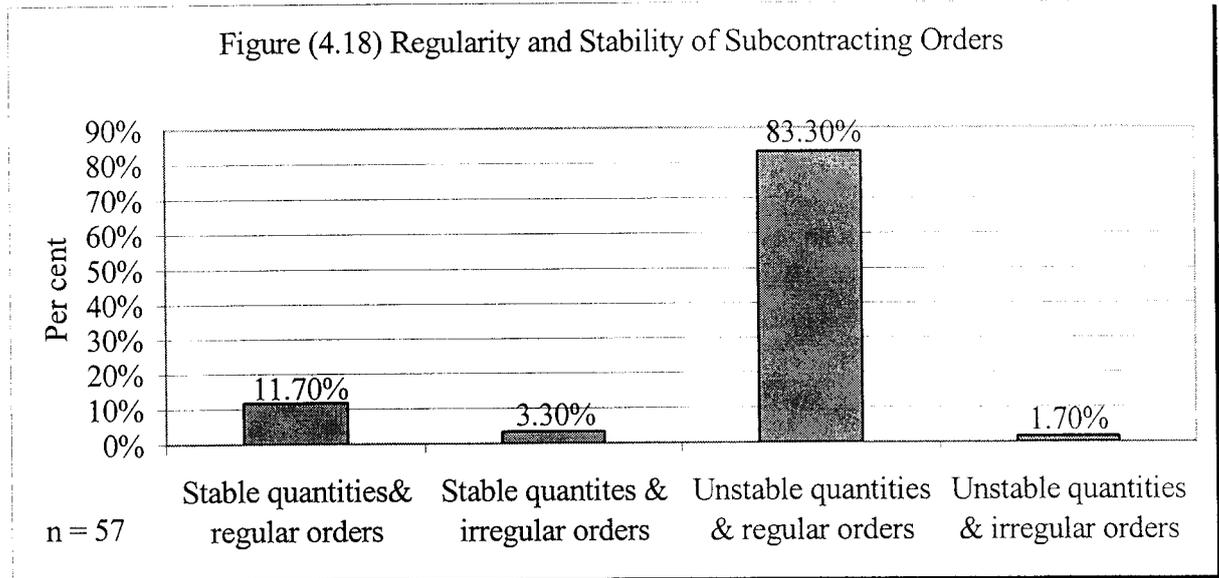
through unfair pricing, even though they provide raw materials in footwear and rattan & cane sub-sectors. As a result, most of them entirely dependent on one contractor who takes all or most of the enterprise's output but, most of them felt that their contractor treat them unfairly. 15.39 per cent of total subcontractors within the sector claimed unfair pricing of their products, mainly found in blanket weaving subcontractors (85.71%).

Only 10.44 per cent were dissatisfied with the instability of incoming orders over times, particularly in the footwear sub-sector (68%). Three quarters reported that they sometimes lost orders due to poor quality and high demanded price. These subcontractors said that most of their contractors resorted to subcontracting because of sudden surges in demand. Subcontractors are used mainly as short term capacity puffers with no written agreements, though their limited technologies often inhibit production. The abundance of competitors weakened their bargaining position, and without access to final markets of their own, many subcontractors succumbed to pressures for lower costs or leave the market. Indeed, referring to the inherent instability in the market, Komiyama (1941) once called them "floating subcontractors"²⁵⁶.

4.6.5 Regularity and Stability of Subcontract Orders

As discussed, difficulties are faced in subcontracting with merchants & wholesalers related to unstable patterns of orders. This study also found two dimensions of this problem: irregular orders and unstable quantities. Figure (4.18) shows how these two inter-related problems influence informal subcontracting firms. Only 11.7 per cent of firms enjoy stable quantities as well as regular orders. However, 83 per cent of them have to face unstable quantities with regular orders. 3.3 per cent and 1.7 per cent of the firms answered that they have irregular orders with stable or unstable quantities respectively. Therefore, unstability and irregularity of orders is one of the major problems.

²⁵⁶ Komiyama, T. (1941): *Nihon chusho kogyo kenkyu: A Study on Japanese small- and medium-sized manufacturing industry*, Tokyo, Chuo Koronsha.



Source: Own survey, 2003

Small enterprises are usually started using the savings of owner, supplemented by loans from friends and the family. Apart from this seed capital, small entrepreneurs often need additional finance for their working capital requirements. Generally, they are unable to secure loans on favourable terms from financial institutions mainly because of their inability to provide appropriate collateral and because of the higher risk involved in granting loans to them. For small enterprise financing, therefore, the family is the most critical economic unit. It facilitates capital accumulation in the sense that families pool their finances to undertake entrepreneurial activities.

Due to the difficulties involved in raising capital, small entrepreneurs very often do not restrict the search for financing to the family, friends and financial institutions. They often approach moneylenders of the informal sector, who usually provide financing at higher rates of interest than the commercial financial institutions²⁵⁷. The higher interest rate is not the key determinant for them when they are sourcing financing. The immediacy and urgency of the need is outweighed because of moneylenders are usually simple, less time consuming and less bureaucratic. Therefore the source of financing which is used is more dependent on the speed at which financial resources can be made available rather than the interest rate at which it is provided²⁵⁸.

²⁵⁷ This practice of small enterprises using higher interest rates is well document in the article by Tambunan (1992).

²⁵⁸ Tambunan (1992) indicates, "many small borrowers have been reluctant so far to approach commercial or other formal banks. Factors such as distance from the banks, complicated (thus time consuming) application and repayment procedures, collateral requirements and the short period for which loans are given deter small borrowers from seeking bank loans. Also very important are the long standing relationships between small borrowers and local informal money-lenders, which militate against complicated procedures, and the very low administrative cost of such lenders" (p.72).

The need to access finance speedily is related to the sourcing of raw material. Because supplies are erratic and unpredictable, sourcing activities tends to be beyond the control of informal sector entrepreneurs. In such situations there tends to be certain difficulties in the planning for the financing of raw material²⁵⁹. For these reasons, moneylenders are more appropriate for un-predicted financing given their relative speed and flexibility of operations. As an alternative, they rely on other types of financing used for sourcing raw material supplies which are performed by middlemen. The middlemen provide cash in advance and/or directly finance the supply of the raw materials and in turn the informal entrepreneur markets the outputs through the middlemen. This relation is an indication of the absence of, or the limitation of other alternative forms of financing. Such a working relationship is an indication of backward and forward integration which guarantees raw material supplies, reduces marketing costs and at the same time, guarantees a market for their finished products.

Using a middleman is effectively a marketing strategy which is used particularly in cases where entrepreneurs in the footwear and rattan & cane sub-sectors have difficulties acquiring raw material supplies and where there is the absence of basic marketing support facilitates and infrastructure. This 'middleman strategy' by freeing small entrepreneur of marketing responsibility allow young small entrepreneurs to concentrate on only one aspect of their business at a time. At times small entrepreneurs have the skills for the production of goods but lack the necessary skills and know-how which is required for its marketing²⁶⁰. With the use of a middleman these entrepreneurs can concentrate on production, try to reduce costs and improve the quality of their products.

In case of the blanket weaving and footwear sub-sectors whose demand is limited, the market is usually a local one. In the rattan & cane sub-sector, where there is outside demand, the marketing by intermediaries carries with it incentives to distribute the products to international markets. Small-scale producers, because of their poor financial capacity and lack of cheap transport facilities in the country, cannot market their products on their own.

Due to poor financial conditions, small enterprises are generally compelled to sell their products to the wholesalers or traders, as soon as they produce a particular batch of products. Since the wholesaler or trader is aware of their weak bargaining power, they are forced to sell at price dictated by the purchaser. However, the quantity of orders varies from time to time according to market demand, particularly in the footwear and rattan & cane sub-sectors. However, entrepreneurs must sell their products on the same day to get money to pay for

²⁵⁹ This is at times related to the fact that the informal enterprises are constrained by their lack of working capital. There are no guarantee schemes to support loans for fixed assets and working capital.

²⁶⁰ In many cases the informal entrepreneur is required to coordinate all the managerial functions for which the individual may not have the skills or capability to undertake. Most of informal entrepreneurs are skilled technicians and generally do not have managerial ability to adequately operate their enterprise.

wages, to purchase other raw materials for the next day's work and food for their families.

The most serious problem in marketing in the sector is that most of the producers lack proper marketing information. In many cases, the lack of awareness of potential demand causes market restriction within the sector. This happens because of the knowledge gap between the producer and the consumer. Subcontractors frequently seek information only in the areas in which there are operational problems. However, the high percentage of subcontractors who did not seek information, particularly market information, indicates that limited knowledge of market opportunities constitutes a significant constraint on production within the sector. Without adequate information, the enterprises cannot effectively evaluate their market prospects so as to choose or implement a mixture of strategies involving price, product and promotion. The absence of such information is a source of competitive weakness among enterprises within the sector. Table (4.32) summarizes the characteristics of the sub-contracting linkages within each sector.

This study has expected strong forward linkage relationships between small enterprises and both wholesalers and formal sector enterprises. However, this depends on the type of activity. The data generally supports the argument. For example, the rattan and cane sub-sector has subcontracted with the formal enterprises, while blanket weaving and footwear sub-sectors have not yet been developed subcontracting relationships with the formal sector. Enterprises in the wood-based sub-sector are not engaged in subcontracting. Therefore, the findings do affirm that the interviewed small enterprises have strong forward relationships with not only the informal but also the formal enterprises. In this study, formal and written subcontracting arrangements among small enterprises in Myanmar are hardly found. Instead, most of the subcontracting arrangements are informal and unwritten, and also most of the enterprises are dependent on one contract²⁶¹.

²⁶¹ Eccles' own empirical study of residential construction in Massachusetts also shows that not only subcontracting relationships are long-term in nature but also it is very rare for a subcontractor employing more than two or three subcontractors in a given trade. (Eccles, 1981: p.350).

Table (4.32) Summary of the Characteristics of sub-contracting linkages within each sector			
Patterns	SUB-SECTOR		
	Blanket weaving	Footwear	Rattan & cane
TYPE OF SUBCONTRACT	Commercial subcontracting	Commercial subcontracting	Commercial subcontracting
PARENT FIRM	Large Trader	Large Wholesaler	Large company
LOCATION	Outside region	Outside settlement	Within settlement & Outside region
STIMULUS OF SUB-CONTRACTING	-Marketing assistances -Stable market	-Financing difficulties -Market competition	-Provide raw materials by parent firm -Marketing assistances -Stable market
MARKET	-Local market only -Through traders to international market	-Local market only -Through traders to international market	-International market only
AGREEMENT	Limited written agreement with traders	Rarely formal written agreement with wholesaler	Semi-formal and written agreement with Large company
DEGREE OF LINKAGE	Strong forward linkages with traders	Strong forward linkages with wholesaler	Forward linkage with the formal sector
GENERAL COMMENTS	Subcontracting is in response to market opportunities. Availability of resource input is the only possible competitive strategy.	Both product innovation and quality are important. The need for product differentiation.	The innovation process is incremental and entrepreneurs' main interest is in increasing output and improving product quality.

Source: Own survey, 2003

Moreover, this study has established that there are various types of subcontracting linkages among small enterprises. Most of the existing subcontracts are unsteady and irregular relationships. Systematic subcontracting still has not developed in Myanmar, mainly because of lack of confidence in the ability of small enterprises to carry out work reliably. Besides, this study discovered that if one has a good relationship with somebody in the relevant contractor or company, (s)he also has a good chance of receiving business deals handled by that contractors. It is stressed

that informal personal networks are a very important factor for business activities in Myanmar. Therefore, entrepreneurial network formation is a necessary, but not a sufficient condition to promote subcontracting activities among small enterprises while other factors such as quality products, technology, etc. are also inevitable elements.

4.6.6 Promotion of Subcontracting Linkages

Support institutions such as the government agencies, NGOs, etc. can play an important role to establish effective and systematic linkages²⁶². Exploring Myanmar's experience, most private enterprises -either formal or informal- are not able to develop linkage patterns without institutional support. However, one can assume that it is also very difficult to get institutional support without a good personal relationship in Myanmar. In Myanmar, there are a number of public as well as private sector organizations²⁶³ in Myanmar that are involved in promoting private enterprises. However, their results are far behind expectations. On the other hand, the managerial, technological and financial capabilities of the informal sector enterprises also need to be improved in order to develop an effective subcontracting system.

Since subcontracting is an aspect of economic growth, in most countries the government agencies play an important role in promoting subcontracting, but hardly so in Myanmar. However, subcontracting is generally facilitated by geographical proximity, as larger and small firms are located near each other. This is the concept of industrial estates²⁶⁴. The concept of industrial estates is a major instrument of promoting subcontracting. This should also be integrated with regional development. For example, subcontracting linkages in Italy and Germany are supported in this manner. However, most of the cases in developing countries pointed out that it would be very difficult to establish such 'special' industrial clusters. These developing countries, generally, give priority to establish 'general-purpose'²⁶⁵ estates. Subcontracting clusters are an ideal example for such specialized industrial clusters. As Pederson (1992, 1999) explains the clusters are based on a narrow vertical and horizontal specialization, both of individual enterprises and the cluster as a whole. Furthermore, most of the enterprises of these clusters are dependent on and linked as subcontractors to one or a few large enterprises. In addition, government can also provide fiscal and other incentives to contracting and subcontracting firms to improve relationship between them.

²⁶² For example, Allesch (1993) stresses the need for public-private framework.

²⁶³ (König, 1999; Kudo, 2001).

²⁶⁴ (Amin, 1989a; Piore and Sabel, 1984; Storper and Scott, 1989).

²⁶⁵ In general purpose industrial estates, entrepreneurs can start any type of enterprise. It does not matter whether a new firm is related with other firms in the estate.

It is very clear that formal large enterprises also have to play an essential role with development of subcontracting linkages. For example, Siemens in India has organized a network of over 1,000 suppliers, mostly small enterprises²⁶⁶. More precisely, the experience in most developing countries indicates that large firms can be very helpful to their small subcontractors though subcontracting can take place between companies of different sizes (large and large, large and small, small and small). In addition to large-scale enterprises, particularly foreign companies, are interested in linkage activities when they attempt to start operations in less developed countries. The reasons are not only financial and commercial one, but also cultural and other factors²⁶⁷. Therefore, these firms establish linkages with local firms for various necessary services and resources.

However, one can find that the foreign companies usually establish linkages with domestic large-scale enterprises because small enterprises in developing countries do not have enough capacity to establish direct contacts and also are not capable of dealing with foreign companies directly. Therefore, domestic support agencies, government as well as non-governmental, should organize network formation activities such as seminars, trade fairs, etc. However, these network formation elements are still not popular among the small informal enterprises in Myanmar. There are some other special instruments of promoting subcontracting activities as well. One of the popular instruments is 'subcontracting exchanges', which provide a number of services such as information, bringing together contractors and potential subcontractors. The exchange also delivers technical assistance apart from the normal functions, particularly in developing countries. Seminars, trade fairs and exhibitions can be organized with the assistance of subcontracting exchange. In Myanmar, there is no Subcontracting Exchange so far. The subcontracting Exchange can intervene between buyers and sellers who have not been able to establish sub-contracting due to many problems²⁶⁸.

²⁶⁶ (See Voeten, 1993).

²⁶⁷ For example, Western companies like to work with Chinese companies when they start their business in China because of language barriers and other cultural reasons. (see Bjorkman, I. and Kock, S., 1995, *Social Relationships and Business Networks: The Case of Western Companies in China*; *International Business Review*, Vol. 4, pp.519-535).

²⁶⁸ In Sri Lanka, a Sub-contracting Exchange was established in 1981 under a project financed by the World Bank. (see Padmanathan, M. R. (1983): *Performance of the IDB Sub-Contract Exchange*, an IDA report prepared for the Industrial Development Board).

4.7 Overall Performance of Small Enterprises

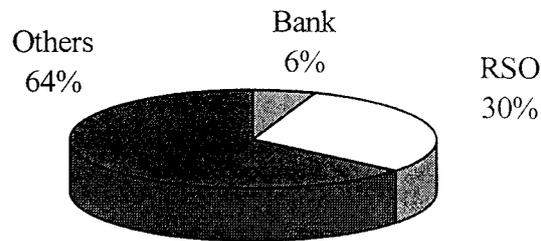
4.7.1 Performance of Small Enterprises

In this section, the saving and investment performance of the enterprises will be mentioned. First, however, the decision-making structure in small enterprise will be referred in order to show who is actually the decision-maker in the selected enterprises. The decisions within small enterprises determine essentially the utilization of the inputs and resources. As shown in figure (4.4), most of the enterprises are organized as one-person businesses, family businesses or sole proprietorship. Owners of the enterprises often, are also simultaneously the head of the household. Therefore, there is a close connection to the decision-making process in the household and enterprise. Decision-making between household and enterprise is not separately. It might come from the household or from the enterprise. The wife determines the household's decision on saving and expenses not only for household, but also for enterprise needs. In this study, it was found that 33.33 per cent of wives determine the utilization of household and enterprise income, while 67 per cent is determined by male entrepreneurs.

As mentioned in the previous section (4.4.3), the source of capital of the enterprises is mainly own capital, followed by family and bank. Some enterprises, however, could save part of their income in some saving institutions such as banks or rotating saving schemes. These organizations in which few people save their capital exist in the regions. They are founded on the people's own initiative, therefore, every member is responsible for the continuity of these organizations. The minimum number of the members is two persons, and can be more. In the beginning, the members discuss the contribution, time of payment and rotation period. Every member can obtain payment at a specific time, and the saving scheme ends when all members have been paid.

The interesting aspect of this form of financing is its flexibility compared to the formal saving institutions. Especially those people who have limited capital and low formal education can be involved in these organizations and, therefore, these can help in certain situations. The range of activities of the organization is not only in capital formation, but also the exchange of certain knowledge about markets. For that reason, the members of these organizations are maintaining close social contacts among the members. On this basis, other activities are undertaken on their own initiative. Few enterprises save their capital in these institutions. The different saving capacities are caused, principally, by variance of the enterprise's profit. The saving institutions such as banks, RSO (Rotating Saving Organizations) in the research areas are showed in figure (4.19).

Figure (4.19) Saving Institutions in the Research Areas (percentage)



n = 75

Source: Own survey, 2003

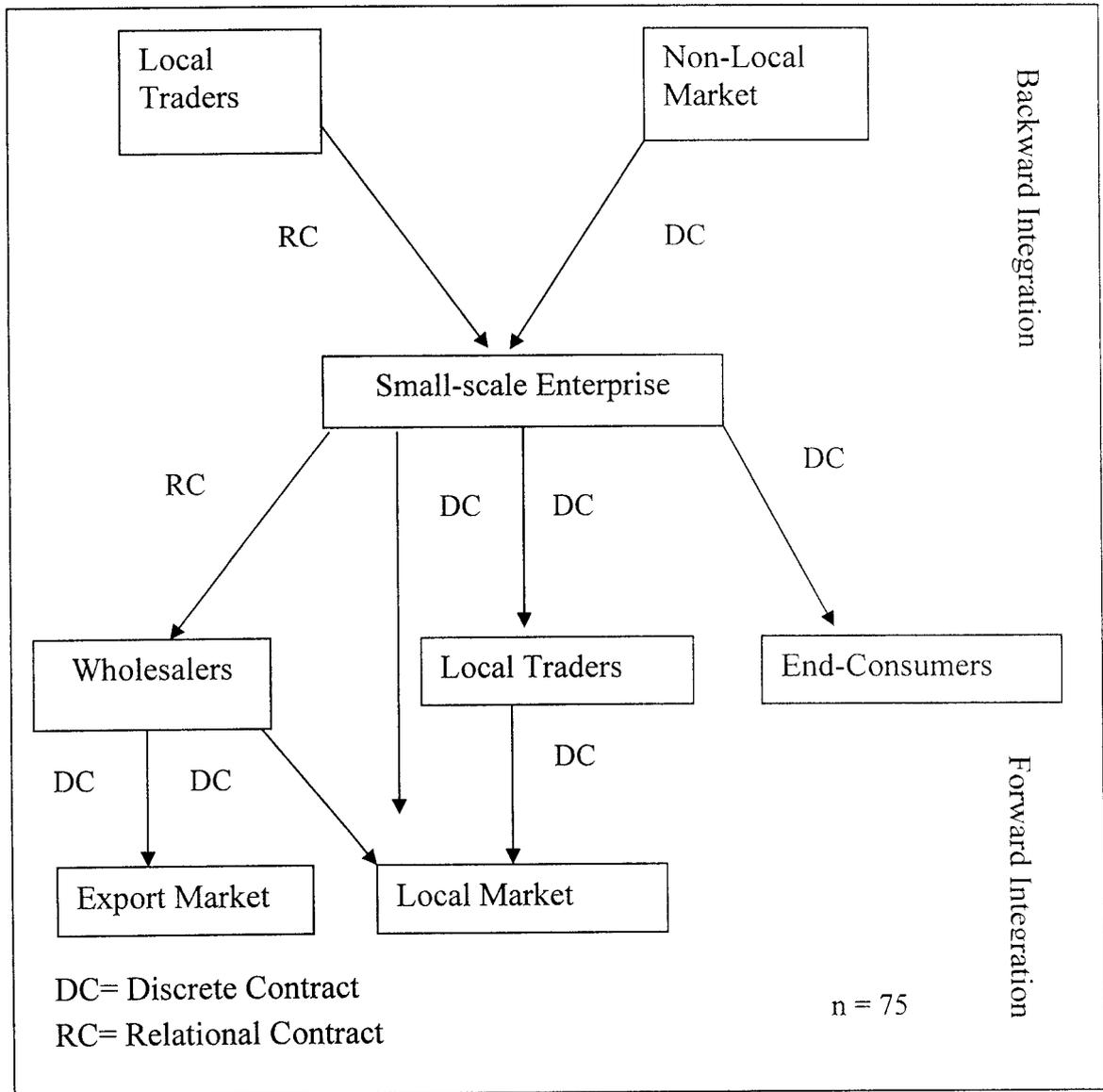
Figure (4.19) shows most entrepreneurs put their income in others category such as in jewellery (golden) or in a piece of land (64%) followed by rotating saving organizations (30%) and lastly in banks (6%). The reason for small entrepreneurs to put their capital in RSO is the social function of these organizations, particularly in footwear and rattan & cane sub-sectors. Especially in the researched areas, this social relationship plays an important role in building social contact between people from those areas.

4.7.2 Institutional Integration

Institutional integration means one utilizes the concept of contract, especially in new institutional economics (see 2.3.3). This study will now apply these concepts by mentioning the institutional integration in the researched areas. Small enterprises are classified as production institutions, while traders/middlemen and markets are another institutions with which a contract (formal or informal) can be sealed. This relation between institutions will be analyzed to specify the types of linkages (relation) that occur in the research areas.

From the following figure (4.20), the existing relations in the researched areas are shown for two kinds of contracts, namely: relative (RC) and discrete contracts (DC). Only a few small enterprises have relative contracts with wholesalers and large enterprises, especially the blanket weaving enterprises that employ less than ten workers. As mentioned above, relational contract and discrete contracts (see 2.3.1) are another method used to show the relationships between institutions.

Figure (4.20) The Institutional Relations in the Research Areas



Source: Own survey, 2003.

However, this does not imply that small enterprises have more relational contracts than discrete contracts. For example, the selected small enterprises have discrete contracts with the local market or traders/middlemen and end-consumers. This means that their relation is not based on personal relationships, but market relationships (according to the neo-classical model). The market relationships (discrete contract) provide higher risks and higher transaction costs. These are based on transaction costs which arise because of some activities such as seeking information, bargaining and monitoring (see 2.3.3). This situation occurs in selected small enterprises in Myanmar. However, small enterprises with a relational contract, e.g., wholesalers and local traders have less transaction costs. However, discrete contract is not necessarily related to high transaction cost and

relational contract is not always to low transaction cost²⁶⁹. With regard to labour, as discussed in most cases, labour resources are based on family members or relatives. On the other hand, the few enterprises that hire skilled labour have high transaction costs. Kirk (1994) reports that trade activities often occur between relatives, indicating that the contract of the exchange can be interpreted as being based on a relational contract and thus, can reduce the transaction costs²⁷⁰.

Finally, with respect to the above mentioned, it can be seen why small enterprises have to bear high transaction costs and risks to sell their products or even to generate their income. Since the contract of exchange of small enterprises is often embedded into social relations, the development and improvement of small enterprises should involve social-economic regulation in capital creation, marketing and information. The top-down economic policy such as establishment of co-operatives in the region to provide raw materials and marketing has failed²⁷¹.

Figure (4.21) shows the linkages between small-scale enterprises and input procurement, and marketing in the research areas in Myanmar. The linkages can be identified as backward and forward linkages as follows:

Backward Linkages:

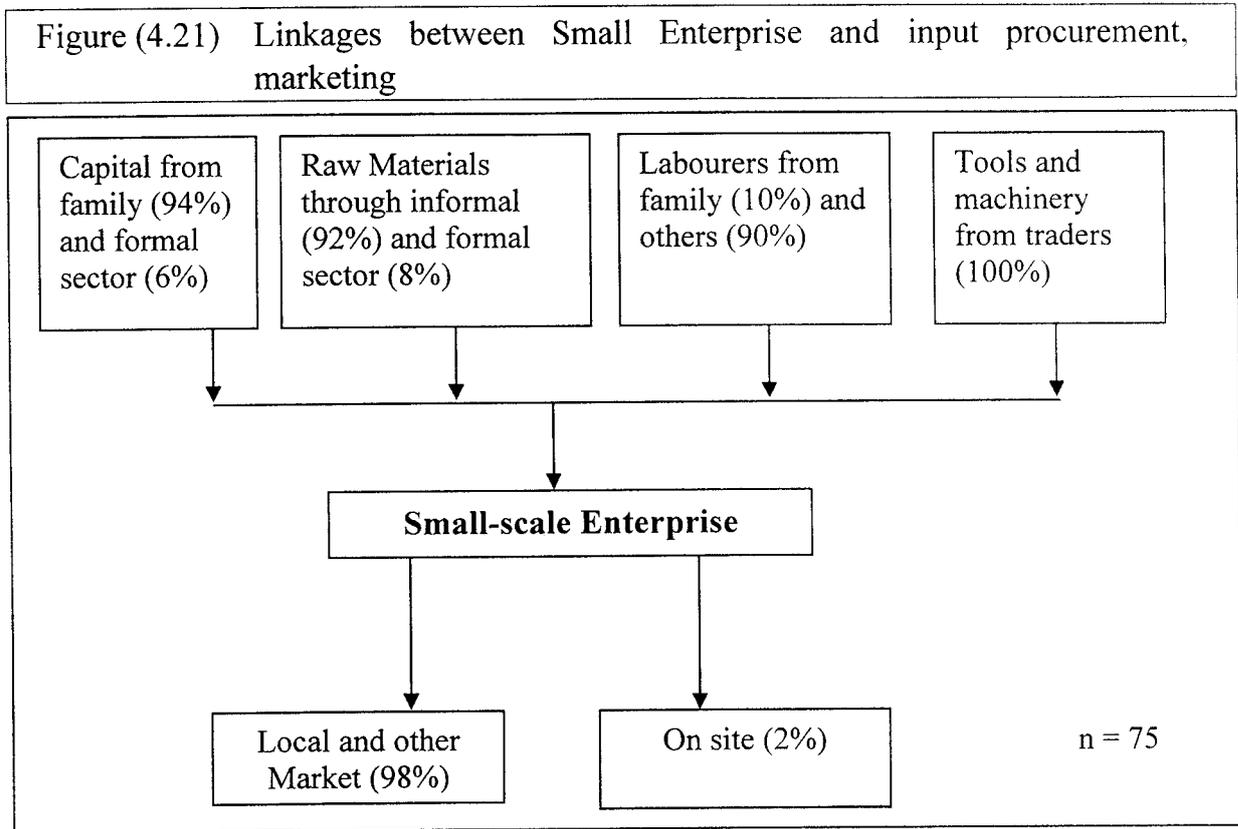
- (1) The enterprise uses own capital, and ignores the credit from the bank. This relationship is based on **relational contract**. Thus, it can **reduce** the transaction costs.
- (2) The raw materials are obtained from wholesalers, here, from Yangon. The entrepreneurs in Monywa and Yegyí can buy from local traders, however, the prices are more expensive. The raw materials (rattan for rattan & cane sub-sector and by-product of garment industry for blanket weaving) are imported from Yangon. It seems that these entrepreneurs only have **market regulation-relationships** or the so-called **discrete contracts**. This situation can **increase** the transaction costs and have higher risks.
- (3) The labours are ten per cent (10%) from family and ninety per cent (90%) from other sources, e.g., neighbours or the people within the regions. Thus, the contract between the family labourers and the enterprises is based on **relational contracts**. On the opposite, the hired labourers and the enterprise have more **market regulation-relationships**. Consequently, it can **increase** the transaction costs of the enterprise.

²⁶⁹ (see Williamson, 1990).

²⁷⁰ Kirk, M. (1994): Bodenrecht, technologischer Wandel und Ressourcennutzung im Transformationsprozeß afrikanischer Agrarsysteme. Habilitationsschrift, Göttingen (unpublish), p.338.

²⁷¹ (see Kirk: 1994, p.308)

- (4) The tools and equipments have also the similar characteristics like raw materials (see 2 above). However, these are also bought from within the region.



Source: Own survey, 2003.

Forward Linkages:

- (1) The owners sell the products to the local and other markets through traders or wholesalers which come to the enterprise and pick up the products. The relation between the entrepreneur and the traders is according to a long friendship and social relationship often based on **relational contract**. Thus, it can **reduce** the transaction costs of the enterprise.
- (2) The enterprise is only one of the selected enterprises than can sell their products to few end consumers in local markets. Due to relatively high quality of the products (the products are not getting defect in more than 3 months), their products can be stored in the enterprise if traders do not like their products or products are refused. The relationship between them is really based on the **market regulation relationship**. Consequently, it has **high** transaction costs.

4.8 Characteristics and Development Constraints of Small Enterprises

4.8.1 Characteristics of Small Enterprise Behaviour

The characteristics of entrepreneurial behaviour and its potential within an economy could be gauged by examining how entrepreneurs view and relate with their business environment, particularly the external environment. It is critical for entrepreneurs operating within such economies to have an outward strategic orientation with the understanding that domestic markets are no longer the domain of local firms for they will always be subjected to competition from formal firms. Within this context there are two distinct behaviour patterns and interests among entrepreneurs within the sector. There is a group of entrepreneurs with a distinct outward orientation and are involved directly or indirectly in exporting. A fundamental characteristic of this group is its tendency and willingness to innovate and an accompanied strong outward orientation. As a result these entrepreneurs are interested in forging linkages with other enterprises, both formal and informal. Given the management and technical skills and the entrepreneur's orientation within this enterprise group there is potential for growth and expansion. This group of entrepreneurs adopts business strategies and linkages with other enterprises to improve enterprise competitiveness so as to increase product sales and market share. Therefore, the behaviour of this group is fundamentally market driven.

The other group of entrepreneurs has a distinct inward orientation and no interest in export activity. Twenty seven per cent (27%) of the non-exporting entrepreneurs indicated they were not interested in exporting. The interest of this group of entrepreneurs is concerned with production for the domestic market and correspondingly these entrepreneurs see local small enterprises as their sole competitors, as such they have a limited view of market possibilities and market competition. An objective of this group is the minimization of production cost. However, there is no limitation for enterprise linkages between them aimed at achieving this objective. This group comprises basically skilled technicians and generally does not have managerial ability to adequately operate their enterprise. They place most emphasis on products and production techniques, but little emphasis on issues such as management of enterprise and marketing of products. The behaviour of this group of entrepreneurs is fundamentally production or supply side driven; such behaviour is as a result of the ability and vision of the entrepreneurs. Therefore, there are two distinct types of enterprises – modern and artisan – within the sector. On the basis of these factors small enterprises within the sector can be characterized as depicted in table (4.33).

	Artisan Enterprises	Modern Enterprises
Legal position	Unregistered	Registered
Form of organization	Family business	Sole proprietorship
Output market	Domestic market only.	County wide and export.
Market orientation	Inward orientation	Outward orientation
Behaviour	Supply side driven	Market driven
Level of competition	Intense 'cut throat' competition partly due to low barriers to entry.	Competitive, however there are technological and managerial barriers to entry.
Labour	Technical and managerial skills ranging from low to medium, Lacks managerial skills.	High technical skills ranging from low to medium skills.
Type of product	Very simple and unsophisticated, low technology intensity.	Ranging from medium to high quality; differentiated.
Type of technology	Ranges from simple to sophisticated.	Ranges from intermediate to sophisticated.

Source: Own survey, 2003.

There exist forward and backward relationships among small enterprises and between small enterprise and large enterprises. One third, one in every three enterprises, of the selected small enterprises has operational relationships with the formal enterprises. All the relationships with the formal sector enterprises are acquisition of raw materials, especially in wood-based sub-sector (67%), and in the marketing of products, especially in footwear (2.7%) and rattan & cane (87.3%) sub-sectors. The high level of relationships with the rattan & cane sector which has a strong outward orientation, reflects O'Doherty's (1994) view that developing countries do not lend themselves, within their territories to a high degree of formal cooperative activity but an external orientation can assist in encouraging the co-operative process. The only reason given by the entrepreneurs in footwear and rattan & cane sub-sectors for the relationships was to increase market share and sales. The fact that marketing is the single relationship which small enterprises have with formal enterprises indicates the dominant and almost exclusive role of formal enterprises in the marketing of final consumer products within the economy.

The overall relationships of the inter-firm are not collected. The ratings are indicative of the possible benefits of inter-firm co-operation among small and other enterprises within a country. However, most of the entrepreneurs have absolutely no interest in any relationship with other enterprises. Therefore even if

the formal enterprises in the economy have greater technological and managerial endowment the potential for small enterprises to improve their managerial and technological capabilities by way of cooperative interactions with these enterprises seem limited certainly within the short to medium term²⁷². However in a restricted market with enterprises producing the same products and limited opportunities for linkages among their productive activities linkages among them is severely reduced. In fact, in such markets there is more a tendency to 'cut-throat' competition, however competition is limited because of the size of the market. Therefore in such an environment improvement of managerial and technological capabilities through inter-firm cooperation are severely limited.

Moreover, lack of interest from entrepreneurs is high, not in themselves, but within the context of the overall level of managerial skills and training within the sector. Such limited managerial and technological skills can be increased by interactions between firms for firms are able to access indirect capabilities through cooperative alliances and such cooperative interactions contribute to the learning process by which firms adapt and improve their own internal capabilities²⁷³. Therefore in a society where such cooperative tendency is strong managerial capabilities and enterprise operations will be constantly improved. This tendency will be great in societies which stress 'universalism' relationships between individuals in which case relationships are based on more or less fixed standards and criteria. For if collaboration and cooperation are to be efficient and effective there is the need to identify specific roles and criteria for performance and achievement. In the case of a developing country such as Myanmar relationships tend to be based on 'particularism', in which case individuals relate to each other in all their particularity or uniqueness and roles are usually ascriptive. The standards of judgment in the role depend on 'who the individual is' rather than 'what the individual does'. As a result a society in which such relationships dominate is far less conducive to cooperation and collaboration for modern capitalist production. Therefore, there is not likely to be much cooperation and collaboration among small enterprise sector or for that matter all sectors.

4.8.2 Development Constraints of Small Enterprises

Ownership of small enterprises is predominantly in the form of family or one-man business. This constitutes fifty three per cent (53%) of the enterprises studied; sole proprietorship forms forty per cent (40%) of the ownership structure. Co-operatives, however, is not found in the research areas. These forms of ownership

²⁷² This tendency among entrepreneurs can also be explained by the wider sociological issues of 'particularism' and 'universalism'.

²⁷³ See Cantwell, J. (1998). For more information on knowledge and capabilities among firms.

structure skewed towards family and sole proprietorship make capital a major constraint to the development of the informal enterprises. Since, one-man enterprises are limited by the entrepreneurs' own sources, especially initial capital and any profit they might plough back into business.

In the study areas this has been confirmed by the inability of the entrepreneurs to borrow money from the banks. While as many as 55.3 per cent of the entrepreneurs rely on their own resources, only 5.7 per cent depend on the banks. This constraint makes it difficult for one-man businesses to expand and to achieve the economies of large-scale production. Another limitation that largely depends on the prevailing ownership structure is the lack of continuity of operation that may result in the event of the owner's death, if there is no one with sufficient business capacity in the family to take over the management of the enterprise.

About fifty per cent (50%) of the proprietors have attended middle school level, while twenty eight per cent (28%) could not finish higher school level. This means that, generally, they can be classified as unqualified labour resources. In fact, however, the entrepreneurs who attended courses held by the vocational training courses were rarely found, while forty six per cent (46%) of the entrepreneurs have been trained through apprenticeship programs. Apprenticeship training provides a good on-the-job training and an inexpensive way of training more skilled labour for small enterprises. This informal method of training can offer some knowledge in management such as book-keeping, accounting and marketing and this can compensate for the absence of record keeping in the informal enterprises, especially in the research regions. The functions of management are carried out single-handed by the owner-entrepreneur who is often also a worker in the enterprise.

In fact, small entrepreneur has insufficient access to the institution offering a number of courses, e.g, governmental organizations or private training schools. The relation between the entrepreneurs and these organizations does not lead to good relationship; the entrepreneurs stand mostly in a passive position vis-a-vis these organizations. One of the reasons is that some of the offered courses do not meet the needs of the entrepreneurs. Therefore, some entrepreneurs rejected or ignored those courses or even decided to close their business (for a couple of months), especially in the case of shortage of order.

The majority of enterprises, about ninety five per cent (95%), came into existence not on economic grounds, but for personal reasons that are an amalgam of historical, cultural and social factors. These include place of birth, hometown or place of origin of spouses. A major implication is that these locational decisions of small enterprises, without any feasibility study or strong underlying economic factors such as raw material availability, proximity to market or the availability of

labour, could lead to unproductive ventures. This is not only a theoretical construct, but also a practical possibility that has been demonstrated in the research areas.

The average size of the selected small enterprises in the study ranges from 4.9 persons (in wood based sub-sector) to 14.9 persons (in rattan & cane sub-sector). Average size of employment within sector is nine persons. However, rattan & cane sub-sector could absorb more employees and, compared with the average number of employees is higher. This means that small enterprises in Myanmar, i.e., those producing blanket, wood-based products and footwear, offer limited employment opportunities for the people in the areas. On the other hand, the enterprises in the Yekyi, i.e., where cane furniture is produced, are more able to provide employment opportunities. This situation is even more alarming when one considers the establishment or the policy of enterprises that can provide employment, especially hired labour.

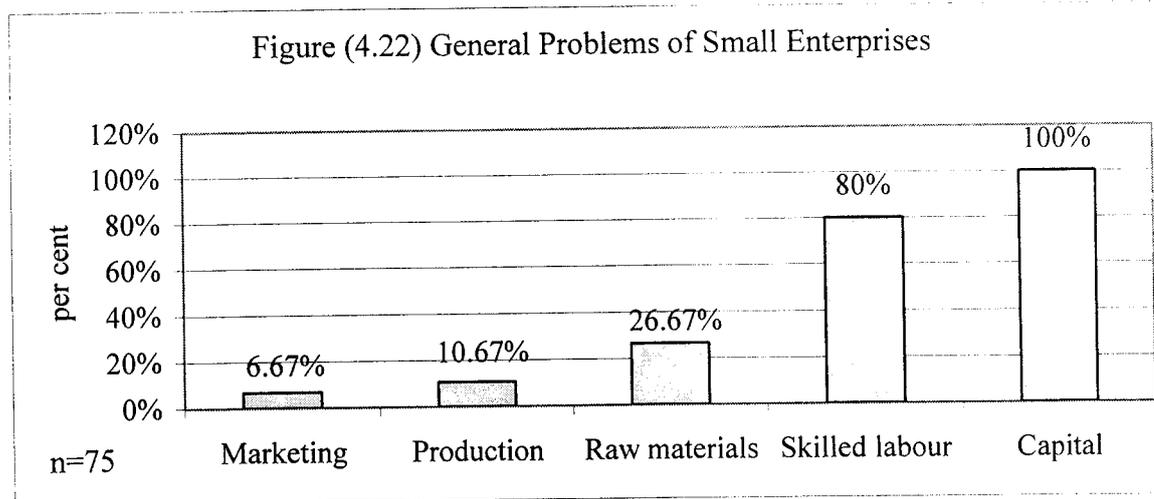
Especially for raw materials imported from Yangon, the long travel distance for blanket weaving and rattan & cane sub-sectors, poor weather conditions (heavy raining season in June to September), obtain through traders and middlemen, difficult to buy for some raw materials such as timber are limiting factors for wood-based enterprises. All work together to force severe limitations of the amount of raw materials needed by the informal enterprises. This poor supply of raw materials refrain the expansion of enterprises, as this leads to low output and productivity levels. Another important factor is the market structure in Yangon. Some raw materials²⁷⁴ are distributed and traded by a few traders who consequently, can control the market prices. These monopolists have their own transport facilities and a good relationship with producers in Yangon. In principle, as long as the traders can meet the needs for raw materials, for example with buffer stocks, the needed raw materials are available. In fact, however, small enterprises are small in size and that have low production and therefore, have also less demand for these raw materials and, consequently, they prefer to use low quality and cheap raw materials.

Marketing deficiencies have been observed in the virtual absence of marketing centers and as a result of the unorganized system of entrepreneurs. This tends not only to limit their ability to obtain inputs in amounts needed for trade, but also their responsiveness to customers' demand in other places. This situation becomes more difficult when the transport system within the regions lacks efficient means to link with national markets. Another factor that can press limitations in product marketing is the credit payment system. Small entrepreneurs market the products to middlemen and wholesalers, and they may pay at the next delivery or even pay

²⁷⁴ The raw materials distributed are mostly of good quality (imported and available from Yangon) and are charged higher prices.

only fifty per cent (50%) of the total orders. Therefore, the selected small enterprises that sell their products, not only within the region but also in the outer regions, have greater difficulties with this payment system and need more working capital to cover the costs.

The general problems confronting the selected small enterprises in Myanmar are summarized in figure (4.22). The general problems faced by small enterprises can be divided into those concerning raw materials, capital, production, marketing and skilled labour. According to the small entrepreneurs interviewed, enterprises registration, location and licensing are adequate and, therefore, cannot be seen as constituting a problem.



Source: Own survey, 2003

All of the interviewed entrepreneurs have current major problems with capital. The reason is due to the limited capacity of entrepreneurs' own capital. This is coupled with their inability to raise capital from the formal sector, the lack of any managerial or technical assistance offered them and the high interest rate charged by traditional moneylenders. Capital, therefore, is seen as the most important problem facing small enterprises. The initial funds for starting the enterprise are obtained from internal sources, especially from own savings (62.5%), inheritance or from relatives and friends (30.8%). Therefore, their funds are mainly from internal sources so that growth tends to be stymied by the lack of own funds from the initial source of capital. As the enterprise expands, more funds are needed for the purchase of raw materials and upgrading of skills and payments of wages, etc. For subsequent growth and working capital, most entrepreneurs still relied on their savings and re-investment of profits but there was increased use of credit from informal sources as compared to financing of initial capital. This pattern of finance implies that small enterprises generally face financial problems because they heavily relied on internal sources of funds limits the availability of capital both for setting up a business as well as for subsequent operation and growth.

Therefore, availability of cheap finance is the vital element that energizes and smoothen the operation of small enterprises.

Financing problem is often related to issues of seasonality of supplies, limited storage capacity and scarce working capital. About twenty seven per cent (27%) of the selected small enterprises, particularly in blanket weaving and a few wood-based sub-sectors, have raw materials acquisition problem for their operations. To overcome this problem of seasonality of raw material supplies it often becomes necessary for these enterprises to purchase and stock adequate quantities of raw material. This means they have to invest scarce working capital in substantial amounts of inventory. With scarce working capital, little or no access to credit and limited storage capacity raw material then has to be purchased in small quantities usually from retailers. Therefore, the informal enterprises are not able to benefit from price reductions which are associated with large purchases from wholesalers. This situation is more difficult when small enterprises due to their lack of bargaining power have to purchase raw materials on a cash basis, and then have to sell their most of products to wholesalers or middlemen on a credit basis. For many selected small enterprises the real problem is inadequate cash or credit to facilitate economical and timely purchases of inputs. Most of small enterprises acquire the necessary raw materials from within relatively close proximity so as to minimize transportation cost; however such a strategy tends to lessen the available options for supplies of inputs. It increases the vulnerability which is usually associated where there are few suppliers. This impact on the quality of the enterprise's final products, for quality of output is dependent on the quality of the raw material inputs. As a result, there is variation in raw material the enterprise was not be able to produce a consistent product. This negatively affects marketing efforts because of the lack of product standardization. In this study, as discussed above, seventy six per cent (76%) of selected small enterprises are taken over by the wholesalers, middlemen or by the traders. Therefore, small producers simply concentrate on production, try to reduce cost and improve the quality of products.

Moreover the marketing problems of the selected small enterprises of Myanmar are many. These include, the very small size of enterprises, unthinkably poor financial conditions, poor ability to procure raw materials, competition from foreign products and indigenous products from large enterprises, poor linkages with effective channels of distribution, exploitation by the wholesalers and traders, poor knowledge of market or market information, practically no advertisement of products to expand or retain market and above all the poor communication system. All these result in poor bargaining power, local oriented market and easy target of exploitation by the middlemen. In the case of small enterprises in Myanmar, the bulk of the products are sold through middlemen. As shown in figure (4.16), only three per cent (3%) of the goods are sold on working site, while ninety three per cent (93%) of sales are made to middlemen and

wholesalers, who in turn market these products in other places. In other words, a majority of the selected small enterprises do not know of any good market or their poor quality warrant no market other than their own locality. However, there are exceptions to this, as shown in table (4.26), quite a few products find an export market and the trend is gradually increasing.

	1995/ 96	1996/ 97	1997/ 98	1998/ 99	1999/ 2000	2000/ 2001
Unemployment rates	4.11	4.10	4.08	4.07	4.05	4.03

Source: Handbook on Human Resources Development, Department of Labour, May, 2003, p.8.

Table (4.34) shows the unemployment rates in Myanmar. Even though there is a general decline in unemployment rates, unemployment is still substantial in Myanmar, it is high. Eighty per cent (80%) of the selected small enterprises of Myanmar claimed they had difficulty in recruiting unskilled workers. Among them, thirty two per cent (32%) had difficulty in recruiting both skilled and unskilled workers. This situation tends to suggest that the apparent over-supply of labour is changing to scarcity of labour²⁷⁵. The reason is that the wages the employers of labour want to pay are low and those demanded by the suppliers of labour are high. The cause of this dis-equilibrium in the labour market is due to the alternative income that could be earned in competing small enterprise where the worker could establish on his own or work for competitor's enterprises. Most of small enterprises claimed seriously that they are now facing job-hopping of their employees to other enterprises where they can earn more wages. Therefore, they had difficulty in recruiting skilled and unskilled workers. The existence of a large labour surplus without the presence of an institutional minimum wage inhibits the informal enterprises from engaging on an innovative path of development. As an example, in the case of Indonesia's rattan industry, Smyth²⁷⁶ points out that labour market conditions there are contributing to a 'low wage, low technology, low quality' path of development rather than one based on constant upgrading and innovation. The selected small enterprises often have easy access to cheap labour for performing simple routine tasks but often lacks technical and skilled labour for more complex operations. Moreover, most of workers were trained learning-by-doing and twenty five per cent (25%) of entrepreneur reported that their workers have not received training. Therefore, the labour input and especially the quality of that input is a decisive input for small enterprise success.

²⁷⁵ But this suggestion runs counter to the thousands of people who are hawking goods ranging from items of small value such as newspapers to live chickens, radios, etc., along the main arterial ways of Myanmar. The fact that these people may be underemployed, they do not consider themselves unemployed. They probably would prefer to remain on their present "job" rather than seek paid employment.

²⁷⁶ Smyth (1992, p.54).

The human input- labour - to small enterprise is an important determinant of its success or failure and its future growth. For the selected small enterprises financial constraints leads the entrepreneurs to attempt to substitute human capital for financial capital. As a result of this scarcity of finance along it the need to minimize cost of operation, very often the skilled level of labour force which is employed is low and much of it is supplied by the entrepreneur's family²⁷⁷. Therefore, the supply of unpaid family member allows small enterprises some level of flexibility in their labour practices and overall operations. The importance of family member, much of which is unskilled, in small enterprises is consistent with easy entry into work; also given the elastic supply of labour, wages are kept relatively low. Very often the conditions include long working hours, low remuneration and commensurately low labour productivities²⁷⁸. This situation reinforced where there are high levels of unemployment and there is the absence of systems of compensation for unemployment which is usually the case in most developing countries such as Myanmar. Thus in these situations the prevailing labour demand and supply conditions force small enterprises wages down and the low productivity of the predominantly unskilled labour forces the entrepreneur to employ family members. However, growth and development of small enterprises will be dependent on a productive labour force. The failure to develop such a labour force will tend to reinforce smallness and its constraints.

The selected small enterprises faced no serious problem with production and output. About eleven per cent (11%) of the enterprises had problem with production. However, main problem with regard to production and output among the selected small enterprises is quality of products. About ninety per cent (90%), nine in every ten enterprises, of the enterprises considered that the products' quality constitutes a problem. Especially for Association of Southeast Asian Nations (ASEAN), the open market began in 2003. Such regulations are applied on product quality, for example quality assurance in such products. In that point, some small entrepreneurs found that their product cannot satisfy this regulation, while large enterprises are able to meet these conditions. A solution of the problem can be given that is to increase knowledge of entrepreneurs or labourers. Therefore, increasing the ability or knowledge in management or production process for the workers and entrepreneurs can improve the quality of product. The exogenous influences such as Department of Cottage Industry, Non-Governmental Organizations or Universities that exist in the areas play an important role. One can expect that small enterprises are able to develop and compete in quality with the formal enterprises without intervention from exogenous hands. Furthermore, capital investment is a key scenario for entering international market. As mentioned above, capital hinders the development of small enterprises in Myanmar.

²⁷⁷ Blayney and Otero (1985, p.13).

²⁷⁸ Anderson (1982, pp.59-60).

Once a business enterprise is established, the desire to expand depends on the performance of the business. When the business is performing well, the entrepreneur would wish to expand his business. The first problem is to have the desire to expand. Ninety three per cent (93%) of all the enterprises surveyed wanted to expand their operations and become larger enterprises and formal ones. By being larger, they would be able to enjoy the benefits of scale of operation and they would be able to minimize the problem of inaccessibility to capital and raw material. Only seven per cent (7%) did not want to expand and become larger enterprises. There is, therefore, the desire on part of the selected small enterprises in Myanmar to expand. The expansion and formality might involve changing or increasing the capacity to produce, improving or changing the method of production or both. Some ninety six per cent (96%) of small enterprises wanted to expand the production capacity for the good they sold; about 2.7 per cent did not want to expand their productive capacity and the rest did not answer. However, most of small entrepreneurs answered that the main problem militating against the expansion of productive capacity of the selected small enterprises in Myanmar is capital. If this problem is solved, above discussed problems can be removed.

In summary, for small enterprises the production process is relatively a complex one. In the embryonic stage of the enterprise the organization of production and the methods used are often based on and limited by the capacity and capabilities of the family members and the level of finance available. After successful initial expansion from household unit into small-scale enterprise available evidence suggests that the main explanation for the failure to diversify and expand lies in factors internal to the small enterprise rather than to external circumstances²⁷⁹. If there were enough funds for expanding production capacity, given that the raw materials and labour were available, the next logical problem would be effective demand for the goods produced. Therefore, final decision to expand depends on the entrepreneur's assessment of the consumers demand for his product since consumers demand for his product would determine this expected profit. About ninety six per cent (96%) of the selected small enterprises covered in the survey said that over the years there has been an increase in the demand for their products. Of these about ninety five per cent (95%) said that the increase in the demand for their products has been substantial. Therefore, they cannot be said to be stagnant. Since these enterprises are still in business, it means that all of them at least are able to break-even.

²⁷⁹ This phenomena is well discussed in an article: Barriers to the Growth of Informal Sector Firms. A Case Study; pp.490-507 by Aftab & Rahim in *Journal for Development Studies*, Vo.25, 1988.

CHAPTER (5) RECOMMENDATIONS AND POLICY IMPLICATIONS

5.1 Major Conclusions of the Study

In Myanmar, there is no clearly defined concept of small enterprises. Enterprises with less than ten employees are considered to be small enterprise if they are not registered under the Private Industrial Enterprises Law (1991). Although they can voluntarily register under the Cottage Industries Law, most entrepreneurs either lack the information needed or do not consider application as a useful thing for their business. Moreover, registration does not seem to be a major problem for the informal enterprises covered by the survey. Therefore, the definition of small-scale enterprise as enterprises "outside of the law" is inappropriate for Myanmar because many registered enterprises do function in the same manner as informals and there is no functional difference between a large number of registered small-scale enterprises and unregistered enterprises. Concerning taxation, furthermore, most of the interviewed small enterprises pay predominantly municipal tax. Therefore the behaviour of selected small enterprises was found that they are doing business in semi-legality.

There are three different reasons which can be identified that their economic activities are established outside the official rules and regulations of the state and its subordinated regional administrative bodies. First, regulations impose prohibitively high costs²⁸⁰ on formality. Second, selected small entrepreneurs lack the skills and the knowledge to comply even with simple regulations. Third, the state and its organs may be weak to protect private contracts and property rights efficiently. Moreover there is an important factor that restricts the possibility to become formal is the lack of education of selected entrepreneurs in sector. This has the same effect as apparently excessive regulations. Therefore the costs to comply with laws and regulations become prohibitive. However they conduct their economic activities in order to earn their living.

Another factor that forces business into informality is the inefficiency of public institutions²⁸¹. The use of formal institutions may incur high transaction costs in Myanmar. When they conduct their business, small entrepreneurs cannot

²⁸⁰ The costs of legalization and of remaining legal may be divided into direct financial costs and opportunity (See Lagos, 1995: p.120). The direct costs are taxes, fees, duties, social security contributions, and expenses to make the site of production and the produced goods and services comply with legal requirements. Opportunity costs emerge from the time it takes to carry out the different steps of legalization and to fulfill the requirements of legality.

²⁸¹ Müller-Falcke, D. (1997): *Informal Sector Enterprises in the Light of New Institutional Economics*, International Small Business Series, Vol. 24, Institute of Small Business, University of Göttingen, p.6.

rely on the judicial system to guarantee their property rights²⁸² or contracts because it is slow, or costly to use. If the public laws and regulations may not fulfil the tasks that are assigned to them it will bear lower costs to rely on informal institutions. All above considerations give the points why it is not desirable or possible for entrepreneurs to conduct their businesses under formal institutional settings. As an alternative they rely on informal institutions. Relations between different informal institutions are prone to high transactions costs²⁸³. In such an environment where the enterprises have to rely on informal institutions, because of high costs of formalizing their business, inadequate formal institutions and the lack of management skills, their prospects are bleak²⁸⁴.

In the light of the findings outline above, the following conclusions are drawn:

The selected small enterprises of Myanmar possess little capacity for mobility. Their locational behaviour is rather stable because they are very endogenously (internally) created activities, as their origin is predominantly influenced by personal reasons. While the localization of the industry according to the economics theory is determined by factors such as raw material availability, labour availability, transport cost and infrastructure. However, the localization of small enterprises is selected by socio-economic aspects (personal reasons). The cases of blanket weaving and rattan & cane sub-sectors of the Monywa and Yekyi regions can illustrate the situation. Raw materials are mostly imported from other regions since they are not available in their regions. The products are endogenously consumed, but are mostly exported to other regions. Similar cases are found in the footwear sub-sector.

The integration of labour supply into the regional economy is low, and the functional linkages are few. The high labour mobility in small enterprises within settlements favours this condition although, as a region with high population density, the labourers are concentrated in the urban area (Yangon). The labour mobility within the province is hindered by a number of factors such as lack of information on job opportunities, the size of enterprises those limits the potential labour that could be employed. Moreover, most of the preference of potential labour has changed. Some descendents of farmers who attended schools (at least middle school level) no longer want to work in the fields as farmers, because, according to them, a farmer has a low social status. They want to get a job in the

²⁸² Informal sector enterprises outside legality are excluded from using public law institutions. They cannot push through property rights to their means of production and to contracts with the help of courts or other organs of the public administration. Thus, they have to rely on themselves or on collective informal mechanisms for this purpose.

²⁸³ Formalizing an informal enterprise might be impossible in many cases because of excessive regulations, poorly functioning public organizations, and the lack of ability amongst entrepreneurs raise transaction costs of using formal institutions significantly.

²⁸⁴ (See Müller-Falcke, 1997: p.7).

other sectors, as civil servants or in the small firm that confers a high social status upon them.

Vocational training and the apprenticeship system through which most of small entrepreneurs are trained do not provide all the technical and managerial capacities needed to run enterprise effectively. The informal enterprises remain peripheral to government policies. They are not exposed to modern production processes that are appropriate to the environment. To deal with the problems, a bottom-up planning should be worked out and implemented. In fact, many programs offered by the Department of Cottage Industry cannot meet the need of the enterprises. Moreover, some departments lack capital to implement these programs; therefore, other institutions such as universities or non-governmental organizations (NGOs) can take over these tasks to improve the technical and managerial abilities of the entrepreneurs.

Regarding capital performance, the findings may suggest that financing from own savings, friends and family was a significant source of start up funds and for formation of enterprises in Myanmar. It accounts for as much as of 93% of financing. For selected enterprises' financing, the family source is the most critical economic unit. It facilitates capital accumulation in the sense that families pool their finances to undertake their business activities. Besides, non-formal moneylenders play an important role in providing financial possibilities since they are a characteristics feature of their regions. These moneylenders are sometimes used in cases when finance was not available from financial institutions at lower rates of interest. Only 7% of financing was obtained from financial institutions.

Resource flows regarding tools and equipment originate mainly from within the settlement. This shows the high capacity of the region to produce own tools and equipment. This higher level of internally oriented interaction has a positive impact on the regional economy as a whole in terms of net resource transfer, thus economic dependency within the settlement. There is an absence of an effective or a functioning marketing system in the study areas that is responsive to customers' demand in other places. This is revealed by the dominance of marketing channels of small enterprises and through traders or large enterprises on national and international markets. The selected small enterprises do not exploit market opportunities; this is a situation that tends to limit the scale of operation.

Linkages effects used in this study are examined with the reference to the locality (spatial) from which the enterprises in the regions acquire their input and products. Backward linkages with informal sources occur strongly in the three study areas. Most of small enterprises in Yangon sold their output and bought their raw materials in Yangon. This also takes place for most enterprises in the other regions. Besides, these linkages are ascertained through the increase in the

other business activities (traders) and through the expanding agricultural sectors (cotton production in Monywa division). This evidence may be seen as an example which shows that most activities of small enterprises are not only settlement oriented but also regionally oriented; they are mostly more-nationally oriented. However, in Monywa and Yekyi, most of the raw materials are imported from other region such as Yangon; therefore, the spatial (local) linkages of small enterprises in these regions are very weak.

Forward linkages take place in the industries that produce goods those then become inputs into other industries. Most of the products of small enterprises are finished goods (directly consumed), so that another tool such as institutional integration (using relational and direct contract) is applied. This institutional contract is specified through the transaction costs which arise and which the entrepreneurs have to bear. In the backward integration, it has been found that the selected informal enterprises should bear high transaction costs. Kobayashi (1994) found out that one of the reasons of the failure of small-scale enterprises in Japan was the high transaction costs²⁸⁵. Further, from the sample, a negative association has been found between the distance from the study areas to the central market (Yangon) and the proportion of the entrepreneurs in the sample who sold or bought their products or raw materials mostly or entirely to or from outside settlements and regions. This suggests that the more distant the area is from the central market, the more the above proportion, or that small enterprises in more isolated or less developed study areas have less extensive local linkages than those in more open or developed study areas.

5.1.1 The Overall Role of Small Enterprises in Myanmar

Small enterprises have an influential role to play in a country's overall development. This role is heavily influenced by the enterprises' macroeconomic environment and the quality of human capital which resides within these enterprises. Therefore the products, the enterprise's organizational linkages, the competitive environment and the market are all critical in determining the enterprise's performance and its role within the economy. The majority of these enterprises started as small subsistence productive activities by utilizing family labour initially to meet the needs of the domestic market. Thus, operating on this small-scale with large amounts of family labour the entrepreneurs needed only small market share to survive in the initial stages. Productive activities were undertaken within the context of the existing levels of technical and managerial skills, resource availability and perceived local market opportunities. Initiating

²⁸⁵ Kobayashi, K. K. (1994): Small and Medium Enterprise in Japan 1868-1938, In: Müller, M. (ed.): Structure and Strategy of Small and Medium-Size Enterprises Since the Industrial Revolution. Stuttgart: Franz Steiner, p.67.

enterprise at such a small subsistence scale of operation does not imply the enterprises are unprofitable for in such markets and production environment smallness itself is an advantage. One of the important advantages is that such a scale of operation is conducive to facilitating the learning process. Living in the local community the subsistence entrepreneur can gauge demand and consequently, if necessary change product styles and quality according to the community's changing needs. Initiating small-scale subsistence activities which then grow into the formal sector are sometimes found in Myanmar. There is an indication which gives as to how subsistence productive activities perform the seedbed function of entrepreneurship. The sector performs the critical role of nurturing entrepreneurship by mobilizing local skills and utilizing local savings within the economy. This is so for these entrepreneurs in order to start their enterprises needed to have the capacity to overcome the rigidities and the obstacles which existed within the imperfect market.

Given the high level of self and family financing within the sector, the small entrepreneur and his family maximize the use of local financial resources which may be under-utilized. This role reflects the view that the growth and development of entrepreneurship is essential for broad based industrialization and economic development along with the process of human capital formation. The data from the study have shown that some entrepreneurs have expanded operations and are marketing products in Myanmar and are also exporting to international market. This market orientation of the entrepreneurs is another concrete manifestation of seedbed function of the sector in nurturing entrepreneurship.

With expanded production small enterprises have become more dependent on permanent wage labour and modern methods of production. Table (5.1) indicates that the sector's present labour absorption capacity and therefore its employment creation potential is relatively low. The total full-time and part-time labour within the sector was about 758 employees. However, the quality of labour which is presently used within the sector has to be examined. Firstly, within the context of the initial amounts of labour which were employed by the enterprise. Then, within the context of quality of labour which is needed for the development of a modern competitive small enterprise to large enterprise. The changes over time in the combination of labour which is utilized reflect fundamental changes in the productive processes within the enterprises. Within these changes there is less utilization of unskilled labour and an accompanied increase in the use of modern

tools and equipment. In essence, the technological base²⁸⁶ of the enterprises are fundamentally transformed which this leads to an increase in productivity, it also, increases competitive pressure within the sector.

SUB-SECTOR	AVERAGE FULL TIME EMPLOYEES PER ENTERPRISE	AVERAGE PART TIME EMPLOYEES PER ENTERPRISE
Blanket Weaving	5.3	1.8
Footwear	8.7	1.1
Rattan & cane	12.6	6.3
Wood-based	3.1	3.1

Source: Own survey, 2003

A modern and dynamic small enterprise does not depend on large amounts of low skilled labour, but instead it depends on high-level skills which have the technical competence for complex productive operations and are capable of adjusting flexibly to new market conditions. As the enterprises are transformed Myanmar's technical and managerial skills base develops and expands; particularly by the learning process which takes place within the enterprises. Such skills residing within these enterprises will heighten the innovative process within the enterprises and alter the Myanmar's industrial structure which in turn has further effects throughout the economy. Young (1928) indicated "every important advance in the organization of production, regardless of whether it is new invention or involves a fresh application of the fruits of scientific progress to industry, alters the conditions of industrial activity and initiates responses elsewhere in the industrial structure, which in turn have a further effect. Thus change becomes progressive and propagates itself in a cumulative way"²⁸⁷. Therefore, the role of the sector within the economy is not limited to its present contributions but also the future possibilities, which it creates and its role in transforming the structure of the Myanmar's economy over the medium to long term.

²⁸⁶ The term technological base is taken from Aftab and Rahim (1988, p.505). According to Aftab and Rahim the term emphasises advances in technology within the same general field. The example which they gave was that, a movement from equipment, processes and skills needed to produce traditional ploughs and cane crushers to those required to fabricate diesel engine components is considered as a change to a higher technological base. When a firm which exclusively relied on equipment such as ordinary lathes, ordinary grinders and cupola furnace begins to use special lathes, cylindrical grinding machines, and electrical furnaces this is considered a movement into a higher technological base. On the basis of this view one can visualize, within a broadly defined set of production activities, a hierarchy of technologies.

²⁸⁷ Young (1928, p.533). Kobayashi, K. K. (1994): Small and Medium Enterprise in Japan 1868-1938. In: Müller, M. (ed.): Structure and Strategy of Small and Medium-Size Enterprises Since the Industrial Revolution. Stuttgart: Franz Steiner, p.67.

Production within these enterprises utilizes local resources and so stimulates linkages with other sectors of the economy, for example, between the wood-based and rattan & cane sub-sectors and the forestry sector, the blanket weaving sub-sector and the agricultural sector. Backward linkages of the sector to agriculture and forestry sectors are two important sources of demand for agricultural and forest raw materials in Myanmar. Thus, small enterprises contribute indirectly to employment creation within these sectors. With this overall interdependence, growth within the sector stimulates demand for the output from other sectors of the economy and so facilitates their growth in a dynamic process. This complementarity of productive activities among different sectors of an economy is key to the formation of a dynamic industrial structure in which 'building up' of the local production structure and technological capabilities maximizes the use of local resources.

The relatively few enterprises which are located in the regions are partly due to their personal reason and homestead and the level of infrastructure which exist in those areas. This is so for the pattern of industrial development in a particular provincial region depend on its economic structure and basic organizational and physical infrastructure. It also reflects the internal disparity of employment and business opportunities between the urban and rural areas. The enterprises in Monywa and Yekyi are in blanket weaving and rattan & cane sub-sectors. They obtain most of their major raw material supplies from their traders and middlemen and sold their finished products through traders to Yangon. This gives an indication of the role and linkages of small enterprises in those areas. It also indicates the important linkage between agricultural and forestry sectors and small enterprises, particularly in stimulating intra-regional demand and growth. However, the relatively few small enterprises in those regions indicate their limited contribution to direct employment creation and mobilization of savings in such areas. This reduced role is due to structural phenomenon resulting from general constraints to the viability of establishing enterprises in such areas.

5.1.2 Development Potential and Possibilities for the Sector

Based on the constraints and problems of the selected small enterprises, some endogenous potential for the development of the selected small enterprises exist in Myanmar. This can be ascertained both from the enterprise (micro level) and from the district economy (macro) level. At the level of enterprises, the development potentials may be summarized as follows:

(i) Emerging ownership structure

The overall low level of skills is one of the main reasons why family enterprise is the dominant organizational form within the sector since for its formation in practice there are no legal or financial requirements. This organizational form, particularly when unregistered, has severe constraints for the conducting of business within a capitalist economy. In the specific case of these enterprises such an organizational form militates against access to financing from the formal financial sector; also, at times their legal status militates against the use of formal contracts for conducting business operations. As a result of these constraints family enterprises are not able to attract the necessary productive inputs for enterprise growth and development. Thus their operations remain small-scale with limited productive capacity which in turn restricts the enterprises' ability to market products outside Myanmar.

There are some identified strengths within the sector which originate from the characteristics of some of the entrepreneurs. These entrepreneurs own and manage the modern enterprise within the sector and operate mainly within the footwear and rattan & cane sub-sectors. These entrepreneurs are generally higher education level and as such tend to be better trained for undertaking business. Their enterprise operations are integrated into the formal sector of the economy which means they are subjected to some degree of competitive pressure which leads them to adopt innovative business strategies. Given the technical and managerial skills of these entrepreneurs they are able to attract the kind of resources which are necessary for enterprise growth and development. They have also displayed a willingness to co-operate and forge links with other medium and large enterprises so as to maximize operational benefits. Such co-operative behaviour is also part of the various strategies which they adopt to maximize their enterprise flexibility and thus ensure some degree of 'success'.

Although few partnership form was found, cooperative forms have not been found in this study and are not well-developed. These forms of organization have advantages to overcome the problems of one-man business, especially for raising large capital from institutional sources. Politically, co-operatives are supported by the state within the framework of its credit policy and considered as economic agents.

(ii) Resource utilization

Some small enterprises make use of endogenous available raw materials within the economy and also of by-products of endogenous large industries. Thus, they tend to promote interdependence between small and large enterprises and hence overall industrial development.

(iii) Employment generation and Skill development

The high population density and labour mobility within the economy promote an internal income generation. It also serves to localize employment opportunities for people who leave agriculture and stimulate decentralized urban development to a certain extent. The enterprises employ appropriate technology, use less capital and promote skill development through the apprenticeship system. Therefore, small enterprises could be used to stimulate indigenous entrepreneurship and create employment opportunities. Thus offering an added opportunity of reducing rural-urban migration which is already a problem within the regions.

At the macro level, the following potentials can be developed:

(i) Provision of raw materials

Large and potential lands that exist in Myanmar should be utilized optimally through irrigation schemes for agricultural purposes to provide raw materials for agro-based industries (agribusiness concepts) and abundant forest areas to provide forest-based enterprises. The raw material inputs of the exporting enterprises are supplied locally by traders or middlemen through the formal sector. This has the effect of reducing their need to utilize scarce foreign exchange for the purchase of imported goods and services in Myanmar, the combining of productive inputs within these enterprises minimizes the use of foreign exchange for the purchase of imported inputs. The demand and use of local raw material inputs by these enterprises will in turn generate local demand for their products from the source of raw material input supplies. This in turn will generate further demand for raw material supplies which will increase earnings within the economy. This feedback effect will strengthen and reinforce the growth of these enterprises by increasing the demand for their products. In essence the linkages which are forged with other sectors of the economy is a source of strength, particularly for the national economy in the medium to long-term.

(ii) Promotion of Tourism

Myanmar has large natural forests and good natural landscape (rivers and mountains). The development of these objects to become a tourist attraction can generate income and stimulate regional economy. Lacking the natural resource base to support an indigenous program of industrialization, the region logically looks at services as a means of earning its foreign exchange. As Encontre pointed out "the scope for economic progress through diversification in traditional areas is limited, while natural resources for tourism activities exist. Tourism, in this context, is a necessary remedy for a situation of underdevelopment"²⁸⁸. An

²⁸⁸ Encontre (1989, p.47).

attractive feature of tourism as an engine of growth in Myanmar is the high spill over effects into other sectors. The infrastructure needed to support tourism—roads, electricity, telephones, commercial banks, etc. has also promoted development in other industries. For example Blackman (1991) points out that it was the excellent telecommunications system stimulated by the tourism industry which made possible the development of an offshore business industry in Barbados. Therefore, tourism has also created avenues for numerous small-scale satellite economic activities which make tourism a prolific breeding ground for local entrepreneurship and small business environment. Above all tourism because of its outward orientation provides a vehicle for the introduction of modernizing influences.

The development possibilities for the sector ought to emerge from a clear understanding of the overall potentials and capabilities which exist within the sector, and the necessities for enterprise growth and development in a competitiveness global environment. In principle any analysis to assess development possibilities has to incorporate the exogenous and endogenous factors which influence enterprise performance and also the performance of wider economy. The dominance of the inward orientation among entrepreneurs within the sector raises serious questions as to the potential and capability of small entrepreneurs to develop the enterprises so as to form a modern sector for in the final analysis. This has to be one of the objectives for the sector.

Firstly for the enterprises to develop into a modern sector, as an urgent necessity, the dominant inward orientation among entrepreneurs has to be changed. Secondly, in terms of the sector's development possibilities an important issue to be considered involves the dynamic aspects of the sector such as its growth patterns and the way it affects Myanmar's overall developmental process. This approach is adopted since the identified developmental possibility ought to benefit not only the sector but also the economy as a whole. Also to ensure expansion of production along with long-term growth and development, the identified enterprises should be those which are economically efficient. Within this context there needs to be flexibility and a careful mix between social equity and economic efficiency. This is necessary since enterprises within the sector will have to face the challenges which will be posed by local and international trade and free global competition.

Most of the enterprises within the sector are of the artisanal informal type; therefore the weaknesses which are typical of these enterprises are dominant within the sector. Against this background the fundamental weaknesses within the sector stem mainly from its available human resources and are therefore internal to the enterprises. Underdeveloped human resources, in particular the dearth of managerial and technical skills is a major obstacle to the development of the

sector. The lack of such skills means that the operations of many enterprises are dependent on the personal drive of a few individuals and, even moreso, lower skilled family members. Low levels of such skills reduce the ability of workers to comprehend complex instructions and bear increasing responsibilities in a changing technological environment. Therefore the technological and managerial capabilities within the sector limit the type of resources it can absorb from the external environment. Moreover, it particularly limits the adoption and diffusion of modern technologies. The level of skills also lacks the capabilities to source and assess business information. This includes information for market development, new technologies, scientific advances and other types of information necessary to keep up in a highly competitive market. The lack of such information is a major operational constraints, for it reduces the enterprises' ability to plan and therefore to engage in market opportunities. This is a major weakness for the planning process that generally improves the organizational performance since the process forces the generation of ideas and objectives to be thought through. It also causes the entrepreneur to explore alternatives to improve the enterprise competitive position.

The salient characteristic within small enterprises is the strong tendency among small entrepreneurs to attempt product innovation in order to compete in a changing and competitive global environment. Most of the attempted innovations are minor, but they are important innovations and all part of the enterprises' competitive strategy. Even more importantly, these innovations are relevant since only a few alternative competitive strategies will be appropriate for a given environment and set of resources. This competitive process creates developmental possibilities for the enterprises at two distinct but interrelated levels. At the first level the initial minor innovations allow them to exploit existing market opportunities, which generate short-term benefit to the enterprises and the economy. At the second level the initial minor innovations which change the production base of the enterprises improve their competitive capacity and the potential to engage in local and international competition and effectively exploit market opportunities in the medium to long term. Since involvement in international trade and competition is a necessity for growth and development in the county the possibilities which this group of enterprises create are complementary to the overall development priorities of Myanmar's economy.

At the general level, there is excess capacity within the entire sector and the major constraint to production is identified as the lack of markets. If the market constraint on existing productive capacity could be removed a number of other possibilities would be available to the sector. However, the identified market constraint is symptomatic of a wider problem which is low innovative capacity among entrepreneurs to produce quality products which can compete in both local and external markets. Evidence from the empirical research indicates firstly that

some of small enterprises have their origin in very artisan operations and secondly the most salient feature in the growth of these enterprises over time is the improved managerial and technical inputs from the entrepreneurs. These findings clearly indicate that there are also future developmental possibilities for enterprises which at present have artisan operations. These possibilities will be achieved to the extent that the entrepreneurial skills and capabilities within the enterprises are improved so as to undertake more competitive activities.

The transition of some small enterprise operations into large enterprises indicates growth and structural changes are taking place within the sector. Salient features of this phenomenon are the changes in the composition of the skills and the type of technology which are used by the enterprise within the sector. There is a gradual change from simple manual productive processes to one which is relatively capital-intensive. There is the displacement of labour by capital and this improves productivity within the sector. This is also accompanied by changes in the type of skills which are used. There is the use of proportionally more skilled, technical and managerial labour. The shift to more capital-intensive production is critical since continuous rise in production per unit of labour needs additions of new technology and techniques and related knowledge. The combination of higher level skills and technology facilitate the production of new and higher quality products. The improved productivity and increase in output allow some enterprises to shift from producing only for local market to domestic market and then to external markets. The structural changes which are taking place within the sector are reinforcing the forging of linkages between various sectors of the economy such as the need for export marketing services, transportation and technical services.

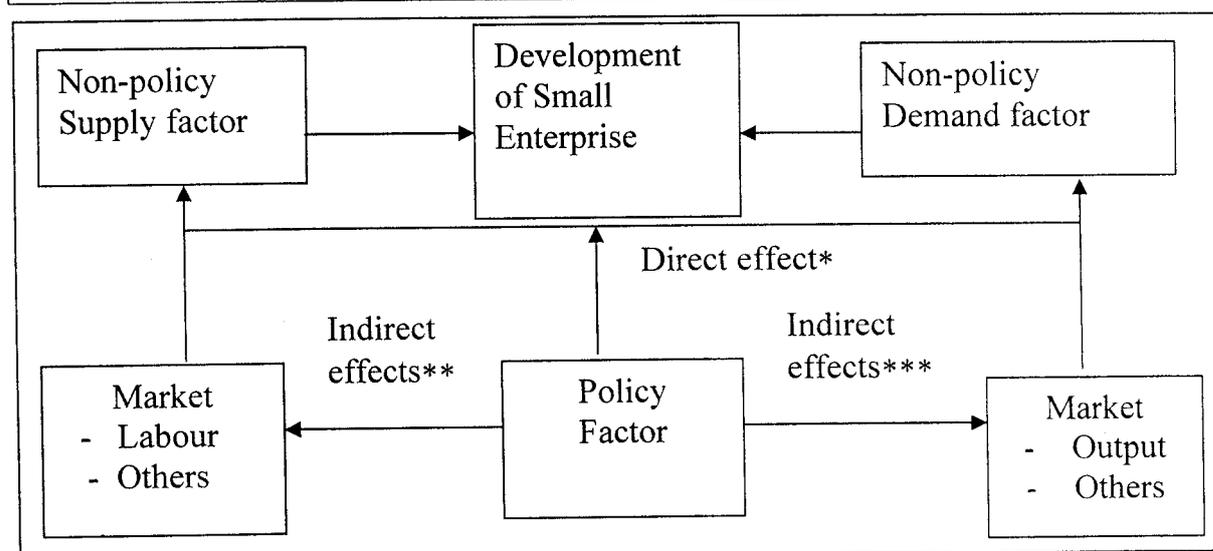
5.2 Policy Recommendations for the Development of Small Enterprises

The main aim of policy interventions is how to integrate small enterprises in the formal economy, and which is an important challenge for economic policies. However, the development of small enterprises in Myanmar and their indigenous problems are also related, directly or indirectly, to economic policy, either at the macro or micro level. Or, more specifically, according to standard functional categories of policies, they are related to, e.g., industrialization policy, trade policy, monetary policy, fiscal policy, labour policy, income policy and direct regulatory controls or direct government supporting measures for the private sector enterprises, especially for small-scale enterprises, in the country. Many studies mention the issue of government policy or more specifically the role of government in relation to the development and growth of small enterprises in developing countries. It has been found that in practice policies in many

developing countries have been more in favour of the formal sector, e.g., middle or even large-scale enterprises²⁸⁹.

As illustrated in figure (5.1), such government interventions can have profound implications, indirectly (i.e. macro policies) or more directly (i.e. micro policies or directly regulatory controls), for the composition of industrial activity. A wide array of these policies affect the behaviour of individual producers and their access to resources, technology and markets, through their effects on relative factors and product prices and the functioning of markets²⁹⁰. The need for the small enterprise policy reflects the need to capture the economic potential of the people and assist them to bring from small enterprise to large enterprise. The benefits of an organized sector are on many levels: economic, social and political—creating wealth, a middle class of entrepreneurs, creating sustainable livelihoods, reducing poverty and empowering people to become self-reliant. Therefore, policy issues are to be dealt with as a matter of priority before technical and financial assistance programs and projects will be considered and discussed. In this section, theoretically, identifies the effects of policies on the pattern of development of small enterprises in Myanmar. This section focuses on protection policy, credit programs and technical assistance and training for small enterprises.

Figure (5.1) Direct and Indirect Effects of Policy on the Development of the Small Enterprises



Source: Own display, 2003.

²⁸⁹ For a more detailed discussion on this, see, for example, Bamberger and Bonacker (1994), Hyden (1983), Steel and Takagi (1983).

²⁹⁰ See also Stewart and Rains (1990).

Remarks:

- * = Direct government interventions, e.g., special credit schemes, training facilities, and other various forms of protection measures for small enterprises.
- ** = Policies affecting the availability and price of raw materials and other inputs, including labour (e.g., agricultural, investment, technology, import, monetary, fiscal, sectoral, industrialization and wage or other labour policies).
- *** = Include wage and income distribution policy, output (producers and consumers) price policy, fiscal and monetary policies, trade policy and investment policy.

5.2.1 Protection Policies

The main objective of the protection policies for the sector is to lay the foundation for the development of a dynamic sector. The policies will be identified with the understanding that they constitute only a specific component of the overall strategy for the country's socio-economic development. The involvement of the state in the promotional process will be determined by the objective conditions which exist within the Myanmar economy. The state's general role would be to correct market and non-market failures in ways which will increase the potential of the sector to contribute to the economy. However, the absence of small enterprise policy in Myanmar has meant that there was no clear direction or priority provided as to what should be carried out and accomplished. There was no definition of boundaries to clarify who was responsible for specific actions; as a result, small enterprise promotion became everyone's and no-one's responsibility. Therefore the objective of the policy is to develop small enterprises by creating an enabling environment and improving support services. The sector, however, is not homogenous. It is composed of a rural small-scale informal sector and an urban small-scale informal sector. Policy measures should reflect the different objectives of these sub-sectors (see table 5.2).

Sector	Informal (rural)	Informal (urban)
Location	Rural Areas	Peri-urban
Ownership	National	National
Management	Owner family	Owner
Technology	Rudimentary cottage	Appropriate rudimentary
Labour	Semi-skilled	Mostly semi-skilled
Government role	Local government	Provincial

Source: Own survey, 2003.

Given the economic contributions of the informal economy, it is widely believed that governments should be developing policies that recognized the importance of the informal economy, restrict and regulate it when necessary, but mostly seek to

increase the productivity and improve the working conditions of those who work in it²⁹¹. The state is generally perceived as the “architect of a positive enabling environment”²⁹². Therefore, the state has particularly a role to play in making it possible for the private sector to flourish and to ensure that growth contributes to poverty reduction, but the actual economic growth is best reached through the private sector²⁹³. Thus, governments are responsible for mobilizing political will for dealing constructively with the informal economy. It is also believed that if the employment needs and the vulnerability of those who work in the informal sector, are not addressed, most efforts to reduce poverty will not succeed. For instance, the formalization of the informal economy reduces the need for poverty combating government programs such as subsidized health care, large employment benefits, etc²⁹⁴.

Industrialization and trade are perhaps the two most striking features of economic policy areas in Myanmar. Although these are two different policy areas with different instruments and specific aims, in practice they cumulate and interact, forming a system of incentives or disincentives (as net result) to which producers from different size categories respond. During the last Socialist regime (1962-1988) the Myanmar government has pursued two different strategies of trade and industrialization: an import substitution strategy in 1970s and export promotion strategy since the second half of the 1980s. It has been argued that the trade regime of import substitution in Myanmar was biased against export industries and small-scale enterprises and favoured inefficient large-scale substitution industries in the country. The import substitution strategy in the county had the following general characteristics:

- High level of protection for a number of industries with a wide range of levels of effective protection;
- Overvalued domestic currency (kyat); and
- Extensive quantitative controls and direct government regulations, particularly with respect to import and investment.

The level of protection resulting from trade intervention measures can in principle be quantified by means of normal and effective rates of protection (EPRs)²⁹⁵. Through out the 1970s to early 1980s the Myanmar trade regime was

²⁹¹ Sida (1998): *The Informal Sector, Firm Dynamics and Institutional Participation*.

²⁹² Schuplen, L. and Gibbon, P. (2001): *Private Sector Development, Policies, Practices and Problems*, Centre for Development Research, May 2001.

²⁹³ *Ibid*, p.14

²⁹⁴ Djankov, S., representing the World Bank at the seminar “Cost of Doing Business”, Stockholm School of Economics October, 2003.

²⁹⁵ The normal rate of protection estimates the extent to which an existing domestic price exceeds the price under a free trade regime, whereas effective rate of protection (EPR) estimates the extent to which value added in any industry exceeds the value added which would have resulted in the absence of trade interventions, i.e., value added at international or border prices. The measure of effective protection therefore takes into account the effect of trade regulations and other intervention measures, including these policy instruments discussed above, on the price of the outputs as well as on the price of intermediate inputs (Poot, 1988).

characterized by high and variable effective rates of protections for imports and low or negative rates for exports. Effective protection tended to be particularly high in manufacturing sub-sectors where middle-scale enterprises as well as large-scale enterprises were concentrated, while small-scale enterprises were usually found in industries with relatively low or negative EPRs. Branches in which the small-scale enterprises were relatively dominant in that period include those producing rice milling, clothing, furniture, rubber products, etc. Hiemenz and Bruch (1983) also found a negative correlation between the shares of small-scale enterprise production in particular sub-sector and the effective rates of protection in the sub-sector. In other words, the higher the rate of protection in a sub-sector, the smaller the share of small-scale enterprises or the share of middle-enterprises as a percentage of total production or value added in the sub-sectors²⁹⁶.

By comparison, in other countries, Anderson and Khambata's study (1981) of small-scale enterprises in the Philippines found that sub-sectors of manufacturing which provided over 67 per cent of small-scale employment had negative EPRs. Besides, sub-sectors where middle-scale enterprises predominated had a wide range of positive and high EPRs, ranging from 25 to over 500 per cent. In Malaysia, the average plant size is much higher in highly protected industries with EPRs above 100 per cent than in less protected industries.

The protection trade in Myanmar is composed of several policy instruments, of which the most important ones are: (1) selective tariffs (duties) on import; (2) several non-tariff barriers such as import quotas or restrictions, restrictive import licensing and prohibitions; (3) foreign exchange controls; and (4) price control. Selective tariffs on imported raw materials, intermediate and capital goods lead to higher prices of such inputs for producers than would prevail in distortion-free economy. Such a tariffs structure introduces distortion that differently affects not only informal enterprises but also some formal enterprises. In particular, they distort the prices of imported raw materials, intermediate inputs or capital goods for producers in enterprises of different sizes.

Since in Myanmar (as in most other developing countries) the structure of protection, especially in the 1970s, involved relatively high tariffs or duties on non-traditional or durable consumer goods and relatively low tariffs on intermediate and capital goods²⁹⁷, the small-scale enterprises were forced to pay relatively high duties on these inputs as compared to their large counterparts. Quantitative restrictions on imports of raw materials, intermediate and capital goods through such quotas and licensing have been a major instrument of protection policy in Myanmar as in many other developing countries, either as a substitute for or an adjunct to the tariff structure.

²⁹⁶ See also Booth (1992).

²⁹⁷ In the second half of the 1970s, several domestic intermediate good industries such as plastic products, glass, paper, weaving were also protected with high EPRs.

Many studies in developing countries show that the control system such as quantitative restriction on import discriminated against small-scale enterprises or small producers. In Myanmar, import licensing and other selective measures introduced by the government during last decade also obviously tended to aggravate the policy-induced discrimination against the informal enterprises within individual manufacturing sub-sectors. The formal enterprises, on the other hand, were likely to be more successful in taking advantage of such measures than especially informal enterprises especially due to their relative importance and greater access to the bureaucracy and politicians in general, and to the departments (authorities) concerned. According to Bhagwati (1978), the reasons for the bias of this import licensing system in favour of middle- or large-scale enterprises in developing countries include:

- ease of administration in dealing with smaller numbers of successful applicants;
- a feeling that larger firms were more reliable;
- a sense that large firms would get better terms from foreign suppliers;
- the greater access and contacts of the larger firms to the bureaucracy and politicians in general, and to the licensing authorities, in particular; and
- the important margin obtained by the larger firms quite simply because nearly all the authorities tended to allocated past shares or other quantity-related variables.

The foreign control system also distorts the function of the foreign exchange market and hence creates distortions that differently affect of different sizes industrial establishments. Especially the control system in foreign exchange market makes it more difficult for local small-producers to pay their imported inputs in foreign currency. In addition, in Myanmar, the operation of the market for foreign exchange often distributes the differentials in the prices of imported inputs to industrial establishments of different sizes and structures. From experiences in many developing countries, including Myanmar, in the 1990s, one obvious direct result of import substitutions policy adopted by the governments in these countries is that the exchange rates of their own currencies against US dollar mainly were overvalued. That is, the market price of foreign exchange in terms of domestic currency is below its equilibrium values. This non-market based low price of foreign exchange in terms of domestic currency was adopted to support the domestic import-substituting industries which usually depend strongly on imports for intermediate and capital goods, e.g., heavy machines. Consequently, the prices of imported capital and other imported inputs were low for importers with greater access to foreign exchanges at the official rate, and as expected, they were mainly large and government industries. Since there is always an excess demand for foreign exchange at an overvalued rate, the government in these developing countries must employ some rationing mechanism to determine who is allowed to import at the implicitly subsidized rate. Within industrial establishments of different size, mainly the large industries and primarily sub-sectors and, to a smaller extent, the middle-scale enterprises to pay higher rates and thus create a differential between them.

Finally, price control also leads to differences in the price of raw materials and other inputs which are usually in favour of large producers. The price control of inputs is mainly aimed to reduce the production costs in the import-substituting industries using the inputs. Thus, basically, this particular instrument of protection policy is the same as the exchange rate control instrument: they do the same job and hence create the same kind of distortions in input markets.

In Myanmar, the demand for goods of small enterprises is indirectly affected by their effects on output markets, i.e., the price of competitively traded goods, the exchange rate policy, and selective taxation or subsidies levied and other regulations on exports. The Myanmar experience in 1990s, when the import-substitution policy was the main strategy of trade, shows that exports were also negatively influenced by the trade strategy, e.g., export bans, export quotas, export taxes and quality regulations. In that period, however, there were also a number of export promotion measures such as export subsidies and marketing services for exporters. One can conclude that the protection system and additional selective measures in Myanmar have had negative effects on small producers because they have also reduced domestic final and intermediate demand for less protected small-scale enterprises' products whose quality is relatively inferior to that of middle-scale enterprises' good and imports. For instance, the overvaluation of the domestic currency (Kyat) in the 1990s made the price of imported intermediate and capital goods (in Kyat) lower than that of domestically made similar goods, leading to a relatively low industrial demand for the latter goods. It could have a disincentive environment for the establishment of an efficient national industry in the production of intermediate and capital goods.

All this leads to weak domestic inter-industry linkages, either within the middle-scale enterprises themselves or between the small-scale enterprises and the middle or large-scale enterprises²⁹⁸. A study made by Tun (2001) found that the machinery industry in Myanmar is still underdeveloped and the small-scale enterprises engaged in the sub-sectors which have not developed enough to supply intermediate or capital goods to the middle-scale enterprises can also be seen to some extent as a negative result of this policy. An appropriate trade or industrialization policy in a country creates a disincentive rather than an incentive environment that discourages further domestic industries to develop efficiently, in this case, the intermediate and capital goods industries and, in general, small-scale enterprises.

5.2.2 Government Credit Programs

There exist quite adequate sources of financing for small enterprises within the economy. The majority of the selected small enterprises in Myanmar, as in many other developing countries, rely almost entirely on informal sources of capital.

²⁹⁸ Tambunan (1994).

This occurs in spite of many efforts made by the governments, also by providing various credit facilities, to support industries in these countries. Special credit programs, co-operatives, development credit banks, and many other formal credit schemes that are designed especially for small enterprises have often been ineffective in meeting the credit needs of these enterprises, particularly those located in relatively isolated rural areas²⁹⁹. Possible reasons why the informal sources of capital are still important for the majority of small enterprises are related to two important facts. Firstly, many small entrepreneurs had no access at all to these formal credit facilities because of many practical reasons, including that many of them failed to meet the conditions (administrative selection procedures like collateral requirements) for getting credits. Secondly, many banks that were supposed to support the entrepreneurs, as their most important target population, are established and operated in or close to urban areas or cities. That makes it more difficult for many small entrepreneurs (potential borrowers) who live in the peri-urban areas, far away from the cities, to reach the banks. Moreover, the whole transaction process for a small amount of credit is often time-consuming and expensive for the small borrowers. Due to all these reasons, one can say that the informal sources of finance continue to play a crucial role in financing initial as well as additional fixed capital and, especially working capital for the majority of small enterprises in developing countries.

In addition, other factors can explain that (although interest rates charged by informal money-lenders are usually much higher than the rate charged by banks) most small enterprises in developing countries, especially those located in peri-urban areas, have been reluctant so far to approach commercial or other formal banks. Those include the distance between the potential borrowers and banks, repayment procedures, the short period for which loans are given, and the low level of education of the majority of small entrepreneurs. However, what is needed firstly is the provision of seed capital and financing within the context of a developmental perspective. The development perspective is needed for existing financial institutions use evaluation criteria which discourage enterprises from focusing on long-term needs and also discourage the said institutions from funding long-term needs such as investment in entrepreneurs and workers education and the development of technological capabilities. In terms of the start up seed capital a major constraint for the entrepreneurs is the lack of 'acceptable collateral' which means the constraints is really one of access to finance and not necessarily availability of finance within the financial system. To overcome these constraints there is need for alternative sources of financing which ought to be aimed at specific activities. The main objectives of this policy are:

- The promotion of specific activities and specific sub-sectors;
- The provision of start up seed capital;
- The stimulation of enterprises in modernization, and
- The provision of capital for exporting.

²⁹⁹ See, for example, Meyer and Larson (1978), Liedholm and Chuta (1976), Kilby et al (1984), and Page and Steel (1984).

To sum up all, other possible factors may explain why the majority of small enterprises in Myanmar are still dependent on informal sources of funds for their investments, despite lending programs not supported by government. Therefore, notwithstanding these outlined policies the approach to promotion should not be too rigid. It should be flexible and be determined by the dynamics of the sector's environment. As much as possible, the promotional measures should conform to the basic commitment of market orientation which will support in a dynamic way the long run development of an efficient informal enterprise which will be gradually transformed to the formal enterprises.

5.2.3 Providing Technical Assistance and Training

Comparative advantage based on traditionally specific regional advantages will tend to continue in importance. The new comparative advantage is likely to be based on development of new products, technologies and competencies; and the main means of pursuing competitive advantages are through cost reduction and increased market penetration capabilities. These are achieved through technical or technological development and product innovation. Therefore, small enterprises are increasingly relying on their capabilities to innovate in both products and processes so as to compete both internally and internationally. Since the domestic technological level does not permit their modernization and upgrading, the introduction of technology from enterprises in developed countries is important. It is expected that enterprises relation with medium or large enterprises will improve the quality of small enterprises. Since the poor technology base of the enterprises in the country and lack of confidence for close relationship between enterprises, small-scale subcontracting system as a whole in the country should be promoted.

Subcontracting is an important aspect of economic growth and thus the governments in most countries play an important role in promoting subcontracting activities. However, in the case of Myanmar such a role by government is not yet to be developed. Subcontracting is generally facilitated, as larger and smaller firms are located near each other. The concept of industrial estate is also a major instrument what would promote subcontracting. For example, subcontracting linkages are extensive in Italy and Germany. However, in most developing countries it would be very difficult to establish such 'special' industrial estates as found in Italy and Germany. Subcontractor clusters are an ideal example for such special industrial estates. The clusters are based on a narrow vertical and horizontal specialization, both of individual enterprises and the cluster as a whole. Further, most of the enterprises in these clusters are dependent on and linked as subcontractors to one or a few large enterprises. Past experiences in other countries like Italy and Germany reveal that some of these estates or districts developed without government intervention, while other like India received significant government assistance. In sense that, in the case of countries like Myanmar, this study strongly believes that the government assistance would be advantageous in order to improve the underdeveloped infrastructural facilities by

way of providing special or dedicated industrial estates which is the base of subcontracting and enterprise networking.

However, there are some factors which mainly hampered in the promotion of subcontracting in Myanmar. First, shortage of skilled and experienced workers necessary to adopt techniques to equipment and materials, the factors which greatly helped the promotion and development of subcontracting industries in Japan. Second, the limited size of the domestic market and its very limited growth rate do not favour the use of subcontractors. Third, large enterprises in Myanmar are mostly integrated production facilities, characterized by under-utilization and duplication of facilities. Inadequate infrastructural facilities induce the entrepreneurs to use integrated production methods. These do not favour decentralization and use of subcontractors. Third, Japanese experience in subcontracting shows the exploitation of small subcontractors by the parent firms in some form or the other till recent times. Exploitation, whatever may be its nature and extent, is a necessary impetus for the parent firms to practice subcontracting at the initial stage. If it is not possible, then there is likely to be little expansion of subcontracting system in Myanmar. But this exploitation may be minimized by governmental actions as well as by the change of the industrial structure itself. The main objectives of this policy are:

- The development of technology in light of local resources and national requirements;
- Industrial plans and policies and their implementation should be addressed to the development of subcontracting firms;
- Through improved transport and communication network it would be possible to enlarge the geographical boundaries of subcontracting firms and their counterparts; and
- Favourable conditions must be created in the country for the growth of the formal firms so as to support and assist a large number of subcontractors.

These objectives are not aimed at a 'big push' approach to technological development; but they are aimed initially at incremental adaptations and improvements of existing technology which will build capabilities to produce higher level technologies in the future.

Moreover, the abilities of the entrepreneur are a prerequisite for the success of the enterprise besides technological requirements. These have been seen to be very weak among small enterprises in Myanmar. Therefore this calls for training in both managerial and technical skills those are required for running a business successfully. In the current move in Myanmar towards revitalizing all sectors of the Myanmar economy, the training of the entrepreneurs and workers is still needed and should be improved. In order to improve managerial skills such as knowledge of simple accounting and bookkeeping practice among entrepreneurs, a program of education is required. For would-be small entrepreneurs, this is being catered for in the school curriculum at the lower secondary school level. The curriculum has to be based on practical knowledge or skills, so that the

students can at least create their own jobs or directly be absorbed by the enterprises. For those already in business, however, the solution to the problem lies in some kind of extension work to be organized by a private, public sector institution or even non-governmental organization.

Training can be one of the instruments that, together with other measures, address the challenge of the small enterprise sector. The role of training is not to prepare people for small enterprise and keep them in small enterprise sector; or to expand the small enterprise sector; but rather it should go in conjunction with other instruments, such as fiscal policies, provision of credit, and extension of social protection and labour laws, to improve the performance of enterprises and the employability of workers in order to transform what are often marginal, survival activities into decent work fully integrated into mainstream economic life³⁰⁰. It indicates that the employability of workers and the performance of enterprises are equally important goals for training. What is important to emphasis is that the performance of enterprises depends on the skills of all their workers not only the owners/managers. Therefore, skills development policies and programmes should focus on informal workers, not only on informal enterprises³⁰¹.

A program for training small entrepreneurs in managerial and technical training has been developed by the Department of Cottage Industry in collaboration with the Institute of Economics in Yangon and other cities. In fact, most participants come from Yangon only, while other regions show a low participation in these activities. These entrepreneurs need actually for coaching in the working place (in the enterprise's location) or more practical examples. So, they can directly apply and utilize that. Therefore, the government's present planning program can be maintained and pursued, but its implementation should be improved and adjust to the conditions of development within the regions. In general, the limitations of the applied programs, especially among small enterprises, can be mentioned as being:

- the limited resources at the disposal of the board;
- the rigorous screening procedure for potential entrepreneurs which causes only a limited number of people to be trained at time;
- people's limited awareness of such training facilities for entrepreneurs and their technical staff; and
- the lack of appreciation of the need for and the cost effectiveness of such training.

Therefore, institutions offering training or courses to increase managerial and technical capabilities are urgently required, because it would be easier for these than for single person to help entrepreneurs to extend their managerial capabilities. Technical training for small entrepreneurs is also needed because the

³⁰⁰ ILO (2000).

³⁰¹ Capt, J. (2001): What Skills Are Needed to Ensure Survival and Growth of Enterprises? (In Focus Programme on Knowledge, Skills and Employability, International Conference, Working Group 4, Interlaken, Switzerland, 10-12 September 2001)

(Source: www.workandskills.ch/info@workandskills.ch)

apprenticeship system by which most of them have been trained does not provide all the technical skills needed to run an enterprise efficiently. As mentioned above, what is immediately required in the region is creating awareness, encouraging and mobilizing the entrepreneurs to attend such training programs. Thus, the awareness of the entrepreneurs to participate and the assurance that they will be able to increase their abilities are actually the critical factors with the help of which the aims of apprenticeship system can be achieved. This study shows that some programs are often offered by the government (top-down planning), while the entrepreneurs are rather ignorant of the aspirations they could have. Better approaches (for example, bottom-up planning) might change the entrepreneurs' awareness of the importance of training or courses. The main objectives of this policy are:

- To provide managerial courses for would-be entrepreneurs;
- To establish the decentralized business advisory offices in the local areas;
- To attend and participate vocational/technical training courses for entrepreneurs and workers; and
- To create the regional workshop centers aimed at acquisition and diffusion of process of technical and managerial capabilities within the region.

The development of appropriate training must be linked to the provision of finance available. In essence human capital formation is necessary for the growth of sector. These objectives are aimed at adaptation and improvements of their skills which will build capabilities to produce innovative and quality products.

Key Strategies	Instruments	Responsibility
Organization for group formation (Business Association)	Establishment of Small Business Associations, incentives for promotion of joint marketing, bulk purchasing of raw materials.	Informal Entrepreneurs
Protection	Import restriction and establish export infrastructure, market identification, provision of relevant market information,	The State
Development of Technology Capabilities and Providing Training	Incentive for upgrading tools and equipments, programs to facilitate exchange of worker between informal and formal enterprises, on-the-job training in product and process systems.	Business Association and The State
Financing of Informal Enterprises	Use of human skill and innovation as collateral, establishment of a credit project, financial incentive for special enterprises, initiates credit guarantee schemes	The State

Source: Own survey, 2003

CHAPTER (6) CONCLUSIONS

Based on the above results and analysis, some important aspects under which small enterprises play an important role in the development of economies in developing countries, especially in Myanmar, can be ascertained as follows:

1. Small enterprises in Myanmar are predominantly **family business** employed on the average 7.8 hired labours. Fifty four per cent (54%) of the small enterprises were registered with municipal authority while fourteen per cent (14%) were registered at cottage industry department. Majority of the selected small enterprises were operated by **push factor** such as family tradition/inheritance, failure to find employment in other business sector. Male entrepreneurs were mostly motivated by the use of their special skill especially within wood-based and footwear sub-sectors. Forty per cent (40%) of small entrepreneurs had trained as an apprentice in the informal sector before starting their own business. Forty six per cent (46%) and ninety three per cent (93%) of the selected small entrepreneurs have acquired technical and craft skills and managerial and administrative skills on a **self-study/on-the-job** basis respectively. Sixty per cent (60%) of the selected small enterprises have been established after 1989. The average age of small enterprises is almost 16 years. Moreover, **combine trades** can be used to characterize the pattern of production among selected small entrepreneurs.
2. According to their main characteristics, small enterprises are highly **labour-intensive** enterprises. In fact, this situation is different from enterprise to enterprise. Small enterprises making rattan & cane products are more absorbed than other enterprises within the sector. High labour intensity means that small enterprises can provide employment opportunities, although in many cases, this entails problematic working conditions for unskilled labour. Nevertheless, the participation of the **indigenous people**, e.g., family labour, neighbours, in the industrialization process develops a stimulation of **indigenous entrepreneurship** and, consequently, can also reduce **the rural-urban migration**.
3. Land as one of the input factors in production is substituted by **the locational factor**. In the agricultural production process, land is the main input and directly determines production. However, in terms of processing sectors (here, the selected small enterprises), the production process takes place in the household (also homesteads) and is more influenced by personal reasons than by other reasons such as availability of raw materials or labourers. In general, the relations between entrepreneurs and labourers can be termed through **socio-cultural relationships**, since most labourers come from own family members. Thus, the establishment of small enterprises can be concentrated on sectoral development such as **establishing clusters** or **industrial centers** within the regions.

4. Generally, small enterprises cause an increase in the utilization of local raw materials, although their relations with agriculture and forestry sector are relatively limited. In this case, most raw materials are obtained within regions or at least from Yangon. They are not directly produced by domestic or local agriculture and forestry, but obtained through **traders/wholesalers** who are often available within regions. The **backward linkage** between small enterprises and formal enterprises is **weak** but **strong** with other business sector. Only those enterprises producing footwear and wood-based have direct access to local raw materials, while the other enterprises obtain their raw materials from other regions. Therefore, **the local backward linkages** occur in small enterprises which obtain raw materials within regions, and their linkages are **strong**. However, as characteristics of agricultural and forestry products in off-season in which raw material availability decrease, raw material prices increase and affect the operation of the enterprises. The entrepreneurs, however, are able to continue their business under certain circumstances such as less profit or they take a job in the other sectors, e.g., as small teashop, retail store, etc.
5. Capital, especially **additional capital**, is the main problem for most of small enterprises, especially, when the entrepreneurs want to expand their business. **The starting capital** that is required for establishing their enterprises is mostly provided by own capital or by family source, while additional capital (for expanding) is obtained from the moneylenders with higher interest rate. Therefore, **backward linkage** for capital is **totally weak** within the sector. Own capital and family capital constitute an advantage for small enterprises, since the banks are inefficient and not willing to borrow them.
6. The credit programs in the regions and also another credit institution in Myanmar play an important role in providing credit to the formal enterprises. The formal credit programs, e.g., the banks, are mostly utilized by **middle-and large-scale enterprises** as well as the subsidies for industries producing export goods. At the national level, the present policies for international trade (through export promotion and import substitution) and credit schemes tend to present an advantage for middle-and large-scale enterprises, but have a **lesser effect on the informal small-scale enterprises**. The role of **non-formal capital institutions**, e.g., saving rotating system, tends to increase in the regions because of easy accessibility of these institutions, especially for the informal entrepreneurs.
7. Small enterprises are embedded in **the local business cycles**. Tools and equipment used in production are mostly obtained from wholesalers in the regions. Thus, in terms of utilization of tools and equipments, small enterprises have **weak relationship** with the formal enterprises and a low level of adoption. This can be ascertained because of the fact that small

enterprises are very labour intensive (providing more employment opportunities). Therefore, the production volume is only adequate for satisfying domestic needs. Only a few small enterprises, which can market their products outside the country, while most of them only meet the domestic needs.

8. The amount of starting capital for small enterprises is very small compared to formal enterprises. Therefore, small enterprises use simple tools and equipments and apply appropriate rudimentary technology. The most important aspect which should be stressed when **expanding** the informal enterprises is to increase **the entrepreneurs' managerial and technical abilities**. Managerial and technical abilities are **an important basis** since other factors such as land and labour do not represent serious problem when sustaining and expanding their enterprises. Managerial and technical abilities can be acquired through participation in vocational training or apprenticeship programs which have to be oriented towards the **needs** of small entrepreneurs.
9. Based on **the transaction costs analysis**, the selected small enterprises show a different performance when they have more than ten employees and less than ten employees. According to the classification of the Department of Cottage Industry, the small-scale enterprises with less than ten employees are classified as non-formal small-scale enterprises. These enterprises bear **higher transaction costs** than formal small-scale enterprises because they have more market than contractual transactions. In other words, one can say that formal enterprises are more integrated into the other institutions, e.g., traders, markets, than non-formal ones.
10. In terms of marketing, the selected small enterprises attempt to sell their products through traders and in the outside regions. **Traders** play a very important role especially, in providing raw materials that are imported from other regions. These traders are mostly in Yangon and oligopolize **the market of raw materials**. Thus, as figures of oligopoly performance, consumers or the enterprises often have disadvantages in terms of given prices or quality of raw materials. The system of spatially organized economic interaction (infrastructure) influences the performance of small enterprises in terms of supply, production and marketing. Thus, **a spatial development strategy** is needed to improve **the spatial linkages** of small enterprises and lastly to increase their economic performance, and, hence, their role in the socio-economic development of the regions. Another important feature is the **co-operatives** which are economic agents of development within the country. In fact, many small entrepreneurs **no longer trust** this institution due to its bad image (for example corruption, inefficiency, etc.). Consequently, they prefer to collaborate with the traders or another institution.

11. Subcontracting linkages are an appropriate alternative for small enterprise development and enterprises receiving external technical and technology assistance. A national technology policy along with an effective implementing institution are vital to promote technology development assimilation and diffusion, as well as to coordinate the activities of institutions like Institute of Science and Technology and Institute of Economics. The initial phase of the promotion of a subcontracting system is likely to encounter many problems and critics. **Mutual trust, confidence and close cooperation** between the parent firm and the subcontractors are the most vital elements for the successful operation of the subcontracting system. In the present context, promotion of technology through international subcontracting can be **an effective tool** for the introduction of new technology and the improvement of existing technology.
12. The rattan & cane sub-sector at present has **the greatest potential** in terms of development possibilities and is likely to make the most contributions in the short-run to employment creation, foreign exchange earnings, building linkages with the formal enterprises and to improving and developing the country's entrepreneurial skills base. These enterprises make up a small but significant core of the businesses which can lay the foundation for take off and the successful development of industry in Myanmar. On the basis of the developments which are taking place within the rattan & cane sub-sector the country appears to have **a comparative advantage** in the production of rattan & cane products. However, this comparative advantage is more due to the **quality of human resources** within the sector and not necessarily as a result of the country's natural resource base.
13. The empirical studies show that the fundamental constraints on growth and development within the sector are **internal to the enterprises**. The low level of skills and know-how within many of the enterprises limits the type of resources which the enterprise can attract. For these enterprises management can incorporate into the enterprises only those skills and resources which leave the control and the identity of the enterprise substantially unaltered. However, the noticeable trend increase in **the role of sole proprietorship** reflects a trend toward improved entrepreneurial skills within the enterprises. It also indicates a shifting balance between the importance of the advantage of the family enterprise towards a more complex managerial and technological environment **favouring non-family governance of enterprise**. The rapid changing business environment and the integration of the economy into the global economy with its higher levels of competition are also making changes necessary.
14. The overall conclusion of this thesis is that the overall performance of small enterprises is to a larger extent dependent on **external factors**, for example resource availability. However, through a planned rational process of strategy formation enterprises can increase the odds in their favour. This

is a recognition that the enterprises' overall operations are influenced by both **internal and external factors**. The process of strategy formulation involves decisions with respect to the choice of the appropriate **product-market-combination** and the choice of how to compete the market place. All these separate decisions are important because they interact with each other and influence the enterprise competitiveness.

15. This study has shown that a conception of small enterprises, which emphasizes exclusively the positive economic and social aspects correspond to an ideal rather than to reality. The propagation of small enterprises **as autonomous development path** and as an alternative to a capital-intensive industrialization denies the differentiated real image of the informal enterprises and the value structure of the people concerned. Therefore, small enterprise is an integrated component of the prevailing economic and social system, and should increase **indigenous growth** and reduce **the lack of social security** by increasing their industrial activities.

**YANGON INSTITUTE OF ECONOMICS
RESEARCH QUESTIONNAIRE
Survey of Small-scale Economic Activities**

SECTION 1 BUSINESS PROFILE

- 1.1 Name of business (if any):
- 1.2 Business address:
- 1.3 Name of major product produced:
- 1.4 Type of ownership:
 - (a) Sole proprietorship
 - (b) Family business
 - (c) Partnership
 - (d) Other (specify)
- 1.5 Year of establishment/inherited:
- 1.6 Legal Status: (a) Registered
(b) Not registered
 - If **registered**, where does your business register at?
 - (a) Municipal authority
 - (b) Department of Cottage Industry
 - (c) Local authority
 - (d) Other (specify)
 - If **not registered**, why don't you want to register with the authority?
.....
- 1.7 Reasons for setting up present business?
 - (a) Failure to find another job
 - (b) To make use of a special skill
 - (c) Loss of employment
 - (d) Family tradition/inheritance
 - (e) Good business partner
 - (f) A profitable opportunity
 - (g) Other (specify)
- 1.8 Which factor affects the location of your business before starting business?
 - (a) Personal reasons and home site
 - (b) Availability of raw materials
 - (c) Availability of labour
 - (d) Proximity to market
 - (e) Other (specify)
- 1.9 (a) Did you find it difficult to obtain financial support for starting your business? (a) Yes (b) No
(b) From whom did you get start-up capital? Sources of start up capital

Sources	1	2	3
Own savings			
Family members			
Individual moneylenders			
Friends			
Other relatives			
Government financial institution			
Private bank			
Other (specify)			

1 = Important Source, 2 = Major Source, 3 = Minor Source

- 1.10 Did you need additional finance for the business expansion?
 - (a) Yes
 - (b) No
 - If YES, what was the source(s)?.....
 - Why was this source(s) utilized?.....

1.11 Which problem(s) did you encounter at the start up this business? Do they increase or increase at present?

Problems	1	2	3	Increase	Decrease
Sources of Finance					
Sources of Raw Material supply					
Securing Skilled Labour					
Sourcing of Tools & Equipment					
Receiving License/Approval					
Competitors					
Demand/Customer					
Other (specify)					

1 = Major Problem, 2= Minor Problem, 3= No Problem

SECTION 2 ENTREPRENEURIAL PROFILE

- 2.1 Sex (a) Male (b) Female
- 2.2 Religion:.....
- 2.3 Nationality:.....
- 2.4 Native:.....
- 2.5 Age of owner(s):
 - (a) < 29 (b) 30 ~ 39
 - (c) 40 ~ 49 (d) 50 ~ 59 (e) 60 and above
- 2.6 The highest educational level
 - (a) Monastery school (b) Primary school
 - (c) Middle school (d) High school
 - (e) Technical/Vocational (f) Graduate:.....
- 2.7 Presently what are your other sources of income?
.....
- 2.8 How important is the business as compared to your other source(s) of income?
 - (a) Very Important (b) Important
 - (c) Minor important (d) Not important
- 2.9 Before starting this business, what was your prior occupation?
 - (a) Student (b) Government staff
 - (c) Company staff (d) Apprentice
 - (e) Unemployment (f) Other (specify)
- 2.10 Technological/Technical/Craft skills (TCS) and Management and Administration skills (MAS) obtained from:

	TCS	MAS
School		
Technical collage		
Former job		
Family tradition		
Relatives		
Friends		
Self study/on the job		
Other (specify)		

SECTION 3 BUSINESS OPERATIONS

3.1 OUTPUT

3.1.1 Number of product lines:

- (a) At start (b) At present
-
-

3.2 INPUTS

3.2.1 What is the average employment in the firm?

Types of Labour	Initially	At present
Family members		
Relatives		
Full-time workers-Skilled		
Part-time workers-Skilled		
Part-time workers-Apprentices		
Total		

3.2.2 General education level of workers:

- (a) Primary level (b) Middle level
 (c) Higher level (d) University graduate

3.2.3 Your workers are mostly from: (Multiple Answers)

- (a) Within settlement (b) Outside settlement but within your township
 (c) Outside township (d) From other regions

3.2.4 How do you train your employees? (Multiple Answers)

- (a) On-the-Job training (OJT) (b) Learning by doing
 (c) Training school (d) No training

3.2.5 What major problem(s) do you face regarding employees?

- (a) Job-hopping (b) Low productivity
 (c) Absenteeism (d) Demand for wage rise
 (e) Behavioural problems (f) Other (specify)

3.2.6 How do you purchase/procure the major raw materials?

- (a) From the government agencies
 (b) From large domestic producer/company
 (c) From small domestic producers
 (d) From brokers/merchants
 (e) Directly import
 (f) Other (specify).....

3.2.7 From where do you get raw material for your product?

- (a) Within settlement
 (b) Outside settlement but within region
 (c) Outside region

3.2.8 Are there any problems with raw material supplies? (Rank the most important three)

- (a) Bad quality () (b) Irregular supply ()
 (c) High price () (d) Availability ()
 (e) Price fluctuation () (f) Other (specify) ()

- 3.2.9 Where do you buy major tools and equipments which are used in your operations?
 (a) From the government agencies
 (b) From large domestic producer/Co.,
 (c) From small domestic producers
 (d) From second-hand shops
 (e) Self-installation
 (f) From wholesalers

3.3 MANAGEMENT AND STRATEGY

- 3.3.1 Is there anyone besides you, responsible for management?
 (a) No (b) Yes, family members
 (c) Yes, other owner(s) (d) Yes, employed staff
- 3.3.2 In what ways do you produce the products?
 (a) Customer's specification (b) Own idea
 (c) Market design (d) Catalog
 (e) Both (a) and (b) (f) Other (specify).....
- 3.3.3 Have the enterprise ever done the innovation/adaptation?

	Yes	No
Develop a new product (new to the firm)		
Introduce new production/operation technique		
Use of new raw material		
Enter a new market		
Change/Adapt/Improve the existing product		
Introduce new marketing method		
Other (specify)		

- 3.3.4 What is your main vision/aim for the future?
 (b) To find a permanent job
 (b) To employ more people
 (c) To ensure the business survives
 (d) To produce more/expand operation
 (e) To be a recognized businessman
 (f) I have never thought about it

3.4 MARKETING

- 3.4.1 Who are your major customers?
 (a) Final consumer%
 (b) Retail agents%
 (c) Wholesale agents%
 (d) Government/Large Co.,%
 (e) Subcontractor%
 Total %

3.4.2 What are the important markets for the products?

Markets	Market share (%)
Local	
National	
Oversea (state the country)	

3.4.3 What marketing method is used to sell your products?

Methods	(%)
Self-marketing on site	
Self-marketing on local market	
Through traders on local market	
Through traders on national market	

3.4.4 If exporting, do you export

- (a) Directly (b) Indirectly

Explain

3.4.5 If not exporting, are you interested in exporting?

- (a) Yes (b) No
(c) I don't know (d) Not applicable

3.4.6 If YES, why are you not exporting?

.....

3.4.7 If NO, why not?

.....

3.4.8 Do you know your major competitors? (a) Yes (b) No

3.4.9 What is the percentage of major products in total sales?%

SECTION 4 SUBCONTRACTING ACTIVITIES AND BUSINESS RELATIONSHIPS

4.1 Has your firm been engaged in subcontracting?

- (A) YES
A1) Offer subcontracting
A2) Receive subcontracting
A3) Both

(B) No

-If the answer for (A2) is NO, what are the reasons?

.....

-If the answer for (A1) is NO, why don't you offer subcontract?

- (a) It is not familiar for us (b) Too expensive
(c) No quality (d) Other (specify).....

-If the answer for (A1) is YES, why do you engage in the subcontracting of these operations?

- (a) Do not have the appropriate equipment/low capacity
(b) Due to their specific skills/equipment
(c) Subcontracting is cheaper
(d) Subcontracting yields a better quality

- (e) Labour cost/shortage
 - (f) Cost savings
 - (g) Other (specify)
- 4.2 If you **receive subcontracts**, what are your main reasons? (Select the most important three and rank them)
- (a) Stable market ()
 - (b) Easy material supply ()
 - (c) Technical assistance ()
 - (d) Benefits of mutual co-operation ()
 - (e) Sales increase ()
 - (f) Diversification of products ()
 - (g) Request from main customer ()
 - (h) Other (specify) ()
- 4.3 How many subcontracting counterparts do you have?
- 4.4 Does the business benefit from this subcontracting? (a) Yes (b) No
- 4.5 The agreement for subcontracting relationships is:
- (a) Formal (explain):.....
 - (b) Informal (explain):.....
- 4.6 Please indicate the following details of the subcontracts:
- | | | | | | |
|---------------------------|----|-------|-------|-------|------|
| Percentage of total sales | 0% | < 25% | < 50% | < 75% | 100% |
|---------------------------|----|-------|-------|-------|------|
- 4.7 From whom give you subcontracting? (if more than one rank them)
- (a) Government agencies () (b) Large private companies ()
 - (c) Other small firms () (d) Other (specify) ()
- 4.8 You receive the orders directly from them or through other person/organization:
- (a) Directly from the principal firm%
 - (b) Through other person/organization%
 - (c) Other (specify)%
 - Total%
- 4.9 What is the geography distance of your orders ?
- (a) Within this area (b) From industrial zone
 - (c) From other regions (d) International
- 4.10 What kind of assistance do you receive or expect from counterparts?
- (a) Supply raw materials (b) Technical guidance
 - (b) Supply of equipment (d) Financial assistance
 - (e) Training (f) Marketing
 - (g) Other (specify)
- 4.11 Have you ever lost a subcontract due to non-compliance with counterpart's requirements? (a) Yes (b) No
- If YES, state the reason:
- (a) Quality (b) Delivery date
 - (c) Price (d) Other (specify).....

- 4.12 Are orders from counterparts regular or stable?
 (a) Regular and stable (b) Regular but not stable in quantities
 (c) Stable in quantities, but irregular (d) Irregular and unstable
- 4.13 What do you think that the reason for your firm is given subcontracting by your counterparts? (Multiple Answers)
 (a) Cheap price (b) Delivery efficiency
 (c) Good quality and design (d) Personal relations
 (e) Your special skill (f) Lack of capacity of principal firm
 (g) Other (specify)
- 4.14 What are the major difficulties with subcontracts? (Multiple Answers)
 (a) Strict quality requirements
 (b) Strict delivery requirements
 (c) Unstable orders
 (d) Unfair pricing
 (e) Unstable orders Lot of changes in design
 (f) Not profitable
 (g) Other (specify)

5 GENERAL

- 5.1 What will you classify your business?
 (a) Formal (b) Informal
 -If INFORMAL, do you want to become a formal one?
 (a) Yes (b) No
 If YES, why does your business to be a formal one?

 If NO, give reasons:

- 5.2 Do you believe that your business will have growth potential in the future?
 (a) Yes (b) No
 If YES, what are the basic requirements for your growth potential?
 (a) Demand/Customer (b) Market information
 (c) Finance (d) Skilled labour
 (e) Raw material supplies (f) Modern tools and machines
 (g) Business contacts (h) Other (specify)

Interview Number:
 Time Start
 Time Finish
 Date of Interview

END OF INTERVIEW
THANK YOU VERY MUCH FOR YOUR COOPERATION

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