

2. Sources of Funds and Composition of Capital of Microenterprises in Bhutan - *An overview*

2.1 Introduction

Though the financial needs of microenterprises (MEs) are minuscule in comparison with capital requirements of large corporate bodies, yet microentrepreneurs find it difficult to fund their own businesses with their own capital. Hence, reliance on other sources from formal and informal sectors becomes the *sine qua non* for pumping lifeblood into their enterprises – however small they may be. Pareek (1978)¹¹⁰ found that the major source of financing, which was more than 60%, came from the informal sector. Ramakrishna (1962)¹¹¹ investigated the institutional finance to small enterprises and found that lack of finance is the root cause of their failure and the institutional finance is far from them due to various reasons one of which is marketable assets. Money lending accounts for over 50% of the total credit needs. Pareek (1978)¹¹², has found that about 50% of microenterprises' capital is applied to working capital needs. The studies have further indicated that the major source of financing is from the informal financial markets representing moneylenders, and friends/relatives apart from MEs' own savings. The applications of maximum funds, in established business units, have been indicated in the working capital. Of all problems of MEs, finance is the primary and all others are secondary Bansal (1978)¹¹³.

The objective of this chapter is to find out the sources of fund (what funds are required by MEs and where do they access from) and share of loans from different sources, and to find out the application pattern of funds so available to them. During the pilot survey and discussions, we identified the following sources of financing microenterprises: financial institutions, moneylenders and friends/relatives. The government funding and/or ME group lending schemes were absent.

2.2 Sources and Application of Funds

The following sections discuss the sources of funds from formal institutions (financial institutions) and non-formal institutions (moneylenders, friends and relatives and equity capital), and application of funds in fixed asset (land, building, machinery etc.) and working capital (cash, bank, inventories, debtors etc.).

2.2.1 Sources of Funds

The access to credit of the microentrepreneurs is from both formal and informal financial markets such as financial institutions, friends and relatives, moneylenders, and own funds. A substantial part of the funds comes from informal sector including own funds (____, 1989)¹¹⁴. To see if these studies made in other countries are relevant to Bhutan, this section tries to find out the sources of funds of microenterprises.

Table 2.2.B below has been built to study different sources and the amounts thus obtained from these different sources by MEs. It has been established from the survey data (see also table 2.2.A in the appendix) with different investment levels of the units. Beginning with the investment column, the table has five columns (three of which are further sub-divided by production & manufacture and services): financial institutes (FIs), friends & relatives (FR), moneylenders (MLs), own funds, and totals. The borrowings are made within a period of five years, which is true also for own funds. This table is then converted into percentage table 2.2.C below for lucid interpretations.

Table 2.2.B: Funds from different sources by size of investment (amount in Nu '000)

Investment	Financial Institutes			Friends & Relatives			Moneylenders			Own Funds	Total of
	PM	SR	Total	PM	SR	Total	PM	SR	Total	Total	Totals
Below - 100,000	167	302	469	66.8	161.8	228.6	322	275.4	597.4	1568.5	2863.5
100,001 - 200,000	620	0	620	36.3	117	153.3	191.3	240	431.3	1086.1	2290.6
200,001 - 300,000	730	660	1390	30	250	280	130	0	130	1989.2	3789.2
300,001 - 400,000	500	450	950	80	165	245	100	130	230	1358.5	2783.5
400,001 - 500,000	2735	685	3420	550	3900	4450	430	580	1010	605.2	9485.2
Totals	4752	2097	6849	763.1	4593.8	5356.9	1173.3	1225.4	2398.7	6607.5	21212

Source: Personal Survey

Table 2.2.C: Loans received by MEs from different sources by size of investment (in %)

Investment	Financial Institution	Friends/Relatives	Moneylenders	Own Funds	Percentage Total	Total Funds (loan from different sources & own funds (Nu '000))
Below - 100,000	16.38%	7.98%	20.86%	54.78%	100.00%	2863.5
100,001 - 200,000	27.07%	6.69%	18.83%	47.41%	100.00%	2290.6
200,001 - 300,000	36.68%	7.39%	3.43%	52.50%	100.00%	3789.2
300,001 - 400,000	34.13%	8.80%	8.26%	48.81%	100.00%	2783.5
400,001 - 500,000	36.06%	46.92%	10.65%	6.38%	100.00%	9485.2
Average of Totals Amount	32.29%	25.25%	11.31%	31.15%	100.00%	21212

Source: Personal Survey (Actual figures in Nu are given in table 2.2.B, above)

Table 2.2.C indicates that FIs loan is higher when the investment level is higher. Own funds investment is lower when the investment level is higher. To further complement table 2.2.B regarding the sources of funds, table 2.2.D with similar columns (excepting an addition column with the number of units) has been established by regions. This table 2.2.D, which has been converted also into percentage as table

2.2.E below helps to try and build relation if the presence of FIs changes the habit or borrowing preference of MEs.

Table 2.2.D: Loan from different sources by Location (Amount in Nu '000)

Region Wise	No. of Units	Own Funds			Friends & Relatives			Financial Institutes			Private Moneylenders			Total of Totals
		PM	SR	Total	PM	SR	Total	PM	SR	Total	PM	SR	Total	
Northwest	45	2034.9	1584.2	3619.1	105	763	868	2195	1135	3330	395	415	810	8627.1
North-central	8	301	55.8	356.8	0	0	0	750	12	762	32	25	57	1175.8
Southwest	21	27.5	363.3	390.8	49.8	3513.5	3563.3	537	350	887	59.3	370	429.6	5270.7
South-central	11	11.9	162	173.9	0	27.3	27.3	60	0	60	94	88	182	443.2
Southeast	13	507	366.8	873.8	300.5	225	525.5	420	190	610	87.7	3.4	91.1	2100.4
North east	13	819.1	317.6	1136.7	298.3	65	363.3	720	350	1070	480	319	799	3369
North extreme	8	49.9	6.5	56.4	9.5	0	9.5	70	60	130	25	5	30	225.9
Total	119	3751.3	2856.2	6607.5	763.1	4593.8	5356.9	4752	2097	6849	1173	1225.4	2398.7	21212

Source: Personal Survey

Table 2.2.E: Loan received by MEs from different sources by location (in %)

Region Wise	Financial Institution (% on row total)	Friends/Relatives (% on row total)	Moneylenders (% on row total)	Own Fund (% on row total)	Percentage Total (% on row Total)	Total loan from different sources & own funds (Nu '000)
Northwest	38.60%	10.06%	9.39%	41.95%	100.00%	8627.1
North-central	64.81%	0.00%	4.85%	30.35%	100.00%	1175.8
Southwest	16.83%	67.61%	8.15%	7.41%	100.00%	5270.7
South-central	13.54%	6.16%	41.06%	39.24%	100.00%	443.2
Southeast	29.04%	25.02%	4.34%	41.60%	100.00%	2100.4
North east	31.76%	10.78%	23.72%	33.74%	100.00%	3369
North extreme	57.55%	4.21%	13.28%	24.97%	100.00%	225.9
Average of Total Amt.	32.29%	25.25%	11.31%	31.15%	100.00%	21212

Source: Personal Survey (Actual figures in Nu are given in table 2.2.D, above)

Regional disparities in loan distribution by the FIs is high as indicated by table 2.2.E above. The Northwest has the highest power in investment from own funds followed by southeast.

Preceding tables 2.2.B to 2.2.E, on the sources of funds based on levels of investments and as represented by the regions, have been discussed in detail one by one hereunder.

2.2.1.1 Financial Institutions

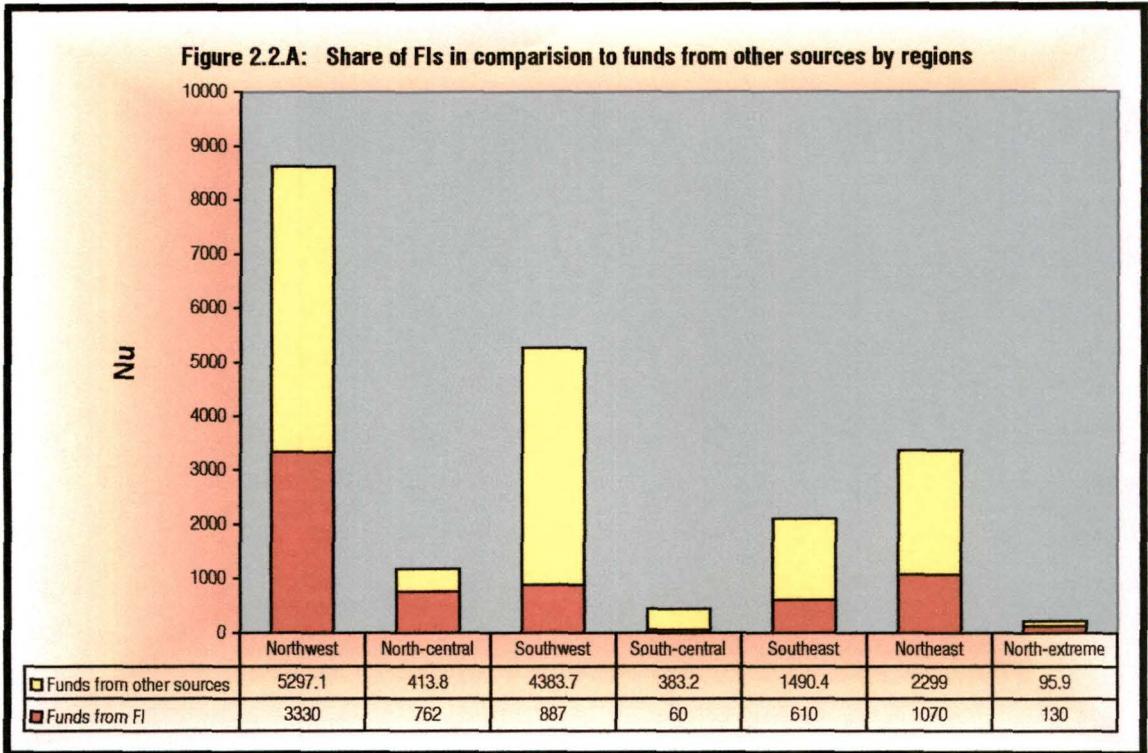
Financial institutions can form one of the major sources of financing enterprises. Pareek (1978)¹¹⁵ found that formal financial institutes (especially the commercial banks) met between 71% and 93% the financial needs of small businesses. It is often argued that FIs should cover at least 75% of the financial needs of microenterprises. The balance of 25% should be generated from their own resources, called the equity capital. Under the EDP package, financial institutions have been forced to participate for viable manufacturing and production enterprises up to 75% of the capital requirements. Out of the total invested funds of Nu 21.2 million in microenterprises (see table 2.2.B above), the share of FIs account

for 32.3% (22.3% in production and manufacture and 10% in services). The funds of the EDP trained entrepreneurs, who have fallen under last investment level between Nu 400,001 and Nu 500,000 in the table 2.2.B above, take the major share at Nu 3.4 million, which is 50% of the total loans from the four FIs.

As seen from the preceding tables, the share of Financial Institutions as compared to loans from informal market is lower (at 32.3%) than that of other developing countries excepting India. The studies of Rhyne and Otero (1994)¹¹⁶ showed that due to low access to credit, the share of FIs in investment of MEs is lower than 75% in most developing countries and less than 10% in India (_____,1998)¹¹⁷. However, if own funds are excluded from the total funds then the share of FIs stands at 47%, which is higher than that of a few other developing countries. It could be said that in Bhutan the outreach of financial services of Bank of Bhutan (BOB) and Bhutan Development Finance Corporation (BDFC) is relatively better than that of some of the developing countries. It can be explained that in rural and urban areas, the BOB and the BDFC had mostly met the funds of the microenterprises. The reason being that the BOB has its branch extensions, at least one in each districts and it is the oldest FI, while BDFC is objectively rural based with branch offices in all the 20 districts of the country. The other reason is that BOB had tried in the past, a number of times, to create markets for itself and provided loans to MEs in most cases under very liberal terms. The role of FIs has been covered in detail under chapter 3.

Table 2.2.D, laid by regions, indicates that the major share of the FIs' loan (in both absolute and relative terms) at Nu 3.3 million has been made in the northwest region where there are the majority of the microenterprises and well served by FIs. This region is clustered around the capital city, Thimphu. As seen from this table, the investment in the southern region is relatively offset than those in the inner areas of the country. This may be due to disturbance in the south during the last 10 years. Otherwise, similar to the north-west region, the southern region, where the industrial and economic activities have boomed since a long time, would definitely have similar patterns. The northern areas where the banking facilities and economic activities are less have received a relatively good share due to the fact that the government tries to promote less developed areas through different incentive packages to raise their economic activities for a regionally balanced development.

The following column graph figure 2.2.A has been built with absolute figures from table 2.2.D to compare the share of FIs with funds from other sources (own funds, moneylenders & friends/relatives). It provides a good overview of the preceding discussions and also of what followed, based on the table 2.2.D discussions.



Of the total funds of Nu 21.2 million, 32.3% comes from FIs, 36.6% from informal financial market and the balance of 31.1% from own savings. It is evident from table 2.2.D that the share of financial institutions is much higher in the underdeveloped dzongkhags. The north-central region received the maximum credit from FI at 64.8% followed by north-extreme at 57.6%, northwest at 38.6%, northeast at 31.8%, southeast at 29%, while other regions fall below 20% of their respective regional fund requirements. If the total fund requirement of Nu 21.2 million is considered, the share of borrowing from FIs by regions as laid in above table are respectively at 15.7%, 4%, 4.2%, 2.8%, 2.9%, 5%, and 0.6%. Of 1.2 million in the north-central, 64.8% is from FIs, 4.9% is from informal sector and the rest is from own sources. Similarly, of Nu 0.13 million on the north-extreme, 57.6% is from the FIs, 13.3% from informal sources and the balance from own source. The northwest, southeast and northeast also have higher share from FIs than other regions.

It is interesting to note (see table 2.2.A in the appendix) that 64% of the FIs' loans at Nu 4.8 million, averaging to Nu 169,167 per unit, under production and manufacturing, are in bakeries and furniture works. Similarly, under services, printing and consultancy take the major chunk of FIs' loans (Nu 0.93 million) forming 46% and averaging at Nu 232,500 average per unit.

2.2.1.2 Moneylenders

Although friends/relatives form a part of the moneylenders (MLs), they have been discussed separately in this chapter, but combined in chapter 4 for the reason explained under section 2.2.1.3 below. Competing with financial institutes (FIs) are the moneylenders (MLs) in the financial market for credit intermediation. Due to the very reason of inadequate credit accessibility problems of the MEs, MLs have boomed and survived for generations. From table 2.2.B, it is seen that out of the total investment, about Nu 2.4 million (11.3% of the total funds) accounts for the MLs despite the heavy funding from FIs. Both sectors (manufacture/production and services) receive almost an equal share at Nu 1.2 million each from the private money lending sources. The money lending is at Nu 20,157 average per unit, which is more than a few of the units under investment level of Nu 100,000 and below. It is also interesting to note that Nu 1 million (42%) of the total lending by MLs is to the highest level of investments between Nu 400,001 and Nu 500,000.

Interestingly, it is observed through the study that money lending is prevalent even where there are banking facilities. In both relative and absolute terms, the amount is much higher in the northeast region at Nu 61,461 per unit. It is followed by southwest at Nu 21,457 average per unit, and then by northwest at Nu 18,000 average per unit in the relative term, where banking facilities are most predominantly prevalent.

MLs lend in different forms through supplies of raw materials and purchase of finished products (Hook, 1995)¹¹⁸. In many cases, the loan is an advance provided for a, would be, product priced by the MLs. Often, it is also through supplies of raw materials that the product is exchanged. This study does not cover the aspects of purchase and supplies through MLs, tables 2.2.B & D indicate amount taken by MEs in cash form for investment in their business. Chapter four focuses on moneylenders in Bhutan.

2.2.1.3 Friends/Relatives

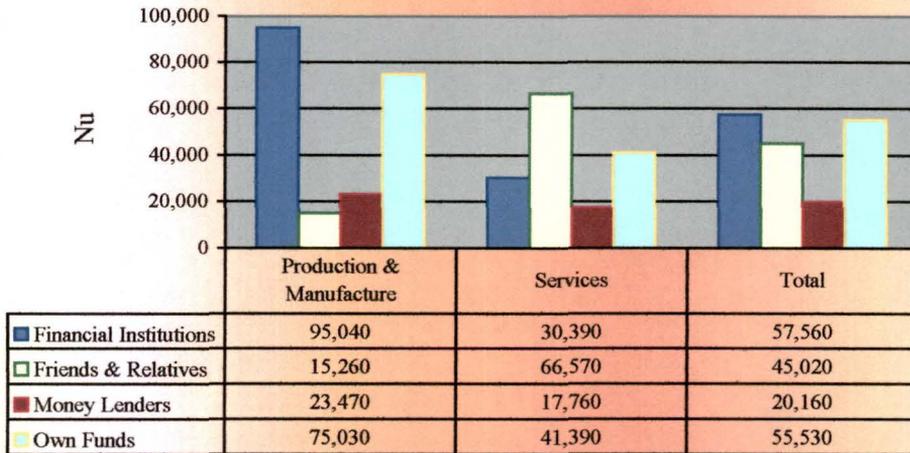
Another major source of funds for MEs in Bhutan is borrowing from friends and relatives. This is in consonance with the findings of Liedholm (1989)¹¹⁹. It is observed that the lending is not free of cost in all cases. Unlike the interest rates of moneylenders, these friends and relatives (FR) provide loans on lower interest rates than MLs but at least twice that of FIs highest chargeable rates. This issue is also discussed in more details under chapter four as part of MLs because friends and relatives were moneylenders in most cases and as their addresses were not disclosed, they were included in the category of MLs for the survey. The share of funds from this informal source (the FR) for MEs'

investment forms second largest, after FIs, at Nu 5.4 million (25.3% of the total funds). Again, it is to be noted that the higher level of investment (Nu 400,001 to Nu 500,000) has taken the major share of loans at 4.5 million (21% of the total funds). Borrowing from FR is also an old form of informal financial source, which is as reliable as MLs. In other words, they form another section of the moneylenders. The borrowing from FR is at Nu 45,016 average per unit, which is again larger than the investments of many small units under the investment level of Nu 100,000.

Tables 2.2.D & E indicate that southwest has the highest lending from FR in both absolute and relative terms, at Nu 3.6 million of Nu 5.4 million or 16.8% of the total funds. This is one of the most well served regions by FIs because it is the major industrial region of the country. Southeast and northeast follow a similar pattern. They are also industrial and potential economic centres respectively. The loans from FR are mostly invested in services (Nu 4.6 million of the total Nu 5.4 million). This is because the relatively lower level of knowledge in marketing of production and manufacture is compensated for by the reality of returns of services (groceries, trading, hosiery, garment imports etc.), which are locality knit customer orientated.

It is interesting to note here that the borrowing from informal sector for services stands a better chance than in manufacture and production. Out of the total of Nu 7.8 million borrowings from informal sector (friends/relatives and moneylenders), Nu 5.7 million, a major share, is only in services. On the other hand, out of the total loans of FIs of Nu 6.8 million, Nu 4.8 million, a major share, is for production and manufacture.

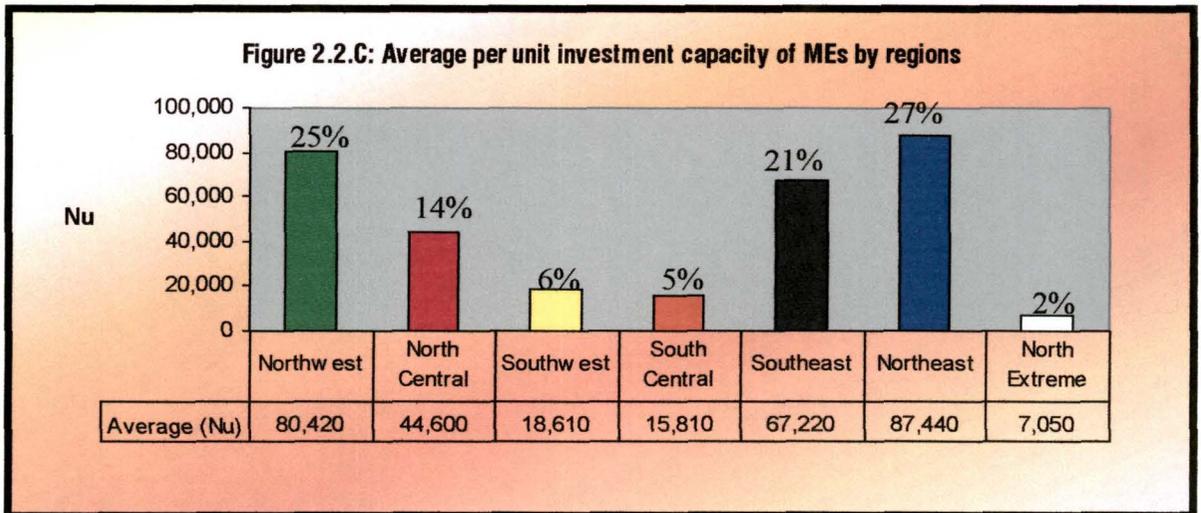
The column graph under figure 2.2.B that follows is built from the average per unit calculation of data in table 2.2.B to make the above discussion lucid and visibly indicate the pattern of lending by formal as well as informal financial sector. The column graph clearly indicates that FIs are more biased in provision of loan towards manufacture and production than services. This stems from several reasons; government's policy, EDP programme, and surety of return of loan through mortgage on capital investment. On the other hand, the loans from FR is biased towards services because the returns are faster than that of manufacture and production.

Figure 2.2.B: Borrowing from different sources (incl. own funds) in Nu per unit

2.2.1.4 Own Funds

In this study, own funds (generated from savings) forms the major chunk of source of funds (see graph 2.2.B and table 2.2.B) due to low financial accessibility problems. However, this trend would be different in different countries, especially the advanced countries where the FIs may cover up to 75% of the credit needs of MEs. In table 2.2.B, the share of own funds form a major share at 31.2% (close to FIs, which is at 32.3%) of the total funds Nu 21.2 million. This means Nu 55,525 average per unit, which is at similar level to the share of FI at Nu 57,555 average per unit. From table 2.2.D, we can derive that MEs have relatively higher investment power in northeast at Nu 87,440 average per unit followed by northwest at Nu 80,420 average per unit, southeast at Nu 67,220 average per unit, while other regions are below this amount. In relative terms (see table 2.2.E), within their respective regions, for share total of funds from own resources, the northwest ranks first at 42%, closely followed by southeast at 41.6%, south-central at 39.2%, northeast at 33.7%, and other regions are below the level of northeast. Different reasons like formal and informal savings facilities, forms of saving, and decision to save may contribute to these patterns.

The column graph in figure 2.2.C that follows is built by regions on average per unit basis from figures in table 2.2.D and subsequently calculated in percentage for easier interpretation. The table indicates that the capacity per unit investment of own funds is highest in northeast at 27%, followed by northwest at 25%, southeast at 21%, north-central at 14%, southwest at 6%, and south-central at 5% respectively.



The lowest investment capacity is in north-extreme at 2%. The reason for the difference in the investment capacity of different regions is that northwest, southwest, and southeast are industrial areas where saving facilities with banks are available. Further, the employment opportunity is much higher in these regions with urbanisation/industrialisation. While the northeast is basically an agrarian area with huge potential for microenterprises in renewable natural resources sector, it lacks micro financing, especially savings.

It is said that savings and credit are the two sides of the same coin (Romero, 1995)¹²⁰. There are no extension or village or cooperative banks in Bhutan that encourage saving and provide microcredit facilities. The financial intermediation is limited to the agricultural loans through BDFC, but no savings are facilitated. On the other hand, the north-extreme is the remotest region with a few to several days walking distance from the nearest urban area. It is also socio-economically the least developed region.

The scope of this study is limited to the sources as mentioned above and does not go beyond them while the MEs would have to take raw materials on credit and the costs of such items are charged higher than the ruling market rates (Hook, 1995)¹²¹. Similarly, the sale of product is generally made through the same channels which supply/provide raw materials. However, credit & supply are important sources of funds for MEs, who lack their own market outlets and survive with little working capital at their disposal. Both manufacturing/production and services suffer low profitability due to high cost of supplies and sales. The succeeding section will discuss how the funds that were accessed have been employed by MEs in their business enterprises.

2.2.2 Application of Funds

The credit requirements of MEs arise from a number of needs like acquisition of land, purchase and installation of machinery, expenses for maintenance and renovation of equipment/machinery, modernisation and expansion of units, purchase of raw materials, and personal needs. The needs are both in terms of fixed and working capital. These needs are fulfilled through different channels: lending from FIs, FR, MLs, and other sources like own funds, creditors and suppliers. The discussion that follows will first study the composition of fixed assets (capital), and working capital (current assets) and then shows how these are financed.

2.2.2.1 Fixed Capital

The different types of investment capital have been discussed in detail in the following paragraphs. The need for finance starts already at the initial stage of screening investment opportunities. MEs are confronted with the need of financing fixed capital viz. land, building, plant and machinery. To find out how the fixed capital is distributed in MEs, the following table 2.2.G has been established out of the data collected through survey and as laid in table 2.2.F in the appendix. The table has been laid by size of investment in five levels of investment followed by respective five columns in fixed assets. Each column has been divided in to production & manufacture and services. The last column indicates the overall totals of investment per investment level.

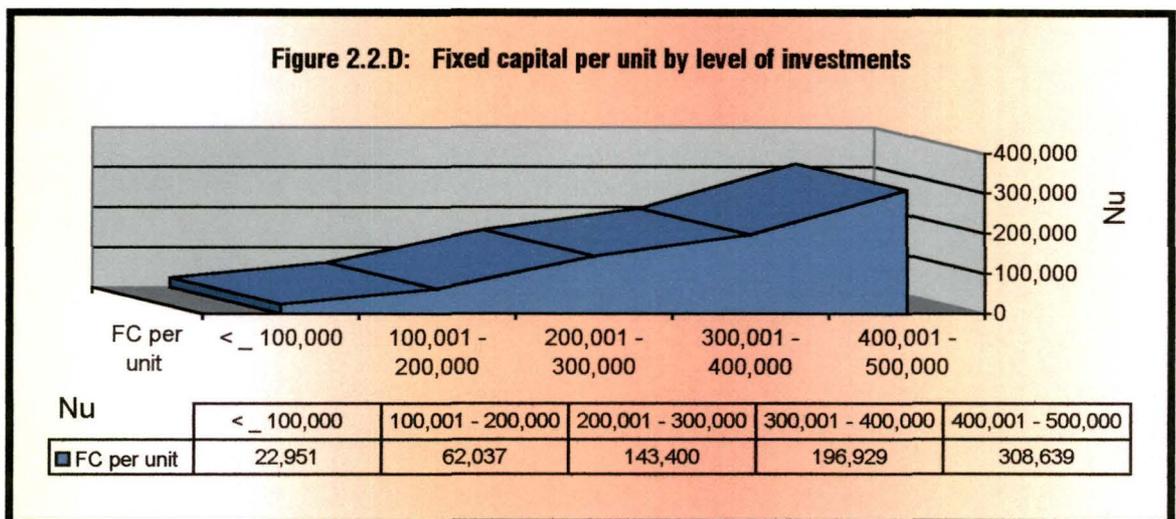
Investment	Land			Building			Plant & Machinery			Furniture & Fixture			Others			Total of Totals
	PM	SR	Total	PM	SR	Total	PM	SR	Total	PM	SR	Total	PM	SR	Total	
Below-100,000	44	0	44	158.6	48.9	207.5	194.9	445.3	640.2	22.8	294.3	317.1	85.4	105.8	191.2	1400.0
100,001–200,000	51.8	0	51.8	155	45	200	244.9	267.5	512.4	19.2	247.3	266.5	57	91	148	1178.7
200,001–300,000	4.7	85	89.7	183	60	243	521.6	304	825.6	63	322.5	385.5	41	279.4	320.4	1864.2
300,001–400,000	110.1	82.6	192.6	194.5	405.4	599.9	69.8	110	179.8	62.4	253.1	315.5	26.4	64.3	90.7	1378.6
400,001–500,000	544.6	8.4	553	558.2	1118	1676.2	2468	379.6	2847.6	260.6	339.6	600.2	52.7	134.5	187.2	5864.2
Totals	755.2	176	931.1	1249.3	1677.3	2926.6	3499.2	1506.4	5005.6	428	1456.8	1884.8	262.5	675	937.5	11685.7

Source: Personal Survey

Production & manufacture has the highest share of investment in fixed assets at Nu 6.2 million (53%) and the services have 5.5 million (47%) of total fixed capital (FC) investment of Nu 11.7 million. The total investment in production and manufacture is at Nu 6.2 million (53% of FC), corresponding to an average of Nu 52,052 per unit. Services have an investment of Nu 5.5 million (47% of total FC)

corresponding to an average of Nu 46,147 per unit. Generally, from the figure 2.2.D below (which is built based on the per unit fixed asset by level of investment), we learn that the average fixed capital employed stands at Nu 98,119 per unit. The distribution of fixed capital per unit by investment level is quite low (see the area graph below) in comparison to their respective levels. This scenario would change when the working capital is included in the fixed capital deriving the total capital employed (see chapter 2.2.3).

MEs are diverse and vary up to 13.4 times the average per unit of fixed capital employed from the lowest to the highest investment groups. The capital structure of the microenterprises is weak with a majority of their capital employment in fixed assets that need to be maintained, repaired and replaced. This is further aggravated by investment in structures (buildings, furniture and fixtures). It is a clear indication of a weak credit market; hiring/renting, leasing, or hire purchase is just not available/possible in Bhutan.



Land

Of the total fixed capital employed, the share of land is at 7.9% (with a major share in manufacturing and production at 6.5%). Mostly in industrial regions, the government is providing land on rent for entrepreneurs. However, for a regionally balanced development, there are incentives for setting business in disadvantaged areas, but may not necessarily be land, which then the MEs are compelled to buy. Although land in Bhutan is scarce, it is not yet very expensive in rural areas, therefore, the investment is on the lower side as compared to other investments. Investment in land is made by larger investment groups both in manufacturing/production and services, which are bakeries, furniture works, automobiles, and restaurants and bars. (See table 2.2.F in appendix).

Building

In the preceding table 2.2.G, buildings have the second largest investment share at Nu 2.9 million (24.8%), after plant and machinery. It is evident that the infrastructure provided by government or the availability of buildings on rent is on the lower side. This fact makes MEs to make substantial investment in buildings. The major shares of investment in building is again made by those MEs who have also purchased land for business set up and are from larger investment brackets, especially in the service sector. The services have a share of 14.5% as compared to manufacturing and production at 10.3%. The table 2.2.F in appendix clearly shows that the investment by restaurants and bars, and automobiles jointly take 58.6% (corresponding to Nu 55,270 per unit) of 2.9 million of the total investment in buildings. The other reason for investing in buildings is that the available infrastructure does not suit the needs of the business units. It is also interesting to note that the large part of building investments come from FIs' loans. The overall investment in buildings is at Nu 24,592 per unit as compared to Nu 129,895 per unit for the highest level of investment between 4000,001 and 500,000.

Plant and Machinery

The highest portion of fixed capital investment at 42.7% (Nu 3.5 million to production/manufacture and the rest of Nu 1.5 million to services) is on account of plant and machinery. A large part of this investment at 23.9% in plant and machinery is offset by units in the last level of investment, between Nu 400,001 and Nu 500,000. The share of investment of those in lower investment bracket, below Nu 400,000 level, is Nu 21,5800 per unit as compared to Nu 149,834 per unit of those above Nu 400,000 level of investment). Table 2.2.F in the appendix indicates that bakeries and furniture works together take Nu 2.4 million, 47% of the total investment in plant and machinery corresponding to Nu 131,611 per unit as compared to Nu 42,064 per unit for the total investment in plant and machinery.

The doughnut graph in figure 2.2.E below clearly indicates that the largest share of the total FC investment is in plant and machinery at 43% with the largest share at 24.8% in the highest investment group. ME units in the investment level between less than Nu 100,000 and 400,000 have an investment of Nu 2.2 million (18.5% of the total fixed capital) corresponding to Nu 21,580 per unit. In a country like Bhutan, which depends on capital and consumers goods on imports, leasing, hiring or hire purchase is not available. The scope for reconditioned equipment is also limited due to risk factors and the norms of the financiers. Here, the larger share of investment is from FIs' loans similar to that of building.

Furniture and Fixture

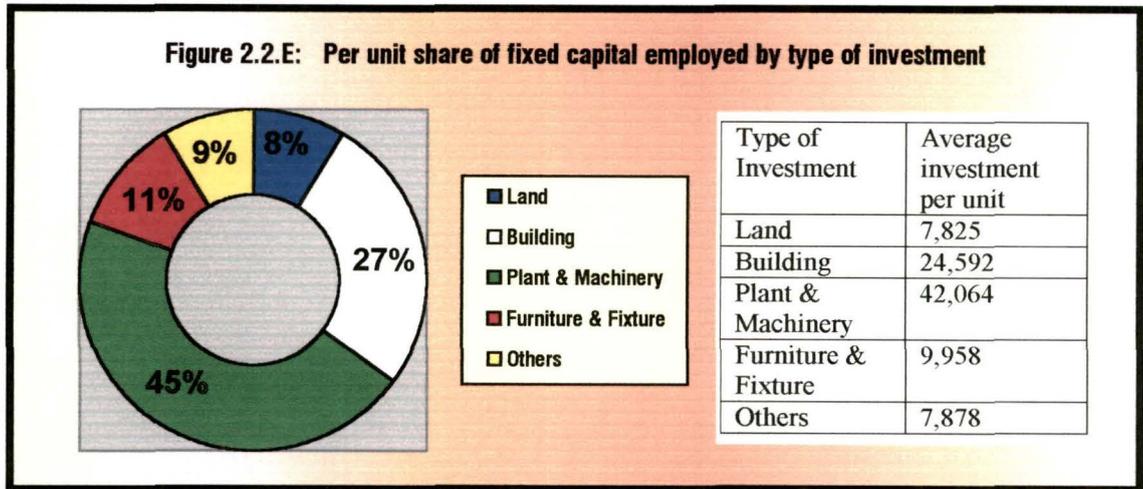
The investment in furniture and fixtures is at Nu 1.9 million (16.2%), more than the investment in land (see figure 2.2.D above). The share of investment in furniture and fixture (F&F) at the highest investment level is at Nu 5,047 per unit as compared to Nu 2,665 per unit at the lowest investment level. It is obvious that most types of the business units require their own investment in F&F. In comparative terms, the lowest investment units invested 22.7% of their total investment in F&F as compared to 10.2% only of the largest investment level. It looks large in relative terms but it is actually lower in absolute terms. A return in F&F is not obvious although it constitutes an important part of the unproductive investment, e.g. the fixtures (permanent installation stands) for bakery equipment, and sawmill machines, library, chairs and tables in schools and restaurants etc. Under the services, the heaviest investment is in schools (Nu 58,670 per unit), restaurants and bars (Nu 34,891 per unit), followed by bakeries (Nu 21,563 per unit) under production and manufacture (see table 2.2.F in appendix).

Others

Items like bakery working tools, library shelves in primary schools, saloon tools, etc. fall under this category. It is also seen from table 2.2.G that investment in Others is at Nu 0.94 million (8%, almost equal to the share of land), which comes to Nu 7,878 per unit. The investment in these types of items has to come from own funds. Incidentally, it is quite heavy (at 34%) for the lowest investment level whose average investment level is at Nu 22,951 per unit. It is also true that smaller MEs units have more investment in others than the rest like land, building, plant and machinery and furniture and fixtures. A saloon, a telephone booth, a cobbler, a goldsmith, would rent a working space rather than invest in them excepting the purchases of their tools, tackles and small equipment.

In brief, the different types of investment in FA are summarised hereunder. According to the type of business, manufacture and production have 1.9 times higher investment in fixed capital, which are in bakeries at Nu 217,730 per unit, furniture at Nu 189,118 per unit, sawmills/stoves at Nu 226,000 per unit, fabrication and metal works at Nu 132,120 per unit each, incense manufacturing at Nu 228,740 per unit, and others are below Nu 100,000 per unit. Under the services, investment in automobiles work is at Nu 199,544 per unit, printing press at Nu 249,280 per unit, milk both at Nu 168,210 per unit, primary schools at Nu 105,595 per unit, restaurants and bars at Nu 106,000 per unit, consultancy at Nu 146,590 per unit and others are below Nu 100,000 per unit.

The following doughnut graph in figure 2.2.E is built based on per unit investment of FA to get an overview of investment composition of the FA. It indicates clearly the share in different investment type



of fixed capital employed. Surprisingly, investment in Others is slightly higher per unit than investment in land. One of the major reasons is that investment in land is not required by family enterprises, which carry out business from their own houses as a part of the family run unit. In most cases, microenterprises are family units, which do not need any licensing or registration in most developing countries.

Fixed assets are an important part of investment, but are unproductive without injecting the lubricant, the working capital (WC). Both fixed asset and working capital form the total productive capital employment of MEs. The next section discusses on the WC.

2.2.2.2 Working Capital

Working Capital is the life blood of any business and provides the necessary funds for day to day operations of a business. It can be meant to be gross working capital (GWC) or net working capital (NWC). GWC is the aggregate of various current assets such as cash, bank, debtors, inventories, and others. NWC has been defined to be the difference between Current Assets and Current Liabilities¹²². For the purpose of this study, GWC is used and not NWC as data of current liabilities could not be collected from microenterprises and it has been referred to as working capital and/or WC in this study.

MEs require short-term finances for purchases of raw materials, inventories of goods and cost of goods in process, be it on production, storage, transport, or sale, which is subsumed as working capital. To complete day-to-day operation, especially an operating cycle, working capital is required by MEs. Working capital has two divisions, fixed and variable. The fixed cost has to be met even if the

business occurs loss e.g. rents, salaries, maintenance etc., while the variable costs depends on the operating cycle of the business e.g. level of inventories, stocks and stores, changes in price level, market conditions and terms of disposal. Working capital is generally in the form of bank, cash, inventories/stock, and debtors. MEs have to be very careful in utilising the working capital; an excess working capital means idle liquidity and lower rates of return. On the other hand, lack of working capital has direct impact on productivity of the operating cycle producing low profitability.

The operating cycles of MEs are generally between purchase of raw material and receiving money back from sale. In this process, MEs need to have money to purchase raw materials, pay salaries/rents, storage cost of raw materials and finished goods, and cost of sales (transport cost, salesperson salary, storage cost, commission, advertisement etc.). In the case of the MEs, the sale is most often on credit basis either through the same suppliers of raw material or through dealers who take long credit periods and good part of the profit. This, however, keeps the MEs always short of working capital.

The WC is in many forms and, therefore, the following table 2.2.H has been established to see how WC of MEs is distributed. This table was developed from the data in table 2.2.F in the appendix by the size of investment units. It has seven main columns; size of investment, cash, bank, inventories, debtors, and others and five of these main columns are sub-divided in to two parts each with manufacturing/production and services. The last column shows the totals of WC per investment level.

Table 2.2.H: Working capital distribution by size of investment (in Nu '000)

Level of Investment (in Nu)	Cash			Bank			Inventories			Debtors			Others			Total of Totals
	PM	SR	Total	PM	SR	Total	PM	SR	Total	PM	SR	Total	PM	SR	Total	
Below-100,000	81.7	128.9	210.6	57.5	73.1	130.6	338.4	327.6	666.0	161.1	190.9	352.0	30.1	74.2	104.3	1463.5
100,001–200,000	53.1	64.4	117.5	197.7	159.6	357.3	216.2	213.9	430.1	66.2	40.8	107.0	18.7	81.3	100.0	1111.9
200,001–300,000	78.3	117.0	195.3	284.2	86.9	371.1	660.7	439.9	1100.6	84.6	50.6	135.2	43.4	79.4	122.8	1925.0
300,001–400,000	25.3	63.9	89.2	196.3	387.3	583.6	92.2	439.5	531.7	109.0	7.0	116.0	23.4	61.0	84.4	1404.9
400,001–500,000	79.0	115.3	194.3	862.0	427.8	1289.8	730.5	519.6	1250.1	572.3	253.3	825.6	30.9	30.3	61.2	3621.0
Totals	317.4	489.5	806.9	1597.7	1134.7	2732.4	2038	1940.5	3978.5	993.2	542.6	1535.8	146.5	326.2	472.7	9526.3

Source: Personal Survey

The above table has been further converted into percentages table 2.2.I to make the discussion more meaningful. The figures against each category of WC composition such as cash, bank, inventories, etc. are calculated based on their respective total by level of investments. The ones in italics are based either on the overall total of FA or WC.

**Table 2.2.I: Working Capital Distribution by size of investment in percentages
(% are rounded) against its individual total and *against total investment***

Level of Investment (in Nu)	% Cash	% Bank	% Inventories	% Debtors	% Others	% of all total by level against WC
Below -100,000	26	5	17	23	22	15
100,001-200,000	15	13	11	7	21	12
200,001-300,000	24	14	28	9	26	20
300,001-400,000	11	21	13	8	18	15
400,001-500,000	24	47	31	54	13	38
<i>% against total investment</i>	<i>8</i>	<i>29</i>	<i>42</i>	<i>16</i>	<i>5</i>	<i>100</i>

Source: Personal Survey

The composition of gross working capital structure (i.e. cash, bank, inventories, debtors, and others), as shown in the table 2.2.I above and table 2.2.F in the appendix, has been detailed in the succeeding paragraphs.

Cash

The cash column in table 2.2.I indicates comparatively low level of cash in hand of Nu 0.8 million (8%) against the total working capital of Nu 9.5 million. The lowest level of investment units have an average of Nu 18,400 per unit as compared to the highest level of investment at Nu 112,470 per unit of working capital. In relative terms, the lowest size of investment units have higher cash level at 26% as compared to the highest investment level at 24% against their respective total working capital. The overall average of working capital stands at Nu 80,050 per unit and total cash in hand of the total working capital is at 8% (or Nu 6,780 per unit). Most MEs have to deal in cash either for the day to day requirements and/or transactions. It is also true that many places in Bhutan are without proper banking or postal facilities, excepting minimal outreach services of BDFC and/or NWAB for delivery.

When the units are individually taken (see table 2.2.F in the appendix), it is seen that the cash levels in hand of the smaller units are higher in absolute figures as against per unit cash average of 119 units (which is at 6,780 per unit); the case of woodcrafts (Nu 11,830 per unit), charcoal producers (Nu 23,620 per unit), and others. Total cash in hand of the manufacture and production is lower than services by 21.3% of total cash Nu 0.8 million. On average, manufacture and production have a cash level of Nu 6,350 average per unit as compared to Nu 7,090 average per unit in services.

Bank

The tables as referred to in the section above show that the bank is higher than cash, debtors and others but lower than inventories at Nu at Nu 2.7 million (29%) as compared to the total of Nu 9.5 million of WC. The bank average per unit of the highest level of investment is at Nu 67,880, as compared with the lowest at Nu 2,140 per unit, which is lower by 42.2%. Comparing the lowest

investment level with the highest in terms of their respective working capital size, the former has 14% of the total WC and the later 40%, which is almost 4 times more than the lowest investment size. With the level of investment, the percentage share of banks increases i.e. 5% at the lowest level to 47% at the highest investment level of investment units. It is a clear indication that the higher investment groups have better access to banking system; they are also mostly set in urban areas. Like in the case of cash, manufacture and production has higher per unit average share at Nu 31,950, which is 16.9% higher than the service units that are at Nu 16,450 average per unit. It is also higher than the average per unit distribution of total bank at Nu 22,960 average per unit and as compared to cash at Nu 6,780 average per unit. As indicated by the figures, the higher level in bank is offset by the bigger investment units and those units, which are mostly established in urban areas, where banking facilities are available.

It is a fact that FIs do not finance all the working capital requirements of MEs. FIs finance the working capital based on certain type of fixed capital and inventories/stocks, but not on the book debts. Most of the working capital needs are either borrowed from friends/relatives, moneylenders or partly met from the surpluses. A large part of the bankable profit is swallowed in the process of sale through dealers who have the market access. Therefore, MEs are always short of working capital needs.

Inventories

Table 2.2.I above indicates that the inventories in the form of raw materials, finished and stored items for sale, account for 42% of the total working capital requirements, which is at Nu 3.98 million or Nu 33,430 average per unit. For MEs, which are at the lowest investment levels, it is a substantial idle capital in the inventory forming 17% of the total inventories. As compared to the total inventory of MEs, within their respective working capital requirements, the lowest level has Nu 10,920 average per unit and the highest size of investment units have Nu 73,540 average per unit. The reason for high level of inventory can be assigned to lack of working capital need for transport, market access for regular supplies of materials or sale of finished products, and the decision to avoid middlemen for better profitability. The average per unit inventory of MEs on the lowest investment level is many folds higher (more than 3 times) as compared to other forms of WC within the level. It is a clear indication that a larger share of working capital in case of smaller investment units is generally stuck in inventories, which are kept in stock for the simple reason that the market is not easily accessible and a regular supply of materials or transport of the finished products poses a serious problem.

From table 2.2.H is calculated the share of inventories which is higher in manufacture and production only by 2.5% i.e. Nu 12,640 average per unit (Nu 40,760 average per unit in manufacture/production

minus Nu 28,120 average per unit in services). In the three middle level of investment units, the share of inventories in both sectors manufacture/production and services is closer together to Nu 0.97 million and Nu 1.1 million respectively. The average per unit difference in inventory level tends to enlarge with increasing investment level. At 42% of the total WC, the inventory level is higher than the WC needs of the first two investment levels but lower than the fourth investment level. It is a clear indication that a very large part of WC is stuck in inventories.

Debtors

The sundry debtors (includes mostly credit sale) form $\frac{1}{6}$ of the total working capital at Nu 12,910 average per unit or Nu 1.5 million. (See table 2.2.I above.) Comparatively, the debtors are much higher with the highest level investment units at Nu 80,830 average per unit than that of lower investment units at Nu 3,160 (14.8% of the working capital need at this level) average per unit. However, the total debtors stand at 16% of the total WC requirements, which is Nu 12,910 average per unit as compared to Nu 80,050 average per unit of total working capital. The manufacture/production sector has the higher debtor averaging to Nu 4,560 per unit than service at Nu 4,560 per unit.

The major share of debtors under manufacture/production is in charcoal, furniture works and Bhukari/stoves at Nu 65,000 and Nu 38,010 and Nu 32,000 average per unit and in automobile repairs (Nu 39,85 per unit), schools (Nu 30,100 per unit) and electronic repairs (Nu 17,100 per unit) under the service sector (see table 2.2.F in the appendix). The smaller units have smaller sundry debtors but considering their total investment, it is relative very high. For example, a cobbler has fixed investment level lower than Nu 3,000 per unit and his debt as per the above table is at almost $\frac{1}{3}$ of his WC or 8% of the total capital employed.

Others

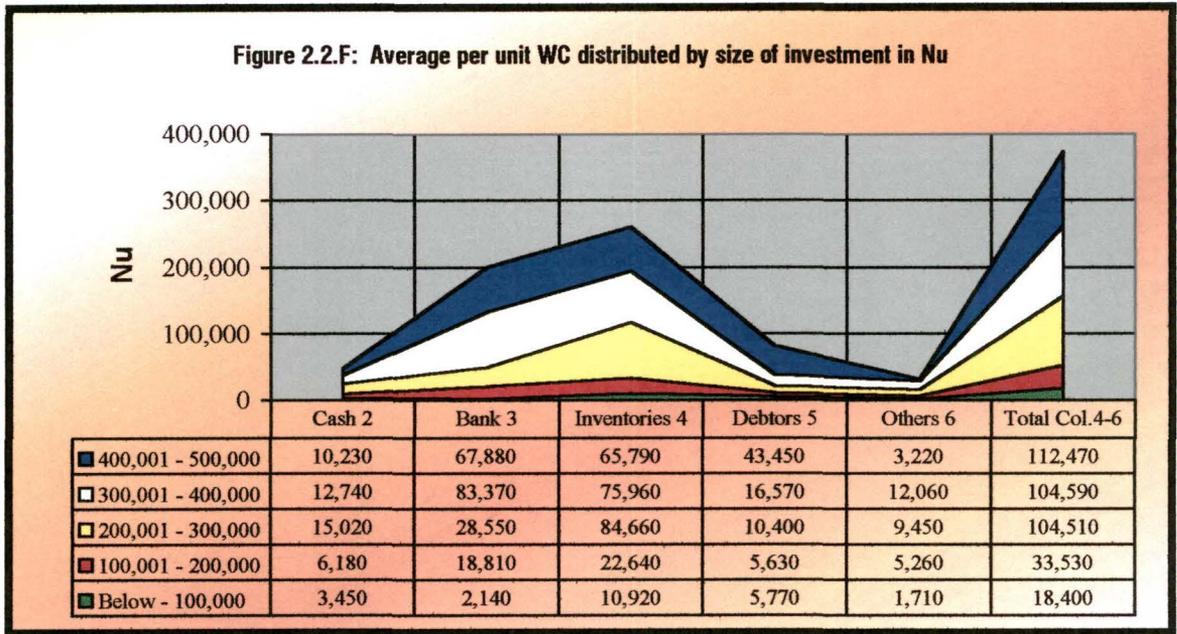
The short term advances, items lying with middlemen (who are also the supplier of raw material) do not account as credit sale, and Others category forms quite a large part of the working capital at 5% of the total WC, i.e. Nu 3,970 average per unit, which in other words is almost equal to the cash in hand of all the units. Surprisingly, the category Others follows a similar trend like the bank, but the other way round, the lower the investment level of the units higher the Others, and higher the investment level of units, lower the Others. The share of manufacture/production at Nu 1,230 average per unit is lower by Nu 1,510 average per unit than services. Looking at the fixed capital investment of some of the smaller units, which are below Nu 3,000 per unit, the share of working capital stuck in Others is quite high

almost at 50%; in some cases like the cobblers, it is almost at the same level (Nu 1,340 average per unit) of average per unit of service units under this category.

It is a fact that suppliers and middlemen play a vital role in the functioning of small businesses. These people act as the supplier of raw materials and purchasers of finished products. This way, they become the market for MEs and also the creditors. The products are often exchanged for supply of raw materials. The manufacturers and producers are on the losing end because these suppliers and middlemen already fix the price during supply of raw materials, which is lower than the normal market price. This way, the working capital over time is decreased and the business often becomes sick.

To understand clearly how the WC need of MEs is related to creditors, a case study of southern Bhutan in production of oranges and cardamom is narrated hereunder. The producers often lacked working capital, which is used for clearing, manuring and nurturing the gardens. Often these producers took advances from Indian businessmen, who in turn fixed a lumpsum prices (lower than the market ruling prices) for the fruits in the orange gardens. On lifting the product by these middlemen, they paid the balance of the price (pre-fixed price minus the advance), which over the time reduced and did not become enough to sustain their families. Over the years, the gardens came fully under debt. Products were fully under the ownership of these business people who once provided the working capital. The royal government had to then launch a programme to bring out these producers from the vicious circle of the moneylenders.

To further enrich the fore discussion on the WC section and to support it, the following graph 2.2.F based on average per unit of the categories in working capital (refer the table 2.2.H) is presented. The last column total is the average per unit total of Inventories, Debtors, and Others.



The cash and the bank together form only 37% of the total working capital needs. However, 63% is illiquid, which is stuck in the form of inventories, debtors and others. It means that the MEs are short of more than 60% of WC at any point of time. Liedholm and Mead (1987)¹²³ found that the requirements for working capital of microenterprises are relatively large to cover the raw materials and inventory. As already discussed, the graph above represents that the highest WC is stuck in a single category 'inventories', which peaks at column 4. The average per unit of inventories alone is at Nu 33,430 per unit (more than the total capital investment of some of the smaller MEs). The total average per unit of all illiquid WC stands at Nu 50,310 as against the total average per unit of WC at Nu 80,050. To overcome the problem of shortage of WC, MEs either have to depend on borrowings or plough back their savings from depreciation and other provisions, which then leads MEs to perennial shortage of WC.

The preceding sections discussed the sources and application of funds and the succeeding sections will analyse the composition of total assets in detail, with tables and graphic representation.

2.3 Analysis of Composition of Total Assets

Pareek (1978)¹²⁴, found out that the need of working capital (WC) of MEs is about 50% of the fixed capital. Table 2.3.A below has been established from the data of 119 units (see table 2.2.F in the appendix) to see if the above finding of the researcher confirms to the study (composition of capital) of MEs in Bhutan. The table has been laid by the size of investment to also see the difference of WC need

at different levels of investment. Five major columns, the fixed capital/asset (FC), working capital/current assets (WC), capital employed (CE), and FC's & WC's ratios in relation to the CE have been prepared. CE is equal to FC+WC.

Table 2.3.A Composition of Capital (in Nu '000)

Level of Investment (in Nu)	Fixed Capital (FC)			Working Capital (WC)			Capital Employed (CE)	Ratio FC/CE	Ratio WC/CE
	PM	SR	Total	PM	SR	Total			
Below - 100,000	505.7	894.3	1400	668.8	794.7	1463.5	2863.5	0.49	0.51
100,001 – 200,000	527.9	650.8	1178.7	551.9	560.0	1111.9	2290.6	0.51	0.49
200,001 – 300,000	813.3	1050.9	1864.2	1151.2	773.8	1925	3789.2	0.49	0.51
300,001 – 400,000	463.2	915.4	1378.6	446.2	958.7	1404.9	2783.5	0.50	0.50
400,001 – 500,000	3884.1	1980.1	5864.2	2274.7	1346.3	3621	9485.2	0.62	0.38
Totals / ratio / %	6194	5492	11686	5092.8	4434.3	9526	21212	0.55	0.45

Source: Personal Survey

Of the total Nu 2.1 million capital employed, Nu 5.1 million, 55% is in fixed capital and the balance 45% in working capital. There is no fixed trend, but there is some indication that with the increased level of investment, the need for WC decreases, indicating that lower the CE, higher the need for working capital. At the highest level of the investment units, the ratio of FC over CE is higher by 13% than the lowest investment units. The overall need of WC per unit stands at almost the same fixed asset level of all units. However, if the first four rows (up to the investment Nu 400,000) is considered, the average of WC need to the CE is more than 50% per unit. The last investment units offset the ratio and increases ratio for the FC. Looking into the investment pattern, there is also a big jump from 4th to 5th level of investment. This could be because the units are expanding, and are in the process of crossing their level to the size of cottage industries.

Although preliminary evidences, from the table, suggests that proportion of WC decreases with increasing CE; it was decided to test statistically if this holds good. Logically, when the amount of capital employed is lower, microentrepreneur will not be able to invest higher proportion of money in the fixed assets. Rather a larger proportion of money would be required for meeting operational costs. The entrepreneurs can expand their businesses by employing more fixed assets; this means that as the capital employed increases, the proportion of fixed assets increases and working capital decreases. Based on these premises, the following hypothesis was framed:

H₀: The proportion of WC has no dependence on total capital employed.

H₁: The proportion of WC decreases as the capital employed increases.

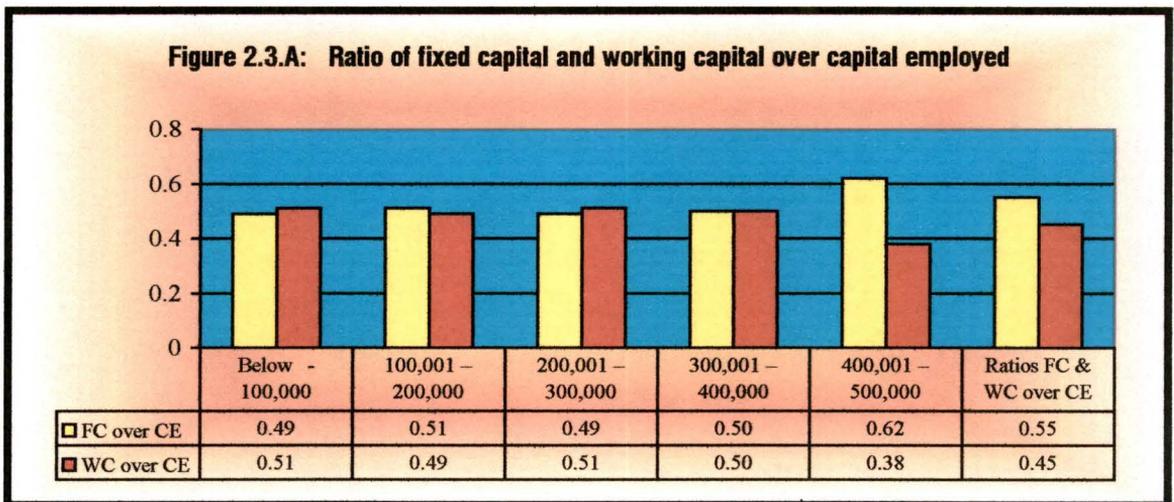
Taking the proportion of WC as the dependent variable and CE as the independent variable, regression analysis was carried out taking the whole sample. The result are given below in the table form:

Regression Analysis Results

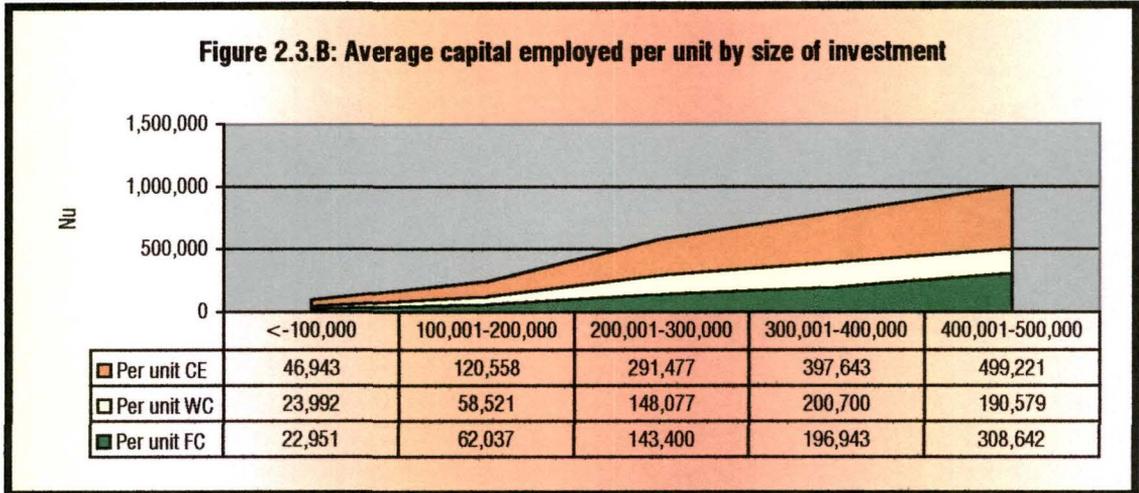
β_1 (co-efficient)	(t)	R-square	F
-0.713	-1.363	0.509	3.109

The results show that the co-efficient (β_1) is negative indicating that with the rise of CE, WC decreases, but the results are not significant. R-square points out that only 50% of the variation in WC is explained by CE, which is insignificant. Therefore, statistically the null hypothesis is accepted.

Table 2.2.F in the appendix reveals on analysis that manufacturing and production units have higher needs of working capital at Nu 37,602 average per unit than that of service. The manufacturing and production units also have greater need of investment in fixed capital with Nu 44,297 average per unit. Averaging both the sectors' need, it is clear that until the investment level of Nu 400,000 the working capital averages at 50.3% of the need of total capital employed. This statement is further confirmed by the column graph (figure 2.3.A) below which is based on the ratio from the figures of the table 2.3.A above. It suggests that the working capital ratio to fixed capital decreases as the investment increases after Nu 400,000, although the absolute figures of the working capital increase relatively.



To confirm the ongoing discussion, an area graph in figure 2.3.B below has been built indicating the trends in FC, WC and the combination of both forming the CE. The area graph below indicates that of the total capital employed (fixed asset plus current assets) by the level of investment, the units are within their respective levels i.e. Nu 46,943 average per unit for investment level below Nu 100,001 followed by Nu 120,558 average per unit for investment level between Nu 100,001 to Nu 200,000, Nu 291,477 average per unit for investment level between Nu 200,001 and Nu 300,000, Nu 397,643 average per unit for investment level between 300,001 and 400,000 and Nu 499,221 average per unit for investment level between Nu 400,001 and 500,000.



The average per unit investment in FC and WC of their respective sizes of units do indicate that they are almost equal until the fourth investment levels. This indicates that there is a possibility that as the size of investment increases, relatively the need for working capital decreases as compared to the increased need for fixed capital. A few more levels would have shown the trend in the proportion of the need variation of WC with different sizes of investments. This is not possible because the study restricts itself to the investment level below Nu 500,000.

2.4 Financing Fixed and Gross Working Capital: *Identification of sources – An Analysis*

It is important to find how the fixed assets and working capital are financed from the sources considered in this study. In-depth study was difficult as the entrepreneurs rarely constructed balance sheets or other accounts from where perfect matching could be done between sources and application of funds.

The technique used for forming an idea of how fixed assets and working capital were financed, entrepreneurs were asked to identify the most important sources that they generally tapped when the necessity to purchase fixed assets arose or the question of financing working capital was in question. In the pilot survey, the questions were based on each item of fixed assets and each item of working capital. However, it proved to be cumbersome for the respondents. Therefore, in the final study only fixed assets and gross working capital or current assets were used as two categories. The terms used needed to be explained to the respondents in many cases. The findings are reported below.

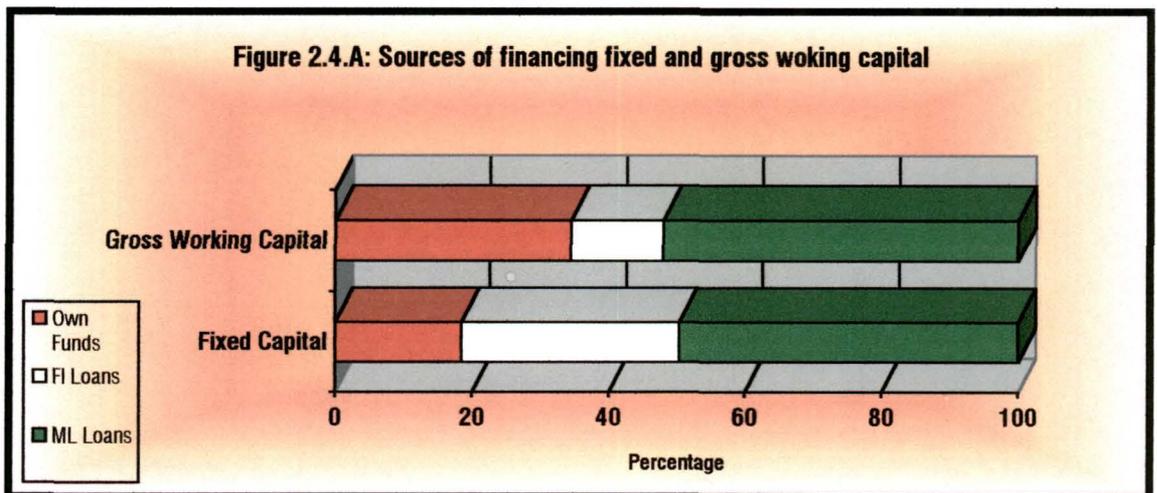
Table 2.4.A: Financing fixed and gross working capital: Identification of sources

Two Categories of Assets	Own funds		FI Loans		ML Loan		Total No. of Entrepreneurs
	A	B	A	B	A	B	
Fixed Assets	22	18.5	38	31.9	59	49.6	119
Gross Working Capital (Current Assets)	41	34.5	16	13.5	62	52	119

Source: Personal Survey A = No. of entrepreneurs, B = Percentage of entrepreneurs in each category

The table above reveals that for financing fixed assets 50% of microenterprises received loans from MLs and 32% from FIs and 18% used their own savings. Similarly, for gross working capital needs, 52% of microentrepreneurs depended on moneylenders, about 15% depended on financial institutions (FIs) and about 34% on their own savings. From the previous discussions, it was learnt that the loans from FIs were almost negligible at the lower investment level below Nu 100,000. It steadily increased with every level of investment but not progressively. It was also discovered in the earlier discussion in the section that dealt with sources of funds that with increasing loans from FIs there was a decreasing trend in loans from the informal financial sectors. This table further has confirmed the finding. Both informal and formal loans are applied for fixed as well as gross working capital needs. It can be concluded that higher investment levels use more working as well as fixed capital through formal sectors and smaller investment units use more from informal sector and their own savings. This statement is directly related to the fact as already proved that the higher the investment levels, the higher the loans from financial institutions.

The following bar graph 2.4.A is built to make the discussion more vivid based on the percentages of the preceding table 2.4.A that are in relation to the identification of sources for financing of fixed and working capital.



The graph reveals that for financing both the working and the fixed capital the share of loans from the moneylenders is about 50% each. This further confirms that there is low access to formal financial systems.

2.5 Conclusion

The sources of funds have been from two sectors; formal and non-formal financial markets. The formal sector in the study was all financial institutions, the banks and financial corporations. Non-financial market was formed by friends/relatives and moneylenders.

It was found from the study that the finance intermediation of FIs was low. The study suggests that FIs do not meet the concept of 75% of the CE in Bhutanese MEs. At 32.3%, it is better than India but lower than some of the developing countries. The share of investment is also biased towards larger investment units and more so in the manufacturing and production types. The FIs lending for ME units ranges from Nu 7,688 average per unit at the investment level below 100,000 to Nu 180,000 average per unit for the last level of investment between Nu 400,001 and Nu 500,000. This is because FIs' finance those fixed assets that can remain mortgaged to FIs as collateral. Similarly, those service units that need investment in fixed asset e.g. building and plant and machinery have a better chance to access loans from FIs. It means that the FIs' financing WC is on the lower end. Therefore, MEs without physical stocks of saleable material (marketable assets) have to depend on informal sector for WC. This leads MEs to a vicious circle within the informal financial market, especially the moneylenders (MLs).

Friends/relatives form another section of moneylenders. In the current study they are clubbed together with MLs. Wherever necessary, specific characteristics of friends/relatives (FR) have been described. Another surprising revelation is that the friends and relatives followed the same pattern like the FIs. They seemed to be even worse because the lending per unit is almost twice that of FIs at the highest level of investment. A closer look into it revealed that it was due to the fact of affordability and non-affordability in the FR circles. On the other hand, moneylenders do not seem to differentiate the two. The lending is based on need-based borrowing. As far as the own funds are concerned, the small units seem to do better as the per unit level is much higher than all other sources of borrowing. In other words, they are compelled to save and invest more from their own resources.

Due to the lack of adequate finance from FIs, MEs are forced to access loans from informal sector. The study indicates that the loans from informal sector (MLs & FR) stand at 30.1% and 74.4% if own

savings are included. In an ideal situation, as discussed in this chapter earlier, the share of finances should have been the other way around, 74.4% or 75% from FIs and 25% from own savings known as equity or marginal capital. During the survey, it was also found that many registered units (outside the sample) had not started operation because of lack of funds, equity capital from their savings. Most said that they were scared to approach FIs due to the lack of collateral and they did not want to start the unit with loans from MLs. Thus in the process to save and start the units with their own funds, they just do not make it and die away. This situation has a direct influence on the growth of MEs in the country. The situation of MEs is further aggravated by the fact that there is no system of leasing, hire purchase or renting of equipment for MEs in the country neither through FIs or any institutions.

In the present study, the fixed assets and current assets formed the total assets or capital. It was found that the funds so received through different markets were utilized for fixed assets and current assets as well. In the fixed asset land, building, plant & machinery and furniture & fixtures were identified. The highest investment goes to plant and machinery followed by building, furniture & fixture, land and others. Excepting the plant & machinery, which are directly related to production and manufacture, the investment in other fixed assets especially land and building was drawing much of the funds. In the case of current assets, which we have identified as also gross working capital or simply working capital, the inventories took the highest share. The combined investment in inventories, debtors and others stood at 63% of the total current assets or 28% of the total assets or Nu 49,910 average per unit of 119 MEs units. This is more than the average per unit investment of the units below the investment level of Nu 100,000.

The sources for financing of fixed and currents assets are from both the formal and informal sector. However, the study revealed that for both categories of assets financing up to 50% of the MEs needs came from moneylenders. The own savings and financial institutions only form the other half, where the share of FIs stood at 32% for fixed assets. This finding is not far away from the figures that were established in the application of funds, where FIs share was at about 27%.

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Beekeeping Association in Bumthang with a annual turnover of about Nu 1 million



Vehicle Workshop in Bumthang, which is close to closure due to negligence of owner



Electronic repair training for microentrepreneurs in Thimphu